

## **BOARD MEETING AGENDA**

**Date, Time:** Friday, April 25, 2025 – 9:00 a.m.

**Location:** Radisson Hotel Seattle Airport  
San Juan Rooms 2 & 3  
18118 International Blvd  
Seattle, WA 98188  
or by Microsoft Teams Meeting

**Notices:** Public Rules Hearing

Chair Introductions

### **PUBLIC RULE MAKING HEARING**

1. Public Rule Making Hearing Outline ..... 10-11
2. Rules Under Consideration – CR-102 filing..... 12-14
  - a. WAC 4-30-090 Practice privileges ..... 15-16
3. Written Stakeholder Comments

### **BOARD MEETING AGENDA**

4. Private Equity – AICPA Guest Speakers..... 17-46
  - a. Anna Dourdourekas, AICPA Professional Ethics Executive Committee Chair  
and APS Task Force Co-chair
  - b. Joan Farris, AICPA Manager of Professional Ethics Division
5. Rules Review
  - a. Board’s deliberation on the proposed rule considered at the public rule making hearing.  
See listing above under Public Rule Making Hearing – Item 2
6. Minutes – January 31, 2025, Board Meeting ..... 47-60
7. Board Policy – Annual Review
  - a. 2003-1 Safe Harbor Report Language for Use by Non-CPAs .....61-62
  - b. 2004-1 Administrative Violations Delegation and Process for Remedial Resolution ....63-64
  - c. 2015-1 Board Member Travel and Attendance at Group Gatherings ..... 65
  - d. 2017-1 Investigative and Disciplinary Processes .....66-67
  - e. 2017-2 Publication and Disclosure of Disciplinary Actions ..... 68
  - f. 2020-1 Peer Review .....69-70

- 8. NASBA Update
  - a. 43rd Annual Conference for Executive Directors and Board Staff
  - b. Uniform Accountancy Act (UAA) Exposure Draft .....71-76
- 9. Legal Counsel’s Report
- 10. Chair’s Report
- 11. Committee/Task Force Reports
  - a. Executive Committee – Tonia Campbell, CPA
  - b. Peer Review Oversight Committee (PROC) – Scott Newman, Public Member ..... 77-79
  - c. Request Oversight Committee (ROC) – Brian Thomas, CPA.....80
  - d. Scholarship Oversight Committee (SOC) – Cindy Kay, CPA ..... 81-82
  - e. Board/AICPA Rules Committee (BARC) – Brooke Stegmeier, CPA ..... 83-140
  - f. Licensing and Regulation Committee (LARC) – Kate Dixon, Public Member ..... 141-143
- 12. Acting Director’s Report
  - a. Budget Status ..... 144-147
  - b. Executive Director Position Update
- 13. Enforcement Report
  - a. Quarterly Enforcement and Resolved Complaint Reports ..... 148-149
- 14. Executive and/or Closed Sessions with Legal Counsel
- 15. Public Input – The public has an opportunity to address its concerns, and the Board has an opportunity to ask questions of the public. Individual speakers will be provided 10 minutes each.

The Board of Accountancy schedules all public meetings at barrier free sites. Persons who need special assistance, please contact the Board's Americans with Disabilities Act contact person:

Kirsten Donovan, Board Clerk  
PO Box 9131, Olympia, WA 98507-9131  
Phone: 360-664-9191 Email: [kirsten.donovan@acb.wa.gov](mailto:kirsten.donovan@acb.wa.gov)

7-1-1 or 1-800-833-6388 (TTY) - 1-800-833-6385 (Telebraille)  
(TTY and Telebraille service nationwide by Washington Relay [www.washingtonrelay.com](http://www.washingtonrelay.com))

**WASHINGTON STATE  
BOARD OF ACCOUNTANCY  
BOARD MEETING – APRIL 25, 2025  
SUMMARY**

**Date and Time:** Friday, April 25, 2025 - 9:00 a.m.

**Location:** Radisson Hotel Seattle Airport  
San Juan Rooms 2 & 3  
18118 International Blvd  
Seattle, WA 98188  
or by Microsoft Teams Meeting

**Notices:** Public Rules Hearing

**Chair's Opening Announcements:** The Board of Accountancy Board meeting is now in session. The date is Friday, April 25, 2025. The time is \_\_\_\_.

The purpose of the Board meeting is for the Board to accomplish its business. After the Board completes its discussion of an agenda item, if appropriate, I will ask if anyone in the audience wishes to comment. As a reminder, individuals attending the meeting may participate only after recognition by the Chair. If you plan to address the Board on other matters during the public input section of the agenda, please sign the public input roster, or if attending by Teams meeting advise me now in the Teams chat, and your name will be added to the public input roster.

**Chair Introductions:** My name is Tonia Campbell, CPA; I am the Chair of the Board of Accountancy. (Have the Board Members introduce themselves – both those in person and virtually – then staff, and then Lisa Petersen, AAG, Board Advisor, and Jacob Dishion, AAG, Board Advisor).

**April 25, 2025 - 9:00 a.m. – PUBLIC RULE-MAKING HEARING**

**Rules Hearing** - The Board will hold its scheduled rules hearing to obtain public input on the proposed changes to Board rules.

**1. Public Rule-Making Hearing Outline** – The script the Chair will use as a guide during the hearing is at **pages 10-11** of the meeting materials.

**2. Rules Under Consideration**

See **pages 12-14** for the CR-102, Proposed Rule Making Notice.

**WAC 4-30-090 Practice privileges.**

**Pages 15-16** contain the draft language for the proposed rule changes.

The proposed changes are intended to:

- Update and clarify out-of-state individuals qualifying for practice privileges in our state.

The Acting Director will provide a summary of the proposed new rule.

- 3. Written Stakeholder Comments** – None were received by the time the Board meeting packet was compiled and posted to the website. If any are received by the written comment deadline of April 23, 2025, they will be provided during the Rules Hearing.

**April 25, 2025 – BOARD MEETING**

The regular Board meeting is now back in session, and the time is \_\_\_\_.

**4. Private Equity – AICPA Guest Speakers**

- a. Anna Dourdourekas, AICPA Professional Ethics Executive Committee Chair; PEEC APS Task Force Co-chair; Partner, Audit and Assurance, Grant Thornton LLP; Principal, Grant Thornton Advisors LLC**
- b. Joan Farris, AICPA Manager of Professional Ethics Division**

**Pages 17-46** contain the PowerPoint presentation, Alternative practice structures and developing ethics guidance.

Brooke Stegmeier will introduce the guest speakers.

**5. Rules Review**

- a. Board deliberation on the proposed rule considered at the public rule-making hearing.**

The Board Chair will introduce the rule under consideration.

**WAC 4-30-090 Practice privileges.**

The Acting Director is prepared to summarize the proposed rule changes and answer any questions for the Board during deliberation.

**Does the Board wish to:**

- **Adopt the rule as proposed; or**
- **Adopt the rule with minor changes that do not change the general subject matter of the proposed rule; or**
- **Amend the rule proposal and set another rules hearing date; or**
- **Withdraw the rule proposal?**

**Effective date:** If the Board decides to adopt the rule changes, the Board must determine the effective date. Rules generally become effective 31 days after filing. The Acting Director recommends making the rule effective 31 days after filing.

**Does the Board wish to make the rule effective:**

- **31 days after filing; or**
- **Another date?**

**6. Minutes – January 31, 2025, Board Meeting**

Board staff presents the January 31, 2025, Board meeting minutes draft at **Pages 47-60** for the Board's consideration.

**Does the Board approve the minutes as drafted?**

**Do the Board Members attending virtually authorize the use of their electronic signatures on file for the signing of the approved meeting minutes?**

**7. Board Policy – Annual Review**

The Board annually reviews the Board Policies at the April Board meeting. **Pages 61-70** contain the current Board Policies when no changes are proposed or the draft Board Policies when changes are proposed.

**a. 2003-1 Safe Harbor Report Language for Use by Non-CPAs – Pages 61-62**

No changes proposed.

**Does the Board wish to revise, retain, or retire this policy?**

**b. 2004-1 Administrative Violations Delegation and Process for Remedial Resolution – Pages 63-64**

No changes proposed.

**Does the Board wish to revise, retain, or retire this policy?**

**c. 2015-1 Board Member Travel and Attendance at Group Gatherings – Page 65**

No changes proposed.

**Does the Board wish to revise, retain, or retire this policy?**

**d. 2017-1 Investigative and Disciplinary Processes – Pages 66-67**

No changes proposed.

**Does the Board wish to revise, retain, or retire this policy?**

**e. 2017-2 Publication and Disclosure of Disciplinary Actions – Page 68**

The Acting Director will report on the proposed changes.

The proposed revisions include:

- Correcting “Adopted” to “Revised” on the page 1 date. The change was not included when the policy was last revised.
- Eliminating the extra space between sentences to follow modern formatting conventions.

**Does the Board wish to revise, retain, or retire this policy?**

**f. 2020-1 Peer Review – Pages 69-70**

No changes proposed.

**Does the Board wish to revise, retain, or retire this policy?**

**8. NASBA Update**

**a. 43rd Annual Conference for Executive Directors and Board Staff**

**b. Uniform Accountancy Act (UAA) Exposure Draft**

**Pages 71-76** contain the UAA Exposure Draft issued March 4, 2025, for comment by May 3, 2025.

The Acting Director will provide an update on NASBA activities.

**9. Legal Counsel’s Report**

The Board's legal counsel requests the agenda for regular Board meetings contain a placeholder item allowing for legal counsel to report on any current issues related to the Board's activities and/or Washington State law such as: The Administrative Procedures Act, Open Public Meetings Act, Public Disclosure requirements, etc.

## 10. Chair's Report

## 11. Committee/Task Force Reports

- a. **Executive Committee** – Chair: Tonia L. Campbell, CPA; Vice Chair: Thomas P. Sawatzki, CPA; Secretary: Brooke Stegmeier, CPA

Tonia will give a verbal report.

- b. **Peer Review Oversight Committee (PROC)** – Chair: Scott S. Newman, Public Member; Members: Kate Dixon, Public Member; Thomas P. Sawatzki, CPA; Non-Board Member Volunteers: Laura Lindall, CPA; Thomas Neill, CPA

**Pages 77-79** contain the AICPA report, *Quality Management – At a Glance From the Audit & Attest Standards Team*.

Scott will give a verbal report.

- c. **Request Oversight Committee (ROC)** – Chair: Brian R. Thomas, CPA; Members: Thomas P. Sawatzki, CPA; Cindy Kay, CPA

**Page 80** contains the *Request Oversight Committee Report, April 2025* with the first quarter approval and denials from the committee.

Brian will give a verbal report.

