



Ron DeSantis, Governor
Melanie S. Griffin, Secretary

May 29, 2026
Board of Accountancy
Department of Business and Professional Regulation
Division of Real Estate Board Room
400 W. Robinson Street, Suite N901
Orlando, Florida 32801

[Notice](#)

Friday, May 29, 2026

9:00 a.m. Call to Order
Roll Call and Quorum

Jason Lafser
Roger Scarborough

1. Approve Minutes
 - a. April 17, 2026
2. Deceased
 - a. Berkman, Sheldon L.
 - b. Mehta, Ranjit M.
3. OGC Final Action
Motion for Waiver
 - a. Shomar, Shadi (2025-051649)
 - b. Shomar, Shadi (2025-051658)

Settlement Stipulation

- c. Unsworth, Thomas
4. Petition for Variance or Waiver
 - a. Hoang, Nguyet Thi Minh
 - b. Prinz, Daniel
5. Exam Considerations
 - a. Lutz, Jessica A.
 - b. Varrasse, Taylor A.
6. Endorsement Considerations
 - a. Biagi, James B.
 - b. Callahan, Michael A.
7. Maintenance and Reactivation: Null and Void
 - a. Correia, Ashlee D.
 - b. Cowan, Roman O.
 - c. Dubrovsky, Gaston R.

2601 Blair Stone Road, Tallahassee, FL 32399 | (850) 487-1395 | MyFloridaLicense.com

Please Note: The Board of Accountancy may hear agenda items out of order rather than as presented on the agenda



- d. Elias, Steven
- e. Faigen, Debra R.
- f. Henriques, Robert
- g. Hillison, William A.
- h. MacLaren, Walter A.
- i. Markun, Jessica L.
- j. Moore, Walter R.
- k. Rodriguez, Mitzi M.
- l. Smith, Paul A.

8. Chief Attorney’s Report

9. Board Counsel’s Report

- a. May 2026 Rules Report and Rules Review

10. Administrative Items

- a. Remarks from Chair
- b. Remarks from Executive Director

11. National Association of State Boards of Accountancy

- a. 2027 Fee Change
- b. AICPA Ethics Exposure Draft – Alternative Practice Structures
 - i. NASBA Response Letter
- c. Eastern Regional Meeting

12. Florida Institute of Certified Public Accountants

13. Public Comments

14. Future Meetings

July 16 PC	Orlando, FL
July 17 BD	Orlando, FL
August 20 PC	Virtual
August 21 BD	Virtual
October 1 PC	Orlando, FL
October 2 BD	Orlando, FL
November 12 PC	Orlando, FL
November 13 BD	Orlando, FL

April 17, 2026
Board of Accountancy
Department of Business and Professional Regulation
[Microsoft Teams](#)
[Notice](#)

Friday, April 17, 2026

The meeting was called to order at 9:00 a.m. Roll call of Attendees was called by Roger Scarborough, and reflected the following persons present:

<u>Board Members</u>		<u>Staff</u>	
William Blend	Present	Roger Scarborough	Present
Brent Sparkman	Present	Kevin Brown	Present
Jason Lafser (Chair)	Present		
Tracy Keegan	Not Present		
Shireen Sackreiter	Not Present		
Michelle Maingot	Present		
William Benson	Present		
Steve Platau	Present		
Caridad Vasallo	Present		

Rachelle Munson, Senior Assistant Attorney General and Board Counsel. Heather Page, Chief Attorney, Jessica Balogun, Office of the General Counsel. Shelly Weir and Jason Harrell of the Florida Institute of Certified Public Accountants. Jennifer Green of Liberty. The court reporter was Tonya Bullock.

1. Approve Minutes

Motion was made by **Mr. Platau**, seconded by **Ms. Vasallo**, to approve minutes. Upon vote, the motion passed unanimously.

2. Deceased Licensees

A moment of silence was held for deceased practitioners.

3. OGC Final Action

Request for Informal Hearing

a. McKenzie, Nathaniel N.

Mr. Mackenzie was present.

Ms. Keegan was recused.

Ms. Page presented the case.

Motion was made by **Mr. Platau**, seconded by **Mr. Sparkman** to acknowledge that Respondent was properly served, and qualifies to have a hearing before the Board involving no disputed issues of material fact and accept the allegations of fact and violations of law set forth in the Administrative Complaint as the Board's findings of fact and conclusions of law. Upon vote, the motion passed unanimously.

Motion was made by **Mr. Blend**, seconded by **Mr. Sparkman** to accept the recommended penalties **with the amendment that the respondent shall pay the fine in increments of \$150 over the course of 67 months, and pay the costs of \$357.95 within 90 days of filing of the final order.** Upon vote, the motion passed with **Ms. Vasallo** voting no.

b. Mota, Marcos

Mr. Mota was present.

Ms. Keegan was recused.

Ms. Page presented the case.

Motion was made by Mr. Platau, seconded by Mr. Blend to acknowledge that Respondent was properly served, and qualifies to have a hearing before the Board involving no disputed issues of material fact and accept the allegations of fact and violations of law set forth in the Administrative Complaint as the Board's findings of fact and conclusions of law. Upon vote, the motion passed unanimously.

Motion was made by Mr. Benson, seconded by Mr. Platau to accept the recommended penalties as presented. Upon vote, the motion passed unanimously.

c. Polansky, Charles A. IV

Mr. Polansky was present.

Ms. Keegan was recused.

Ms. Page presented the case.

Motion was made by Mr. Blend, seconded by Mr. Benson to acknowledge that Respondent was properly served, and qualifies to have a hearing before the Board involving no disputed issues of material fact and accept the allegations of fact and violations of law set forth in the Administrative Complaint as the Board's findings of fact and conclusions of law. Upon vote, the motion passed unanimously.

Motion was made by Mr. Blend, seconded by Ms. Maingot to accept the recommended penalties with the amendment that the fine is increased to \$4,000 and the time to comply with the term of all penalties in the Final Order to be extended to 90 days. Upon vote, the motion passed unanimously.

d. Steinhart, Jamie L.

Ms. Steinhart was present.

Ms. Keegan was recused.

Ms. Page presented the case.

Motion was made by Mr. Blend, seconded by Mr. Platau to acknowledge that Respondent was properly served, and qualifies to have a hearing before the Board involving no disputed issues of material fact and accept the allegations of fact and violations of law set forth in the Administrative Complaint as the Board's findings of fact and conclusions of law. Upon vote, the motion passed unanimously.

Motion was made by Mr. Benson, seconded by Mr. Blend to accept the recommended penalties with the amendment that the time to pay the fine and costs is extended to 90 days and completing the CPE to 120 days. Upon vote, the motion passed unanimously.

e. Watson, Henrietta E.

Ms. Watson was present.

Ms. Keegan was recused.

Ms. Page presented the case.

Motion was made by Mr. Sparkman, seconded by Mr. Blend to acknowledge that Respondent was properly served, and qualifies to have a hearing before the Board involving no disputed issues of material fact and accept the allegations of fact and violations of law set forth in the Administrative Complaint as the Board's findings of fact and conclusions of law. Upon vote, the motion passed unanimously.

Motion was made by Mr. Benson, seconded by Mr. Sparkman to accept the recommended penalties as presented. Upon vote, the motion passed with Ms. Maingot voting no.

Motion for Reconsideration

f. Landy, Michael T.

Mr. Landy was present.

Ms. Keegan and Mr. Blend were recused.

Ms. Page presented the case.

Motion was made by **Mr. Lafser**, seconded by **Mr. Blend** to reconsider the previously filed final order. Upon vote, the motion passed unanimously.

Motion was made by **Mr. Blend**, seconded by **Ms. Vasallo** to **reject** the request to vacate the previously filed Final Order and enter a new Final Order accepting the Settlement Agreement to Voluntary Relinquish License for Permanent Revocation executed by the Respondent. Upon vote, the motion passed with **Mr. Lafser and Mr. Benson voting no**.

Motion made by **Mr. Blend**, to file a new order that removes any penalty and make up hours of continuing professional education, reduces the fine to \$4000 and extend the deadline to comply with the terms of the original final order to 30 days following the filing of the new final order rejecting the request for reconsideration. This motion was not seconded and failed.

Motion made by **Mr. Benson**, seconded by **Ms. Maingot** to extend the deadline to comply with the terms of the original final order to 90 days following the filing of the new final order rejecting the request for reconsideration. Upon vote, this motion passed with **Mr. Blend** voting no.

g. Smith, Myesha

Ms. Smith was present.

Ms. Keegan and Mr. Blend were recused.

Ms. Page presented the case.

Motion was made by **Mr. Lafser**, seconded by **Mr. Benson** to reconsider the previously filed final order. Upon vote, the motion passed unanimously.

Motion was made by **Mr. Benson**, seconded by **Mr. Lafser** to enter a new Final Order, reflecting the previously imposed penalties, with the amendment that **the time allotted to comply with the terms of the new final order is set for 90 days from the date of the filing of the new final order and the number of hours is decreased to a total of 150 hours of continuing professional education**. Upon vote, the motion passed unanimously.

h. William, Blair A.

Mr. William was present.

Ms. Keegan was recused.

Ms. Page presented the case.

Motion was made by **Mr. Benson**, seconded by **Ms. Maingot** to reconsider the previously filed final order. Upon vote, the motion passed unanimously.

Motion was made by **Ms. Maingot**, seconded by **Mr. Sparkman** to vacate the previously filed Final Order and enter a new Final Order accepting the Settlement Agreement to Voluntary Relinquish License for Permanent Revocation executed by the Respondent. Upon vote, the motion passed unanimously.

Motion for Waiver

i. Weiser, Kevin L.

Mr. Weiser was not present.

Ms. Keegan was recused.

Ms. Page presented the case.

Motion was made by **Mr. Benson**, seconded by **Ms. Vasallo** to acknowledge that Respondent was properly served, and failed to file an Election of Rights form or otherwise establish a disputed issue of material fact in response to the Administrative Complaint, pursuant to Rule 28-106.111, Florida Administrative Code and accept the allegations of fact and violations of law set forth in the Administrative Complaint as the Board's findings of fact and conclusions of law. Upon vote, the motion passed unanimously.

Motion was made by **Mr. Benson**, seconded by **Mr. Lafser** to accept the recommended penalties. Upon vote, the motion passed unanimously.

4. Petition for Variance or Waiver
 - a. Garces, Valeria

Ms. Garces was present.

Motion was made by **Mr. Platau**, seconded by **Mr. Sparkman**, to **approve** the petition for permanent variance for Rule 61H1-28.0052(1) (b), F.A.C. Upon vote, the motion passed **unanimously**.

- b. Grammerstorf, Kayla

Ms. Grammerstorf was present.

Motion was made by **Mr. Platau**, seconded by **Mr. Lafser**, to **approve** the petition for permanent variance for Rule 61H1-28.0052(1) (b), F.A.C. Upon vote, the motion passed **unanimously**.

- c. Hayes, Austin M.

Mr. Hayes was present.

Motion was made by **Mr. Platau**, seconded by **Mr. Sparkman**, to **approve** the petition for permanent variance for Rule 61H1-28.0052(1) (b), F.A.C. Upon vote, the motion passed **unanimously**.

5. Exam Considerations
 - a. Marsden, Luther

Mr. Marsden was present.

Motion was made by **Mr. Platau**, seconded by **Ms. Vasallo**, to **approve** for convictions only. Upon vote, the motion passed unanimously.

- b. McLaurin, Rebecca

Ms. McLaurin was not present.

Motion was made by **Mr. Benson**, seconded by **Ms. Maingot**, to **approve** for question **four** only. Upon vote, the motion passed unanimously.

- c. Michelsen, Graham B.

Mr. Michelsen was present.

Motion was made by **Mr. Platau**, seconded by **Mr. Benson**, to **approve** for convictions only. Upon vote, the motion passed unanimously.

- d. Torres, Marlene

Ms. Torres was present.

Motion was made by **Mr. Benson**, seconded by **Mr. Platau**, to **approve** for convictions only. Upon vote, the motion passed unanimously.

- e. Vidal, Alexander

Mr. Vidal was present.

Motion was made by **Mr. Benson**, seconded by **Ms. Vasallo**, to **approve** for convictions only. Upon vote, the motion passed unanimously.

6. Endorsement Considerations

- a. Adair, Mark J.

Mr. Adair was present.

Motion was made by Mr. Benson, seconded by Mr. Sparkman, to approve questions one, four and five only. Upon vote, the motion passed unanimously.

- b. Dodd, Timothy S.

Mr. Dodd was present.

Motion was made by Ms. Maingot, seconded by Mr. Blend, to approve for questions three and five only. Upon vote, the motion passed with Mr. Platau voting no.

- c. Reuter-Fromkin, Jeanette

Ms. Reuter-Fromkin was present.

Motion was made by Mr. Platau, seconded by Ms. Vasallo, to approve for question four only. Upon vote, the motion passed unanimously.

- d. Shah, Jayesh M.

Mr. Shah was present.

Motion was made by Mr. Platau, seconded by Mr. Sparkman, to approve for question four only. Upon vote, the motion passed unanimously.

7. Endorsement – Military

Motion made by Mr. Platau, seconded by Mr. Blend to ratify the list as presented. Upon vote the motion passed unanimously.

8. Null and Void

- a. Ashley, Richard A.

Mr. Ashley was present.

Motion was made by Mr. Platau, seconded by Mr. Sparkman, to approve the request to reinstate the applicant's null and void license. Upon vote, the motion passed unanimously.

- b. Betetta, Carlos B.

Mr. Betetta was present.

Motion was made by Ms. Maingot, seconded by Mr. Blend, to approve the request to reinstate the applicant's null and void license. Upon vote, the motion passed unanimously.

9. Chief Attorney's Report

Ms. Page presented the Chief Attorney Report.

Motion made by Mr. Lafser, seconded by Ms. Maingot to allow Chief Attorney to continue to prosecute year-old cases. Upon vote, the motion passed unanimously.

10. Board Counsel's Report

- a. March 2026 Rules Report

This was an informational item. Ms. Munson also informed the Board that DBPR is reviewing its rules, and to provide a preliminary rules review by July 1, 2026.

11. Committees

a. CPE Committee – March 25, 2026

Mr. Lafser presented the minutes and decisions made by the committee to be discussed, approved and ratified by the board.

Motion made by Mr. Blend, seconded by Mr. Platau to approve the minutes and ratify the decisions of the committee. Upon vote, the motion passes unanimously.

12. Administrative Items

a. Remarks from Chair

Mr. Lafser encouraged Board members who are interested in attending the eastern regional meeting should express interest to staff soon..

b. Remarks from Executive Director

Mr. Scarborough presented updates pretraining to the CPE Reporting tool. This includes a possibility of revising the CPE rule to remove the reporting deadline to July 31st.

Mr. Scarborough announced that after 7 years of service to the Florida Board of Accountancy and the Division of Certified Public Accounting, he will be retiring on June 4, 2026. The next Director will be announced at a later date.

13. Florida Institute of Certified Public Accountants

Ms. Weir presented an update regarding the legislative session.

14. Adjourn

The meeting was adjourned at 1:18 p.m.

Jason Lafser, Chair

Date

DRAFT

**STATE OF FLORIDA
BOARD OF ACCOUNTANCY
MEETING OF THE BOARD**

May 29, 2026

Deceased Practitioners

Name

Berkman, Sheldon L
Mehta, Ranjit M

Certificate Number

11191
22302

Date Deceased

January 21, 2026
February 18, 2026

RECEIVED

MAR 27 2026

FILED
Department of Business and Professional Regulation
Senior Deputy Agency Clerk
CLERK: Brandon Nichols
Date: 3/27/2026
File #:

Florida Division of Certified Public Accounting
TEMPLATE PETITION FOR WAIVER OR VARIANCE of BOARD OF ACCOUNTANCY RULE(S)

Petitioner Information:

Nguyet Thi Minh Hoang
 10009 N Hyaleah Rd Tampa FL 33617

VW 2026-041

Attorney Information:

N/A

Applicable Portions of the Rule(s):

You must include the applicable portion(s) of the rule you wish the Board to consider. This information is contained in the attached letter.

You can also access the Division of Certified Public Accounting Florida Laws & Rules at <https://www2.myfloridalicense.com/certified-public-accounting/statutes-and-rules/>

Rule 61H1-28.0052(1) (b), Florida Administrative Code

The citation to the statute the rule is implementing:

You must include the citation to the statute. This information is contained in the attached letter.

You can also access the Division of Certified Public Accounting Florida Laws & Rules at <https://www2.myfloridalicense.com/certified-public-accounting/statutes-and-rules/>

Rule 61H1-28.0052(1) (b), Florida Administrative Code, which states: "Candidates must pass all four test sections of the CPA Examination within a rolling eighteen-month period, which begins on the NASBA grade release date for the first test section(s) passed. In the event all four test sections of the CPA Examination are not passed within the rolling eighteen-month period, credit for any test section(s) passed outside the eighteen-month period will expire and that test section(s) must be retaken."

Type of Action Requested:

Clearly state what action(s) you are requesting the Board to take.

I respectfully request a **one-time waiver** of the rolling eighteen-month requirement under Rule 61H1-28.0052(1)(b), Florida Administrative Code, to allow recognition of my FAR examination credit that expired on June 30, 2025, due to extraordinary medical circumstances.

Specific fact that demonstrates a violation of the principles of fairness that would justify a variance for the petitioner:

Clearly state justification as to why not granting the petition would demonstrate a violation of the principles of fairness.

I successfully passed all four sections of the Uniform CPA Examination on December 16, 2025, including the FAR section that expired on June 30, 2025.

My FAR credit expired solely because I was unable to sit for the examination within the rolling eighteen-month period due to hospitalization resulting from complications of pregnancy. These medical complications were unexpected, serious, and beyond my control, and they required hospitalization and recovery that made it impossible for me to test before the expiration date.

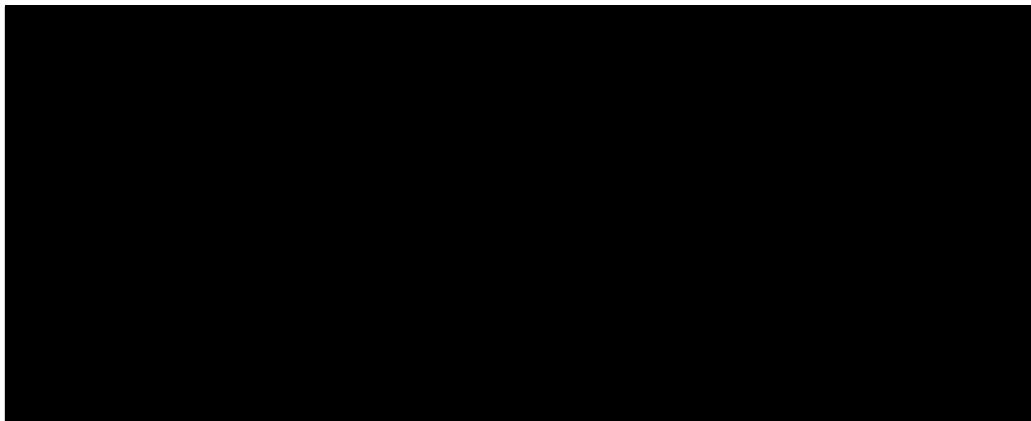
Denial of this petition would result in a violation of the principles of fairness, as I have demonstrated diligence and competency by passing all examination sections, and my inability to meet the timing requirement was caused by extraordinary medical circumstances rather than neglect or lack of effort.

The reason why the variance requested would serve the purpose of the underlying statute:

Clearly state the reason why the underlying purpose of the statute would be served by granting the petitioner's request.

Granting this one-time waiver would serve the purpose of Section 473.306, Florida Statutes, by recognizing demonstrated competency while allowing relief in extraordinary circumstances.

I have already met the substantive requirements of the CPA Examination by passing all four sections. Granting this waiver would uphold the intent of the statute—to ensure professional competence—without imposing an undue hardship caused by circumstances beyond my control. Below is proof of completion of all 4 CPA exams.



The integrity of the CPA licensure process and the protection of the public interest would not be compromised by granting this request.

Section V Petitions and Dispositions Regarding Rule Variance or Waiver

DEPARTMENT OF BUSINESS AND PROFESSIONAL REGULATION

Board of Accountancy

RULE NO.: RULE TITLE:

61H1-28.0052 Number of Sittings, and Granting of Credit, Release of Grades and Completion of Examination, Transition Rules

NOTICE IS HEREBY GIVEN that on March 27, 2026, the Board of Accountancy, received a petition for variance or waiver filed by Nguyet Thi Minh Hoang. Petitioner seeks a variance or waiver of paragraph 61H1-28.0052(1)(b), F.A.C., regarding time requirements for passing the CPA Examination. Comments on this petition should be filed with the Board of Accountancy within 14 days of publication of this notice.

A copy of the Petition for Variance or Waiver may be obtained by contacting: Roger Scarborough, Division Director, Board of Accountancy, 240 NW 76th Dr., Suite A, Gainesville, Florida 32607, (352)333-2505 or by email, Roger.Scarborough@myfloridalicense.com.

DEPARTMENT OF CHILDREN AND FAMILIES Family Safety and Preservation Program

RULE NO.: RULE TITLE:

65C-46.011 Personnel and Staffing Requirements

NOTICE IS HEREBY GIVEN that on April 08, 2026, the Department of Children and Families, received a petition for waiver of subparagraph 65C-46.011(8)(a)1., Florida Administrative Code, from STEP Group Home on behalf of Jessica Bryant. This rule requires executive directors of child-caring agencies to have a bachelor's degree from an accredited college or university and at least three years of experience in management or supervision. Petitioner seeks a waiver so that Ms. Bryant may serve as executive director of STEP Group Home without a bachelor's degree.

A copy of the Petition for Variance or Waiver may be obtained by contacting: Agency Clerk, Department of Children and Families, 2415 North Monroe Street, Suite 400, Tallahassee, FL 32303 or Agency.Clerk@myflfamilies.com.