- d. **Scholarship Oversight Committee (SOC)** – Chair: Cindy Kay, CPA; Members: Kate Dixon, Public Member; Thomas P. Sawatzki, CPA

**Pages 81-82** contain the report, *Washington CPA Foundation – 2025 Pre-Intake Scholarship Winner Data*.

Cindy will give a verbal report.

- e. **Board/AICPA Rules Committee (BARC)** – Chair: Brooke Stegmeier, CPA; Members: Brian Thomas, CPA; Scott Newman, Public Member

**Pages 83-85** contain the memo, Discussion Topics: Private Equity Ownership and CPE Compliance, dated April 6, 2025.

**Pages 86-140** contain the AICPA Professional Ethics Division Discussion Memorandum, Potential revisions to the AICPA Code of Professional Conduct

and guidance related to independence in alternative practice structure, dated March 10, 2025.

Brooke will give a verbal report.

- f. Licensing and Regulation Committee (LARC)** – Chair: Kate Dixon, Public Member; Members: Brian R. Thomas, CPA; Brooke Stegmeier, CPA; Non-Board Volunteers: Thomas Neill, CPA; Kimberly Scott; Mike Nelson

**Pages 141-143** contain the memo, Licensing and Regulation Committee (LARC) Update.

Kate will give a verbal report.

## **12. Acting Director's Report**

### **a. Budget Status**

**Page 144** contains the DES Small Agency Financial Services memo, February 2025 Financial Reports, dated March 19, 2025.

**Pages 145-147** contain the Allotment Expenditure/Revenue BTD Flexible Report, the Certified Public Accountant's Account Fund View, and the CPA Scholarship Transfer Account Fund View for transactions through March 31, 2025.

### **b. Executive Director Position Update**

## **13. Enforcement Report**

### **a. Quarterly Enforcement and Resolved Complaint Reports**

Taylor Shahon, CPA, Lead Investigator, will provide a verbal report on investigations.

**Pages 148-149** contain the Enforcement Reports:

- Quarterly Report – January 1, 2025, through March 31, 2025
- Twelve-Month Lookback – April 1, 2024, through March 31, 2025
- All Complaints – Resolved with and without discipline for periods April 2024 to March 2025 and April 2023 to March 2024
- CBM Report – January 1, 2025, through March 31, 2025

## **14. Executive and/or Closed Session with Legal Counsel**



## Board Meeting Summary – April 25, 2025

The Board's legal counsel requests the agenda for regular Board meetings contain a placeholder item identifying that the Board and legal counsel may enter executive or closed session when determined appropriate.

### **15. Public Input**

Board meeting time has been set aside to ensure the public has an opportunity to address its concerns, and the Board has an opportunity to ask questions of the public. Individual speakers will be allotted 10 minutes each.

**Meeting Closing** - Thank you all for your participation. The time is \_\_\_\_\_, and this quarterly Board meeting is now closed.

**WASHINGTON STATE BOARD OF ACCOUNTANCY**  
**RULES HEARING OUTLINE**  
**April 25, 2025**

**Presiding officer reads or paraphrases BOLD type entries.**

*Italics are explanatory notes for the presiding officer.*

**OPENING STATEMENT:**

**The Board of Accountancy rules hearing is now in session. The date is Friday, April 25, 2025. The time is \_\_\_\_\_. My name is Tonia Campbell, and I am the Chair of the Board of Accountancy.**

**Copies of the rule proposals are available in the Board packet materials either at the back of the room or online at [www.acb.wa.gov](http://www.acb.wa.gov).**

**If you would like to testify, please sign in on the rule making public input roster at the back of the room. If you are attending by Teams meeting and would like to testify, let me know now in the Teams chat, and your name will be added to the roster.**

*Explain hearing sequence and ground rules as follows:*

**The hearing will be conducted as follows:**

- 1. I will identify the rule presented for testimony, and a brief statement for each proposal will be presented.**
- 2. I will use the attendance roster to invite testimony on the proposal. When you give testimony, please:**
  - State your name and organization if you speak for a group.**
  - Limit your testimony to the rule proposal currently before the Board.**
  - After you testify, please remain available for questions.**
  - If you are testifying from text, please provide a copy by email to Kirsten Donovan, Board Clerk at [kirsten.donovan@acb.wa.gov](mailto:kirsten.donovan@acb.wa.gov).**

**Testimony is limited to 10 minutes for each speaker.**

- 3. When the testimony is complete the hearing will be closed. The Board will consider the proposed rule changes during the regular Board meeting immediately following the rules hearing.**

**Rule Proposal**

**This rule proposal concerns:**

- WAC 4-30-090 Practice privileges.**

**The Acting Director will present a brief statement on the proposal.**

*Jennifer presents the statement.*

**The rule proposal has been identified. We will now move on to the testimony.**

*1. TESTIMONY FROM ATTENDANCE ROSTER*

*Ask for testimony from the audience according to the order on the attendance roster.*

**Will (name of individual) please present testimony?**

*After the testimony is complete you will invite questions from the Board Members.*

*2. OTHER TESTIMONY*

*After all individuals listed on the attendance roster have testified, ask if others wish to testify.*

**Is there anyone who wishes to testify who has not had the opportunity?**

*3. WRITTEN STAKEHOLDER COMMENTS*

**The Board did not receive any written comments for this rule proposal by the April 23, 2025, deadline date.**

*CLOSING STATEMENT:*

**Thank you for your testimony. (If any testimony was received.)**

**The Board will deliberate on the oral and written testimony and the proposed rule today during its regular Board meeting. The Board's decision regarding the proposed rule will be posted to the Board's rule-making section of the website and reflected in the meeting minutes. Thank you all for your participation. The time is \_\_\_\_\_, and this hearing is now closed.**



# PROPOSED RULE MAKING

**CR-102 (June 2024)**  
**(Implements RCW 34.05.320)**  
Do **NOT** use for expedited rule making

CODE REVISER USE ONLY

OFFICE OF THE CODE REVISER  
STATE OF WASHINGTON  
FILED

DATE: February 05, 2025  
TIME: 10:21 AM

**WSR 25-04-117**

**Agency:** Board of Accountancy

☒ **Original Notice**

☐ **Supplemental Notice to WSR** \_\_\_\_\_

☐ **Continuance of WSR** \_\_\_\_\_

☒ **Preproposal Statement of Inquiry was filed as WSR** 24-21-118 ; or

☐ **Expedited Rule Making--Proposed notice was filed as WSR** \_\_\_\_\_; or

☐ **Proposal is exempt under RCW 34.05.310(4) or 34.05.330(1); or**

☐ **Proposal is exempt under RCW** \_\_\_\_\_.

**Title of rule and other identifying information:** (describe subject) WAC 4-30-090 Practice privileges.

**Hearing location(s):**

Date:	Time:	Location: (be specific)	Comment:
April 25, 2025	9:00 a.m.	Radisson Hotel Seattle Airport 18118 International Boulevard San Juan Rooms 2 & 3 Seattle, WA 98188  or Microsoft Teams Meeting	The link to join the meeting will be available on the Board's website approximately 2 weeks before the hearing date at: <a href="https://acb.wa.gov/next-board-meeting">https://acb.wa.gov/next-board-meeting</a> . A phone number will be provided as well in case you are unable to attend online.

**Date of intended adoption:** April 25, 2025 (Note: This is **NOT** the **effective** date)

**Submit written comments to:**

Name Kirsten Donovan, Rules Coordinator  
Address P.O. Box 9131, Olympia, WA 98507  
Email [Kirsten.donovan@acb.wa.gov](mailto:Kirsten.donovan@acb.wa.gov)  
Fax 360-664-9190  
Other  
Beginning (date and time) \_\_\_\_\_  
By (date and time) April 23, 2025

**Assistance for persons with disabilities:**

Contact Kirsten Donovan, Rules Coordinator  
Phone 360-664-9191  
Fax 360-664-9190  
TTY 711  
Email [Kirsten.donovan@acb.wa.gov](mailto:Kirsten.donovan@acb.wa.gov)  
Other  
By (date) April 23, 2025

**Purpose of the proposal and its anticipated effects, including any changes in existing rules:** The board of accountancy proposes amending WAC 4-30-090 to clarify out-of-state individuals qualifying for practice privileges in our state.

**Reasons supporting proposal:** See purposes above

**Statutory authority for adoption:** RCW 18.04.055

**Statute being implemented:** RCW 18.04.055

**Is rule necessary because of a:**

Federal Law?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Federal Court Decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
State Court Decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

If yes, CITATION:

**Agency comments or recommendations, if any, as to statutory language, implementation, enforcement, and fiscal matters:**

**Name of proponent:** (person or organization) Board of Accountancy

**Type of proponent:** ☐ Private. ☐ Public. ☒ Governmental.

**Name of agency personnel responsible for:**

	Name	Office Location	Phone
Drafting	Jennifer Sciba, Acting Director	711 Capitol Way S Suite 400 Olympia, WA 98501	(360) 586-0952
Implementation	Jennifer Sciba, Acting Director	711 Capitol Way S Suite 400 Olympia, WA 98501	(360) 586-0952
Enforcement	Jennifer Sciba, Acting Director	711 Capitol Way S Suite 400 Olympia, WA 98501	(360) 586-0952

**Is a school district fiscal impact statement required under [RCW 28A.305.135](#)?**☐ Yes ☒ No

If yes, insert statement here:

The public may obtain a copy of the school district fiscal impact statement by contacting:

Name  
Address  
Phone  
Fax  
TTY  
Email  
Other

**Is a cost-benefit analysis required under [RCW 34.05.328](#)?**☐ Yes: A preliminary cost-benefit analysis may be obtained by contacting:

Name  
Address  
Phone  
Fax  
TTY  
Email  
Other

☒ No: Please explain: The Board of Accountancy is not a listed agency in RCW 34.05.328(5)(a)(i).**Regulatory Fairness Act and Small Business Economic Impact Statement**Note: The [Governor's Office for Regulatory Innovation and Assistance \(ORIA\)](#) provides support in completing this part.**(1) Identification of exemptions:**

This rule proposal, or portions of the proposal, **may be exempt** from requirements of the Regulatory Fairness Act (see [chapter 19.85 RCW](#)). For additional information on exemptions, consult the [exemption guide published by ORIA](#). Please check the box for any applicable exemption(s):

☐ This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.061](#) because this rule making is being adopted solely to conform and/or comply with federal statute or regulations. Please cite the specific federal statute or regulation this rule is being adopted to conform or comply with, and describe the consequences to the state if the rule is not adopted.

Citation and description:

☐ This rule proposal, or portions of the proposal, is exempt because the agency has completed the pilot rule process defined by [RCW 34.05.313](#) before filing the notice of this proposed rule.

☐ This rule proposal, or portions of the proposal, is exempt under the provisions of [RCW 15.65.570](#)(2) because it was adopted by a referendum.

☐ This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.025](#)(3). Check all that apply:

- |   |  |
|---|--|
| <input type="checkbox"/> <a href="#">RCW 34.05.310</a> (4)(b)<br>(Internal government operations) | <input type="checkbox"/> <a href="#">RCW 34.05.310</a> (4)(e)<br>(Dictated by statute)   |
| <input type="checkbox"/> <a href="#">RCW 34.05.310</a> (4)(c)<br>(Incorporation by reference)     | <input type="checkbox"/> <a href="#">RCW 34.05.310</a> (4)(f)<br>(Set or adjust fees)  |
| <input type="checkbox"/> <a href="#">RCW 34.05.310</a> (4)(d)<br>(Correct or clarify language)    | <input type="checkbox"/> <a href="#">RCW 34.05.310</a> (4)(g)<br>((i) Relating to agency hearings; or (ii) process requirements for applying to an agency for a license or permit) |

☒ This rule proposal, or portions of the proposal, is exempt under [RCW 19.85.025](#)(4). (Does not affect small businesses).

☐ This rule proposal, or portions of the proposal, is exempt under RCW \_\_\_\_.

Explanation of how the above exemption(s) applies to the proposed rule:

**(2) Scope of exemptions:** *Check one.*

- ☒ The rule proposal: Is fully exempt. (*Skip section 3.*) Exemptions identified above apply to all portions of the rule proposal.
- ☐ The rule proposal: Is partially exempt. (*Complete section 3.*) The exemptions identified above apply to portions of the rule proposal, but less than the entire rule proposal. Provide details here (consider using [this template from ORIA](#)):
- ☐ The rule proposal: Is not exempt. (*Complete section 3.*) No exemptions were identified above.

**(3) Small business economic impact statement:** *Complete this section if any portion is not exempt.*

If any portion of the proposed rule is **not exempt**, does it impose more-than-minor costs (as defined by RCW 19.85.020(2)) on businesses?

- ☐ No Briefly summarize the agency's minor cost analysis and how the agency determined the proposed rule did not impose more-than-minor costs. \_\_\_\_\_
- ☐ Yes Calculations show the rule proposal likely imposes more-than-minor cost to businesses and a small business economic impact statement is required. Insert the required small business economic impact statement here:

The public may obtain a copy of the small business economic impact statement or the detailed cost calculations by contacting:

Name  
Address  
Phone  
Fax  
TTY  
Email  
Other

**Date:** February 5, 2025

**Name:** Jennifer Sciba

**Title:** Acting Director

**Signature:**



**WAC 4-30-090 Practice privileges.** (~~Out-of-state individuals holding valid licenses to practice public accounting issued by a substantially equivalent state, may hold out and practice within Washington state and/or provide public accounting services in person, by mail, telephone, or electronic means to clients residing in Washington state without notice or payment of a fee. An individual who qualifies for practice privileges under RCW 18.04.350 (1), and who performs any attest service described in RCW 18.04.025(1) may only do so through a firm that has obtained a license under RCW 18.04.195 and 18.04.215 or that meets the requirements for an exception from the firm licensure requirements under RCW 18.04.195 (1) (a) (ii) (A) through (D) or (b).~~

~~As a condition of this privilege, the out-of-state individual is deemed to have consented to:~~

~~(1) The personal and subject matter jurisdiction and disciplinary authority of this state's board;~~

~~(2) Comply with the Public Accountancy Act of this state, chapter 18.04 RCW, and this board's rules contained in Title 4 WAC;~~

~~(3) The appointment of the state board which issued the certificate or license as their agent upon whom process may be served in any action or proceeding by this state's board against the certificate holder or licensee;~~

~~(4) Not render any professional services in this state unless the out-of-state individual is licensed to render such services in the state of licensure upon which the privilege is contingent;~~

~~(5) Cease offering or performing professional services in this state, individually and/or on behalf of a firm, if the license from the state of the out-of-state individual's principal place of business is no longer valid; and~~

~~(6) Cease offering or performing specific professional services in this state, individually and/or on behalf of a firm, if the license from the state of the out-of-state individual's principal place of business is restricted from offering or performing such specific professional services.))~~

(1) **In general.** "Practice privileges" are temporary rights granted to a person who:

(a) Holds a current license or certificate in good standing from any other state or jurisdiction of the United States; and

(b) At the time of licensure, was required to show evidence of having obtained at least a minimum of a baccalaureate degree, passed the Uniform CPA Exam, and has at least one year of experience.

(2) **Allowable services.** An individual who qualifies for practice privileges may offer or render professional services, whether in person or by mail, telephone, or electronic means.

(3) **No notice.** The board requires no notice, fee, or other submission be provided by any such individual exercising practice privileges in the state of Washington.

(4) **Consent.** An individual who qualifies for practice privileges, as a condition of exercising such privilege, consents:

(a) To the personal and subject matter jurisdiction and disciplinary authority of the board;

(b) To comply with chapter 18.04 RCW and the board's rules;

(c) That in the event a license or certificate from any other state or jurisdiction of the United States is no longer valid, the in-

dividual will cease offering or rendering professional services in this state individually or on behalf of a firm; and

(d) To the appointment of the state board which issued the certificate or license as their agent upon whom process may be served in any action or proceeding by this state's board against the certificate holder or licensee.



# Alternative practice structures and developing ethics guidance

April 2025



Anna Dourdourekas

*Independence and Ethical Standards Partner at Grant Thornton LLP*

*Principal, Grant Thornton Advisors LLC*

*AICPA Professional Ethics Executive Committee Chair and APS task force co-chair*



Joan Farris, Manager

*Professional Ethics Division | AICPA*

# Overview

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What is an alternative practice structure?

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Why are PE investors and CPA firms choosing APS?

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What are the challenges and how can firms mitigate risk?

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What is PEEC's approach to guidance?

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What independence guidance is being developed?

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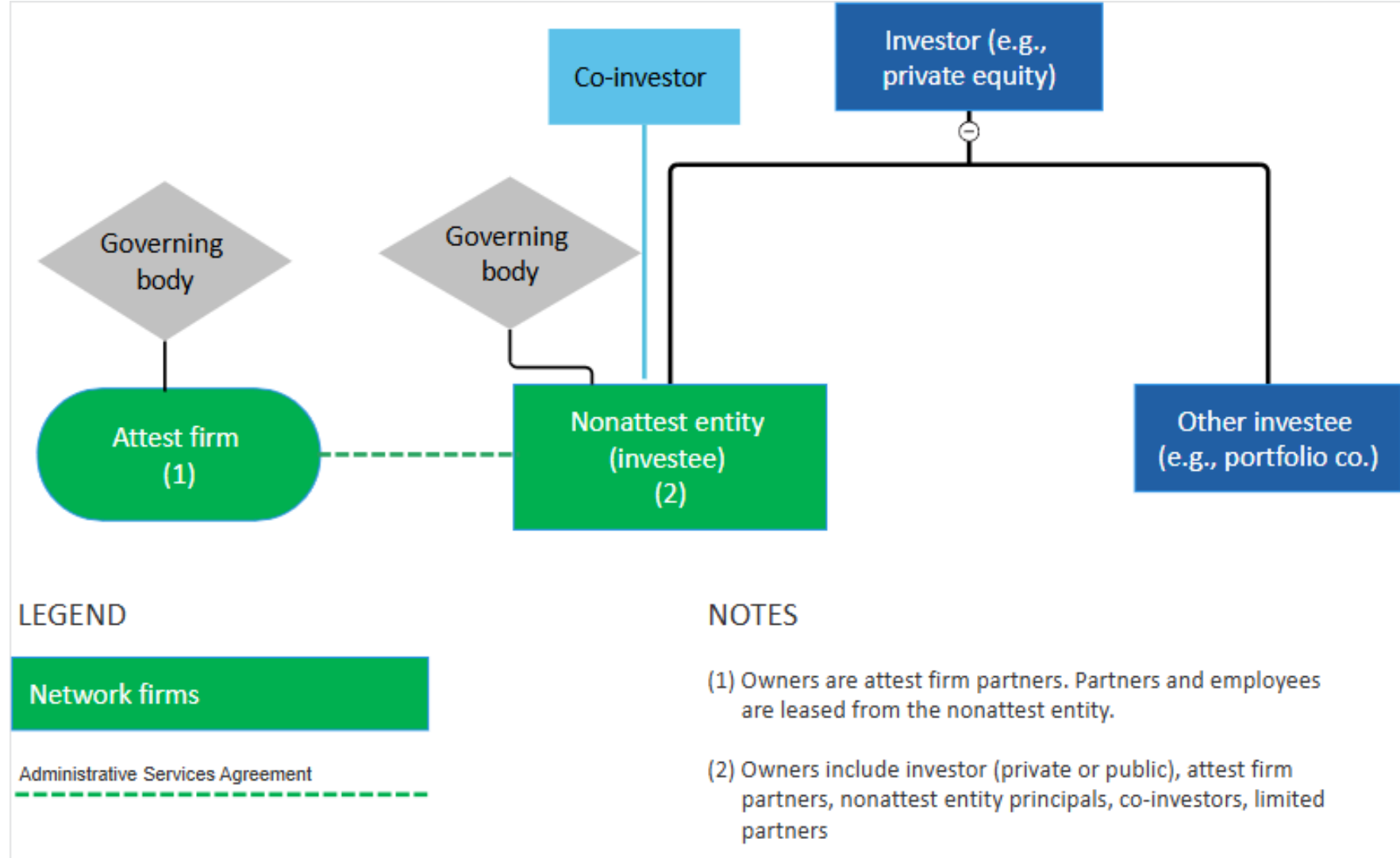
What questions or feedback do you have?