FLORIDA HOUSING FINANCE CORPORATION RULE NO.: RULE TITLE:

67-48.0072 Credit Underwriting and Loan Procedures

NOTICE IS HEREBY GIVEN that on April 08, 2026, the Florida Housing Finance Corporation, received a petition for waiver of subsection 67-48.0072(21) Florida Administrative Code (2023) from Rio Pointe on Flagler, LP for an additional

180 days - up to and including October 26, 2026 - to secure a firm loan commitment on its SAIL and HOME funding.

A copy of the Petition for Variance or Waiver may be obtained by contacting: Ana McGlamory, Corporation Clerk, Florida Housing Finance Corporation, 227 North Bronough Street, Suite 5000, Tallahassee, FL 32301-1329. The Petition has also been posted on Florida Housing's website at floridahousing.org. Florida Housing will accept comments concerning the Petition for 14 days from the date of publication of this notice. To be considered, comments must be received on or before 5:00 p.m., Eastern Time, on the 14th day after publication of this notice at CorporationClerk@floridahousing.org or Florida Housing Finance Corporation, Attn: Corporation Clerk, 227 North Bronough Street, Suite 5000, Tallahassee, Florida 32301-1329.

FLORIDA HOUSING FINANCE CORPORATION

RULE NO.: RULE TITLE:

67-48.0072 Credit Underwriting and Loan Procedures

NOTICE IS HEREBY GIVEN that on April 08, 2026, the Florida Housing Finance Corporation, received a petition for waiver of paragraph 67-48.0072(21)(b) Florida Administrative Code (August 27, 2024) from 40th Street Lofts, LLC to extend the May 18, 2026 deadline to November 18, 2026 to secure a firm loan commitment.

A copy of the Petition for Variance or Waiver may be obtained by contacting: Ana McGlamory, Corporation Clerk, Florida Housing Finance Corporation, 227 North Bronough Street, Suite 5000, Tallahassee, FL 32301-1329. The Petition has also been posted on Florida Housing's website at floridahousing.org. Florida Housing will accept comments concerning the Petition for 14 days from the date of publication of this notice. To be considered, comments must be received on or before 5:00 p.m., Eastern Time, on the 14th day after publication of this notice at CorporationClerk@floridahousing.org or Florida Housing Finance Corporation, Attn: Corporation Clerk, 227 North Bronough Street, Suite 5000, Tallahassee, Florida 32301-1329.

FLORIDA HOUSING FINANCE CORPORATION

RULE NO.: RULE TITLE:

67-48.0072 Credit Underwriting and Loan Procedures

NOTICE IS HEREBY GIVEN that on April 08, 2026, the Florida Housing Finance Corporation, received a petition for waiver of paragraph 67-48.0072(21)(b) Florida Administrative Code (June 28, 2023) from ACRUVA Community FL12, LLC to extend the May 8, 2026 deadline to secure a firm loan commitment for an additional six months to November 8, 2026. A copy of the Petition for Variance or Waiver may be obtained by contacting: Ana McGlamory, Corporation Clerk, Florida Housing Finance Corporation, 227 North Bronough Street, Suite 5000, Tallahassee, FL 32301-1329. The Petition has also

FILED Department of Business and Professional Regulation Senior Deputy Agency Clerk CLERK: Brandon Nichols Date: 4/15/2026 File #:
--

PETITION FOR VARIANCE FROM RULE 61H1-28.0052(1)(b)

Petitioner Information:

Daniel J. Prinz
 9895 SW 73 Street
 Miami, FL 33173
 danieljprinz@gmail.com
 305-878-6186

RECEIVED

APR 15 2026

Florida Division of
Certified Public Accounting

VW 2026-045

Applicable Portions of the Rule:

61H1-28.0052 - Number of Sittings, and Granting of Credit, Release of Grades and Completion of Examination, Transition Rules:

(1) With respect to the CPA Examination:

(b) Candidates must pass all four test sections of the CPA Examination within the designated rolling period, which begins on the NASBA grade release date for the first test section(s) passed. In the event all four test sections of the CPA Examination are not passed within the designated rolling period, credit for any test section(s) passed outside the applicable period will expire and must be retaken.

The citation to the statute the rule is implementing:

Section 473.306, Examinations

Type of action requested:

Request for permanent variance from rule 61H1-28.0052(1)(b), Florida Administrative Code.

Specific fact that demonstrates a violation of the principles of fairness that would justify a variance for the petitioner:

I passed my first CPA exam section (BEC) in September 2023. Shortly after, in November 2023, I passed AUD. Due to the quarterly score reporting in 2024, and the 3 attempts it took to pass REG, I was only able to successfully complete one section of the exam in 2024. Additionally, in 2024 I suffered continued health complications related to a cancer diagnosis in 2020, which required various appointments, surgery, and subsequent recovery time. Throughout these challenges, my

determination to complete the exam only got stronger. After passing REG, I continued on to study for FAR while leading various busy season engagements at the Big 4 firm where I worked. Despite multiple attempts at FAR in 2025, I did not pass until April 2026, losing credit for BEC & AUD, which expired on June 30, 2025. Due to the fact that I passed BEC & AUD shortly before CPA Evolution was implemented, this only provided an additional 4 months to my 18-month rolling window, compared to the 30 months that are now in effect. Overall, I passed all 4 exams between September 2023 and April 2026, and therefore I am seeking an exemption from the 18-month rule.

I passed the 4 CPA Exam sections as follows:

Section	Date Passed	Expiration Date
BEC	9/15/23	6/30/25
AUD	11/4/23	6/30/25
REG	10/30/24	4/30/27
FAR	4/9/26	10/8/28


The reason why the variance requested would serve the purpose of the underlying statute:

I successfully completed all sections of the CPA exam while working full-time in both public and private accounting and battling many busy seasons and health issues. In light of this, I believe the additional time required to complete the exams does not accurately reflect my competencies or qualifications, as demonstrated by my 7 years working in the industry and the various promotions and increasing responsibilities entrusted to me throughout that time. Achieving this milestone of becoming a CPA is something I have dreamt of and worked towards for years and I do not believe granting a permanent variance would undermine the intent of Section 473.306, Examinations.

Petitioner statement:

I kindly request a permanent variance from Rule 61H1-28.0052(1)(b), Florida Administrative Code to reinstate my BEC & AUD exam credits and apply for my CPA license.

Respectfully,



Daniel J. Prinz

DEPARTMENT OF BUSINESS AND PROFESSIONAL REGULATION

Board of Accountancy

RULE NO.: RULE TITLE:

61H1-28.0052 Number of Sittings, and Granting of Credit, Release of Grades and Completion of Examination, Transition Rules

NOTICE IS HEREBY GIVEN that on April 15, 2026, the Board of Accountancy, received a petition for variance or waiver filed by Daniel Prinz. Petitioner seeks a permanent variance or waiver of paragraph 61H1-28.0052(1)(b), F.A.C., regarding time requirements for passing the CPA Examination. Comments on this petition should be filed with the Board of Accountancy within 14 days of publication of this notice.

A copy of the Petition for Variance or Waiver may be obtained by contacting: Roger Scarborough, Division Director, Board of Accountancy, 240 NW 76th Dr., Suite A, Gainesville, Florida 32607, (352)333-2505 or by email, Roger.Scarborough@myfloridalicense.com.

DEPARTMENT OF ENVIRONMENTAL PROTECTION

RULE NO.: RULE TITLE:

62-761.800 Out-of-Service and Closure Requirements

The Department of Environmental Protection hereby gives notice: On April 21, 2026, the Department of Environmental Protection issued a final order in response to a petition for waiver pursuant to Section 120.542 F.S. previously submitted by Coastal Oil LLC. The petition was received on November 7, 2025. Notice of receipt of the petition was published in the Florida Administrative Register on November 13, 2025. The petitioner requested a variance from paragraph 62-761.800(1)(e), F.A.C., which requires Storage tank systems with secondary containment, not requiring repairs pursuant to Rule 62-761.700, F.A.C., to only be designated as out-of-service for a maximum of 10 continuous years. The petition was assigned OGC #25-2022. The Department granted the Petitioner's request for waiver from paragraph 62-762.800(1)(e) F.A.C. The facility is located at 18698 US Highway 19 N, Clearwater, Florida 33764 in Pinellas County.

A copy of the Order or additional information may be obtained by contacting: Alan Dorsett, Florida Department of Environmental Protection, 2600 Blair Stone Road, MS 4550, Tallahassee, FL 32399-2400; telephone (850)245-8931, e-mail Alan.Dorsett@FloridaDEP.gov, during normal business hours, 8:00 a.m. – 5:00 p.m., Monday through Friday, except legal holidays. If you have any questions, please call the Division of Waste Management at (850)245-8705.

Public participation is solicited without regard to race, color, religion, sex, pregnancy, national origin, age, handicap, or marital status. Persons who require special accommodations under the American Disability Act (ADA) or persons who

require translation services (free of charge) are asked to contact DEP's Limited English Proficiency Coordinator within ten (10) days of publication of this notice at (850)245-2118 or LEP@FloridaDEP.gov. If you have a hearing or speech impairment, please contact the agency using the Florida Relay Service, (800)955-8771 (TDD) or (800)955-8770 (voice).

DEPARTMENT OF ENVIRONMENTAL PROTECTION

Beaches and Coastal Systems

RULE NO.: RULE TITLE:

62B-33.0051 Coastal Armoring and Related Structures

NOTICE IS HEREBY GIVEN that on April 16, 2026, the Department of Environmental Protection, received a petition for variance pursuant to section 120.542, F.S., from 874 South County LLC and 105 Clarendon Road Revocable Trust. The petition requested a variance from subparagraph 62B-33.0051(1)(a)1., F.A.C., related to eligibility requirements for proposed reconstruction of existing armoring structures. The property is located at 105 Clarendon Avenue, Town of Palm Beach, Florida. The petition has been assigned OGC #26-0608.

A copy of the Petition for Variance or Waiver may be obtained by contacting: Douglas Aarons, Florida Department of Environmental Protection, 2600 Blair Stone Road, Mail Station 3522, Tallahassee, Florida 32399-2400; telephone (850)245-7672; e-mail Douglas.Aarons@floridadep.gov, during normal business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday, except legal holidays. If you have any questions, please call the Coastal Construction Line Program Office at (850)245-2094. Written comments must be received by the Department of Environmental Protection no later than 14 days from the date of publication of this notice.

DEPARTMENT OF ENVIRONMENTAL PROTECTION

Beaches and Coastal Systems

RULE NO.: RULE TITLE:

62B-33.0051 Coastal Armoring and Related Structures

NOTICE IS HEREBY GIVEN that on April 21, 2026, the Department of Environmental Protection, received a petition for variance pursuant to section 120.542, F.S., from Henry Sal. The petition requested a variance from rule 62B-33.0051, F.A.C., related to vulnerability requirements for proposed replacement of a rock revetment with a seawall. The property is located at 489 Ocean Shore Boulevard, Ormond Beach, Florida. The petition has been assigned OGC #26-0614.

A copy of the Petition for Variance or Waiver may be obtained by contacting: Douglas Aarons, Florida Department of Environmental Protection, 2600 Blair Stone Road, Mail Station 3522, Tallahassee, Florida 32399-2400; telephone (850)245-7672; e-mail Douglas.Aarons@floridadep.gov, during normal business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday, except legal holidays. If you have any questions, please call the Coastal Construction Line Program Office at (850)245-2094.

**BOARD OF ACCOUNTANCY
RULES REPORT
MAY 2026**

Rule Number	Rule Title	Date Rule Language Approved by Board	Date Sent to OFARR	Rule Development Published	Notice Published	Adopted	Effective

*There are currently no rules in the rulemaking process.



National Association of State Boards of Accountancy

150 Fourth Avenue North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615/880-4200 ♦ Fax 615/880/4290 ♦ Web www.nasba.org

April 23, 2026

To Executive Directors:

You should have received notification dated January 29, 2026, from Michael Decker, William Emmer and Sean Mathais regarding changes to candidate examination fees for calendar year 2027. The purpose of this letter is to describe how those candidate fees will be implemented.

The new schedule of testing fees, beginning January 1, 2027, for AUD, FAR, REG, BAR, ISC and TCP will be as follows:

AICPA	\$135.00 per section
NASBA	\$ 30.00 per section
Prometric	\$ 21.43 per test hour, plus \$ 7.17 per section security fee (or \$103.59 per section based on standard seat time of four and one half hours)

Based on the above, the candidate cost per section (AUD, FAR, REG, BAR, ISC, TCP) will be \$268.59 in 2027.

As has been explained in prior notifications, because the AICPA and Prometric are paid their fees based on when a candidate tests and not when the board (or its designee) submits its Authorizations to Test (ATTs) to the National Candidate Database (NCD), a dilemma is created. NASBA has agreed to manage the financial consequences of this dilemma by allowing boards (or their designees) to pay the new fees effectively with ATTs submitted on or after a specific date. For NASBA to do this, while minimizing its financial carrying costs, the effective date for ATTs must be moved in advance of the announced effective date of the fee changes. The above fee changes will be paid to the AICPA, NASBA and Prometric for candidates testing on or after January 1, 2027.

It would not be equitable to have only one effective date for all boards because of the differing lengths of Notices to Schedule (NTSs). Most jurisdictions have an NTS that is valid for six months. However, two jurisdictions have selected longer NTS validity periods. If a single effective date was set based on a six-month NTS, candidates in these two jurisdictions would be at an advantage. As a result, we have adopted an implementation plan that sets due dates for ATTs based on the length of each jurisdiction's NTS life.

We have selected either the 1st (if it falls on a Saturday) or the first Saturday after the 1st of the month. We have chosen to use Saturday as an effective date because using a weekday creates a larger cutoff and reconciliation problem for the Gateway.

The end result is the following schedule of effective dates:

California and Virginia – July 4, 2026
All other boards (6-month NTS) – August 1, 2026

Any ATT submitted on or after the above dates will be subject to the new fees. Invoice jurisdictions may have to begin collecting these fees in advance of the above dates so that they will have collected the proper fees from the candidates whose ATTs they submit on or after the above dates. Coupon jurisdictions will not have the same issue although they will want to notify candidates that any coupons the candidates receive for ATTs submitted on or after the above dates will be at the increased fees.

Sincerely,

Patricia Hartman
Patricia Hartman
Director of Client Services



Professional Ethics Division

Exposure draft:

Proposed revisions related to alternative
practice structures

December 29, 2025

Comments are requested by April 30, 2026

ethics-exposedraft@aicpa.org



Standard-setting

Invitation to comment

December 29, 2025

Are you interested in the ethics of the accounting profession? If so, we want to hear your thoughts on this ethics exposure draft. Your comments are integral to the standard-setting process, and you don't need to be an AICPA member to participate.

This proposal is part of the AICPA's Professional Ethics Executive Committee's (PEEC's) effort to provide guidance for alternative practice structures arising from the increase in private equity investments in accounting firms.

This exposure draft explains proposed revisions to the AICPA Code of Professional Conduct and includes the full text of the guidance under consideration.

At the conclusion of the exposure period, PEEC will evaluate the comments and determine whether to publish the new and revised interpretations.

Again, your comments are an important part of the standard-setting process — please take this opportunity to comment. We must receive your response by April 30, 2026. All written replies to this exposure draft will become part of the public record of the AICPA. During the comment period, staff will present a Lunch-and-Learn session to review the proposed guidance and answer any questions.

Please email your comments to ethics-exposedraft@aicpa.org.

Sincerely,



Anna Dourdourekas, Chair
Professional Ethics Executive Committee



Toni Lee-Andrews, Director, CPA, PFS, CGMA
Professional Ethics Division

Contents

Explanation of the new interpretation and revised definition and interpretations	1
Proposed new interpretation “Alternative Practice Structures” (ET sec. 1.220.020)	32
Proposed revisions to definition and interpretations (redline)	43
Proposed revisions to definition and interpretations (clean).....	46
Acknowledgments	49

Explanation of the new interpretation and revised definition and interpretations

The Professional Ethics Executive Committee (PEEC) is exposing the following for comment:

- A new version of the “Alternative Practice Structures” interpretation (ET sec. 1.220.020)¹ of the “Independence Rule” (ET sec. 1.200.001) to replace the current interpretation in its entirety
- Revisions to the definition of *network firm* (ET sec. 0.400.36)
- Revisions to the “Alternative Practice Structures” interpretation (ET sec. 1.810.050) of the “Form of Organization and Name Rule” (ET sec. 1.800.001)
- Revisions to the “Conceptual Framework for Independence” interpretation (ET sec. 1.210.010)
- Revisions to the “Conceptual Framework for Members in Public Practice” interpretation (ET sec. 1.000.010)

Background

1. In the late 1990s, PEEC recognized that due to the evolving landscape of public accounting practices, specific guidelines were necessary to maintain integrity and independence when providing attest services while practicing in an alternative practice structure (APS). In 2000, the “Alternative Practice Structures” interpretations of the “Independence Rule” and of the “Form of Organization and Name Rule” were adopted into the AICPA Code of Professional Conduct (code).
2. In November 2022, PEEC appointed a task force to evaluate whether the nature of private equity (PE) investments in the nonattest entity of an APS (APS with PE) necessitates revisions to the code — either through amended or new interpretations — or issuance of nonauthoritative guidance. The task force comprises members practicing within APSs (with private and public investors), members from traditional firm structures, an attorney, representatives from the National Association of State Boards of Accountancy (NASBA), representatives from regulatory bodies, a representative from a technical committee, and staff of the AICPA ethics division. The task force evaluated the current provisions in the code, including the “Alternative Practice Structures” interpretation of the “Independence

¹ All ET sections can be found in the [AICPA Code of Professional Conduct](#).

Rule,” to determine their appropriateness and sufficiency for these structures.

Evaluation

3. PEEC determined that revisions to the code are necessary. Evolving APSs, including APSs with PE, have fundamental differences from the APS contemplated by the existing interpretation under the “Independence Rule.” These distinctions may affect how a member assesses the significance of threats to independence. Differences include the following:

Existing interpretation	APS with PE
Presents an APS in which a public company controls ² the nonattest entity.	The investor may or may not control the nonattest entity.
Assumes the public investor not only controls the nonattest entity but also controls the “other public company entities.” ³	This may not be the case in an APS with PE or in another structure when an investor has significant influence over but does not control the nonattest entity and other investees. For example, the other portfolio companies in which the PE investor has holdings may or may not be in the same fund as the nonattest entity, and the PE investor may have less than control over them. Additionally, the other funds and portfolio companies may be managed and advised by different general partners, fund managers, and investment advisers.
Defines “other public company entities” as those that “...include the public company and all entities consolidated in the public company financial statements...”	The entities subject to consolidation may vary.

² ET section 0.400.12.

³ ET section 1.220.020.04e.

4. In addition to these structural differences, the code has been revised since the adoption of the “Alternative Practice Structures” interpretation of the “Independence Rule” as follows:
 - The “Network and Network Firms” interpretation (ET sec. 1.220.010), and related definitions of *network*⁴ and *network firm*,⁵ were adopted into the code several years after the “Alternative Practice Structures” interpretation. According to that interpretation, when the attest firm and nonattest entity are network firms, the nonattest entity should be independent of the attest firm’s financial statement audit and review clients.
 - The *covered member*⁶ definition was not fully adopted into the code when the “Alternative Practice Structures” interpretation was drafted. Specifically, individuals who meet the definition of an *individual in a position to influence the attest engagement*⁷ may also meet the definition of “direct superior” or “indirect superior” as defined in the “Alternative Practice Structures” interpretation. While “direct superiors” and entities over which they can exercise *significant influence*⁸ must comply with the “Independence Rule,” “indirect superiors” currently are subject to only certain interpretations.
5. In evaluating potential changes to the existing “Alternative Practice Structures” interpretation, PEEC reviewed other interpretations of the “Independence Rule,” such as those related to financial interests, business relationships, loans, client affiliates, and mergers and acquisitions. PEEC sought to identify where threats to independence are more significant in an APS than those addressed through existing interpretations of the “Independence Rule.”
6. Based on its evaluation, PEEC is proposing a new “Alternative Practice Structures” interpretation of the “Independence Rule” as well as revisions to other interpretations and one definition. The new interpretation of the “Independence Rule” will address APSs broadly, including APSs with PE.
7. Additionally, PEEC reviewed and considered guidance from other standard-setting organizations and regulators — such as the International Ethics Standards Board for Accountants (IESBA), the SEC, and various state boards of accountancy — that have

⁴ ET section 0.400.35.

⁵ ET section 0.400.36.

⁶ ET section 0.400.14.

⁷ ET section 0.400.25.

⁸ ET section 0.400.49.

addressed independence considerations when an attest firm operates within an APS.

8. PEEC evaluated other rules within the code and is developing nonauthoritative guidance to assist members in applying the “Independence Rule” and the following rules and their interpretations when practicing in an APS:
 - The “Integrity and Objectivity Rule” (ET sec. 1.100.001)
 - The “Advertising and Other Forms of Solicitations Rule” (ET sec. 1.600.001)
 - The “Confidential Client Information Rule” (ET sec. 1.700.001)
 - The “Form of Organization and Name Rule” (ET sec. 1.800.001)
9. PEEC continues to evaluate whether the following rules should be applicable to the nonattest entity in an APS and does not address these in this exposure draft:
 - “Contingent Fees Rule” (ET sec. 1.510.001)
 - “Commissions and Referral Fees Rule” (ET sec. 1.520.001)

Outreach and stakeholder engagement

10. The task force issued a discussion memorandum, “Potential revisions to the AICPA Code of Professional Conduct and guidance related to independence in alternative practice structures,” in March 2025 and solicited feedback through June 2025. The discussion memorandum focused on potential revisions to the “Alternative Practice Structures” interpretation of the “Independence Rule.” Thirty-six comment letters were received from various stakeholders, including state boards, state societies, firms in APSs, traditional firms, representatives from academia, and NASBA. PEEC considered these responses in developing this exposure draft.
11. The task force also met with and sought feedback from various stakeholders, attorneys specializing in PE transactions, CEOs and independence leadership from firms that operate in an APS, auditors of PE structures, insurance liability carriers, state CPA societies, state boards, IESBA, and NASBA.

Proposed new “Alternative Practice Structures” interpretation (ET sec. 1.220.020)

12. Parenthetical references throughout this explanatory material are references to the paragraphs in the proposed interpretation.
13. Paragraph .01 of the proposed interpretation clarifies that the “Alternative Practice Structures” interpretation is to be used in conjunction with the other interpretations of the

“Independence Rule;” it is not a “standalone” interpretation and does not include every independence requirement for members practicing in an APS.