# THE 2024 **accounting**TODAY TOP 100 FIRMS

Rank	Firm	Headquarters	Chief executive	Year end	REVENUE		Offices	Partners	PERSONNEL				Total emps.	% chg.	FEE SPLIT (in percent)			
					\$ mn.	% chg.			% chg.	Profes- sionals	% chg.	A&A			Tax	MAS	Other	
1	Deloitte <sup>5</sup>	New York City	Jason Girzadas	June	32,669.00	16.94	134	6,585	9.60	139,788	8.27	171,100	9.40	28	15	54	3	
2	PwC <sup>5</sup>	New York City	Tim Ryan	June	22,750.00	9.74	76	4,037	7.80	NA	NA	75,000	7.58	26	24	50	0	
3	Ernst & Young <sup>5</sup>	New York City	Julie Boland	June	21,460.00	12.30	90	3,700	2.78	46,400	12.35	55,900	10.91	25	26	49	0	
4	KPMG <sup>5 1</sup>	New York City	Paul Knopp	Sept	12,200.00	6.64	94	2,482	5.89	38,811	8.92	50,306	9.75	31	28	41	0	
5	RSM US <sup>2</sup>	Chicago	Brian Becker	Dec	3,885.38	8.07	81	1,180	4.33	12,543	2.88	17,085	6.11	28	32	39	1	
6	BDO USA	Chicago	Wayne Berson	April	2,822.60	13.34	75+	860	4.88	9,513	7.26	12,212	8.36	43	37	20	0	
7	Grant Thornton <sup>3</sup>	Chicago	Seth Siegel	July	2,362.18	2.24	47	595	-3.41	8,023	-7.34	10,114	-5.70	38	27	35	0	
8	CLA <sup>H</sup>	NA	Jennifer Leary	Dec	2,000.00	20.26	130	1,329	6.75	5,677	2.33	8,120	5.09	32	38	0	30	
9	Forvis <sup>M</sup> Mazars	NA	Tom Watson	May	1,686.00	13.38	72	511	-0.58	4,286	10.95	5,910	9.51	38	30	32	0	
10	Baker Tilly	Chicago	Jeff Ferro	Dec	1,584.40	12.59	68	578	1.94	4,654	5.84	6,777	7.90	28	34	37	1	
11	CBIZ & MHM <sup>4</sup>	Cleveland	Chris Spurio and Andrew Gagnani	Dec	1,420.00	14.52	129	810	10.20	3,492	10.19	5,796	7.89	29	33	38	0	
12	Crowe	Chicago	Mark Baer	Dec	1,375.00	10.00	38	509	2.83	4,666	0.69	6,296	1.42	28	29	43	0	
13	Marcum	New York City	Jeffrey Weiner	Dec	1,325.24	8.80	40	546	2.44	2,631	4.53	3,799	4.17	43	43	9	5	
14	Moss Adams	Seattle	Eric Miles	Dec	1,260.00	12.20	25	402	5.24	3,364	10.80	4,782	11.18	39	40	21	0	
15	Plante Moran	Southfield, Mich.	James Proppe	June	1,008.46	9.61	25	349	1.75	2,419	4.04	3,694	6.03	34	31	35	0	
16	CohnReznick*	New York City	David Kessler	Jan	1,000.00	11.11	30	339	11.51	3,016	15.60	3,967	15.76	44	34	22	0	
17	Eisner Advisory Group	New York City	Charles Weinstein	July	848.70	38.22	38	336	25.37	3,080	54.85	4,280	48.82	25	51	11	12	
18	Citrin Cooperman	New York City	Alan Badey	Dec	700.00	43.44	22	490	40.80	1,826	50.66	2,732	45.55	19	55	26	0	
19	Armanino	San Ramon, Calif.	Matt Armanino	Dec	658.00	10.59	24	258	16.74	1,840	8.43	2,660	11.20	24	43	28	5	
20	Eide Bailly	Fargo, N.D.	Jeremy Hauk	April	616.50	15.71	44	365	2.53	2,289	10.26	3,243	8.86	40	39	12	9	
21	Cherry Bekaert*	Raleigh, N.C.	Michelle Thompson	Dec	585.00	99.66	22	178	34.85	1,591	89.40	2,250	75.23	25	33	42	0	
22	Wipfli	Milwaukee	Kurt Gresens	May	546.40	7.84	49	288	0.35	2,507	4.72	3,222	3.77	32	31	35	2	
23	Withum	Princeton, N.J.	Patrick Walsh	June	521.00	21.52	26	209	11.76	1,541	17.90	2,076	13.50	43	42	11	4	
24	Carr, Riggs & Ingram	Enterprise, Ala.	Chad Pinson	Sept	455.36	8.18	36	387	-7.42	1,863	0.43	2,574	-1.57	53	37	10	0	
25	Aprio*	Atlanta	Richard Kopelman	Dec	420.79	32.32	24	185	24.16	1,212	17.67	1,775	20.09	22	59	9	10	
26	PKF O'Connor Davies	New York City	Kevin Keane	Dec	380.00	12.76	18	243	12.50	1,210	12.04	1,713	12.25	43	23	26	8	
27	Sikich	Chicago	Christopher Geler	Dec	363.77	14.97	17	139	13.01	1,277	7.58	1,631	7.87	25	16	56	3	
28	Horne	Ridgeland, Miss.	Neil Forbes	Dec	361.89	-7.02	18	35	6.06	1,762	-8.94	1,874	-9.07	NA	NA	NA	NA	
29	UHY <sup>5</sup>	Farmington Hills, Mich.	Steven McCarty	Dec	349.70	13.76	34	156	27.87	1,161	20.06	1,612	13.60	38	41	21	0	

## APS structure and characteristics



# Potential benefits

## Why are PE investors interested in accounting firms?

- Stability of CPA firms
- Private equity has history of investing in wide range of industries, including professional services
- Low risk return on investment

## Why are accounting firms interested in PE?

- Capital for innovation, technology, talent retention
- Growth potential
- Resources
- Succession planning (small firms)

# Areas of potential risk

Public interest principle

Independence

Conflicts of interest

Branding / advertising and confusion related to which entity performs a service

CPA designation and reputation

Quality management and peer review

Governance/ ownership/ operations/ compensation

Administrative services agreement, implementation

PE exit strategy



# Pre-transaction considerations and risk mitigation

Consultation with legal counsel, OCA/SEC/PCAOB/AICPA staff, state regulators and others

Responsibility for professional liability insurance

Independence education for members and PE investor

Formulation and operation of robust Administrative Services Agreement

Establishment of an independence framework and monitoring procedures

Clear disclosures regarding firm licensure, etc

Separation of decision-making authority, including compensation determination

Implementation of internal committee to review perceived conflicts



# Examples of controls firms have in place

1

Updated policies, procedures and guidance reflecting the APS transaction with the PE investor

2

Periodic confirmations of compliance with applicable *independence* requirements by the PE investor and individuals associated with the investor

3

Monitoring and performing conflict checks on new nonattest entity lenders

4

Sharing of relevant information between the attest *firm* and PE investor to monitor *independence*

5

Monitoring applicable entities within the PE structure in the *firm's* database and inclusion of such entities in conflict checks for prospective client engagements

6

Robust administrative services agreements that address the provision of sufficient future resources to the attest *firm*

# Why change the extant code?

---

## **Evolving investment structures**

The extant code depicts a controlling investment in the nonattest entity and all subsidiaries are controlled

---

## **Network and Network Firms interpretation**

This interpretation was not developed until after APS. The extant code permits the nonattest entity to perform prohibited nonattest services to attest clients

---

## **Covered member definition**

This definition was not added to the code until after APS

---

## **Terms such as “direct” and “indirect” superiors and “other public company entities”**

These terms do not apply the same way due to the advent of the covered member definition and evolution of structures

# PEEC's comprehensive process promotes one set of rules

Proposed guidance will address all areas of the code

Authoritative and nonauthoritative guidance processes are responsive to change

Centralized approach ensures consistency and uniformity across the profession

One cohesive and reliable set of rules promotes compliance

PEEC's task force includes state board and state society representation

PEEC's outreach and analysis incorporates many subject matter experts and stakeholders

Guidance will address APS broadly and those with PE

One framework is in the best interest of the public

# PEEC's APS task force activities

Discussion memorandum for public comment:

Potential Revisions to the AICPA Code of Professional Conduct and Guidance Related to Independence in Alternative Practice Structures

**Comments due by June 15<sup>th</sup> [www.aicpa.org/peecprojects](http://www.aicpa.org/peecprojects)**

# Potential New Terminology

**Investor** - individual or entity that invests in, and has at least significant influence over, the nonattest entity

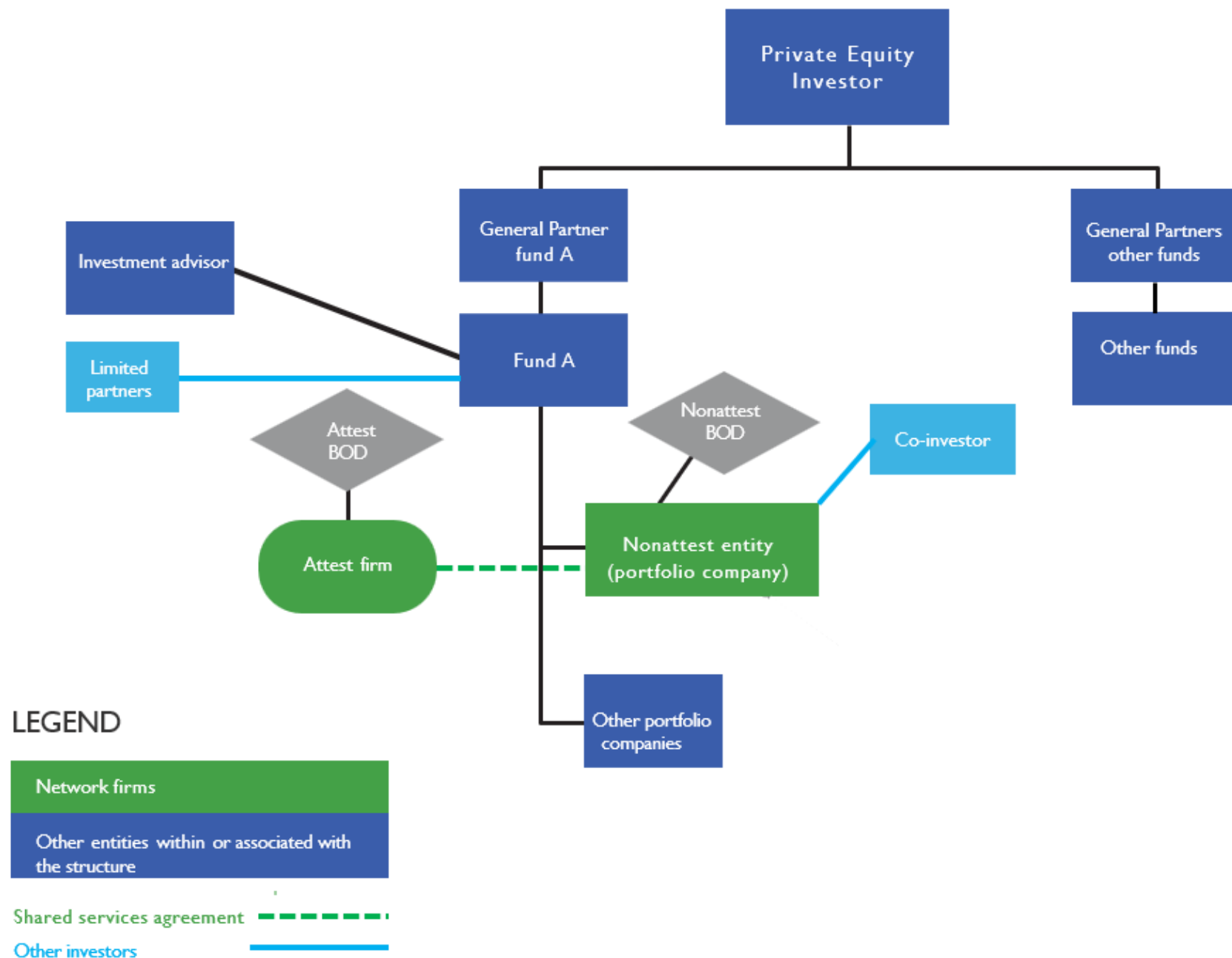
**Significant influence investment** - investor has significant influence over the nonattest entity but not control

**Controlling investment** - investor has control over the nonattest entity

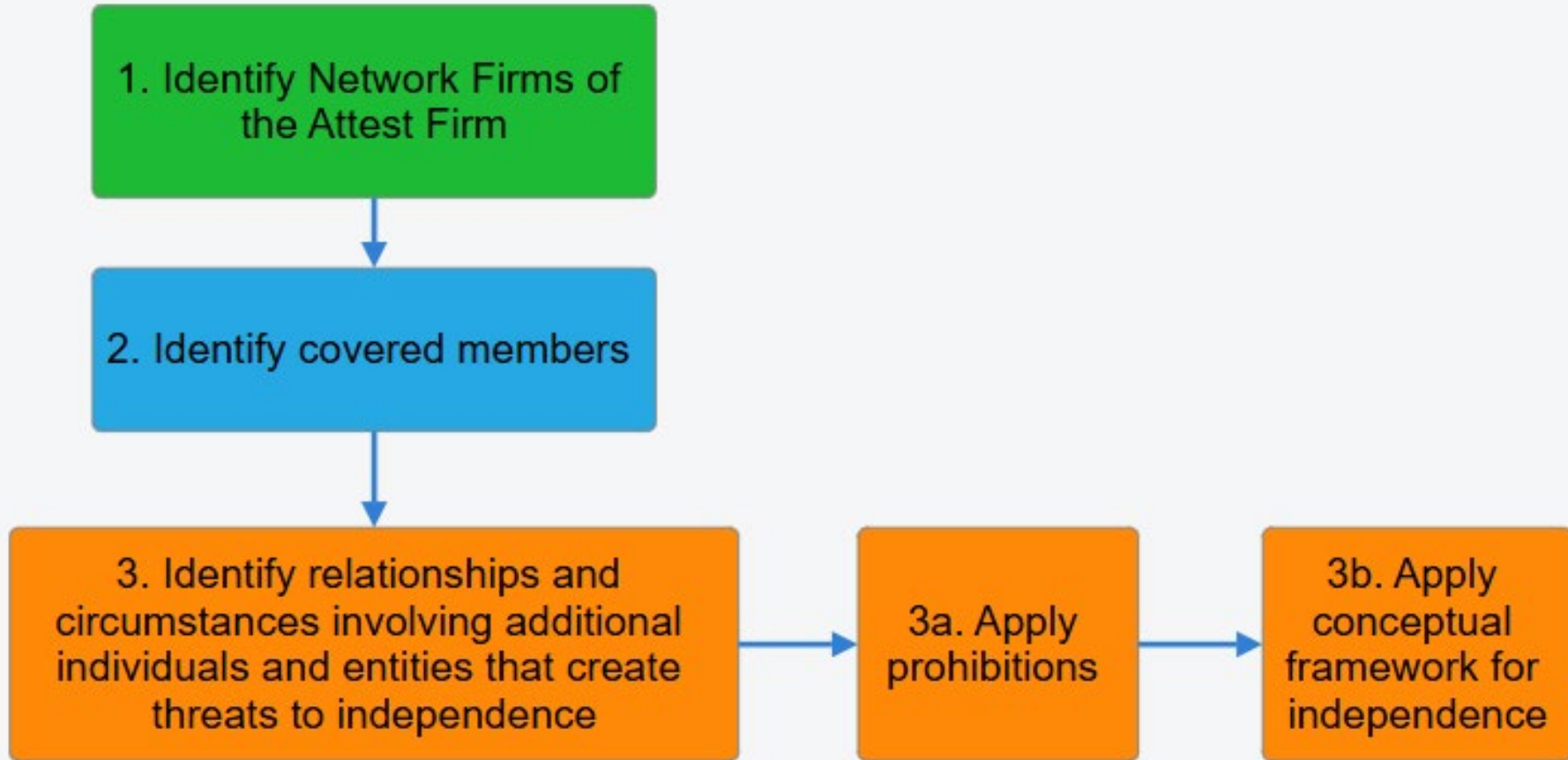
**Co-investor** - individual or entity that invests in, but does not have significant influence or control over, the nonattest entity

**Key stakeholders of the investor** are individuals who represent the investor and may include owners, managing partners, founders, or principals

# APS with a private equity investment



## Three steps to evaluate independence in an APS



If a prohibited relationship exists, independence is impaired.

# Step 1: Identify network firms of the attest firm

## Attest firm and nonattest entity are network firms

- cooperate to enhance the firms' capabilities to provide professional services and
- share one or more characteristics in 1.220.010 (e.g., significant professional resources, common brand name)

## Nonattest entity (and entities it controls) should be independent of financial statement audit and review clients of the attest firm

- For other attest clients, apply the “Conceptual Framework for Independence”

## Investor, its funds, and other investees (e.g., portfolio companies) generally not network firms of the attest firm

- Do not generally cooperate with the attest firm for the purpose of enhancing their capabilities to provide professional services

## When evaluating a potential network firm relationship, attest firm makes determination based on the relationship of the entity with the attest firm

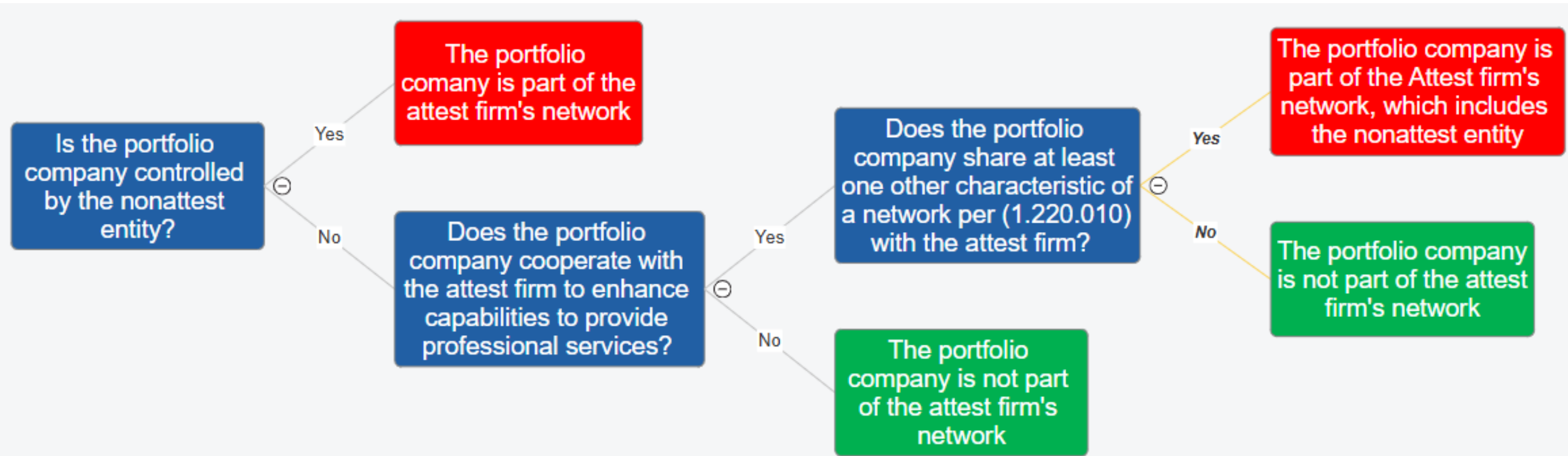
- For example, entities under common control with nonattest entity would not be considered network firms of the attest firm since not under common control with the attest firm

Network firms comply with the “Network and Network Firms” interpretation (ET sec. 1.220.010)



# Step 1: Identify network firms of the attest firm

Example: Attest firm determines whether a portfolio company is in the attest firm's network



## Step 2: Identify covered members in the APS

### **Covered member**

- On attest engagement team
- In a position to influence attest engagement
- Partner or equivalent, manager who provided 10 or more hours nonattest services to an attest client
- Partner or equivalent in office of lead attest engagement partner
- Firm, including firm's EBP
- Entity whose operating, financial, or accounting policies can be controlled by any of the above

### **Individual in a position to influence the attest engagement**

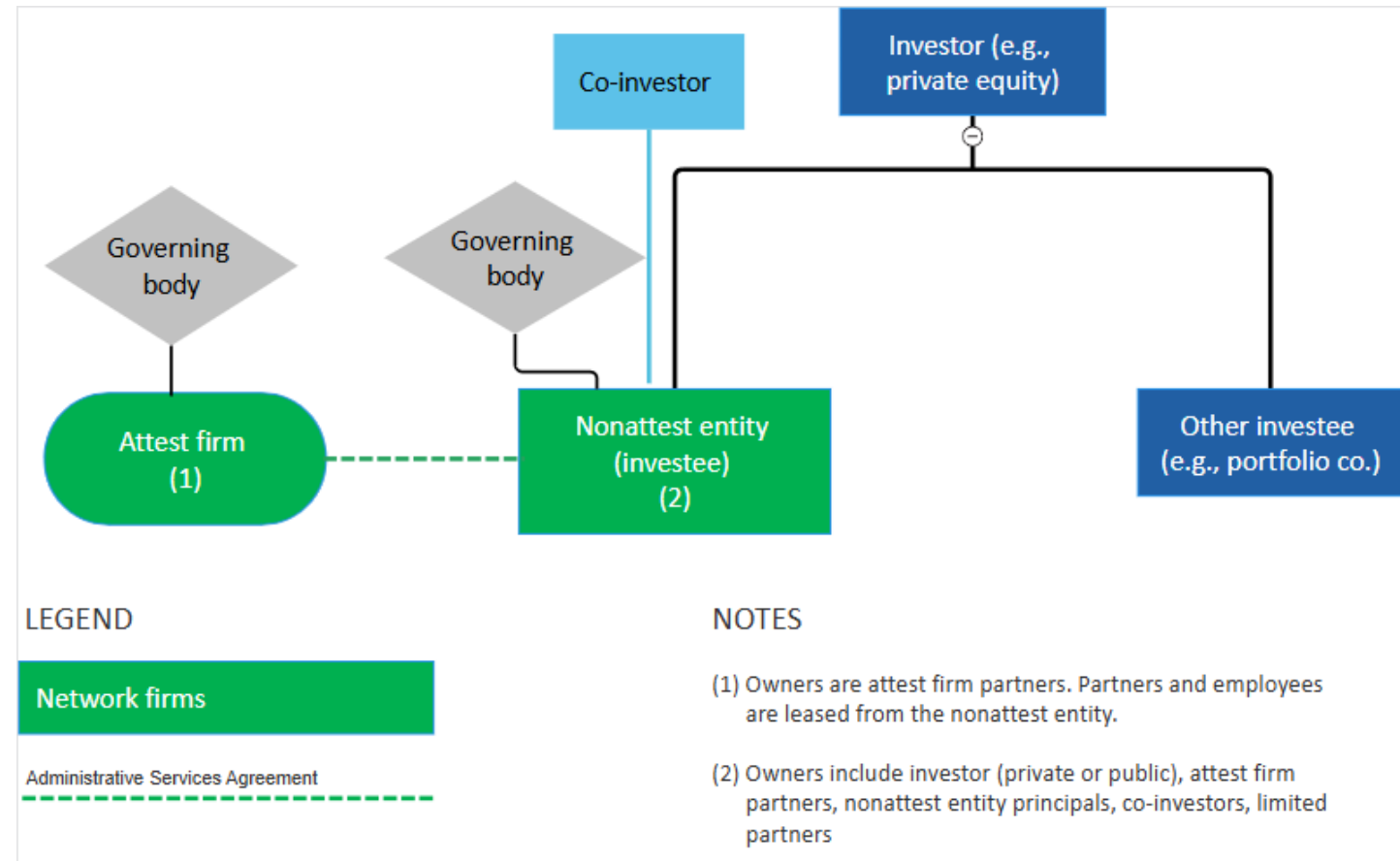
- Evaluates performance or recommends compensation of attest engagement partner
- Directly supervises or manages attest engagement partner (through CEO)
- Consults with attest engagement team on technical or industry issues specific to attest engagement
- Participates in or oversees QM with respect to the attest engagement