Structure of an APS

14. An APS must have certain characteristics to be structured in compliance with jurisdictional laws and regulations, which are referred to in the beginning of the proposed new “Alternative Practice Structures” interpretation of the “Independence Rule.” PEEC encourages members to consult an attorney or other specialist who might be able to assist members in navigating applicable laws and regulations (.02–.03).

Terminology

15. The terminology section (.04) introduces terms defined solely for the purpose of applying the interpretation.

16. An “alternative practice structure” (.04a) is defined broadly to reflect the substance of the form of organization — one in which a firm that provides attest services (attest firm) is closely aligned with another public or private entity, partly or wholly owned by an investor or investors, that performs professional services other than attest services (nonattest entity).

17. “Closely aligned” (.04b) is defined to describe the relationship between the attest firm and the nonattest entity. The dependency of the attest firm on the nonattest entity is what provides the basis for treating the nonattest entity the same as the attest firm for independence purposes.

18. The term “investor” (.04c) is used to broaden application across various APSs and to incorporate any individual or entity that has a *financial interest*⁹ in the nonattest entity, including an individual, PE firm, partnership, corporate entity, or other type of investor. The interpretation specifies when it is necessary to identify whether an investor has less than significant influence, significant influence, or control over the nonattest entity.

19. A “significant influence investment” (.04d) exists when an investor has significant influence over the nonattest entity but not control. More than one investor may have significant influence over the nonattest entity. If more than one investor has significant influence over the nonattest entity, the member will apply the APS guidance to each investor.

20. *Significant influence*, defined in the code,¹⁰ is based on FASB Accounting Standards

⁹ **Financial interest.** An ownership interest in an equity or a debt security issued by an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest (ET sec. 0.400.17).

¹⁰ ET section 0.400.49.

Codification (ASC) 323-10-15. Ownership of 20 percent or more of the investee's voting stock generally presumes significant influence. The ability to exercise significant influence also may exist in other ways, such as through board representation, participation in policy-making decisions, material intra-entity transactions, interchange of managerial personnel, technology dependency, and concentration of other shareholdings.

21. A "controlling investment" (.04e) exists when an investor has control over the nonattest entity. *Control*, defined in the code,¹¹ is as used in FASB ASC 810, *Consolidation*. It is the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise, including qualitative factors. The assessment includes consideration of the following:

- Ownership of a majority voting interest
- Contractual arrangements that grant decision-making authority
- Other mechanisms that allow one entity to direct the activities of another
- Veto rights of a minority shareholder

22. "Key stakeholders of the investor" (.04f) is defined as individuals who represent or act on behalf of an investor; such stakeholders could include owners, managing partners, founders, or principals. These individuals may have the authority to appoint members to the nonattest entity board. When these individuals are involved in activities related to the nonattest entity such as advising on the strategic direction of the nonattest entity or appointing nonattest entity board members, relationships they have with attest clients may create threats to independence.

23. "Upstream entities of the nonattest entity" (.04g.) are defined as those entities above the nonattest entity through the investor (.04c.) that have at least significant influence over the nonattest entity. The nonattest entity is not independent of these upstream entities due to the investment in the nonattest entity. For example, in an APS with PE when the investor has at least significant influence over the nonattest entity, this includes the fund (or funds that collectively have at least significant influence over the nonattest entity), the investment adviser, the general partner, and the PE firm. Entities with less than significant influence over the nonattest entity (for example, limited partners and shareholders) are not upstream entities for the purpose of this definition.

¹¹ ET section 0.400.12.

Characteristics of an APS

24. Common characteristics of an APS are outlined in paragraph .05 of the proposed interpretation. These characteristics have been observed across different APSs with different types of investors; however, these characteristics are not necessarily representative of every APS. A variation of one or more of these characteristics may affect the significance of threats to independence.

APS models

25. PEEC presents three APS models in the proposed interpretation after paragraphs .06 and .07: one broadly applicable to any APS, one applicable to an APS with PE, and one applicable to an APS with a public company investor. PEEC intends to describe other APS models in nonauthoritative guidance.

Network firms

26. PEEC is proposing revisions to the definition of *network firm*¹² as described in paragraphs 68–70 of this explanatory material. These revisions include (a) removing the inclusion of entities “under common control” with a network firm, and (b) adding a requirement that a controlling entity also be cooperating with the network firm for the purpose of enhancing the network firm’s capabilities to provide professional services before the controlling entity is considered a network firm. The new requirement in (b) is the first characteristic of a *network*, as set forth in the definition of *network*, and is a precondition for a network relationship to exist. PEEC also believes that the proposed revisions are appropriate and would result in consistent treatment for both an APS and a traditional accounting network. The proposed APS interpretation incorporates additional independence requirements for entities within an APS, which PEEC believes are necessary because of the close alignment of the attest firm and nonattest entity in an APS.

27. PEEC’s conclusions regarding network firms in an APS are presented in paragraphs .09–.14 of the interpretation. Under the interpretation, the first step is to determine which entities are included in the attest firm’s network based on the definition of *network* (.09–.11). Then, the attest firm should determine which entities are brought into the network through the definition of *network firm* (i.e., those entities that the network firm can control, or that control the network firm and cooperate with the network firm for the purpose of enhancing the network firm’s capabilities to provide professional services) (.12–.13).

28. PEEC has concluded and the interpretation reflects that the attest firm and nonattest entity are network firms because they cooperate for the purpose of enhancing the firms’

¹² References to the definition of *network firm* used throughout this exposure draft are to the proposed revised definition in this exposure draft unless stated otherwise.

capabilities to provide professional services and share one or more of the characteristics as described in the definition of *network* (.09). Independence requirements for this relationship are described in detail in paragraphs 36–37 of this explanatory material and in paragraph .14 of the interpretation.

29. In addition to evaluating any other relationships with entities that may create a network, the relationship between the attest firm and an investor with significant influence or control over the nonattest entity should be evaluated to determine whether the investor is part of the attest firm’s network (.10). As noted, the first characteristic of a *network*¹³ is that one or more firms “...cooperate for the purpose of enhancing the firms’ capabilities to provide professional services” (cooperation characteristic). This characteristic must be met before considering whether the attest firm and the investor share one or more of the additional characteristics outlined in the definition of a *network* (for example, common business strategy). Characteristics reflecting that such cooperation does not exist and factors to consider when evaluating whether cooperation may exist are included in paragraphs 32–33 of this explanatory material.
30. When evaluating whether a potential network relationship exists with an investor or any other entity, the attest firm should make the determination based on the relationship between the attest firm and the entity being evaluated (.11). The exception to this is when applying the definition of *network firm* as described in paragraph 31 of this explanatory material and paragraphs .12–.13 of the interpretation.
31. After network relationships of the attest firm are determined by applying the definition of *network*, the definition of *network firm* should be applied to determine which additional entities are part of the network because they are either a) controlled by a network firm or b) control a network firm and cooperate with that network firm to enhance the network firm’s capabilities to provide professional services (.12–.13). In the case of a controlling investor that cooperates with the nonattest entity for the purpose of enhancing the network firm’s capabilities to provide professional services, the controlling investor would be considered a network firm even if it did not meet any other characteristics of the definition of *network*; this is because it would meet the definition of *network firm* as described in paragraphs 26 and 70 of this explanatory material. Specifically, in the circumstance described, the investor controls the nonattest entity (i.e., a network firm) and cooperates with that nonattest entity to enhance the nonattest entity’s capabilities to provide professional services.
32. An investor with significant influence or control over the nonattest entity does *not* meet the cooperation characteristic when applying the definitions of *network* or *network firm* when the

¹³ ET section 0.400.35.

investor does *not* provide *professional services*¹⁴ and the investor's activities are limited to

- investing in the nonattest entity and
- advising on budgetary or strategic direction of the attest firm.

33. Examples of factors to consider when determining whether an entity (including an investor whose activities are not limited to those in paragraph 32 of this explanatory material) meets the cooperation characteristic when applying the definitions of *network* or *network firm* are as follows:

- Whether the entity is involved in or facilitates the attest firm's or network firm's provision of professional services
- Whether the entity assists or collaborates with the attest firm or network firm in providing professional services, with or without a formal agreement
- Whether the entity performs any functions for or provides resources to the attest firm or network firm relating to the delivery of professional services

34. Controlled acquisitions of the nonattest entity are network firms based on the definition of a *network firm* because they are controlled by a network firm (i.e., the nonattest entity) (.12).

35. Diagrams A, B, and C, which follow, depict (respectively) the steps for determining whether an entity is in the attest firm's network in an APS based on the definitions of *network* and *network firm*, application of the definition of *network firm* when a controlling investor is not a network firm, and application of the definition of *network firm* when a controlling investor is a network firm:

¹⁴ ET section 0.400.43.

Diagram A

Determining whether an entity is in the attest firm's network in an APS

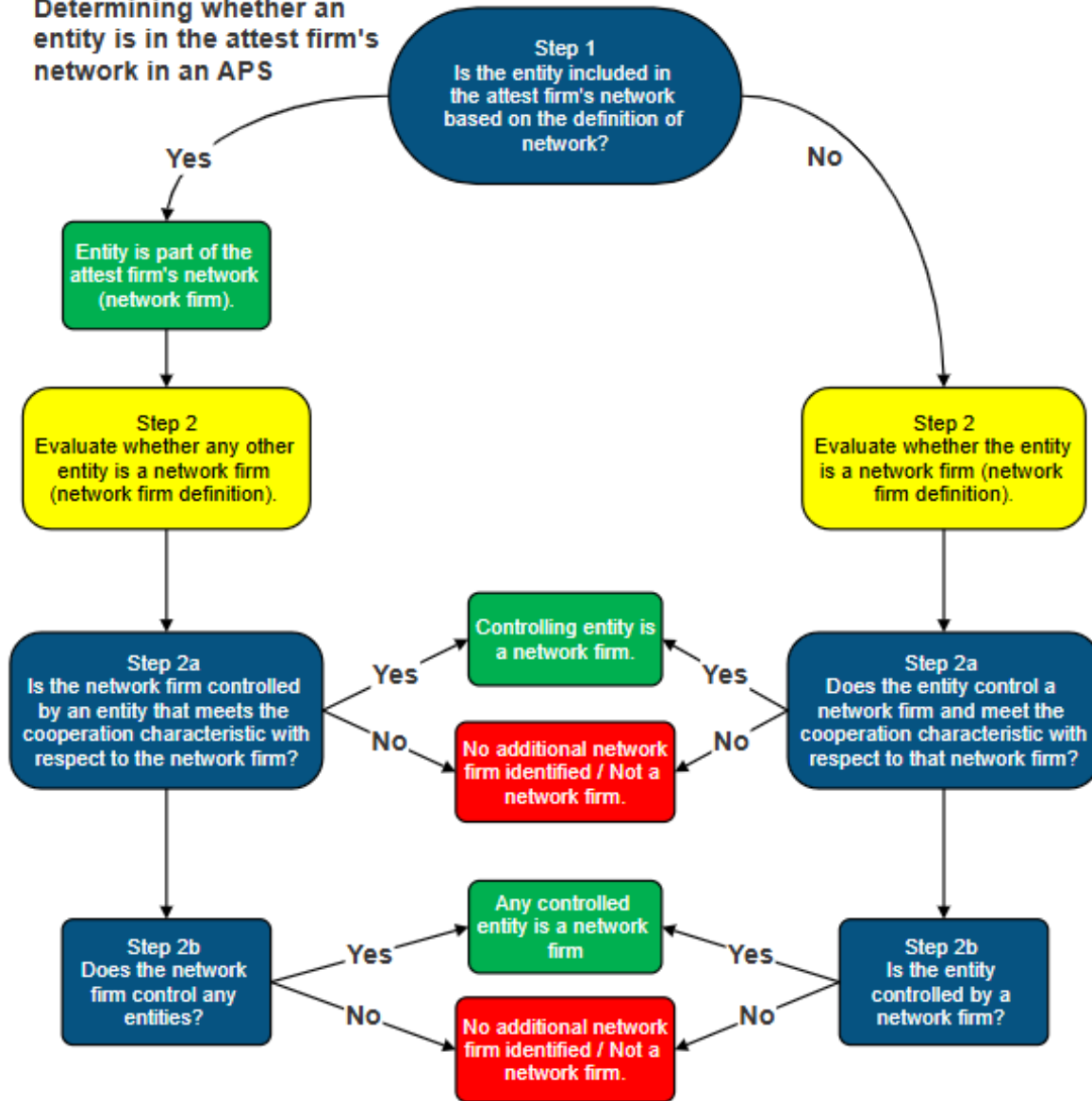


Diagram B

Controlling investment when investor does not meet cooperation characteristic with respect to nonattest entity. This example only evaluates the investor. Other entities may be network firms subject to evaluation.

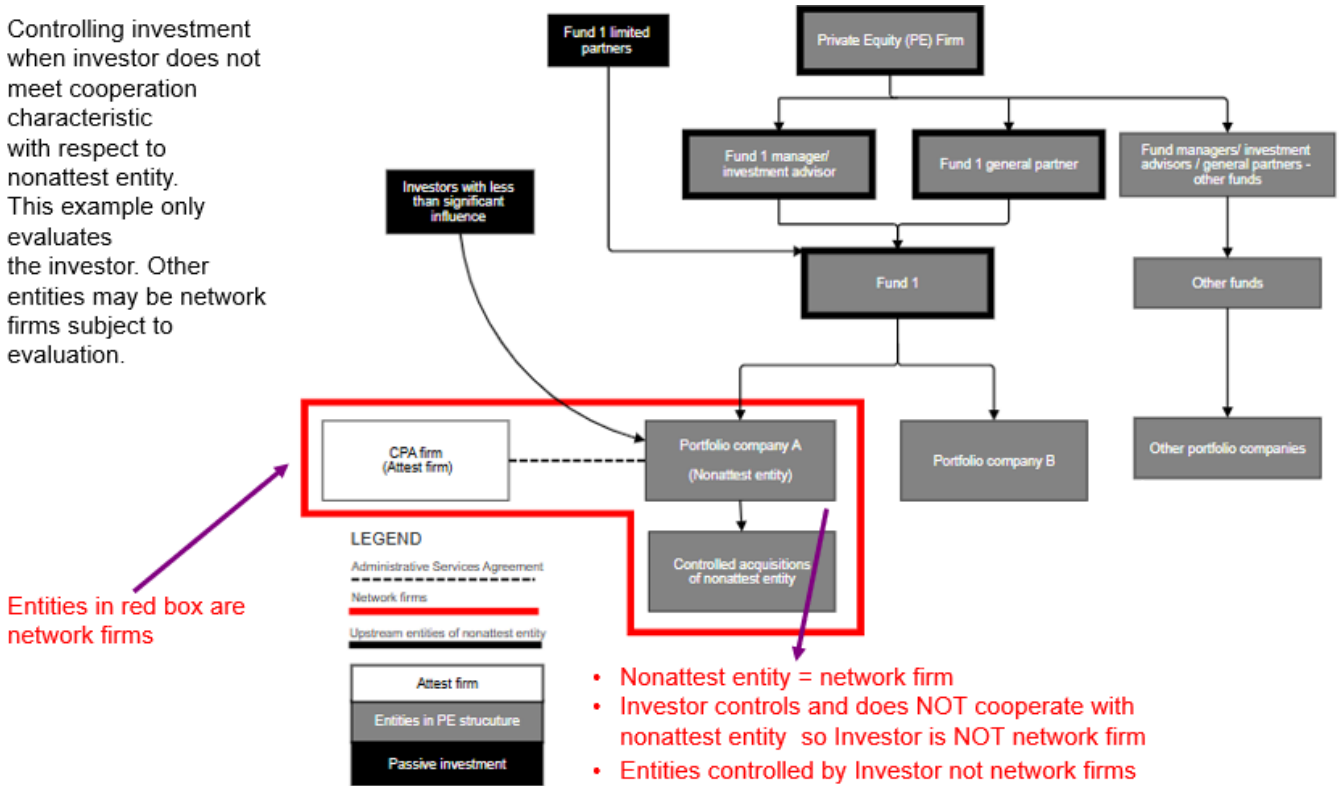
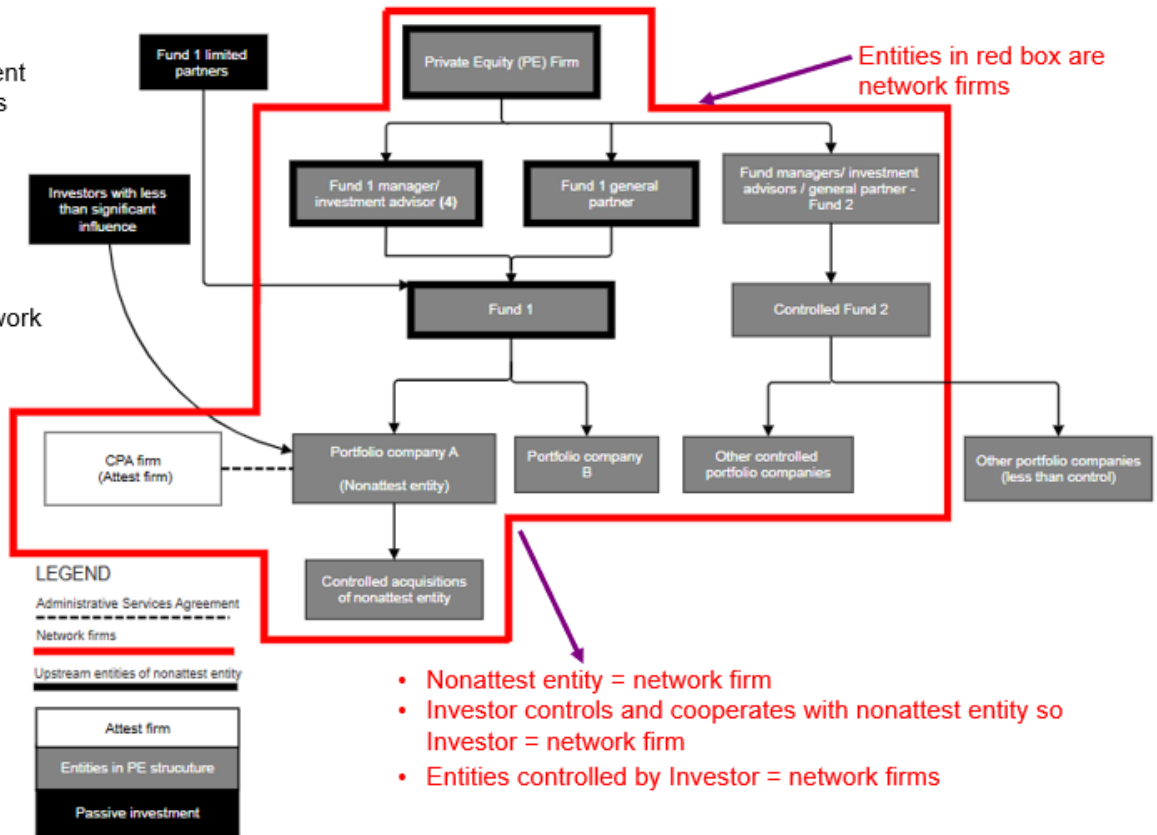


Diagram C

Controlling investment when investor meets cooperation characteristic with respect to nonattest entity. This example only evaluates the investor. Other entities may be network firms subject to evaluation.



36. The “Network and Network Firms” interpretation requires network firms to comply with the “Independence Rule” and its interpretations with respect to financial statement audit and review clients, including any prohibitions on providing nonattest services as set forth in the “Nonattest Services” subtopic.¹⁵ Certain exceptions apply for network firms within the “Network and Network Firms” interpretation and other interpretations; these exceptions are as follows:

- Network firms are not required to comply with the “Independence Rule” and its interpretations for engagements subject to the Statements on Standards for Attestation Engagements (SSAEs) unless the covered member knows or has reason to believe threats are created by another network firm’s interests and relationships.¹⁶

¹⁵ ET section 1.295

¹⁶ ET section 1.220.010.04.

- A member is not required to take specific steps to evaluate conflicts of interests of other network firms under the “Conflicts of Interest for Members in Public Practice” interpretation.¹⁷
- A covered member is not required to include fees from attest and nonattest services of network firms when calculating total fees related to fee dependency under the “Fee Dependency” interpretation.¹⁸
- A member is not required to consider the possible threats to independence created due to the provision of nonattest services by other network firms when considering the cumulative effect of providing multiple nonattest services to an attest client under the “Cumulative Effect on Independence When Providing Multiple Nonattest Services” interpretation.¹⁹

37. The network firm relationship between the attest firm and nonattest entity in an APS is more closely aligned²⁰ than network firms in a traditional network of accounting firms due to the attest firm’s relationship with, and dependency on, the nonattest entity. For example, in an APS, attest partners and professional staff are employees of the nonattest entity, and the attest firm relies on the nonattest entity for professional resources; this level of dependency generally does not exist in a traditional network of accounting firms. Therefore, PEEC believes the nonattest entity, including entities controlled by the nonattest entity, should be subject to the same independence requirements as the attest firm. Other network firms are not affected by this extended requirement. The effect of the extended requirement means that the exceptions noted in paragraph 36 of this explanatory material do not apply to the nonattest entity and entities it controls (.14).

Covered members

38. Members are expected to apply the *covered member* definition when evaluating independence and to apply the “Independence Rule” and its interpretations to such individuals and entities.
39. The *covered member* definition includes *an individual in a position to influence the attest engagement*. In an APS, this may include individuals who
- evaluate the performance or recommend the compensation of the attest engagement

¹⁷ ET section 1.110.010.08.

¹⁸ ET section 1.230.040.02.

¹⁹ ET section 1.295.020.04.

²⁰ Closely aligned as defined in the Terminology section of the proposed interpretation (paragraph .04c).

partner; or

- directly supervise or manage the attest engagement partner, including all successively senior levels above that individual through the firm’s chief executive.