## Step 2: Identify covered members in the APS

Regular covered member evaluations in the attest firm and nonattest entity (network firms)

CEO of nonattest entity because attest partners are employees in the nonattest entity

Nonattest entity board members who have authority to make compensation decisions for attest partners on an individual level



# Step 3a

Table 1: Relationships	Significant influence investment	Controlling Investment
<b>1. Individuals serving in a key position at attest client</b>		
a. Nonattest entity board members	Prohibited	Prohibited
b. General partner of the fund that holds the investment in the nonattest entity	Prohibited	Prohibited
c. Key stakeholders of the investor	Prohibited	Prohibited
<b>2. Attest firm providing any attest service</b>		
a. Investor (e.g., PE investor)	Prohibited	Prohibited
b. General partner of the fund that holds the investment in the nonattest entity	Prohibited	Prohibited
c. Fund that holds the investment in the nonattest entity and other funds advised by the same Registered Investment Advisor (RIA) or investment advisor	Prohibited	Prohibited
d. RIA, investment advisor, investment management company, or fund manager of the fund that holds the investment in the nonattest entity	Prohibited	Prohibited
e. Co-investor	Prohibited	Prohibited
<b>3. Attest firm providing a financial statement attest service</b>		
a. An entity that invests in the investor when the entity has <i>significant influence</i> over the investor and the investment is material to the entity. If the investor is PE, an entity includes a limited partner (LP) of the fund that holds the investment in the nonattest entity if the LP interest allows the LP to exercise <i>significant influence</i> over the fund and is material to LP.	Prohibited	Prohibited
b. Investee of the investor when the investor either <i>controls</i> the investee, or has <i>significant influence</i> over the investee and the investee is material to the investor. If the investor is PE, this applies to investees (e.g., portfolio companies) in the same fund as the nonattest entity that the investor <i>controls</i> , or that the investor has <i>significant influence</i> over and is material to the fund.	Apply the "Conceptual Framework for Independence" to determine if <i>threats</i> are at an <i>acceptable level</i>	Prohibited* *To determine if the <i>attest engagement</i> can be completed when 1) the <i>attest client</i> is being acquired by the investor, refer to the acquisition guidance in the "Client Affiliates" interpretation [1.224.010], or 2) when the <i>attest firm</i> acquires another <i>firm</i> that is providing <i>financial statement attest services</i> to a portfolio company, apply the "Conceptual Framework for Independence."

## Step 3b Conceptual Framework for Independence

Other relationships and circumstances that may create threats to independence include:

- Attest firm is determining if it can provide an attest service to an entity associated with the APS that is not expressly prohibited
- Attest firm knows or has reason to believe a co-investor is providing a nonattest service to an attest client of the attest firm that would impair independence if performed by the attest firm
- Attest firm is aware of a financial, employment, or business relationship between the attest client and any of the following individuals
  - Nonattest entity board members who are not covered members
  - Nonattest entity senior leadership
  - General partner of the fund that holds the investment in the nonattest entity
  - Key stakeholders of the investor
  - Co-investors in the nonattest entity

The task force believes that monitoring for these relationships should not be required, but if the attest firm becomes aware of a relationship, it should be evaluated.

# Attest firm is aware of a financial relationship between an attest client and a key stakeholder of the investor

## **Factors to consider when evaluating the significance of threats**

- Nature of the attest service and level of assurance
  - Whether the relationship gives the individual significant influence over the attest client
  - The nature of the relationship and whether it is material or significant to the individual or attest client
  - Whether the relationship is with the attest client, an affiliate, or an individual associated with the attest client
  - Whether the relationship was entered into based on market terms or established at arm's length
  - The duration of the relationship and whether it exists during the period of the professional engagement
  - Whether the subject matter of the relationship will be subject to attest procedures or financial statement disclosures
  - Whether the attest client represents a large portion of total fees of the attest firm
- Aware means knows or has reason to believe
  - Factors are the same in a significant influence or controlling investment

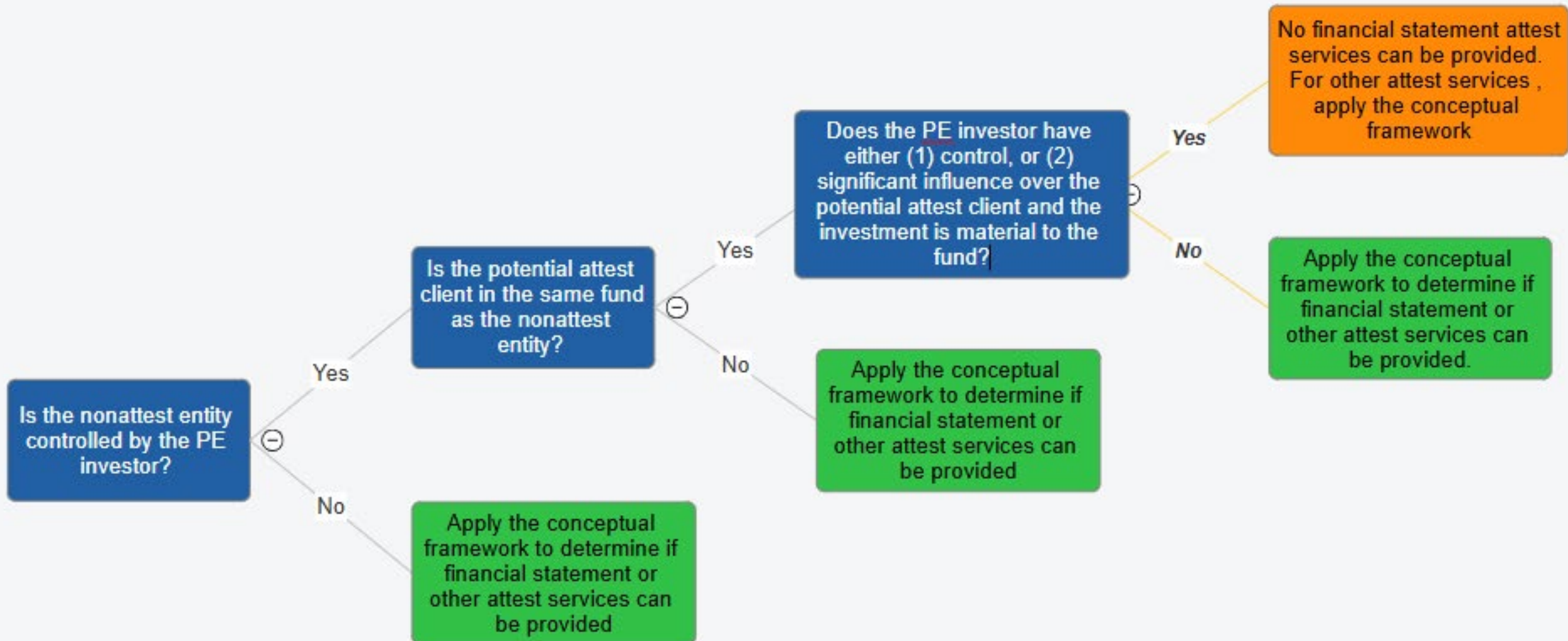
# Attest firm is aware of a financial relationship between an attest client and a key stakeholder of the investor (cont.)

## **Possible safeguards**

- Individual recuses him or herself from discussions that involve the specific attest client
- Individual terminates the relationship with the attest client or sufficiently limits their relationship to reduce threats to an acceptable level
- Attest firm implements monitoring procedures for the percentage of ownership and the materiality to the individual(s), including acquiring affirmations
- Attest firm implements procedures to monitor the individual's relationship with the attest client and reevaluates threats if any changes occur
- Involvement of another professional accountant who
  - reviews the attest work that was performed by the attest engagement team for the attest client (or reviews a draft of the attest report prior to issuance) or
  - otherwise advises the attest engagement team. This individual could be someone from outside the firm or someone from within the firm who is not otherwise associated with the attest engagement



# Attest firm is determining if it can provide an attest service to a portfolio company in an APS with PE





## Relationship that generally does not create threats to independence: Other investees providing nonattest services to attest clients

**Other investees of the investor (e.g., 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**

**Board crossover when a board member of the nonattest entity also serves on the board of another investee of the investor (e.g., portfolio company), and that investee may be providing nonattest services to an attest client of the attest firm that would impair independence if performed by the attest firm**

## Example: portfolio company providing nonattest services to an attest client

- A CPA firm splits into an attest firm and nonattest entity (Attest Firm A and Nonattest entity A).
- A PE investor could own the majority of the Nonattest Entity A
- Nonattest Entity A leases staff under an ASA to Attest Firm A
- PE investor controls four other similar nonattest entities (Nonattest Entities B,C,D,E) with similar structures so that there are also Attest Firms B,C,D,E
- Attest Firms B,C,D,E and Nonattest Entities B,C,D,E do not meet the criteria to be called “Network Firms” of Attest Firm A
- Attest Firm A undertakes an audit engagement for client Zeta
- Nonattest Entities B,C,D,E would be permitted to provide nonattest services to client Zeta that would impair independence if performed by Attest Firm A or Nonattest Entity A

# Options for guidance

ASPECT	OPTION 1	OPTION 2
Scope of authoritative guidance	"Alternative Practice Structures" interpretation (ET sec. 1.220.020) that addresses APS broadly and includes guidance using an APS with PE as an example.	"Alternative Practice Structures" interpretation (ET sec. 1.220.020) that addresses APS broadly and does <b>not</b> include guidance using an APS with PE as an example.
Scope of nonauthoritative guidance	Additional nonauthoritative guidance will be developed as necessary.	Nonauthoritative guidance includes practice aids and examples specific to an APS with PE. Other nonauthoritative guidance will be developed as necessary.

Discussion memorandum presents examples of both options and asks respondents which would be more effective and operational



## Q&A

# Contact information

## Anna Dourdourekas

*Professional Ethics Executive Committee chair*

*PEEC APS task force Co-chair*

*Partner, Audit and Assurance, Grant Thornton LLP*

*Principal, Grant Thornton Advisors LLC*

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## Joan Farris

*Manager, Professional Ethics Division AICPA | Durham, NC*

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# Thank you

# WASHINGTON STATE BOARD OF ACCOUNTANCY

## Unapproved Draft - Minutes of a Meeting of the Board – Unapproved Draft

<b>Time and Place of Meeting</b>	9:00 a.m. – 12:14 p.m. Friday, January 31, 2025 Radisson Hotel Seattle Airport San Juan Rooms 2&3 18118 International Blvd Seattle, WA 98188 or by Microsoft Teams Meeting
<b>Attendance</b>	<u>Board Members</u> Tonia L. Campbell, CPA, Chair Thomas P. Sawatzki, CPA, Vice Chair Brooke Stegmeier, CPA, Secretary Brian R. Thomas, CPA Kate Dixon, Public Member Scott S. Newman, Public Member (not present between 11:00 - 11:45 a.m. – excused) Cindy Kay, CPA  <u>Staff and Advisors</u> Jennifer Sciba, Acting Director Lisa Petersen, Assistant Attorney General, Board Advisor Taylor Shahon, CPA, Lead Investigator Kirsten Donovan, Board Clerk Tia Landry, Data and Systems Administrator  The absence of Rajib Doogar, Public Member, was excused.
<b>Call to Order – Board Meeting</b>	Board Chair, Tonia Campbell, CPA, called the meeting to order at 9:00 a.m. Board Members, Board staff, and legal counsel introduced themselves.
<b>Public Rule-Making Hearing</b>	The Board held a public rule-making hearing from 9:02 a.m. to 9:09 a.m. with the Board Chair presiding. The Board proposed adopting one new rule and revising one rule.  <b><u>WAC 4-30-057 Restrictions on CPA-inactive and CPA-retired. (New Rule)</u></b>  The new rule is intended to: <ul style="list-style-type: none"><li>• Provide guidance on CPA-inactive and CPA-retired allowable and prohibited activities.</li><li>• Provide guidance on restricted title use.</li></ul> The Acting Director provided a summary of the proposed new rule.

No written comments were received.

Public input was received during the hearing from:

- Tom Neill, CPA, suggested that “professional” be added before services in the phrase “to perform or offer to perform services” in subsection (11).
- Mark Hugh, CPA, agreed with Tom’s suggestion.

**WAC 4-30-058 Other authorized titles.**

The proposed changes:

- Remove subsection (6) related to the use of the CPA-retired designation, as this information is included in the proposed new rule, WAC 4-30-057.

The Acting Director provided a summary of the proposed changes.

No written comments were received, and no public input was received during the hearing.

**Call to Order –  
Board Meeting**

Board Chair, Tonia Campbell, CPA, called the regular Board meeting back to order at 9:09 a.m.

**Rules Review**

**Board Deliberation on Proposed Rules Considered at the Public Rule-making Hearing**

- **WAC 4-30-057 Restrictions on CPA-inactive and CPA-retired. (New Rule)**

The Board voted unanimously to adopt the rule with one minor change. The word “professional” will be added before services in the phrase “to perform or offer to perform services” in subsection (11).

The Board voted for an effective date of 31 days after filing.

- **WAC 4-30-058 Other authorized titles.**

The Board voted unanimously to adopt the rule as written.

The Board voted for an effective date of 31 days after filing.



Semi-annual Rules Development Agenda – January through June 2025

The Acting Director presented the Semi-annual Rules Development Agenda filed with the Office of the Code Reviser.

Rules Under Initial Review

- **WAC 4-30-090 Practice privileges.**

The Acting Director provided a summary of the proposed rule changes which update and clarify out-of-state individuals qualifying for practice privileges. The changes allow for individuals licensed in other U.S. jurisdictions under additional pathways for licensure to qualify for practice privileges in our state.

Much of the discussion centered around subsection (1)(b): “At the time of licensure, was required to show evidence of having obtained at least a minimum of a baccalaureate degree, passed the Uniform CPA Exam, and has at least one year of experience.”

Discussion points included:

- Adding “relevant” to the experience component, as it may be too broad as written.
- Other states’ legislation seems to be most concerned with the bachelor’s degree and CPA Exam components and less concerned with the experience component.
- Adding an accounting concentration to the education component.
- AICPA Section 5 concerns initial licensure while Section 23 concerns practice privilege and mobility. Section 23 presumes the CPA meets section 5 requirements for licensure.
- Preferred broad base oversight – less restriction allowing for more open practice privileges. Perhaps subsection (1)(b) isn’t needed at all.
- Subsection (1)(b) is a “guardrail” section which safeguards against another Board adopting legislation which would be contrary to our public protection mission.
- Once the changes have been implemented, the rule may have to be revisited again within the next 5 years or so after other jurisdictions have completed legislation for additional pathways to licensure.

- The Licensing and Regulation Committee (LARC) will be working on possible additional pathways to licensure for Washington.

After extensive discussion, the Board directed staff to file the CR-102 as written for the rule proposal and to schedule a public rule-making hearing in conjunction with the Board's April meeting.

**Washington  
State Executive  
Ethics Board –  
Board Member  
Training**

Kate Reynolds, Executive Director, Washington State Executive Ethics Board, conducted training on the Ethics in Public Service Act (RCW 42.52) and answered questions throughout the training. The training included:

- The Ethics in Public Service Act holds state employees accountable to the public for:
  - Access to confidential information.
  - Use of equipment and technology.
  - Use of time.
  - Use of position.
- The Washington State Executive Ethics Board functions include:
  - Advisory opinions.
  - Policy review.
  - Enforcement component.
  - Training.
- Complaints and the resulting investigations are primarily received from:
  - The public.
  - Agency referrals.
  - The State Auditor's Office Whistleblower Program.
  - Coworkers.
- Conflicts of interest – These arise when what you do in your private life overlaps with your state duties. Conflicts of interest may arise from:
  - Private business transactions.
  - Volunteer activities.
  - Professional and personal activities.
- Manage a potential conflict of interest early – don't wait until you have already completed the action – using the following measures:
  - Disclose the potential conflict of interest to the appropriate individuals for advice.
  - Abstain from actions where a conflict of interest exists.
  - Prepare a screening memo outlining the plan to address the conflict (ex. will not vote on an order,

- will not participate in vendor selection for a contract, etc.).
  - Follow agency procedures and policies.
  - Review the Washington State Executive Ethics Board's Model Rules, Advisory Opinions 96-09 and 96-09A for assistance with appropriate actions or strategies.
- Special Privileges – You may not use your state position to secure special privileges or to grant exemptions to benefit yourself, family members, and other persons. This includes but is not limited to:
  - Hiring situations.
  - Access to information.
  - State funding.
- Records – Confidential information obtained through your job duties and position cannot be:
  - Disclosed to an unauthorized person.
  - Used for personal or private benefit.
  - Withheld when the information should be disclosed – this is for public records requests.
- Gifts – defined as anything of economic value.
  - The gift rule prohibits accepting anything with a \$50 value or a \$20 value if working with federal funds.
  - Exceptions to the gift rule include:
    - Items from family members.
    - Promotional items.
    - Gifts between coworkers.
    - Tokens of appreciation or wall plaques/desk items.
    - Food at a hosted reception.
  - Section 4 employee determination is through the following:
    - You are employed by a regulatory agency.
    - Your agency regulates or contracts with the person giving the gift.
    - You participated in regulatory or contractual matters with that person.
  - Section 4 employees:
    - May accept promotional items, tokens of appreciation, and food at hosted receptions.
    - Cannot accept travel expenses, plants or flowers, or food and beverages.
- Use of State Resources – Requirements when the use is not for official job duties:
  - Must be of little or no cost to the state.
  - Must not interfere with job duties.

- Use must be brief and infrequent.
- Must not support your private business.
- Must not support an outside organization.
- Must not compromise the security or integrity of state property, information, or software.
- Must not be for political use.
  - Do not use state resources, including time.
  - Do not use title or position for political campaigns unless you use a disclaimer.
- Contact information for the Executive Ethics Board staff was provided for any questions that may come up in the future.

The Acting Director thanked Kate Reynolds for her time and the training.

**Minutes –  
October 18,  
2024, Annual  
Board Meeting**

The Board approved the minutes of the October 18, 2024, Annual Board meeting with one edit which changed “CPA” to “Public Member” on page 1 in the Call to Order section.

The Board Members attending virtually authorized the use of their electronic signatures for the signing of the meeting minutes.

**Delegations of  
Authority**

The Executive Committee and Board staff reviewed the delegations for possible revisions. All approved delegations were revised for the Board Chair’s name, signature, and signature date.

The Board unanimously approved the following delegations for 2025.

- **DA-001 Investigations, Subpoenas, Charges, Emergency Action, and Settlement Negotiations**

Revisions included:

- Removing “CPA-inactive certificate holder” throughout, as that credential has been retired.
- Rewording section (g) to reflect previous changes to referenced Board Policy 2004-1.

- **DA-002 Request Oversight and Appeal of Denials**

Revisions included:

- Removing “CPA-inactive certificate holder” throughout, as that credential has been retired.

- **DA-004 CR-101 Filing**

No revisions were made to the delegation.

The Board unanimously voted to revoke the following delegation for 2025.

- DA-003 Quality Assurance Oversight

The delegation is no longer needed, as Board Policy 2020-1, Peer Review, outlines the peer review process.

**Chair’s Report**

The Board Chair thanked Kate Dixon for her service in the Board Chair position last year. She appreciated her leadership and collaborative spirit.

She also thanked Mark Hugh, CPA, for his service to the Board which ended December 31, 2024. The Acting Director presented an appreciation plaque to Mark.

The Acting Director and Board Members echoed the Board Chair’s sentiments to both Kate and Mark.