40. In an APS, covered members may exist in the attest firm, nonattest entity, or in other entities in the investor’s structure (.15–16.). Since covered members may exist outside the attest firm and nonattest entity, PEEC believes including specific examples of who meets the *covered member* definition, or who should be evaluated under the *covered member* definition, will remove any ambiguity and promote consistency in practice. Nonattest entity board members who have the authority to approve the compensation of the attest firm partners at the individual level meet the first bullet in paragraph 39 of this explanatory material and are, therefore, covered members²¹.

41. Members should evaluate other relevant individuals to determine if they meet the definition of *covered member*, including the following:

- Board members of the nonattest entity who do not have the authority to approve the compensation of the attest firm partners at the individual level (.16a.).
- Individuals in the nonattest entity who directly supervise or manage the attest engagement partner, including all successively senior levels above the attest engagement partner through the chief executive or equivalent of the nonattest entity. PEEC determined that these individuals should be evaluated to determine whether they meet the *covered member* definition (versus stating they meet the *covered member* definition in the proposed interpretation) because of the possibility that a chief executive of the nonattest entity is not in an attest partner’s chain of command (.16b.).

Relationships with individuals and entities that may create threats to independence

42. PEEC recognizes that APSs continue to evolve; therefore, a “one-size-fits-all” set of rules is not appropriate. However, there are some relationships that, if present, PEEC has concluded will impair independence; these are specifically covered in the proposed interpretation. Because scenarios may arise in which facts and circumstances vary, members will still be required to use professional judgment when applying the APS guidance. Paragraph .18 of the interpretation describes relationships and circumstances

²¹ PEEC’s “White Paper, Independence Rules Modernization Project” concluded that individuals who actively participate in compensation decisions for specific attest engagement partners are covered members.

when independence is impaired. Paragraph .20 of the interpretation provides examples of relationships and circumstances when, if the attest firm knows or has reason to believe the relationship or circumstance exists, the conceptual framework approach should be applied to evaluate whether the relationship or circumstance would lead a reasonable and informed third party who is aware of the relevant information to conclude that there is a threat to independence that is not at an acceptable level.²²

Relationships that impair independence

43. After a member determines network firms (.09–.14) and covered members (.15–.16) and applies the “Independence Rule” and its interpretations to the respective individuals and entities, members should determine which relationships and circumstances exist in an APS beyond the scope of covered member and network firms that create threats to independence. Independence requirements that extend beyond those required for covered members and network firms are based on the close alignment of the attest firm and nonattest entity. The public interest principle recognizes that members may face conflicting pressures and obliges members to act with integrity, “... guided by the precept that when members fulfill their responsibility to the public, clients’ and employers’ interests are best served.”²³ PEEC believes that there is at least a perceived greater undue influence threat²⁴ to independence in an APS where an investor has input into strategic and budgetary decisions of the attest firm which may affect a member’s objectivity and independence²⁵ even when an investor is not a network firm.

44. The relationships and circumstances that impair independence may differ based on the level of investment of the investor in the nonattest entity (that is, less than significant influence, significant influence, or control). These circumstances are described in paragraphs 45–57 of this explanatory material and outlined in paragraph .18a–d. of the interpretation.

Less than significant influence, significant influence, or controlling investment by investor

45. At this time, PEEC is unaware of a nonattest entity in an APS with PE that has become a publicly traded entity; however, PEEC believes that if such a nonattest entity becomes a publicly traded entity in the future, independence would be impaired if an attest client has a direct financial interest in the nonattest entity due to the close alignment of the attest firm and nonattest entity (.18c.). This includes an attest client that has any direct financial interest in the nonattest entity, or the attest client’s officers or directors of record or beneficial

²² ET section 1.210.010.01.

²³ ET section. 0.300.030.03.

²⁴ ET section 1.210.010.18.

²⁵ ET section 0.300.050.

owners of more than 5 percent of the equity securities of the nonattest entity. This prohibition is consistent with the SEC’s Rule 2-01(c)(1)(iv)(A).

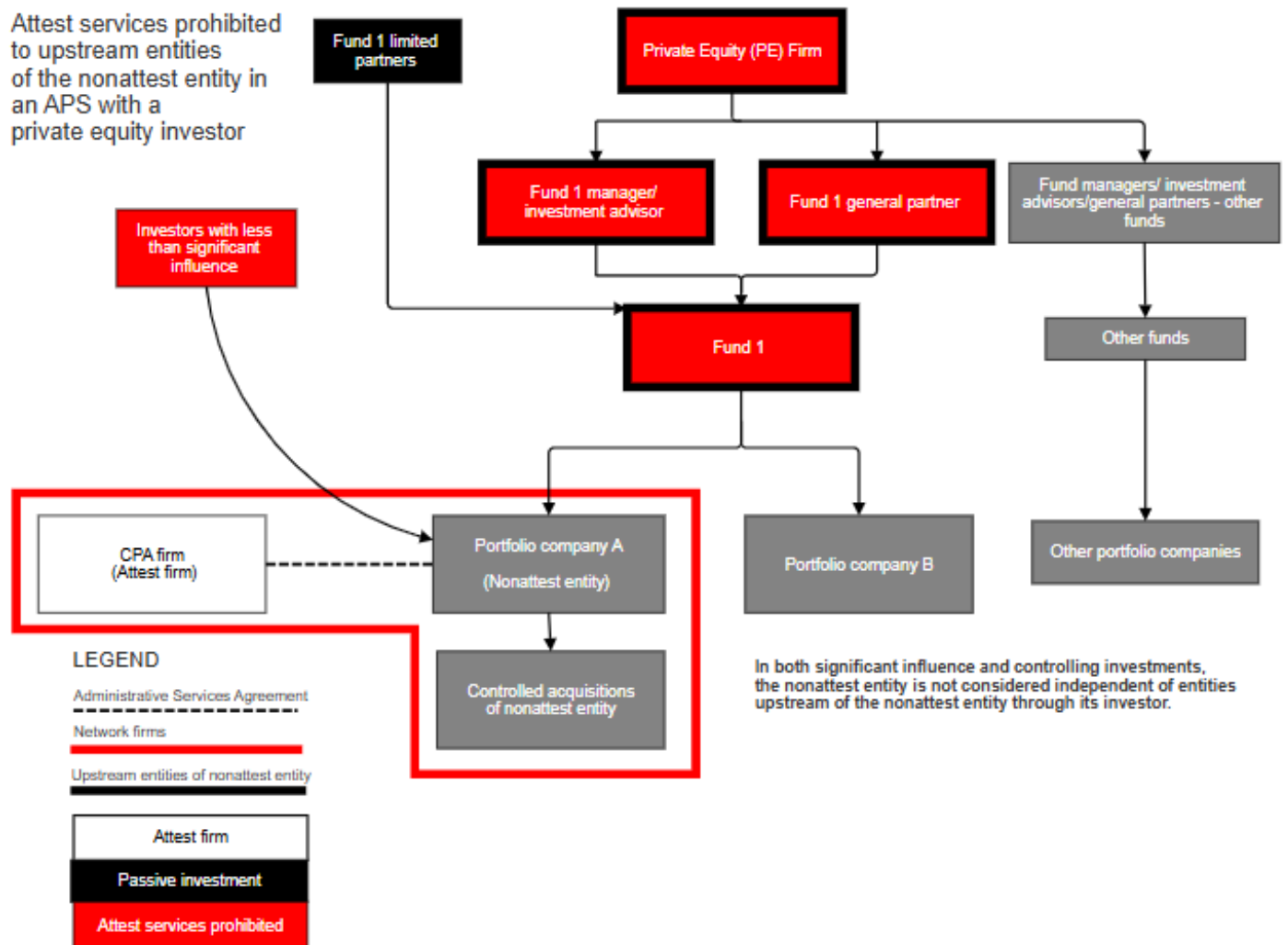
Significant influence or controlling investment by investor

46. In a significant influence investment or controlling investment, when the investor is a network firm, partners and professional employees of the investor would be required to comply with the interpretations of the “Independence Rule” applicable to network firms, including within the “Current Employment or Association with an Attest Client” subtopic.²⁶
47. When the investor is not a network firm, an undue influence threat to independence still exists that is not at an acceptable level and cannot be reduced to an acceptable level with the application of safeguards if an individual who is a member of those charged with governance²⁷ over the nonattest entity is in a key position at an attest client of the attest firm (.18a.). The definition of *those charged with governance* includes both individuals and organizations.
48. In a significant influence investment or controlling investment, the nonattest entity is not considered independent of upstream entities of the nonattest entity through its investor even when such entities are not network firms. Because the nonattest entity is a network firm of the attest firm and is not considered independent of these upstream entities, independence will be impaired if the attest firm provides an attest service to any of those entities (.18b.). In an APS with a public company investor, this prohibition applies to upstream entities of the nonattest entity through the public company investor. The following diagrams depict this when the investor is a PE firm or a public company.

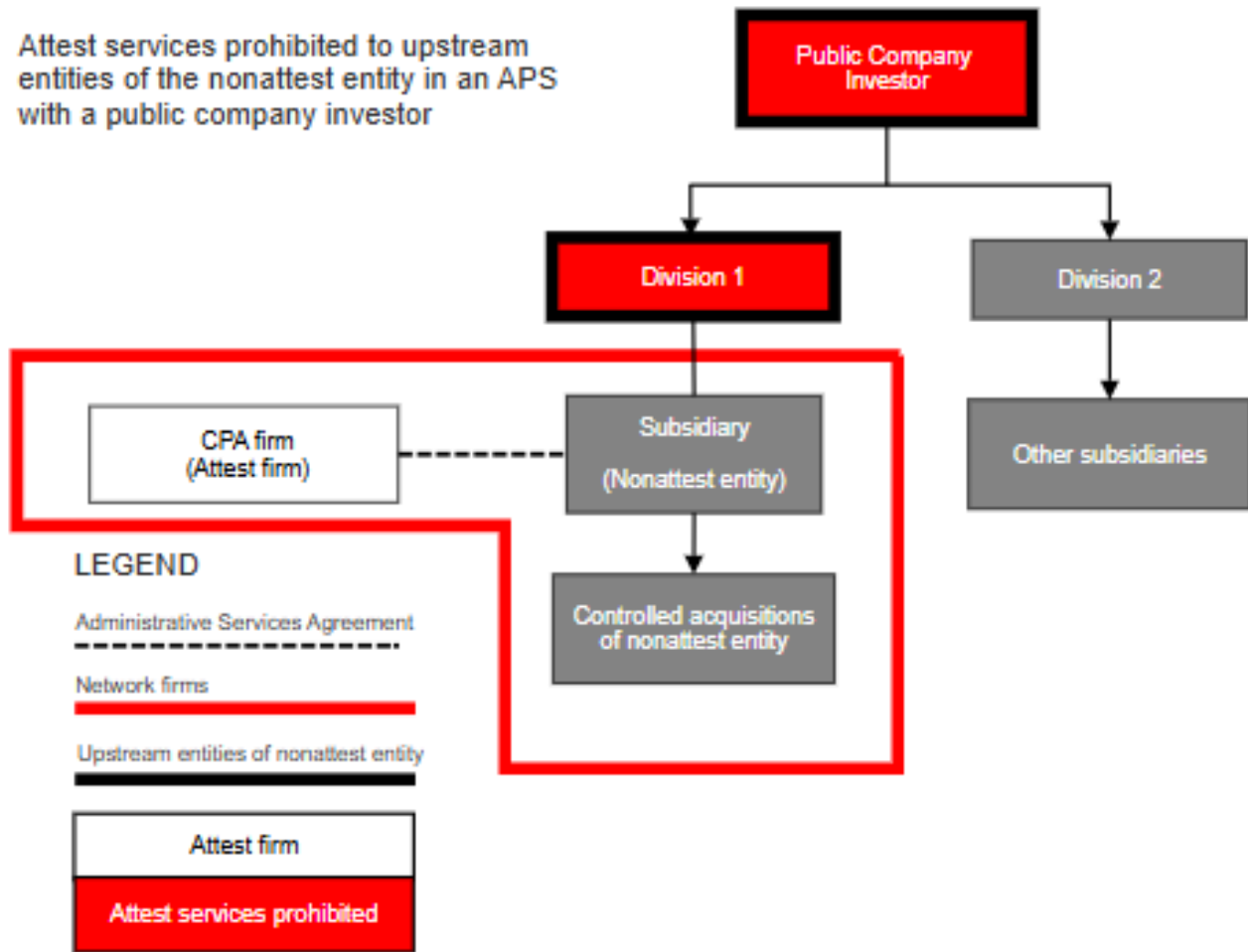
²⁶ ET section 1.275.

²⁷ ET section 0.400.53.

Attest services prohibited to upstream entities of the nonattest entity in an APS with a private equity investor



Attest services prohibited to upstream entities of the nonattest entity in an APS with a public company investor



49. In a significant influence investment or controlling investment, independence is impaired if an upstream entity of the nonattest entity is an affiliate²⁸ of a financial statement attest client of the attest firm (.18b.). This restriction is, in part, to align with the client affiliate interpretations²⁹ that require the attest firm and its network firms to be independent of a financial statement attest client and its affiliates. In cases where the nonattest entity is not independent of an affiliate of a financial statement attest client, independence will be impaired.

50. Paragraph .18b. of the interpretation also addresses the possibility of a financial statement

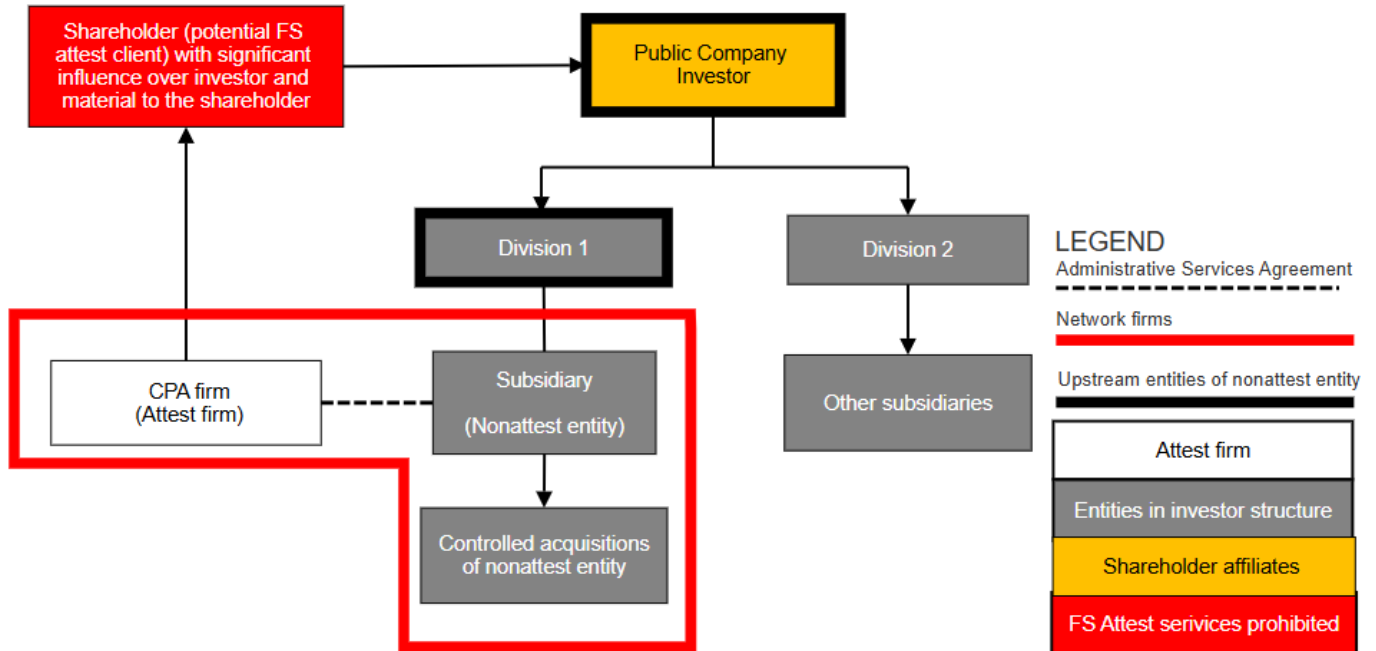
²⁸ ET section 0.400.02.

²⁹ The “Client Affiliates” interpretation (ET sec. 1.224.010) and the “State and Local Government Client Affiliates” interpretation (ET sec.1.224.020).

attest client investing in the same investor that has a financial interest in the nonattest entity or the investment vehicle that holds the investment in the nonattest entity. For example, if the investor is a PE firm, and the attest firm provides a financial statement attest service to a limited partner (LP) of the fund that holds the investment in the nonattest entity, independence is impaired if the LP interest allows the LP to exercise significant influence over the fund and is material to the LP. This is because the fund that holds the investment in the nonattest entity would be an affiliate of the LP,³⁰ the financial statement attest client, and the nonattest entity (a network firm) is not independent of the fund (that is, an upstream entity). The following diagram depicts this relationship in an APS with a public company investor where a potential financial statement attest client is a shareholder of the public company that invests in the nonattest entity. If the shareholder has significant influence over the public company and the investment is material to the shareholder, the public company would be an affiliate of the potential financial statement attest client. The next several paragraphs and diagrams provide additional examples of the conclusion in paragraph .18b. of the interpretation in various configurations.

³⁰ “An entity in which a *financial statement attest client* or an entity *controlled by the financial statement attest client* has a *direct financial interest* that gives the *financial statement attest client* *significant influence* over such entity and that is material to the *financial statement attest client*.” (ET sec. 0.400.02b.).

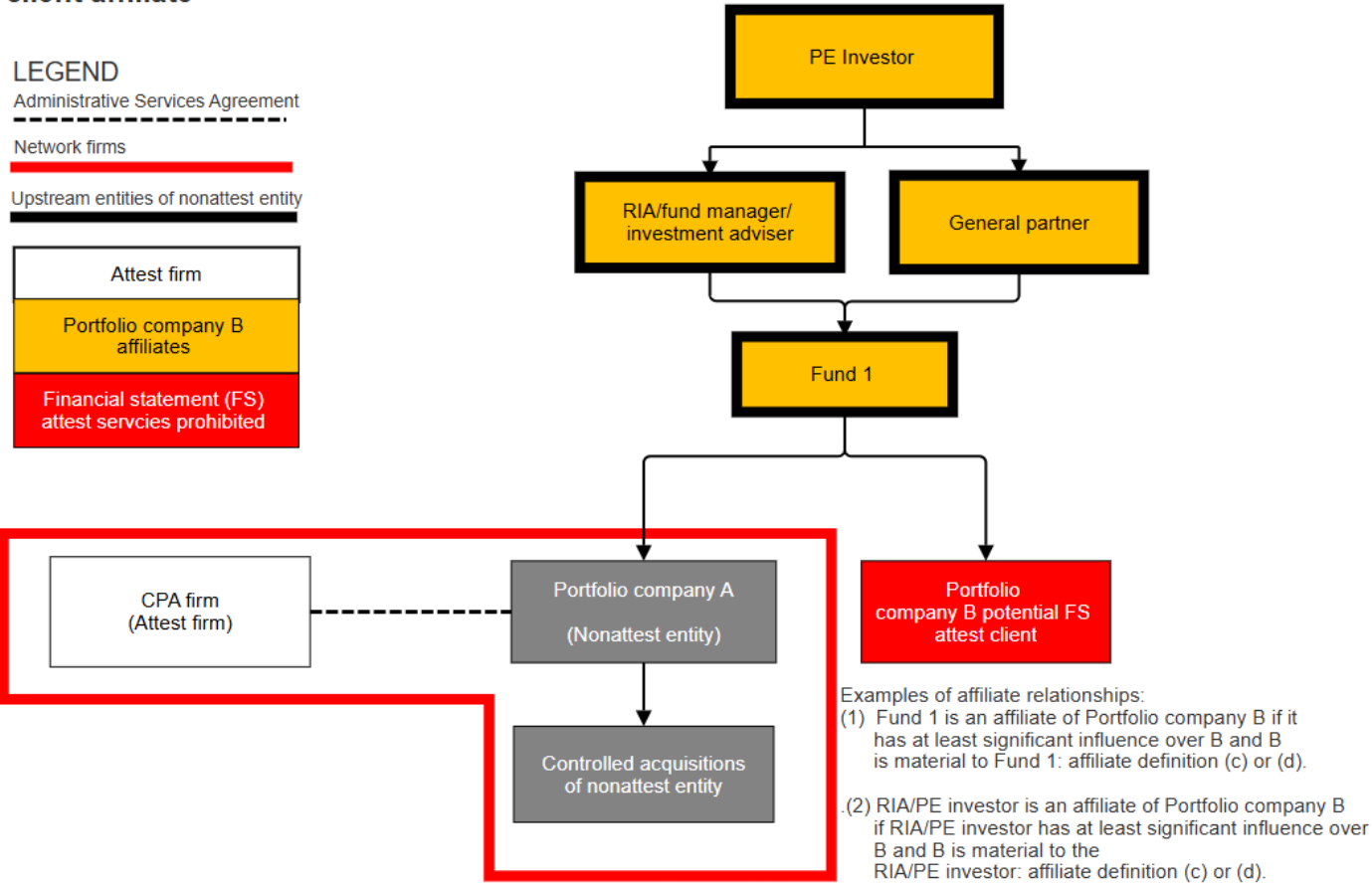
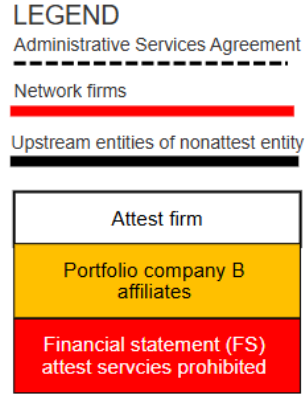
**Significant influence or controlling investment:
attest client invests in investor**



51. *Fund is client affiliate.* Following is an example of the conclusion described in paragraph 49 of this explanatory material in a significant-influence investment in which the potential financial statement attest client is a portfolio company in the same fund as the nonattest entity:

- Portfolio Company B is a potential financial statement attest client and is in the same fund (Fund 1) as the nonattest entity.
- Fund 1 is an affiliate of Portfolio Company B because Fund 1 has significant influence over Portfolio Company B and Portfolio Company B is material to Fund 1.
- The nonattest entity is not considered to be independent of Fund 1, which is an upstream entity of the nonattest entity.
- The attest firm cannot provide financial statement attest services to Portfolio Company B since the nonattest entity is not independent of an affiliate (that is, Fund 1) of the financial statement attest client (that is, Portfolio Company B).

Significant influence investment: fund is client affiliate

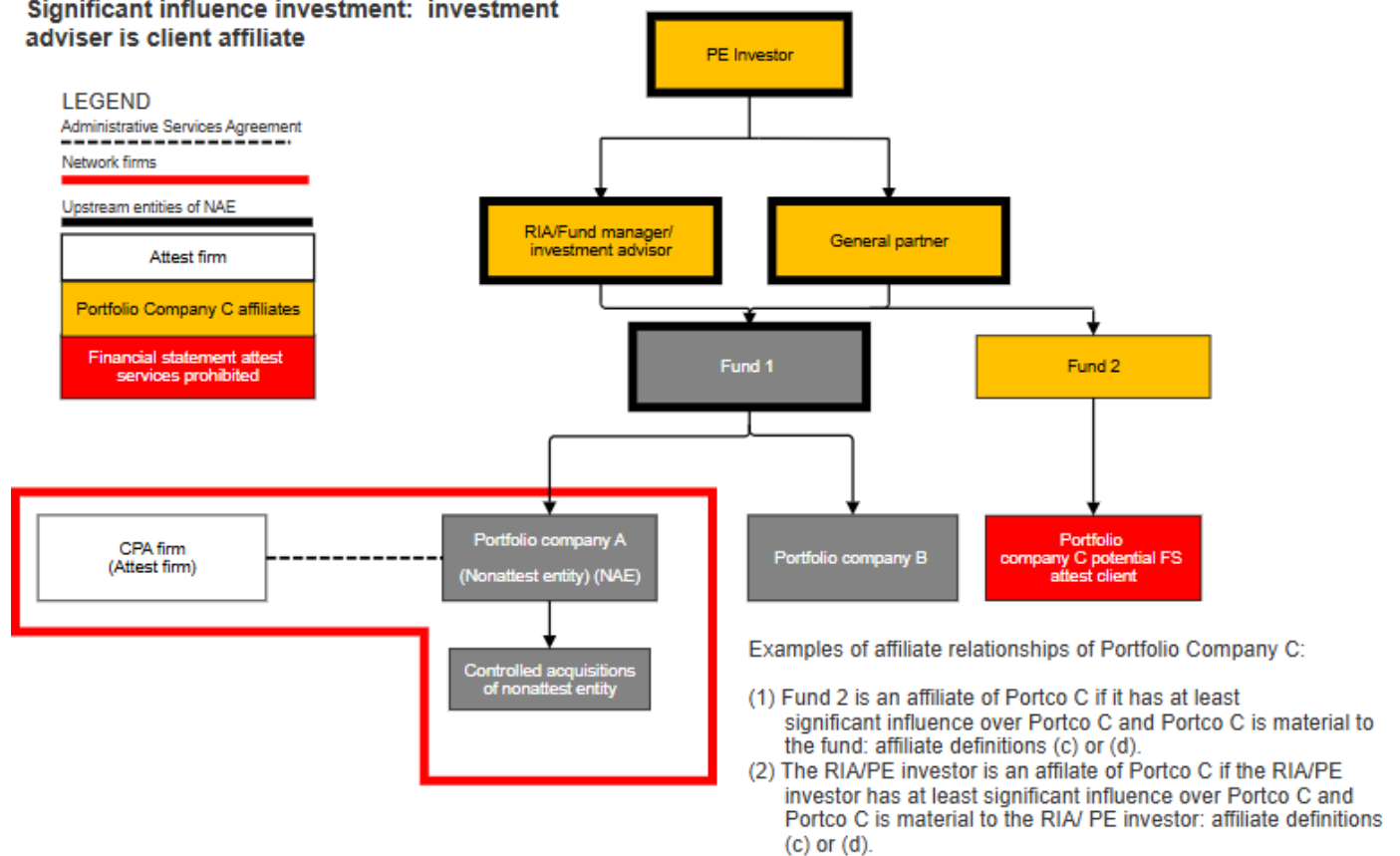


52. *Investment adviser is client affiliate.* Following is an example of the conclusion in paragraph 49 of this explanatory material of a significant influence investment where the potential financial statement attest client is a portfolio company in a different fund than the nonattest entity:

- Portfolio Company C is a potential financial statement attest client and is in a different fund (Fund 2) than that of the nonattest entity, which is in Fund 1.
- The investment adviser is an affiliate of Portfolio Company C because the investment adviser has significant influence over Portfolio Company C, and Portfolio Company C is material to the investment adviser.
- The investment adviser also advises Fund 1 that holds the investment in the nonattest entity.

- The nonattest entity is not considered to be independent of the investment adviser, which is an upstream entity of the nonattest entity.
- The attest firm cannot provide financial statement attest services to Portfolio Company C as the nonattest entity is not independent of an affiliate (that is, investment adviser) of the financial statement attest client (that is, Portfolio Company C).

Significant influence investment: investment adviser is client affiliate

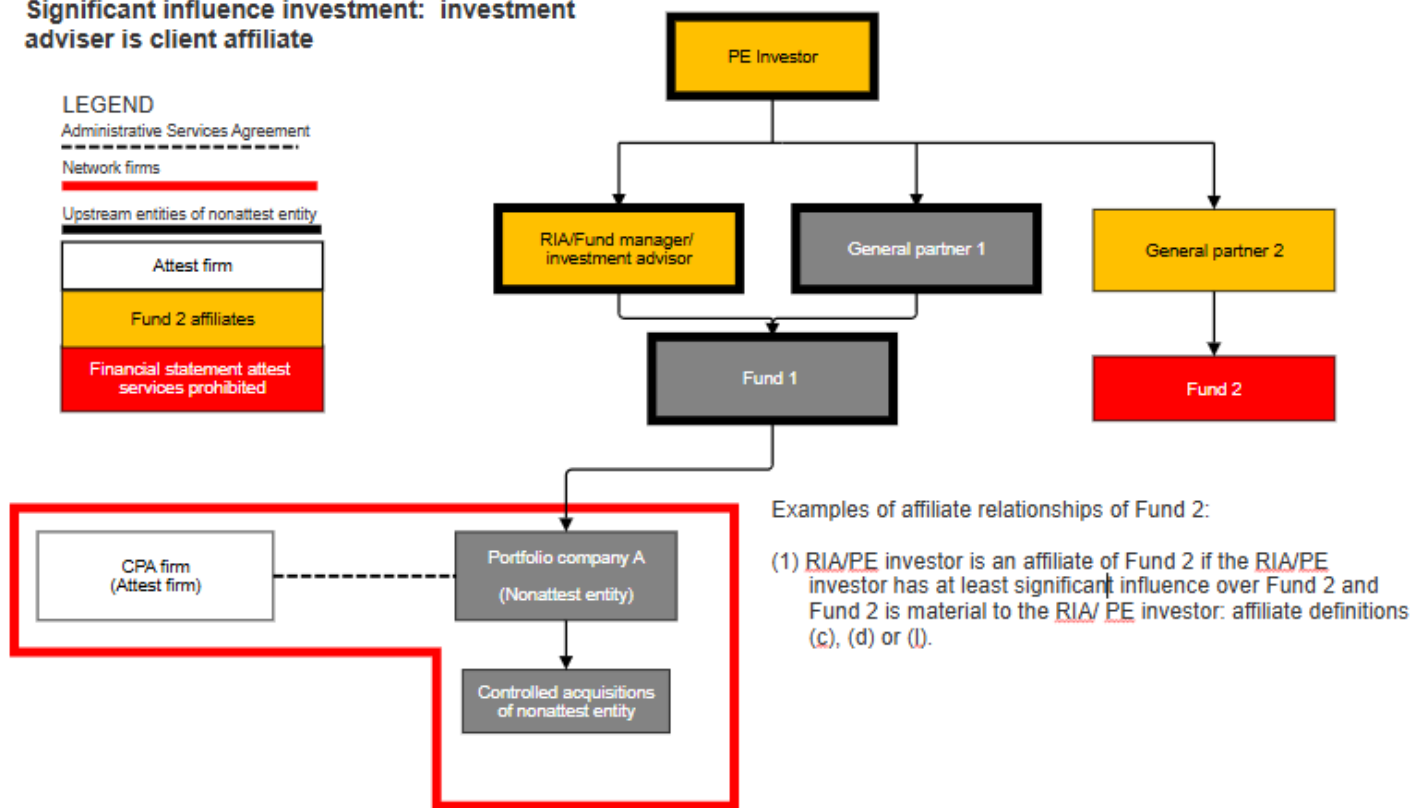


53. *Investment adviser is client affiliate.* Following is an example of the conclusion in paragraph 49 of this explanatory material in a significant-influence investment where the potential financial statement attest client is a fund other than the fund that invests in nonattest entity:

- Fund 2 is a potential financial statement attest client and is in a different fund than that of the nonattest entity, which is Fund 1.
- The investment adviser has significant influence over Fund 2 and the fund is material to the investment adviser.

- The investment adviser also advises Fund 1, which holds the investment in the nonattest entity.
- The nonattest entity is not considered to be independent of the investment adviser, which is an upstream entity of the nonattest entity.
- The attest firm cannot provide financial statement attest services to Fund 2 because the nonattest entity is not independent of an affiliate (that is, the investment adviser) of the financial statement attest client (that is, Fund 2).

Significant influence investment: investment adviser is client affiliate



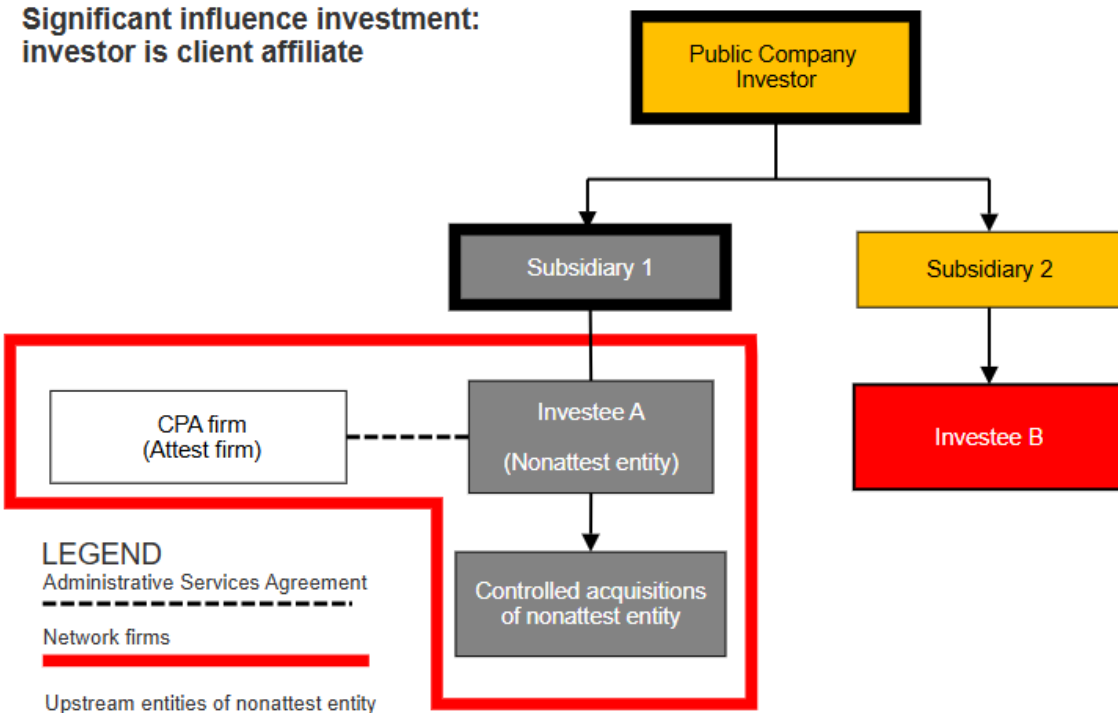
54. *Investor is client affiliate.* Following is an example of the conclusion in paragraph 49 of this explanatory material in a significant influence investment where the potential financial statement attest client is an investee of a public company investor:

- Investee B is a potential financial statement attest client and is under the same public company investor as the nonattest entity (Investee A).
- The public company investor is an affiliate of Investee B because the public company

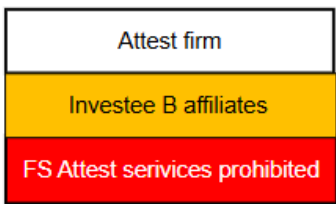
investor has control over Investee B, and Investee B is material to the public company investor.

- The nonattest entity (Investee A) is not independent of the public company investor, which is an upstream entity of the nonattest entity.
- The attest firm cannot provide financial statement attest services to investee B because the nonattest entity is not independent of an affiliate (that is, public company investor) of the financial statement attest client (that is, Investee B).

**Significant influence investment:
investor is client affiliate**



LEGEND
 Administrative Services Agreement
 Network firms
 Upstream entities of nonattest entity



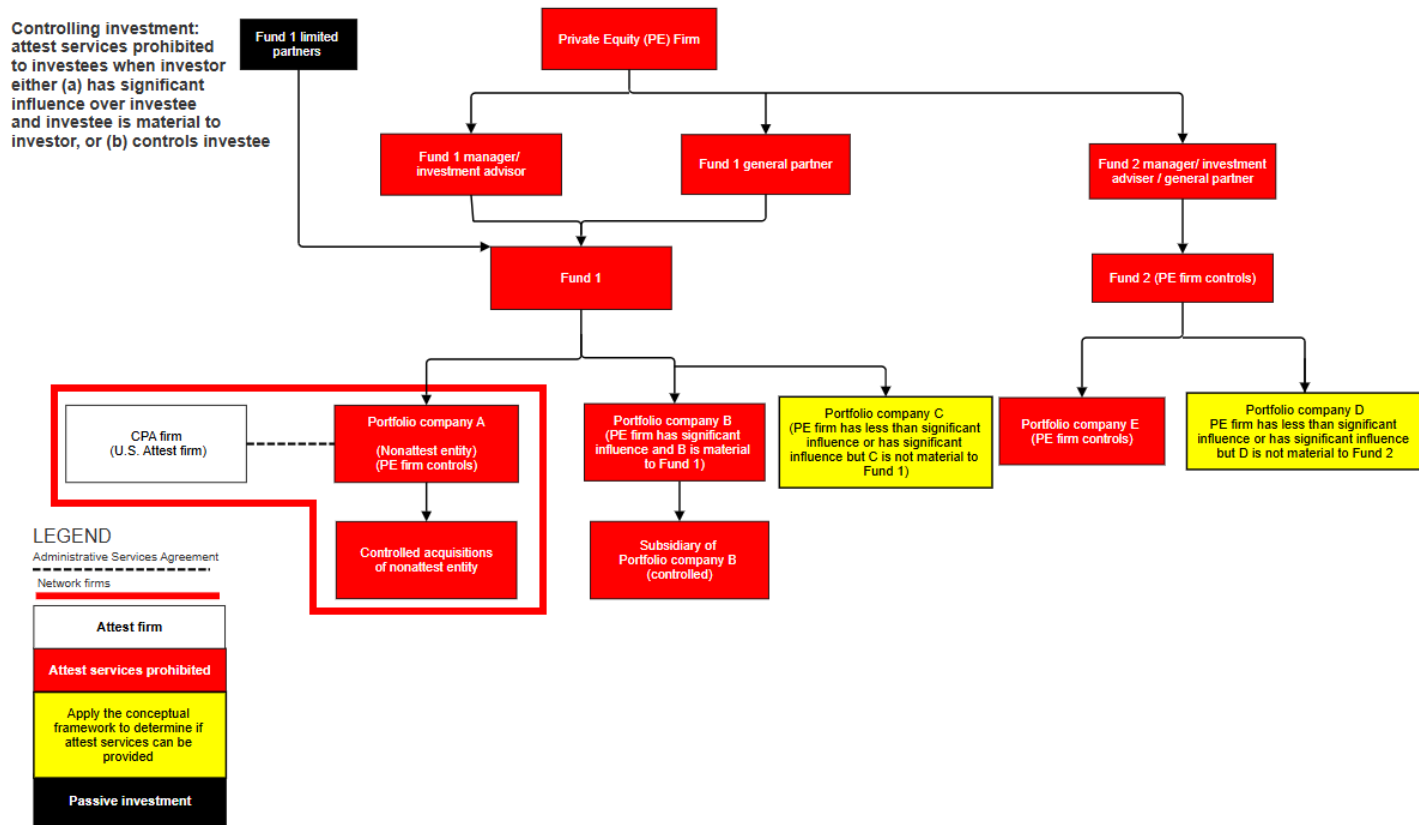
Examples of affiliate relationships of Investee B:

- (1) The subsidiary and/or investor is an affiliate of Investee B if the subsidiary/investor has at least significant influence over Investee B, and Investee B is material to the subsidiary/investor: affiliate definitions (c) or (d).

Controlling investment by investor

55. Threats to independence when providing attest services to other investees are more significant in a controlling investment. Therefore, the conclusions discussed in paragraph 56 of this explanatory material is more restrictive than what would result from the application of the affiliate rules.

56. In a controlling investment, independence is impaired when the attest firm provides any attest service to an investee of the investor when the investor either (a) has significant influence over the investee and the investee is material to the investor or (b) controls the investee (.18d.). When the investor is PE, this restriction applies to any funds and to portfolio companies in any fund.



Relationships that require application of the conceptual framework

57. Members should apply the “Conceptual Framework for Independence” interpretation for other relationships and circumstances the member knows or has reason to believe exist that may create threats to independence. This includes when determining whether attest services can be provided within the investor’s structure that are not prohibited as described in paragraphs 48–56 of this explanatory material (.18b–d).

58. In evaluating threats, members should consider the level of investment (significant influence or controlling) and other relevant factors. The examples and factors provided in paragraph .20 of the interpretation are meant to be illustrative and non-exhaustive. Members should determine which of these and other factors are relevant to the specific set of facts and circumstances being evaluated.

59. Members are not required to monitor for the existence of these relationships; however, members should apply the conceptual framework when they know or have reason to believe a relationship that may create threats to independence exists. The phrase “knows or has reason to believe” appears in various sections of the code but is not explicitly defined. In practice, it is commonly interpreted as having actual knowledge of a relationship or becoming aware of information that provides sufficient cause to believe the relationship exists. Additional conceptual framework examples will be provided in nonauthoritative guidance for APSs with a public company, private equity, or another investor.
60. Paragraph .20*b*. of the interpretation provides an example of when the attest firm knows or has reason to believe a financial, employment, or business relationship exists between an individual or entity listed (for example, a nonattest entity board member who is not a covered member) and an attest client. PEEC believes the categories listed of “financial, employment (including key positions), and business relationships” sufficiently covers the relationships outlined in the correlating sections of the code.³¹

Relationships that generally do not create threats to independence

61. Relationships with certain individuals and entities that generally do not create threats to independence in an APS are presented in paragraphs .21–.22 of the interpretation. The term “generally” is used here to indicate that typically these relationships do not create threats to independence. However, if additional information indicates a threat to independence exists, members should evaluate the threat to conclude whether threats are not at an acceptable level.
62. Limited partners are included here because their investment is passive in nature and usually does not provide for significant influence over the fund it invests in (.21). However, if an individual who is a limited partner, or who is appointed by an entity that is a limited partner, serves on the nonattest entity board, that individual is subject to the guidance applicable to nonattest entity board members. See paragraph 50 of this explanatory material for a situation in which the limited partner has significant influence over the fund and the investment is material to the limited partner.

³¹ The “Financial Interests” subtopic (ET sec. 1.240), the “Trusts and Estates” subtopic (ET sec. 1.240), the “Participation in Employee Benefit Plans” subtopic (ET sec. 1.250), the “Depository, Brokerage, and Other Accounts” subtopic (ET sec. 1.255), the “Insurance Products” subtopic (ET sec. 1.257), the “Loans, Leases, and Guarantees” subtopic (ET sec. 1.260), the “Business Relationships” subtopic (ET sec. 1.265), and the “Current Employment or Association with an Attest Client” subtopic (ET sec. 1.275).

63. Other investees of the investor (for example, other portfolio companies) that are not determined to be network firms of the attest firm may provide services to attest clients of the attest firm that would impair independence if performed by the attest firm. In addition, other investees could enter into business relationships with attest clients of the attest firm that would impair independence if entered into with the attest firm (.22).

Proposed revision to the “Alternative Practice Structures” interpretation (ET sec. 1.810.050)

64. PEEC is proposing the revision to paragraph .01 to broaden the application of the requirements to APS models.
65. Extant paragraph .03 is being deleted because it is redundant with the financial interest provision of the “Council Resolution Concerning the Form of Organization and Name Rule” (Appendix B). The attest firm must comply with the provisions in the resolution to provide the attest services outlined in paragraph A. of the resolution.
66. The new proposed paragraph .03 is intended to address a potential practice issue. The purpose is to promote transparency in practice, avoid the risk of misleading clients, and ensure accurate representation regarding which entity in the APS is responsible for performing each service.

Proposed revision to the “Conceptual Framework for Independence” interpretation (ET sec. 1.210.010) and “Conceptual Framework for Members in Public Practice” interpretation (ET sec. 1.000.010)

67. Among the various types of threats to independence in an APS, the undue influence threat³² tends to arise more frequently. This increased frequency is due to the additional relationships that must be considered in an APS, which can introduce more complex dynamics and potential sources of influence — though the threat itself is not inherently more significant. PEEC is proposing to include additional examples in the conceptual framework interpretations, which will assist members in identifying this threat when practicing in an APS.

Proposed revision to the definition of *network firm* (ET sec. 0.400.36)

68. The first revision to the definition of *network firm* removes the inclusion of entities under common control with a network firm from the definition. Furthermore, PEEC does not believe

³² *Undue influence threat*. The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with an *attest client* or any relevant third party due to that individual’s reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member* (ET sec. 1.000.010.16).

entities under common control with a network firm should automatically be scoped into the definition of *network firm* but rather be subject to evaluation as necessary.

69. Additionally, circumstances in which a member owns and controls a separate business will continue to be addressed in the “Ownership of a Separate Business” interpretation (ET sec. 1.810.010). According to this interpretation, a separate business under common control is required to comply with the code.

70. The second revision adds a precondition that an entity that controls a network firm also be cooperating with the network firm for the purpose of enhancing the network firm’s capabilities to provide professional services before the controlling entity is considered a network firm. The revised definition still requires a controlling entity of a network firm to be evaluated for inclusion as a network firm. The code continues to prohibit ownership in a CPA firm by an entity or by individuals who are not actively engaged as members of the firm.³³

Conclusion

71. The proposed new interpretation and revisions presented in this exposure draft are designed to address the evolving landscape of APSs in the accounting profession. The guidance addresses threats to independence in an APS by leveraging other independence interpretations, prohibiting certain relationships unique to an APS when independence would be impaired, and allowing firms to evaluate threats using the conceptual framework in other instances. Including factors to consider when applying the conceptual framework will help ensure consistent compliance with the independence requirements through application of the framework. These changes aim to uphold the integrity of the profession while offering practical guidance for firms operating in alternative practice structures.

Effective date

72. PEEC recommends the proposal be effective one year after adoption, with early implementation permitted for those who implement the new interpretation in its entirety.

Request for comments

73. PEEC welcomes comments on all aspects of the proposed revisions to the code. In addition, PEEC seeks feedback on the following specific aspects (parenthetical references are to paragraphs in the proposed interpretation):

- a. Do you agree that “investor” is defined appropriately (.04c)? If not, please explain.

³³ Appendix B: *Council Resolution Concerning the Form of Organization and Name Rule*.

- b. Do you agree that the definition of “key stakeholders of the investor” is clear in terms of which individuals are included?
- c. Do you agree the three models should be included in the interpretation (.06–.07)? If not, please explain, including whether you believe one or more should be included in nonauthoritative guidance or if there are other models that should be included in nonauthoritative guidance.
- d. Do you agree that the definition of “network firm” should be amended to add the requirement that the cooperation characteristic (as described in paragraph 29 of the explanatory material) in the definition of “network” be met before a controlling investor of a network firm is considered a network firm? If not, please explain.
 - i. Do you agree that if the controlling investor is a network firm based on the definition of “network firm,” then other entities it controls should also be network firms? If not, please explain.
- e. Do you agree that in an APS, the nonattest entity should be subject to the same independence requirements as the attest firm, including the requirements under the “Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements” subtopic (ET sec. 1.297 (.14))?
 - i. If you do not agree, do you believe the “Conceptual Framework for Independence” interpretation should be applied to evaluate the significance of threats created by the nonattest entity’s and its controlled entities’ relationships with attest clients subject to the SSAEs?
 1. If so, what factors should be considered in evaluating the significance of threats and whether potential safeguards could be implemented?
- f. Do you agree that when an investor does not provide professional services and the investor’s activities are limited to investing in the nonattest entity and advising on the budgetary or strategic direction of the attest firm (described in paragraph 32 of the explanatory material), then the investor is generally not a network firm? If not, please explain.
 - i. If you agree, state whether you believe these factors should be in authoritative or nonauthoritative guidance.

- g.* Do you agree with the factors for determining whether cooperation exists for the purpose of enhancing capabilities to provide professional services as described in paragraph 33 of the explanatory material?

 - i.* If you agree, state whether you believe these factors should be in authoritative or nonauthoritative guidance.
 - ii.* Do you believe any additional factors should be included for determining whether cooperation exists? If so, please provide the additional factors.
- h.* Do you agree that the covered member section (.15–.16) should remain in the interpretation?

 - i.* If not, should this section be presented as application material on how to apply the *covered member* definition in an APS in nonauthoritative guidance?
- i.* Do you agree that the chief executive of the nonattest entity (and other individuals in an attest partner’s chain of command in the nonattest entity) should be evaluated under the *covered member* definition rather than be automatically considered covered members (.16)? If not, please explain.
- j.* Do you agree that when the investor has significant influence or control over the nonattest entity, the attest firm should not provide a financial statement attest service to an investee of the investor if an upstream entity of the nonattest entity is an affiliate of the investee (.18b.)? If not, please explain.
- k.* Do you agree that when an attest client has a financial interest in the nonattest entity, independence is impaired, regardless of whether the attest client has significant influence over the nonattest entity (.18c.)? If not, please explain.
- l.* Do you agree that, in an APS with PE when the PE investor controls the nonattest entity, the attest firm should not provide attest services to another portfolio company **in any fund** when the PE investor either a) has significant influence over the portfolio company and the investment is material the fund, or b) controls the portfolio company (.18d.)? If not, please explain.
- m.* Do you agree that the prohibitions described in paragraph .18b.–d. of the interpretation regarding the provision of attest services to investees and other entities of the investor (that is not a network firm), along with the use of the conceptual framework for independence for circumstances when the prohibitions

would not apply (.20), are sufficient to address threats to independence in the circumstances described in the respective paragraphs? If not, please explain.

- i. For example, when the investor has significant influence over the nonattest entity, the attest firm would apply the conceptual framework for independence when evaluating whether a controlled portfolio company in the same fund as the nonattest entity could be a financial statement attest client if the controlled portfolio company is not material to the fund (that is, the fund is not an affiliate).
- n. Do you agree with the “Relationships with individuals and entities that generally do not create threats to independence” section (.21–.22)?
 - i. If you agree, should paragraphs .21–22 remain in the interpretation? If not, do you believe the material should be presented in nonauthoritative guidance?
- o. Do you agree that the new paragraph .03 of the revised “Alternative Practice Structures” interpretation of the “Form of Organization and Name Rule” should be in the interpretation? If not, do you believe this is a practice issue as described in paragraph 66 of the explanatory material and, if so, is there another approach that should be considered (for example, in nonauthoritative guidance)?
- p. Do you agree that the proposed guidance is operational? If not, please identify specific sections you do not agree are operational.
- q. Are there any other independence threats related to practicing in an APS, as well as in traditional networks, that we haven’t addressed? If so, please explain.
- r. For what areas do you believe nonauthoritative guidance is needed (other than those already identified)?

Proposed new interpretation “Alternative Practice Structures” (ET sec. 1.220.020)

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you would like to see the definitions, you can find them in “Definitions” ([ET sec. 0.400](#)).

Because the new interpretation is replacing the existing interpretation in its entirety, the proposal is not marked for changes.

- .01 *Members* who practice in an alternative practice structure should apply this and other applicable *interpretations* to determine their compliance with the “Independence Rule” [1.200.001].
- .02 All such structures must be organized in a form that complies with applicable state and federal laws, rules, and regulations; the “Form of Organization and Name Rule” [1.800.001]; and the related “Alternative Practice Structures” interpretation [1.810.050] of the “Form of Organization and Name Rule.”
- .03 To protect the public interest, the overriding focus of the “Council Resolution Concerning the Form of Organization and Name Rule” [appendix B] is that CPAs remain responsible for a *firm’s* attest work. In addition to the provisions of the resolution, other requirements of the code and bylaws ensure responsibility for
- a. compliance with all aspects of applicable law or regulation;
 - b. enrollment in an AICPA-approved practice monitoring program;
 - c. compliance with the “Independence Rule;” and
 - d. compliance with applicable standards promulgated by *Council*-designated bodies (the “Compliance with Standards Rule” [1.310.001]) and all other provisions of the code, including “Structure and Application of the AICPA Code” [0.200].

Terminology

.04 The following terms are defined solely for the purpose of applying this *interpretation*.

- a. An alternative practice structure (APS) is a form of organization in which a *firm* that provides attest services (attest *firm*) is closely aligned with another public or private entity, partly or wholly owned by an investor or investors, that performs *professional services* other than attest services (nonattest entity).
- b. Closely aligned means a substantial amount of the revenues of the attest *firm* are paid to the nonattest entity in return for administrative services and the lease of employees, equipment, office space, and other resources.
- c. An investor is an individual or entity that has a *financial interest* in the nonattest entity. The investor does not meet the characteristics of the “Council Resolution Concerning the Form of Organization and Name Rule” [appendix B] and could be a private equity (PE) investor, partnership, corporate entity, or other type of investor. There may be one or more investors in the nonattest entity.
- d. A *significant influence* investment exists when an investor has *significant influence* over the nonattest entity but not *control*.
- e. A *controlling* investment exists when an investor has *control* over the nonattest entity.
- f. Key stakeholders of the investor are individuals who represent or act on behalf of the investor and may include owners, managing partners, founders, or principals.
- g. Upstream entities of the nonattest entity are entities that have at least *significant influence* over the nonattest entity through an investor. For example, in an APS with PE, when the investor has at least *significant influence* over the nonattest entity, this includes the fund, investment adviser, general partner, and PE firm.

Characteristics and diagrams of an APS

.05 The following characteristics are not necessarily representative of every APS. *Members* should apply the concepts of the *interpretation* even if one or more of these characteristics vary in the *member's* APS.

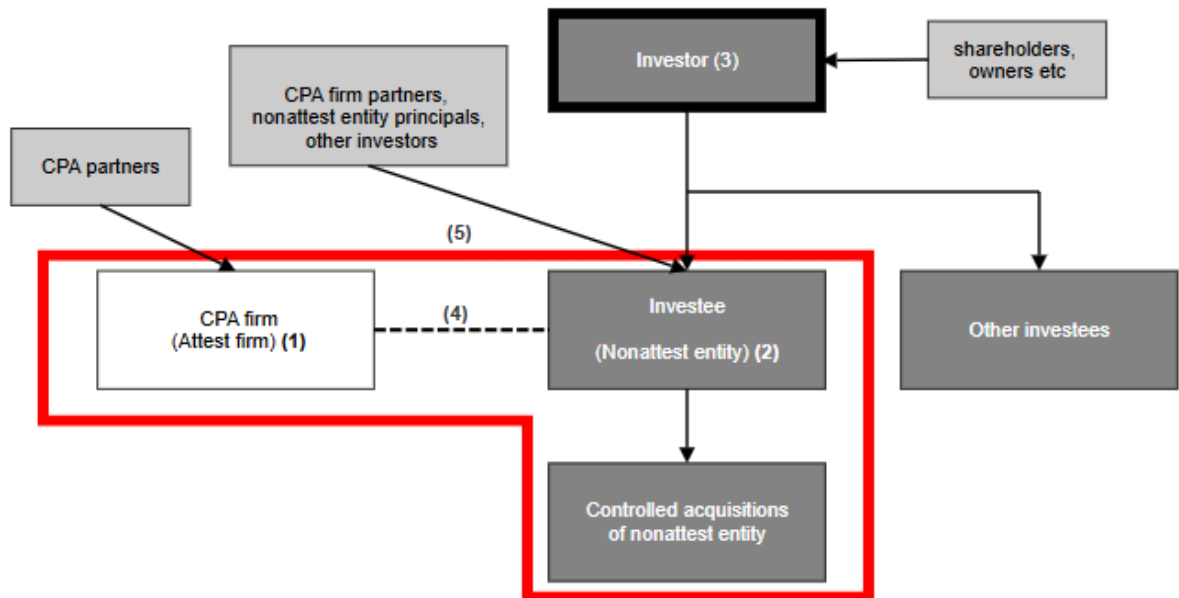
- a. A *firm* separates its attest practice (attest *firm*) and nonattest practice (nonattest entity) and sells a portion of its nonattest practice to an investor or investors. Legacy *partners* of the *firm* may retain an equity interest in the nonattest entity. Alternatively, an attest *firm* may closely align itself with a nonattest entity that has such an investor.

- b. An investor has a *financial interest* that provides the investor with either *significant influence* or *control* over the nonattest entity. There may be other investors with less than *significant influence* in the nonattest entity.
- c. The attest *firm* meets the requirements of the “Council Resolution Concerning the Form of Organization and Name Rule” [appendix B], including majority ownership by CPAs (attest *firm partners*) and the prohibition against “ownership by investors or commercial enterprises not actively engaged as members of the *firm* or its *affiliates*.” The attest *firm partners* remain responsible for decisions regarding *attest clients*, *attest engagements*, quality management, *independence*, risk management, and attest *firm* personnel. The attest *firm partners* and members of the *attest engagement team* may be employees of the nonattest entity.
- d. The nonattest entity does not meet the characteristics of the “Council Resolution Concerning the Form of Organization and Name Rule” [appendix B]. The owners of the nonattest entity may include attest *firm partners*, nonattest entity principals, and investors.
- e. The attest *firm* has its own governing body, such as a board of directors (attest *firm* board) that is separate from the nonattest entity’s governing body and is not elected by the nonattest entity’s governing body. The attest *firm* board is involved in budgetary decisions of the attest *firm*.
- f. The nonattest entity has a governing body, such as a board of directors or equivalent body (nonattest entity board) that includes representation from the investor, oftentimes relative to its *financial interest* in the nonattest entity. The nonattest entity board may be the governing body of a parent entity with direct oversight over the nonattest entity. Decisions regarding compensation, finance and budget, resource allocation, and strategic decisions of the nonattest entity are made at the board level; however, the nonattest entity board does not make ordinary-course managerial and operational decisions related to the nonattest entity. Such decisions are made by senior management of the nonattest entity. The nonattest entity board has the authority to approve the budget, including compensation of the attest *firm partners* either on a pooled or individual basis, and may delegate these responsibilities to subcommittees, which may include attest *partner* representation.
- g. The attest *firm* maintains an administrative services agreement (or similar agreement) with the nonattest entity. Under this agreement, the attest *firm* compensates the nonattest entity for administrative support, leased employees, equipment, office space, and other resources. The administrative services agreement is generally structured with

defined terms, renewal provisions, and termination rights, including the right to exit if the relationship is no longer aligned with professional standards.

- h. The chief executives or equivalents of the attest *firm* and nonattest entity are usually not the same individual. The chief executive or equivalent of the attest *firm* reports to the attest *firm* board, while the chief executive or equivalent of the nonattest entity reports to the nonattest entity board.

.06 The following diagram depicts an example of an APS with a public or private investor that has either a *significant influence* or *controlling* investment in the nonattest entity.

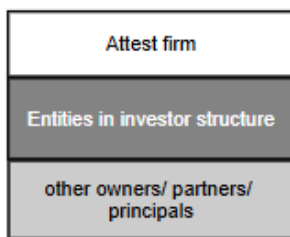


LEGEND

Administrative Services Agreement

Network firms

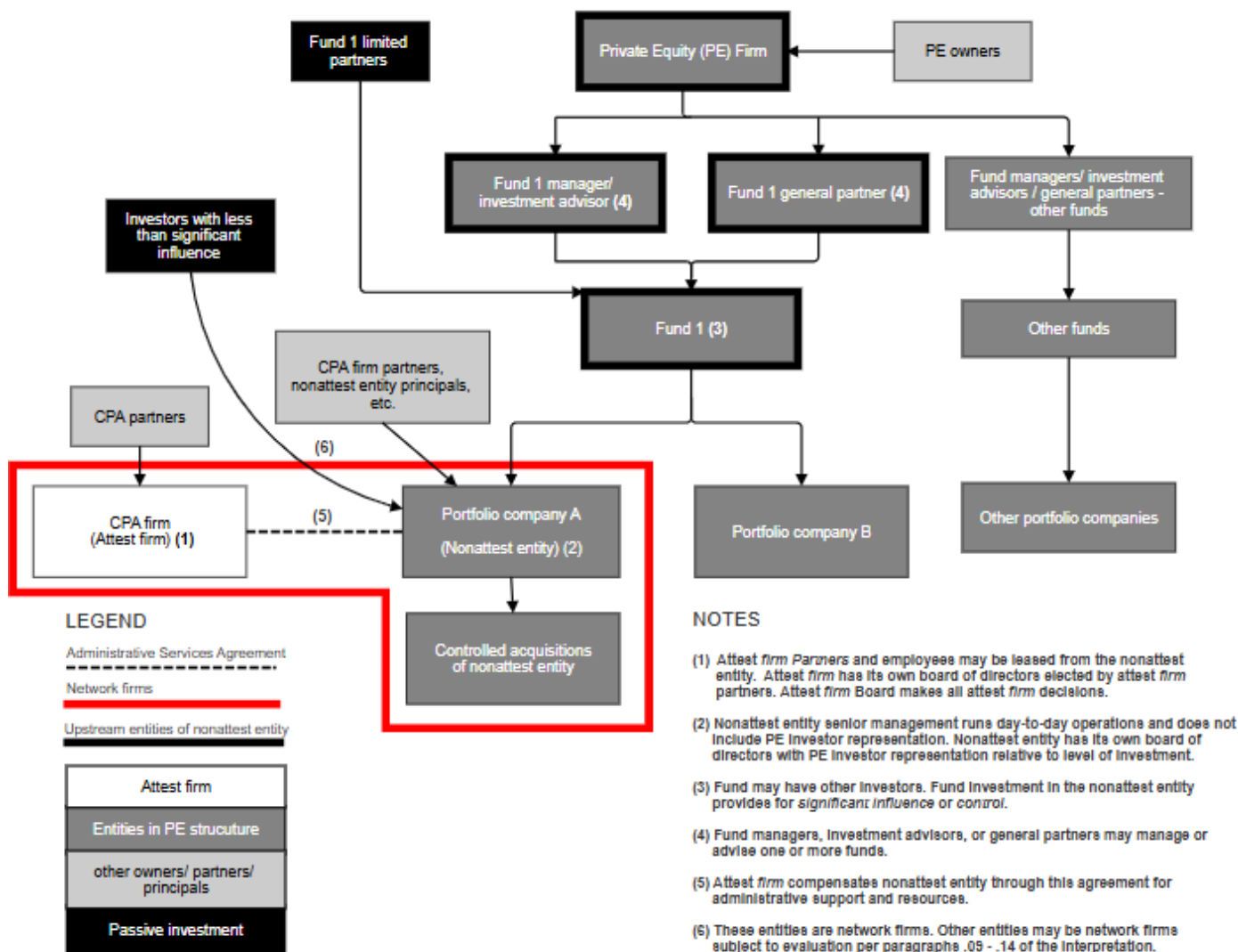
Upstream entities of nonattest entity

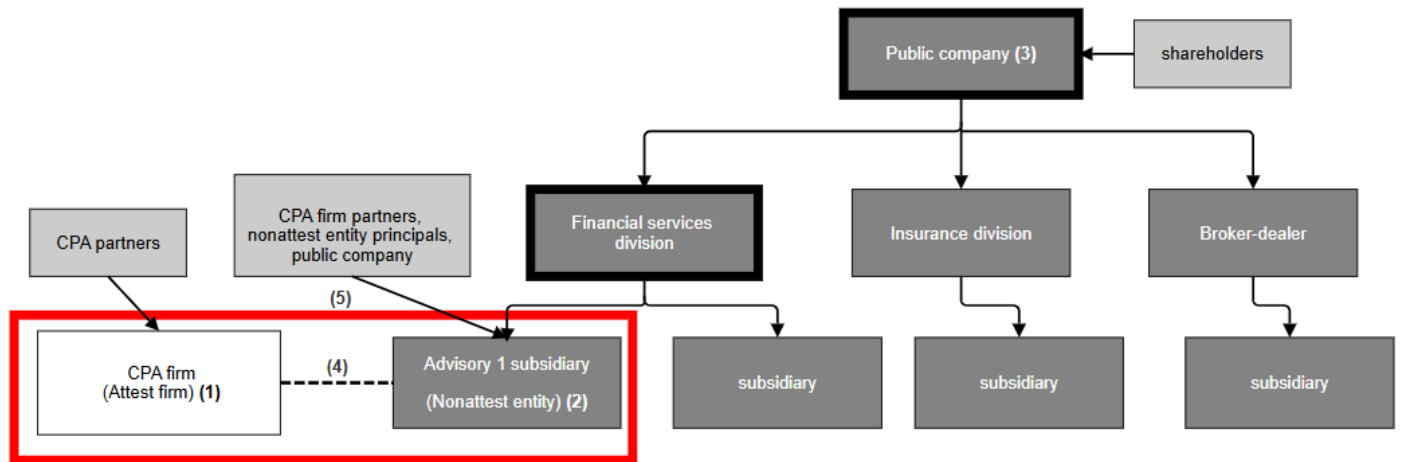


NOTES

- (1) Attest firm partners and employees are leased from the nonattest entity. Attest firm has its own board of directors elected by attest firm partners. Attest firm board makes all attest firm decisions.
- (2) Senior management of nonattest entity manages day-to-day operations and does not include investor representation. Nonattest entity has its own board of directors with investor representation relative to level of investment.
- (3) Public or private investment in nonattest entity that provides for significant influence or control over the nonattest entity.
- (4) Attest firm compensates nonattest entity through this agreement for administrative support and resources.
- (5) These entities are network firms. Other entities may be network firms subject to evaluation per paragraphs .09 - .14 of the interpretation.

.07 The following diagrams depict an APS with a PE investor, followed by an APS with a public company investor, that has either *significant influence* or a *controlling* investment in the nonattest entity.



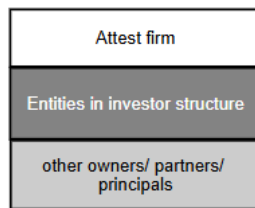


LEGEND

Administrative Services Agreement

Network firms

Upstream entities of nonattest entity



NOTES

(1) *Attest firm partners* and employees are leased from the nonattest entity. *Attest firm* has its own board of directors elected by *attest firm partners*. *Attest firm* board makes all *attest firm* decisions.

(2) Senior management of nonattest entity manages day-to-day operations. Nonattest entity has its own board of directors with investor representation relative to level of investment. Board may sit above another entity in investor structure.

(3) Public investment in nonattest entity that provides for *significant influence or control* over the nonattest entity.

(4) *Attest firm* compensates nonattest entity through this agreement for administrative support and resources.

(5) These entities are *network firms*. Other entities may be *network firms* subject to evaluation per paragraphs .09 - .14 of the interpretation.

Interpretation

.08 *Members* operating in an APS should perform the following steps when identifying and evaluating relationships to comply with the “Independence Rule” [1.200.001] and its *interpretations*.

- a. Determine which entities are *network firms* of the attest firm by (i) applying the *network* definition and then (ii) applying the *network firm* definition (paragraphs .09–.14).
- b. Determine which individuals are *covered members* (paragraphs .15–.16).
- c. Identify relationships and circumstances that create *threats to independence*.
 - i. Determine whether the relationships and circumstances described in paragraph .18a.–d. exist. When these relationships and circumstances exist, *threats* are not at an *acceptable level* and cannot be reduced to an *acceptable level* by the application of *safeguards*, and *independence* is *impaired*.

- ii. Apply the “Conceptual Framework for Independence” interpretation [1.210.010] to relationships and circumstances not prohibited by .18a.–d. that the *member* knows or has reason to believe exist, such as those identified in paragraph .20.

Network firms

- .09 The attest *firm* and nonattest entity are *network firms* because they cooperate to enhance the *firms’* capabilities to provide *professional services* and share one or more of the characteristics described in the definition of *network* [0.400.35].
- .10 The attest *firm* should consider whether an investor with *significant influence* or *control* over the nonattest entity is part of the attest *firm’s network*. This determination should be based on whether the investor cooperates with the attest *firm* to enhance its capabilities to provide *professional services* and meets one or more of the characteristics described in the definition of *network* [0.400.35].
- .11 When evaluating whether an entity is part of the attest *firm’s network*, the determination should be based on the relationship between the attest *firm* and the entity that is being evaluated except as outlined in paragraphs .12 and .13.
- .12 The attest *firm* should then consider if additional entities are part of the *network* through application of the definition of *network firm* [0.400.36]. For example, entities that the nonattest entity *controls* meet the definition of *network firm* and are therefore part of the attest *firm’s network*.
- .13 The attest *firm* should consider whether an investor that *controls* the nonattest entity but does not meet the characteristics of a *network* as described in paragraph .10 would meet the definition of a *network firm*. This determination should be based on whether the investor cooperates with the nonattest entity to enhance its capabilities to provide *professional services* as described in the definition of *network firm*.
- .14 Due to the close alignment of the attest *firm* and nonattest entity, the exceptions applicable to *network firms* within *interpretations* under the “Independence Rule” [1.200.001] do not apply to the nonattest entity and entities it *controls*. Therefore, the following requirements apply:
 - a. The nonattest entity, and entities it controls, should comply with the “Independence Rule” [1.200.001] and its *interpretations* with respect to all *attest clients*, which includes complying with the “Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements” subtopic [1.297].
 - b. Nonattest entity *partners*, *partner equivalents*, principals and professional employees are subject to the *interpretations* of the “Independence Rule” [1.200.001] that apply to individuals within the attest *firm*.

- c. The attest *firm* and nonattest entity, and entities it *controls*, should take specific steps to identify conflicts of interest that may arise due to their respective relationships with or between *clients* as set forth under the “Conflicts of Interest for Members in Public Practice” interpretation [1.110.010].

Covered members

- .15 Individuals outside the attest *firm* may be *covered members*. For example, nonattest entity board members who have the authority, whether exercised or not, to recommend or approve the compensation of the attest *firm partners* at the individual level are *covered members* because they are *individuals in a position to influence the attest engagement*.
- .16 Other individuals may need to be evaluated to determine if they meet the definition of a *covered member*, including the following:
 - a. Board members of the nonattest entity who do not have the authority to recommend or approve the compensation of the attest *firm partners* at the individual level
 - b. Individuals in the nonattest entity who directly supervise or manage the *attest engagement partner*, including all successively senior levels through the chief executive or equivalent of the nonattest entity (for example, executive committee members)

Relationships and circumstances with individuals and entities that may create threats to independence

- .17 *Threats* to compliance with the “Independence Rule” [1.200.001] may exist due to additional relationships involving individuals and entities that are not *network firms* or *covered members*.
- .18 *Threats* to compliance with the “Independence Rule” [1.200.001] are not at an *acceptable level* and cannot be reduced to an *acceptable level* through the application of *safeguards* and therefore, *independence* is *impaired* in the following circumstances:
 - a. In a *significant influence* investment or *controlling* investment, when an individual who is a member of *those charged with governance* over the nonattest entity serves in a *key position* at an *attest client* during the *period of the professional engagement* or the *period covered by the financial statements*
 - b. In a *significant influence* investment or *controlling* investment, when an *attest client* or an *affiliate* of a *financial statement attest client* is an upstream entity of the nonattest entity

- c. When an *attest client* has or the *attest client's* officers or directors have a *direct financial interest* in the nonattest entity or a *beneficial ownership interest* in more than 5 percent of the equity securities of the nonattest entity *Independence is impaired* regardless of whether the *attest client* has *significant influence* over the nonattest entity.
- d. In a *controlling* investment, when the investor either (i) has *significant influence* over an *attest client* and the *attest client* is material to the investor or (ii) *controls* the *attest client*

.19 To determine whether an *attest engagement* in paragraph .18 can be completed when a *financial statement attest client* is being acquired by the investor or when the attest *firm* acquires another *firm* that is providing an attest service to an investee of the investor, refer to the acquisition guidance in the “Client Affiliates” interpretation [1.224.010] and the “Firm Mergers and Acquisitions” interpretation [1.220.040], respectively.

.20 In both a *significant influence* investment and *controlling* investment, *members* should evaluate whether a relationship that is not prohibited by application of the “Independence Rule” [1.200.001] and its *interpretations* to *covered members*, *network firms*, or the additional requirements of this *interpretation*, create *threats* that require the *member* to apply *safeguards* to reduce those *threats* to an *acceptable level*. When *threats* cannot be eliminated or reduced to an *acceptable level*, *independence is impaired*. The following are examples of circumstances in which such relationships should be evaluated:

- a. The attest *firm* is determining whether it can provide an attest service to an investee or other entity of an investor that is not prohibited by paragraph .18b.–d. Examples of factors to consider when evaluating whether *threats* exist and are at an *acceptable level* include the following:
 - i. Whether the investor *controls* the nonattest entity
 - ii. Nature of the attest service
 - iii. Whether the investor has *significant influence* over or *controls* the investee or other entity of the investor
 - iv. Whether the investee or other entity of the investor is material to the investor or another upstream entity of the nonattest entity
 - v. Whether the *financial statements* of the investee or of another entity of the investor are consolidated with the investor
 - vi. Whether the investee or other entity of the investor has separate governance and separate management from the nonattest entity

- vii. Whether the investee or other entity of the investor is an existing *attest client* that the investor is targeting as an acquisition
 - viii. Whether the *attest engagement* arose from a referral, introduction, or recommendation by a representative of the investor
 - ix. Whether a key stakeholder of the investor is on the board of the investee or other entity of the investor
 - x. Whether the investment in the investee or other entity of the investor is managed by the same individual or entity as the nonattest entity (for example, the fund, general partner, or investment adviser)
- b. The attest *firm* knows or has reason to believe that a financial, employment (including *key positions*), or business relationship not prohibited by paragraph .18a exists between an *attest client* and any of the following individuals or entities that are not *covered members* or *network firms*:
- i. Nonattest entity board members who are appointed by an investor with at least *significant influence* over the nonattest entity
 - ii. Key stakeholders of the investor with at least *significant influence* over the nonattest entity
 - iii. Upstream entities of the nonattest entity including individuals in *key positions* at those entities
 - iv. Investors with less than *significant influence* over the nonattest entity
- c. The attest *firm* knows or has reason to believe that an *attest client* has a *financial interest* in an investor with at least *significant influence* over the nonattest entity that is not prohibited by paragraph .18b. Examples of factors to consider when evaluating whether *threats* exist and are at an *acceptable level* include the following:
- i. The nature of the attest service
 - ii. Whether the *attest client* has *significant influence* over the investor
 - iii. Whether the investment is material to the *attest client*
 - iv. Whether the investment is a *direct* or *indirect financial interest* in the investor

Relationships with individuals and entities that generally do not create threats to independence

.21 Relationships with the following individuals and entities generally do not create *threats* to *independence*. Therefore, these individuals and entities are generally not subject to the “Independence Rule” [1.200.001] and its *interpretations*.

- a. Limited partners with a *financial interest* in the investor, or the investment vehicle that holds the investment in the nonattest entity, when the limited partner has less than *significant influence* over the investor or investment vehicle.
- b. Investees of an investor with less than *significant influence over the nonattest entity*, unless the investees meet the definition of *network firms*.
- c. *Immediate family* members of the individuals listed in paragraph .20b.

.22 An investee of an investor, that is not a *network firm*, may provide nonattest services to, or enter into a business relationship with, an *attest client* of the attest *firm* that would *impair independence* if performed by, or entered into with, the attest *firm*.

Proposed revisions to definition and interpretations (redline)

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you'd like to see the definitions, you can find them in "Definitions" ([ET sec. 0.400](#))

0.400.36 Definition of *network firm*

ET sec. 0.400.36 Network firm. A *firm* or other entity that belongs to a *network*. This includes any entity that, ~~the network~~ by itself or through one or more of its owners, ~~controls~~ or is ~~controlled~~ by, or is under common ~~control~~ with

- a. ***the network firm controls, or***
- b. ***controls the network firm and cooperates with the network firm for the purpose of enhancing that network firm's capabilities to provide professional services.***

1.810.050 Alternative Practice Structures

.01 The "[Form of Organization and Name Rule](#)" [1.800.001] states, "A *member* may practice public accounting only in a form of organization permitted by law or regulation whose characteristics conform to resolutions of *Council*." The *Council* resolution ([appendix B](#)) requires, among other things, that CPAs own a majority of the *financial interests* in a *firm* engaged to provide attest services (as defined therein) to the public. This interpretation explains the application of this rule to an alternative practice structure (APS) ~~in which (a) the majority of the financial interests in the attest firm is owned by CPAs and (b) all or substantially all of the revenues are paid to another entity in return for services and the lease of employees, equipment, and office space.~~ ***as described in the "Alternative Practice Structures" interpretation (ET sec. 1.220.020).***

.02 To protect the public interest, the overriding focus of the [resolution](#) is that CPAs remain responsible, financially and otherwise, for a firm's attest work. In addition to the provisions of the [resolution](#), other requirements of the code and bylaws ensure responsibility for

- a. compliance with all aspects of applicable law or regulation,
- b. enrollment in an AICPA-approved practice monitoring program,

- c. compliance with the “[Independence Rule](#)” [1.200.001], and
- d. compliance with applicable standards promulgated by Council-designated bodies (“[Compliance With Standards Rule](#)” [1.310.001]) and all other provisions of the code, including “[Structure and Application of the AICPA Code](#)” [0.200].

~~.03 Given all the previously mentioned safeguards that protect the public interest, if the CPAs who own the attest firm remain financially responsible, under applicable law or regulation, for the firm’s attest work, the member is considered to be in compliance with the financial interests provision of the resolution. [Prior reference: paragraph .04 of ET section 505]~~

.03 The member should disclose to the client which professional services are provided by the firm engaged to provide attest services and which are provided by the closely aligned entity that performs professional services other than attest services (nonattest entity). See paragraph .05d. of the “Alternative Practice Structures” interpretation (1.220.020) for description of nonattest entity.

1.210.010 Conceptual Framework for Independence

[Paragraphs .01–.17 are unchanged.]

.18 *Undue influence threat.* The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with an *attest client* or any relevant third party due to that individual’s reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member*. Examples of undue influence *threats* include the following:

- a. Management threatens to replace the *member* or *member’s firm* over a disagreement on the application of an accounting principle.
- b. Management pressures the *member* to reduce necessary audit procedures in order to reduce audit fees.
- c. The *member* receives a gift from the *attest client*, its management, or its significant shareholders. [1.285.010]
- d. A large proportion of fees charged by the *firm* to an *attest client* is generated by providing nonattest services.
- e. ***In an alternative practice structure, the investor pressures the attest firm and/or nonattest entity to meet internal or external targets.***

- f. In an alternative practice structure, an individual representing the investor (for example, a nonattest entity board member), participates in decisions affecting the attest firm, such as independence, quality management, or compensation decisions of attest partners.**

[Paragraphs .19–.23 are unchanged.]

1.000.010 Conceptual Framework for Members in Public Practice

[Paragraphs .01–.15 are unchanged.]

.16 *Undue influence threat.* The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with an *attest client* or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member*. Examples of undue influence *threats* include the following:

- a. The *firm* is threatened with dismissal from a *client* engagement.
- b. The *client* indicates that it will not award additional engagements to the *firm* if the *firm* continues to disagree with the *client* on an accounting or tax matter.
- c. An individual associated with the *client* or any relevant third party threatens to withdraw or terminate a *professional service* unless the *member* reaches certain judgments or conclusions.
- d. ***In an alternative practice structure, the investor pressures the attest firm and/or nonattest entity to meet internal or external targets.***
- e. ***In an alternative practice structure, an individual representing the investor (for example, a nonattest entity board member), participates in decisions affecting the attest firm, such as independence, quality management, or compensation decisions of attest partners.***

[Paragraphs .17–.24 are unchanged.]

Proposed revisions to definition and interpretations (clean)

0.400.36 Definition of *network firm*

ET sec. 0.400.36 Network firm. A *firm* or other entity that belongs to a *network*. This includes an entity that, by itself or through one or more of its owners,

- a. the *network firm controls*, or
- b. *controls* the *network firm* and cooperates with the *network firm* for the purpose of enhancing that *network firm's* capabilities to provide *professional services*.

1.810.050 Alternative Practice Structures

.01 The "[Form of Organization and Name Rule](#)" [1.800.001] states, "A *member* may practice public accounting only in a form of organization permitted by law or regulation whose characteristics conform to resolutions of *Council*." The *Council* resolution ([appendix B](#)) requires, among other things, that CPAs own a majority of the *financial interests* in a *firm* engaged to provide attest services (as defined therein) to the public. This interpretation explains the application of this rule to an alternative practice structure (APS) as described in the "Alternative Practice Structures" interpretation (ET sec. 1.220.020).

.02 To protect the public interest, the overriding focus of the [resolution](#) is that CPAs remain responsible, financially and otherwise, for a firm's attest work. In addition to the provisions of the [resolution](#), other requirements of the code and bylaws ensure responsibility for

- a. compliance with all aspects of applicable law or regulation,
- b. enrollment in an AICPA-approved practice monitoring program,
- c. compliance with the "[Independence Rule](#)" [1.200.001], and
- d. compliance with applicable standards promulgated by Council-designated bodies ("[Compliance With Standards Rule](#)" [1.310.001]) and all other provisions of the code, including "[Structure and Application of the AICPA Code](#)" [0.200].

.03 The *member* should disclose to the *client* which *professional services* are provided by the *firm* engaged to provide attest services and which are provided by the closely aligned entity that performs *professional services* other than attest services (nonattest entity). See paragraph .05d. of the "Alternative Practice Structures" interpretation (1.220.020) for description of nonattest entity.

1.210.010 Conceptual Framework for Independence

[Paragraphs .01–.17 are unchanged.]

.18 *Undue influence threat*. The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with an *attest client* or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member*. Examples of undue influence *threats* include the following:

- a. Management threatens to replace the *member* or *member's firm* over a disagreement on the application of an accounting principle.
- b. Management pressures the *member* to reduce necessary audit procedures in order to reduce audit fees.
- c. The *member* receives a gift from the *attest client*, its management, or its significant shareholders. [1.285.010]
- d. A large proportion of fees charged by the *firm* to an *attest client* is generated by providing nonattest services.
- e. In an alternative practice structure, the investor pressures the attest *firm* and/or nonattest entity to meet internal or external targets.
- f. In an alternative practice structure, an individual representing the investor (for example, a nonattest entity board member), participates in decisions affecting the attest *firm*, such as *independence*, quality management, or compensation decisions of attest *partners*.

[Paragraphs .19–.23 are unchanged.]

1.000.010 Conceptual Framework for Members in Public Practice

[Paragraphs .01–.15 are unchanged.]

.16 *Undue influence threat*. The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with an *attest client* or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member*. Examples of undue influence *threats* include the following:

- a. The *firm* is threatened with dismissal from a *client* engagement.

- b. The *client* indicates that it will not award additional engagements to the *firm* if the *firm* continues to disagree with the *client* on an accounting or tax matter.
- c. An individual associated with the *client* or any relevant third party threatens to withdraw or terminate a *professional service* unless the *member* reaches certain judgments or conclusions.
- d. In an alternative practice structure, the investor pressures the attest *firm* and/or nonattest entity to meet internal or external targets.
- e. In an alternative practice structure, an individual representing the investor (for example, a nonattest entity board member), participates in decisions affecting the attest *firm*, such as *independence*, quality management, or compensation decisions of attest *partners*.

[Paragraphs .17–.24 are unchanged.]

Acknowledgments

Alternative Practice Structures Task Force

Anna Dourdourekas, Co-chair

Lisa Snyder, Co-chair

Cathy Allen

Peter Bible

Andreea Danel

Jennifer Elder

Jason Evans

Kelly Hnatt

Paul Meyer

Randy Milligan

Rashi Ray

Al Tanju

Bisi Tairu

Joe Turkewitz

Paula Young

Observers

Katy Al-Khalidi

Marcus Aron

Michele Craig

Aron Dunn

Jill Hutchison

Steven Platau

Mark Sotichack

AICPA staff

Toni Lee-Andrews, Director — Professional Ethics

Ellen Gorla, Associate Director — Professional Ethics

Joan Farris, Senior Manager — Professional Ethics

Summer Young, Manager – Professional Ethics

The committee wishes to acknowledge the contributions of Bob Denham, who passed away during the course of this work. His dedication and expertise were invaluable to the committee's efforts, and his presence will be greatly missed.



aicpa.org

Founded by AICPA and CIMA, the Association of International Certified Professional Accountants powers leaders in accounting and finance around the globe.

© 2025 American Institute of Certified Public Accountants

Permission is granted to make copies of this work provided that such copies are for personal, intraorganizational, or educational use only and are not sold or disseminated and provided further that each copy bears the following credit line: © 2025 American Institute of Certified Public Accountants, Inc. Used with permission."



National Association of State Boards of Accountancy

150 Fourth Avenue North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615/880-4200 ♦ Fax 615/880-4290 ♦ Web www.nasba.org

April 21, 2026

Professional Ethics Executive Committee
American Institute of Certified Public Accountants
1345 Avenue of the Americas
New York, NY 10105

Via e-mail: ethics-exposedraft@aicpa.org

Re: Exposure Draft: Proposed revisions related to alternative practice structures

Dear Members and Staff of the AICPA Professional Ethics Executive Committee (PEEC):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Exposure Draft, *Proposed revisions related to alternative practice structures* (the Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following comments.

General Comments

Independence in Appearance and Regulatory Oversight:

The AICPA Code of Professional Conduct (Code) requires CPAs in public practice to maintain independence in both fact and appearance when performing assurance/attestation services. Independence in fact in the Code refers to a CPA's actual state of mind of being objective, unbiased and free from conflicts of interest. It ensures the ability to make impartial judgments without being influenced by external pressures or relationships. Independence in appearance is how a reasonable and informed third party perceives a CPA's (or firm's) independence.

Preserving independence is critically important to protecting the public with the assurances provided by CPAs. The public relies on independent CPAs to provide assurance on a variety of metrics ranging from financial statements to sustainability, to compliance, to system and organization controls. That independence is one of the cornerstones of the trust placed in CPAs by the financial markets and the public that State Boards are charged with protecting.

When private equity investors become closely aligned with CPA firms through alternative practice structures (APS), complex relationships emerge that may threaten both actual and perceived independence. These APS structures may involve shared ownership, common investors, affiliated entities, or financial relationships that are not obvious to clients, the public or regulators due to lack of visibility into the underlying APS agreements. The public's ability to make informed decisions about professional services depends on clear, accessible information about firm ownership, service boundaries, and regulatory oversight.

The "principles-based" approach to the proposed revisions to the APS interpretation of the Independence Rule leaves the CPA/firm to apply judgement in critical areas and frames independence considerations for APSs around structural permissibility. The Exposure Draft is complex and challenging to understand, demonstrated by the encouragement by PEEC in the Exposure Draft for members to consult an attorney or other specialist in navigating applicable laws and regulations.

NASBA acknowledges that there are other areas in the Code in which the CPA or firm must make judgements in determining independence; however, there is concern that the Exposure Draft is so complex that it will require many charts, diagrams, nonauthoritative examples and a plain-English guide in order for even the most experienced CPAs to understand and apply the proposed revisions. As proposed, the revisions could be applied by members in varying and even contradictory ways, leading to diversity in practice, which is not in the public interest.

In representing the interests of State Boards, NASBA is concerned that the complexity of the proposed revisions will not allow State Boards to effectively regulate and provide appropriate oversight to licensed CPA firms that participate in APSs (Attest Firms). Even if State Boards required submission of APS agreements, management/shared services agreements and any side letters for Attest Firm licensure purposes, most State Boards would need to contract additional resources and expertise to analyze and evaluate the APS for compliance with applicable state laws and regulations. This would result in the State Boards being overly reliant on peer review and Public Company Accounting Oversight Board (PCAOB) inspections to identify independence concerns/violations. Further, as it relates to CPA/firms and their ability to implement the proposed revisions, there are scalability concerns involving the size and sophistication of any given firm as to whether the appropriate processes and resources are in place to not only track and report independence matters but also ensure that audit quality is maintained. Regulators and CPAs/firms need a practical standard that can be evaluated timely, applied consistently, and result in specific, observable evidence to support independence conclusions.

The proposed revisions in the Exposure Draft rely in great measure on the distinction between "control" and "significant influence." Control is defined in the Code based on the FASB Accounting Standards Codification (ASC) 810, *Consolidation*, as the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise, including qualitative factors. Significant influence is defined by FASB ASC 323-10-15, *Investments – Equity Method and Joint Ventures*, which presumes significant influence at ownership of twenty percent

or more of the investee's voting stock. Those concepts may satisfy legal or organizational analysis but are largely irrelevant to the reasonable financial statement user. With the significant influence threshold typically spanning 20% to 50%, there is little practical difference in the ability to influence decision making between those with something less than 50% and something just over 50%. Significant influence can still exist with less than 20% ownership if other indicators are present, such as board representation, policy-making participation, material intra-entity transactions, interchange of managerial personnel, or technology dependency. From the public's perspective, outside investors with economic stakes in firm performance compromise independence regardless of the ownership percentage or formal governance rights.

NASBA believes the guidance should include a bright-line financial interest percentage over which an investor is presumed to have influence over the Attest Firm, and thus the investor and entities within the investor structure would not be acceptable assurance clients of the Attest Firm. NASBA recommends the use of the U.S. Securities and Exchange Commission's (SEC) greater than 5% beneficial ownership threshold requirement for disclosure (Rule 240.13d) as the bright line. This also aligns with the SEC's auditor independence rules in Rule 2-01(c)(1)(i)(B) of Regulation S-X, which states that a CPA is not independent if firm personnel, any immediate family members, any close family member of a covered person in the firm, or any group of the above has filed a Schedule 13D with the SEC indicating beneficial ownership of more than 5% of an audit client's equity securities. Additionally, in certain contexts, an investment equal to or greater than 5% of a private equity group's total assets in an investee is generally considered material. This recommended bright-line threshold would simplify the independence determination using a familiar, well-established threshold that aligns with other U.S. regulators and standard setters.

The exclusion of certain entities within the investor structure for independence purposes (in determining whether assurance work can be performed) could cause confusion and impact public perception (independence in appearance). For example, Large Investor announces inclusion of APS firm (which hereby refers to the combined non-attest entity and the Attest Firm) as a new Large Investor portfolio company. Based on the Exposure Draft, the Attest Firm could perform an audit of another Large Investor portfolio company so long as the APS firm is in a separate fund, has separate fund advisor(s) and does not have the same board members as the Large Investor's portfolio company auditee. Similarly, since the Exposure Draft draws a distinction between financial statement attest work and other assurance services, the Attest Firm could also perform, for example, System and Organization Controls (SOC) assessments for the Large Investor's other portfolio companies. NASBA believes the 5% bright-line threshold coupled with required disclosures of the relationships between the APS firms would add clarity and protect the public in these circumstances.

The threats to independence are not addressed in the Exposure Draft for when a Large Investor acquires an interest in more than one APS firm. The Exposure Draft allows the Large Investor's portfolio company APS firms to undertake work that a single firm would not be permitted to perform so long as these firms do not cooperate to render services. The concept of "cooperation" to render services does not impact common parent entities with separately managed portfolio companies rendering services. In such a case, a portfolio Attest Firm could undertake assurance services while

the other portfolio non-attest (advisory) entity could undertake internal audit outsourcing or outsourced CFO services for the same company. NASBA believes that the final interpretation should address APS firms with common ownership in such a way that these APS firms cannot perform services for the same company that would otherwise be prohibited if these entities were a single firm. The proposed “network firm” definition would allow this arrangement so long as the firms do not “cooperate”. Does the proposed interpretation allow for the APS firms under common ownership to refer work to one another? Would that then trigger the concept of “cooperation”? NASBA believes that if these examples and scenarios were diagrammed and presented to investor or banking/lending stakeholder groups for feedback that there would be concern regarding the independence in appearance of the APS firms because in the situation of common parent entities, undue influence would manifest in financial motivation to refer work between APS firms.

NASBA supports the inclusion of both debt and equity in the definition of a financial interest and believes that the final version of the interpretation should make it clear that both debt and equity in an APS firm can impair independence with respect to the ultimate benefactor of the financial interest, which may include an Employee Stock Ownership Plan (ESOP).

Threshold of Significant Influence And the Investment is Material:

In situations where the Exposure Draft addresses an independence issue based on when an investor has either (a) control or (b) significant influence **“and”** the investment is material to the investor, it effectively allows any Large Investor to utilize the APS firm to undertake assurance work for many portfolio companies. The word “and” introduces the question of which portfolio companies are material to which fund. So, a Large Investor may own 49%, lacking control and, since very few individual investments are material to Large Investors, it escapes restrictions that the Exposure Draft defines for lacking independence. NASBA recommends using the simple bright-line 5% financial interest threshold which would eliminate the judgement and inconsistent application that comes with determining materiality and serves the public interest. At a minimum, NASBA recommends that the word “and” in these contexts be replaced with the word “or” so that a significant influence **or** material investment would disqualify the Attest Firm from undertaking assurance work for other investees of the Large Investor with an interest in the APS firm.

Non-attest Entity Permitted to Determine Compensation of Attest Partners:

The Exposure Draft makes a specific distinction between board members with authority to approve individual compensation of attest partners as opposed to anyone with the ability to influence compensation pools and other employees. The ability to influence compensation for attest partners, whether individually or in pools, presents an undue influence threat that cannot be overcome with safeguards and results in that individual becoming a “covered member”.

NASBA remains concerned that the terms of the administrative/shared services agreement may put undue pressure on the Attest Firm in ways that can impair independence, objectivity, and/or quality management. It is not clear how having an Attest Firm that has no employees or resources but

“leases” partners, employees and resources from the non-attest entity allows the firm to operate independently. This concern is elevated when one considers that those personnel are compensated based on the non-attest entity’s determination of compensation levels. In these APS arrangements, when strategy and other decision-making is occurring at the non-attest entity with influence by the investor in some way, it becomes unclear how reliance can be placed on the assertion in the proposed interpretation (paragraph .05) that the Attest Firm partners remain responsible for decisions regarding attest clients, attest engagements, quality management, risk management and Attest Firm personnel.

The Exposure Draft should address structural ownership of the Attest Firm and the evolution of non-CPA ownership. If Attest Firm partners compensation may be influenced by non-CPA ownership, without regard to the formalities of percentage ownership, then the Attest Firm CPA partner would not be independent of the non-CPA ownership and its related equity and debt providers.

Different Standard for Financial Statement and Review Services Versus Other Attest Services:

The Exposure Draft draws a distinction between financial statement audits and reviews and other forms of assurance. NASBA believes that assurance provided by a CPA does not have varying levels of independence. One set of rules for audit and review services and the conceptual framework for other assurance services effectively sets different standards for independence. The Exposure Draft should address all assurance services in the same way – a single standard for all assurance services is in the public interest.

No Requirement to Monitor Relationships and Circumstances that Create Threats to Independence:

NASBA believes that the statement in paragraph 59 of the explanatory material to the Exposure Draft that APS firms are not required to monitor relationships and circumstances that create threats to independence is misguided and contradicts the Statement on Quality Management Standards No.1, *A Firm’s System of Quality Management*, which requires real-time monitoring. Firms should know their clients and the threats to loss of independence outweigh the additional burden of monitoring for investment relationships that may impair independence. Further, the phrase “knows or has reason to believe” should be followed with “after reasonable inquiry.”

Ensuring the Public Has Clear, Accessible Information for Decisions About Professional Services

To ensure that the public and public investors are adequately informed and protected, NASBA believes additional guidance is needed for the disclosure of APS ownership percentages as well as the disclosure of affiliated APS entities (common ownership). Full transparency regarding the parties involved in an APS arrangement is critical not only to financial statement users but also to other stakeholders with responsibilities for understanding the closeness of the relationship between the auditor and the auditee/client, such as audit committees. Consideration should be given as to whether other standards should be amended or enhanced regarding the ownership and network

relationship information with respect to a firm's independence like the required communications with audit committees. Acknowledging that the disclosure requirements may not be solely within the purview of PEEC, NASBA believes further outreach, involvement and collaboration with other U.S. standard-setting bodies is necessary to arrive at a solution that will provide clear, accessible information about firm ownership and service boundaries in order for the public to make informed decisions about professional services.

Comments on Specific Questions from the Exposure Draft

Subject to the concerns expressed above, NASBA provides the following responses to the specific questions included in the Exposure Draft:

a. Do you agree that “investor” is defined appropriately (.04c)? If not, please explain.

The definition of “investor” in the Exposure Draft focuses on the financial interest of the entity or individual with financial interest defined in the Code (ET sec. 0.400.17) as an ownership interest in an equity or debt security issued by an entity. NASBA believes the definition should also address the beneficial interest of an investor. For example, an entity with a loan in excess of five percent of the amount borrowed by an ESOP used to fund the purchase of an APS firm should come under definition of an investor with a financial interest.

b. Do you agree that the definition of “key stakeholders of the investor” is clear in terms of which individuals are included?

The Exposure Draft defines key stakeholders as individuals who represent or act on behalf of the investor; however, NASBA believes that the term should also include anyone with the ability to influence the investee APS firm (non-attest entity) such as those creditors with an interest, officers, directors or other key personnel of the investor.

c. Do you agree the three models should be included in the interpretation (.06-.07)? If not, please explain, including whether you believe one or more should be included in nonauthoritative guidance or if there are other models that should be included in nonauthoritative guidance.

NASBA agrees that the three models should be included in the interpretation (.06-.07). NASBA believes that the diagrams are helpful in understanding the basic construct of each of the three APS models. However, the key issue of when an assurance engagement can, and cannot, be undertaken is not addressed in these diagrams. The diagrams could lead the user to conclude that any entities without a thick border are acceptable assurance clients. NASBA recommends making it clearer that the diagrams are only illustrating a particular step in the process of determining independence in an APS and not intended as a comprehensive example.

d. Do you agree that the definition of “network firm” should be amended to add the requirement that the cooperation characteristic (as described in paragraph 29 of the explanatory material) in

the definition of “network” be met before a controlling investor of a network firm is considered a network firm? If not, please explain.

NASBA does not agree that the definition of “network firm” should be amended to add the requirement that the cooperation characteristic in the definition of “network” be met before a controlling investor of a network firm is considered a network firm. The concept of cooperation needs additional clarity – the explanatory memorandum includes examples of factors to consider when determining whether an entity meets the cooperation characteristic but those factors are not included in the proposed interpretation. The distinction that cooperation is required to be in a network allows a Large Investor to acquire multiple APS firms as portfolio companies then allows the Large Investor to benefit from non-attest services rendered to an attest client, which is a longstanding prohibition to preserve the appearance of independence.

i. Do you agree that if the controlling investor is a network firm based on the definition of “network firm,” then other entities it controls should also be network firms? If not, please explain.

NASBA agrees that if the controlling investor is a network firm, then the other entities it controls should also be network firms.

e. Do you agree that in an APS, the nonattest entity should be subject to the same independence requirements as the attest firm, including the requirements under the “Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements” subtopic (ET sec. 1.297) (.14)?

NASBA agrees that, in an APS, the non-attest entity should be subject to the same independence requirements as the attest firm, including the requirements under the “Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements.” Independence is not different for financial statement audits versus other assurance/attest services.

i. If you do not agree, do you believe the “Conceptual Framework for Independence” interpretation should be applied to evaluate the significance of threats created by the nonattest entity’s and its controlled entities’ relationships with attest clients subject to the SSAEs?

1. If so, what factors should be considered in evaluating the significance of threats and whether potential safeguards could be implemented?

See response above.

f. Do you agree that when an investor does not provide professional services and the investor’s activities are limited to investing in the nonattest entity and advising on the budgetary or strategic

direction of the attest firm (described in paragraph 32 of the explanatory material), then the investor is generally not a network firm? If not, please explain.

NASBA does not believe that the investor's service offerings are relevant. NASBA believes that the entire set of parties "upstream" or otherwise with a debt or equity investment from the investor should be assessed at the bright-line 5% threshold. The definition should encompass all entities within the investor's portfolio as network firms.

i. If you agree, state whether you believe these factors should be in authoritative or nonauthoritative guidance.

See response above.

g. Do you agree with the factors for determining whether cooperation exists for the purpose of enhancing capabilities to provide professional services as described in paragraph 33 of the explanatory material?

As previously noted herein, NASBA believes that the notion of cooperation needs additional clarity. The factors for determining whether cooperation exists are described in the explanatory material but not included in the proposed interpretation. In order to improve consistency in application, NASBA recommends providing more specific examples and scenarios that indicate cooperation among entities such as portfolio companies utilizing centralized IT systems, HR functions or finance department; or sharing client leads or referring work among portfolio companies.

i. If you agree, state whether you believe these factors should be in authoritative or nonauthoritative guidance.

ii. Do you believe any additional factors should be included for determining whether cooperation exists? If so, please provide the additional factors.

See response above.

h. Do you agree that the covered member section (.15-.16) should remain in the interpretation?

NASBA agrees that the covered member section (.15-.16) should remain in the interpretation; however, the definitions should be expanded as noted above. Anyone, board member or not, that can influence compensation whether in a pool or individually, of anyone involved in providing assurance services should be a covered member.

i. If not, should this section be presented as application material on how to apply the "covered member" definition in an APS in nonauthoritative guidance?

See response above.

i. Do you agree that the chief executive of the nonattest entity (and other individuals in an attest partner's chain of command in the nonattest entity) should be evaluated under the "covered member" definition rather than be automatically considered covered members (.16)? If not, please explain.

NASBA believes that the chief executive of the non-attest entity along with anyone in the C-Suite, board members, and anyone who has actual or perceived influence over any member of an assurance providing entity should automatically be covered members. As a matter of public perception, it would be very difficult to convince the public that the chief executive of the non-attest entity is not involved to the level that the chief executive becomes anything other than a covered member.

j. Do you agree that when the investor has significant influence or control over the nonattest entity, the attest firm should not provide a financial statement attest service to an investee of the investor if an upstream entity of the nonattest entity is an affiliate of the investee (.18b)? If not, please explain.

As previously noted, NASBA believes that when an investor has a greater than five percent beneficial interest in the non-attest (non-assurance) entity then there should be no attest work done for any entity in which the investor has a beneficial interest in that entity's debt or equity. Additionally, the Attest (assurance) Firm should be required to monitor for these conditions.

k. Do you agree that when an attest client has a financial interest in the nonattest entity, independence is impaired, regardless of whether the attest client has significant influence over the nonattest entity (.18c)? If not, please explain.

NASBA agrees that when an attest client has a financial interest in the non-attest entity, independence is impaired.

l. Do you agree that, in an APS with PE when the PE investor controls the nonattest entity, the attest firm should not provide attest services to another portfolio company in any fund when the PE investor either a) has significant influence over the portfolio company and the investment is material to the fund, or b) controls the portfolio company (.18d)? If not, please explain.

See previous comments on NASBA's recommendation for a bright-line threshold. However, if PEEC proceeds with the significant influence/control concepts, then NASBA agrees that in an APS with PE when the PE investor controls the non-attest entity, the Attest Firm should not provide attest services to another portfolio company in any fund. In addition, NASBA believes that the word "and" should be replaced with the word "or" so that the materiality is not required when there is significant influence.

m. Do you agree that the prohibitions described in paragraph .18b.-d. of the interpretation regarding the provision of attest services to investees and other entities of the investor (that is not a network firm), along with the use of the conceptual framework for independence for

circumstances when the prohibitions would not apply (.20) are sufficient to address threats to independence in the circumstances described in the respective paragraphs? If not, please explain.

See previous comments on NASBA's recommendation for a bright-line threshold. However, if PEEC proceeds with the significant influence/control concepts, then the word "and" should be replaced with the word "or" so as to make it clear that either influence or materiality is required. Without this change, the challenge is that for some Large Investors, nothing is material and the control issue can be addressed by owning 49% with another "invited" investor controlling two percent or more.

i. For example, when the investor has significant influence over the nonattest entity, the attest firm would apply the conceptual framework for independence when evaluating whether a controlled portfolio company in the same fund as the nonattest entity could be a financial statement attest client if the controlled portfolio company is not material to the fund (that is, the fund is not an affiliate).

NASBA believes that the analysis should never get to this point. The concept of two entities (portfolio companies) in the same fund having any sort of assurance relationship presents conflicts that NASBA believes no safeguards could mitigate. The public appearance of two companies with common ownership being auditor and auditee is a clear conflict of interest.

n. Do you agree with the "Relationships with individuals and entities that generally do not create threats to independence" section (.21-.22)?

NASBA believes that paragraph c. of paragraph .21 does create threats to independence. If immediate family members are not covered then spouses and children can be used to circumvent the prohibitions. Practically speaking, does the threat to independence appear any different to the public when a board member's immediate family member makes an investment?

i. If you agree, should paragraphs .21-.22 remain in the interpretation? If not, do you believe the material should be presented in nonauthoritative guidance?

NASBA agrees that paragraphs .21-.22 should remain in the interpretation.

o. Do you agree that the new paragraph .03 of the revised "Alternative Practice Structures" interpretation of the "Form of Organization and Name Rule" should be in the interpretation? If not, do you believe this is a practice issue as described in paragraph 66 of the explanatory material and, if so, is there another approach that should be considered (for example, in nonauthoritative guidance)?

NASBA agrees that the new paragraph .03 of the revised "Alternative Practice Structures" interpretation of the "Form of Organization and Name Rule" should be included in the

interpretation. However, NASBA believes that additional clarity is warranted. The paragraph does not include whether the disclosure is written and how the disclosures should be made.

p. Do you agree that the proposed guidance is operational? If not, please identify specific sections you do not agree are operational.

NASBA has significant concerns as to whether the proposed guidance is operational in a consistent and meaningful manner. In addition to the comments included herein, the following comments are representative of the concerns:

- The distinction between all assurance and financial statement attest services, with financial statement attest being subject to specific rules and other assurance services left to the conceptual framework, sends the message that there is more than one kind of independence. This multi-tiered concept of independence could set a precedent of differing rules of independence directed towards an ownership structure and not resulting from the relationship with the attest client. It appears that independence is being driven by the practice form of the professional and not being driven by the service being provided such that the firm under traditional firm ownership has unitary independence rules for all attest services but firms with APSs get a pass.
- The complexity of the proposed guidance raises serious concerns about the ability of firms and regulators to consistently analyze the structure of an APS and interpret and apply the standards, which increases the risk of not only treating similar APS structures differently, but also eroding uniformity across jurisdictions. As previously noted, an acknowledgement of the complexity is demonstrated by the encouragement by PEEC in the Exposure Draft for members to consult an attorney or other specialist who might be able to assist members in navigating applicable laws and regulations. State Boards will require additional resources and potential expertise to analyze structures and documentation to ensure compliance, which adds to the burden faced by many State Boards with time, resources and budgetary constraints.
- The diagrams can lead to a conclusion that an Attest Firm may complete assurance work for an entity in the same fund. As previously noted in response to question c., the key issue of when an assurance engagement can, and cannot, be undertaken are not addressed in the diagrams. NASBA recommends making it clearer that the diagrams are only illustrating a particular step or scenario in the process of determining independence in an APS and not intended as a comprehensive example.
- The proposed guidance focuses on the distinction between control, significant influence and the materiality of investment levels relative to the attest entity. The proposal uses thresholds and the concept of cooperation to indicate where influence creates threats to independence. There is concern that these thresholds may not adequately address situations where influence exists even if the investment level falls below materiality. Influence in these complex APSs

can manifest in other ways such as contractual arrangements and governance rights and not solely through ownership percentages. As previously noted, there is not enough guidance or clarity on what factors lead to cooperation among entities for consistent application. If portfolio companies utilize centralized IT systems, HR functions or finance department, is that cooperation? If portfolio companies share client leads, propose on the same services to the same clients, or refer work among portfolio companies, does that constitute cooperation?

- The proposed guidance focuses primarily on investments in the APS firm through equity securities/ownership. It is common for debt financing to be associated with these transactions. While debt financing may not raise the same undue influence concerns as equity investments, there are other influence concerns present with debt financing. Restrictive debt covenants, the size of the debt, debt service requirements and high interest rates can all lead to undue pressure over an APS firm and are not fully addressed in the proposed guidance.

In representing the interests of State Boards, NASBA has identified several challenges the proposed revisions present for regulatory oversight. State Boards operate under statutory frameworks that were not designed for these complex ownership structures. As APS models continue to evolve, it is critical that independence standards remain clear and practical to allow State Boards to determine compliance within their statutory authority. For the proposed guidance to be operational for a State Board, the guidance needs to satisfy protecting the public.

q. Are there any other independence threats related to practicing in an APS, as well as in traditional networks, that we haven't addressed? If so, please explain.

As noted previously in the General Comments section, NASBA believes that the ability of a Large Investor to acquire interests in multiple APS firms (within the Exposure Draft's structures), keeping these APS firms in separate funds with separate advisors and separate board members, then allowing these APS firms, influenced by the Large Investor, to undertake both attest (assurance) and non-attest work for the same client presents threats that cannot be overcome with safeguards.

r. For what areas do you believe nonauthoritative guidance is needed (other than those already identified)?

In NASBA's response letter, dated June 13, 2025, to the PEEC's Discussion Memorandum regarding potential revisions to the Code and guidance related to independence in APSs, NASBA noted that a State Board can most readily enforce clearly defined authoritative rules. While potentially enforceable, guidance labeled as nonauthoritative presents greater challenges for regulators in their enforcement efforts. Also noted in that response, NASBA identified two areas of significant concern that may go beyond the independence principle of the Code.

The first area of concern is firm name and branding of the Attest Firm and non-attest entity. For example, when the name of the Attest Firm and the non-attest entity are essentially the same,

branding and advertising is similar and/or the same website is used for both attest and non-attest services, there can be confusion for the public as well as the regulators in understanding how services are being delivered and by whom.

The second area of concern relates to data privacy. PE owned firms have access to sensitive attest firm client financial data. This data must be appropriately protected and managed carefully particularly in the event of the PE firm's exit.

While it appears that these two areas were identified in the Exposure Draft for nonauthoritative guidance, NASBA recommends consideration as to whether authoritative guidance could be provided to ensure consistency in application. If appropriate guidance is not provided to protect the public, State Boards may determine that pursuing action within their statutory authority is needed.

Conclusion

NASBA appreciates the fact that a significant amount of effort and thought has gone into the development of both the Discussion Memorandum and the Exposure Draft. Nevertheless, NASBA has a lingering concern as to whether all relevant stakeholders were involved in the process. More specifically, it is not clear that representatives from the investor, regulatory, financial statement user, and financial service communities have been engaged for their views and concerns as part of this process. Given the complexity and evolving nature of APS arrangements, NASBA encourages continued study and collaboration before finalizing guidance that may significantly affect both professional practice and regulatory oversight. Clear, practical, and enforceable standards are essential to maintaining public trust in the profession.

* * * * *

We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Nicola Neilon

Nicola Neilon, CPA
NASBA Chair

Daniel J. Dustin

Daniel J. Dustin, CPA
NASBA President and CEO