**NASBA Update**

The Acting Director provided an update on NASBA activities.

Upcoming NASBA Conference Dates

- Executive Director/Legal Conference – March 25-27 – Clearwater Beach, FL
- Western Regional Meeting – June 17-19 – New Orleans, LA
- Eastern Regional Meeting – June 24-26 – Philadelphia, PA
- 118<sup>th</sup> Annual Meeting – October 26-29 – Chicago, IL

The Acting Director will be attending the Executive Director/Legal Conference in March.

AICPA/NASBA UAA Exposure Draft Update

The Acting Director provided background for the proposed changes.

- Section 5 draft changes regard a competency-based experience pathway to licensure.
- Section 23 draft changes focus on substantial equivalency for jurisdictions with additional pathways to licensure.

The Acting Director asked Tom Neill, CPA, Uniform Accountancy Act (UAA) Committee Chair for the AICPA, to report on the committee's activities. Tom advised:

- The UAA Committee is comprised of 10 members – 5 from NASBA and 5 from the AICPA.
- The drafting process was contentious with NASBA and the AICPA at odds.
- Over 190 comment letters were received during the comment period – most of the opposition expressed was related to:
  - The inclusion of NASBA and NQAS references in Section 23.
  - The “competency” based experience model in Section 5.
- No draft language for re-exposure is available currently.

Kimberly Scott, President & CEO, WSCPA, advised the Board:

- 36 states currently have already or are going to advance legislation for additional pathways to licensure and/or practice privilege/automatic mobility.
- NASBA is opposed to automatic mobility.
- NASBA wants their experience program included in the UAA language.
- In conversations with CPAs, she and Tom have found that the majority are in favor of additional pathways to licensure, but there is some pushback.

The Acting Director stated education requirement terminology seems to be moving away from credit hours to degrees earned.

#### Qualifications for Licensure

The Acting Director reported on the national shift towards additional pathways to licensure. Potential pathways for the Board to consider include:

Pathway 1

1. Education requirement – Baccalaureate degree with an accounting concentration or equivalent that meets the education requirement specified in Board Rule.
2. Examination – Pass the Uniform CPA Examination.
3. Experience – Two years of experience consisting of a minimum of 24 months and 4,000 hours, which must be verified by an active CPA licensee who has held their license for a minimum of 5 years.

Pathway 2

1. Education requirement – Master's degree, which includes the accounting education requirements specified in Board Rule.
2. Examination – Pass the Uniform CPA Examination.
3. Experience – One year of experience consisting of a minimum of 12 months and 2,000 hours, which must be verified by an active CPA licensee who has held their license for a minimum of 5 years.

Pathway 3 (current)

1. Education requirement – Baccalaureate degree with an accounting concentration or equivalent that meets the education requirement specified in Board Rule.
2. Additional college credits to reach 150 total credit hours.
3. Examination – Pass the Uniform CPA Examination.
4. Experience – One year of experience consisting of a minimum of 12 months and 2,000 hours, which must be verified by an active CPA licensee who has held their license for a minimum of 5 years.

The Licensing and Regulation Committee (LARC) will be reviewing the pathways above, which may have changes, and potential rule changes.

**Legal Counsel's Report**

Lisa Petersen, AAG, Board legal counsel, had nothing to report.

**Executive Committee**

The Chair reported that the committee met and discussed the Board meeting agenda.

**Peer Review Oversight Committee (PROC)**

The Acting Director reported:

- The committee had a heavy workload this past year. She thanked the committee members for their hard work noting that next year's workload will be lighter.

- Robert Loe has rolled off the committee. The Acting Director noted that he will be missed and thanked him for his service to the Board over many years.
- The committee focus for this year will be failed peer review reports.

**Request  
Oversight  
Committee  
(ROC)**

Brian Thomas reported on the approval and denials from the committee for the 4th quarter of 2024:

Approved Firm Names:

Counting Consultants, Inc  
BLACKWATER OAK, P.S.  
Bilotta & Company, CPAs, LLC.  
Hargrave & Associates, PLLC  
Basin Tax & Accounting PLLC  
Larson Gross Assurance PLLC

Professional/Educational Organization – Recognition Requests:

During the 4th quarter of 2024, the Board did not receive any requests for recognition as an educational organization for purposes of obtaining list requests.

**Scholarship  
Oversight  
Committee  
(SOC)**

Cindy Kay presented the following:

- Accounting of Receipts and Disbursements WSCPA Scholarship Program for the Program Year Ending September 30, 2024, report.
- Scholarship recipient listing.
- Washington CPA Foundation Portfolio Management Program – September 2024, investment report.

Kimberly Scott, WSCPA President and CEO, stated approximately 300-350 applicants begin the application process with about 200 finished applications in the end.

The Board Members thanked Kimberly Scott for the informative investment report and for her work with the program.

**Board/AICPA  
Rules  
Committee  
(BARC)**

Brooke Stegmeier reported the BARC committee work for the quarter consisted of a rule change review of WAC 4-30-090, Practice privileges, covered earlier in the meeting.



**Licensing and  
Regulation  
Committee  
(LARC)**

Kate Dixon reported:

- The 3 pathways presented earlier in the meeting are a good starting point for committee discussions.
- The first committee meeting will be in February with discussions including:
  - The objectives of the State of Washington.
  - Consideration for unique approaches from other jurisdictions.
- Kate requested that non-LARC committee Board Members submit feedback for LARC consideration.

**Acting Director's  
Report**

The Acting Director reported on the following:

Budget Status

- The state deficit is between \$10-12 billion.
- Governor Bob Ferguson is requiring agencies to cut 6% of expenditures, which includes 50% of out-of-state travel and 25% of in-state travel.
- The agency is already running very lean – first cuts will come from travel and training.
- NASBA participation is important but must be reduced due to the travel reduction requirements.

Board Meeting Location Update

The Acting Director reported:

- The July and October Board meetings will now be held virtually only. Board Members and staff will all be attending through Teams meeting.
- The agency is required to provide a space to view the Teams meeting for those who are unable to attend virtually. The Board office conference room will be made available.

Accountability Audit Results Report

The Acting Director presented the Office of the Washington State Auditor Accountability Audit Report for the State Board of Accountancy for period July 1, 2020, through June 30, 2024. The Acting Director reported:

- The audit results were good.
- Specific audited items were:
  - Accounts receivable with a focus on late fee

waivers.

- CPE monitoring.
- Payroll and leave buyouts.
- Accounts payable.

## **Enforcement Report**

### Enforcement Reports:

Taylor Shahon, CPA, Lead Investigator, presented the January 2025 enforcement reports:

- Quarterly Report – October 1, 2024, through December 31, 2024
- Twelve-Month Lookback – January 1, 2024, through December 31, 2024
- All Complaints – Resolved with or without discipline for periods January 2024 through December 2024 and January 2023 through December 2023
- CBM Report – October 1, 2024, through December 31, 2024

Taylor thanked all Board Members serving as consulting Board Members (CBMs) and reported on the following enforcement activities:

- Everything is running smoothly in enforcement with a fair number of cases wrapped up. The current caseload stands at 17 open cases.
- The bigger cases have been completed recently.
- Recent complaints have been primarily for non-responsiveness and using the title with a lapsed license.

Kate Dixon asked Taylor about trends or his thoughts related to artificial intelligence (AI). So far, the Board has not seen any complaints in this area, but he would not be surprised to see complaints in the future. CPAs uploading clients' information into an AI tool with no protection may result in privacy/confidentiality complaints, as the information may be publicly available.

## **Executive and/or Closed Session with Legal Counsel**

No executive or closed sessions were held.

**Public Input**

The Board received public input from:

Sarah Funk thanked the Acting Director and the LARC for their work in modernizing CPA licensure requirements. Sarah also mentioned that she recently went through a CPE audit, and the Board staff was very helpful, and the CPE Tracker was easy to use.

**Adjournment**

The Board meeting adjourned at 12:14 p.m.

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Board Member

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# Washington State Board of Accountancy

**Policy Number:** 2003-1

**Title:** Safe Harbor Report Language for Use by Non-CPAs

**Revised:** July 19, 2024

**Approved:** \_\_\_\_\_  
Kate Dixon, Chair

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## Purpose:

RCW 18.04.345 (9) (c) states that persons or firms composed of persons not holding a license under RCW 18.04.215 (i.e., non-CPAs) may offer or render certain services to the public, including the preparation of financial statements and written statements describing how such financial statements were prepared, provided they do not:

- Designate any written statement as an “audit report,” “review report,” or “compilation report,”
- Issue any written statement which purports to express or disclaim an opinion on financial statements which have been audited, and
- Issue any written statement which expresses assurance on financial statements which have been reviewed.

The Board has approved two alternatives as “safe harbor” report language for use by non-CPAs. Non-CPAs may use the language in the following paragraphs without challenge by the Board as a violation of RCW 18.04.345. The words “audited,” “reviewed,” “compiled,” or “compilation” may not be inserted or substituted for the language found in the letters.

Licensees with an inactive status are prohibited from the practice of public accounting, and therefore are prohibited from using the safe harbor report language concurrent with the CPA-inactive title.

**Safe harbor report language Sample #1:**

The accompanying balance sheet of ABC Company, as of December 31, 2024 and related statement of income for the year then ended have been prepared by me (us).

These statements have been prepared from information furnished by management (owner), and accordingly, I do not express any assurance on them.

**Safe harbor report language Sample #2:**

The accompanying balance sheet of ABC Company, as of December 31, 2024, and related statement of income for the year then ended have been prepared by me (us).

My engagement was limited to presenting in the form of financial statements information that is the representation of management (owner), and accordingly, I do not express any assurance on them.

Effective: January 31, 2003

Revised: July 19, 2024; October 17, 2013



# Washington State Board of Accountancy

**Policy Number:** 2004-1

**Title:** Administrative Violations Delegation  
and Process for Remedial Resolution

**Revised:** October 18, 2024

**Approved:** \_\_\_\_\_  
Kate Dixon, Chair

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## **Purpose:**

The purpose of this policy is to authorize the Washington State Board of Accountancy's (Board) Executive Director to resolve certain violations through a Remedial Resolution process which might result in a voluntary settlement without further review by the Board.

## **Authority and Delegation:**

The Board delegates to the Executive Director the authority to negotiate Remedial Resolutions for the administrative violations listed in Table 1. The Board does not intend this process to be mandatory; nor does the Board wish to exclude or limit other sanctions or considerations in other disciplinary actions.

## **Guiding Principles:**

This policy will be used when the Executive Director has sufficient evidence of an administrative violation. The policy only applies to first-time administrative violations; repeat or non-administrative violations shall be subject to the Board's formal disciplinary process. At any time, the respondent may refuse the Remedial Resolution and request Board review in accordance with the Administrative Procedure Act RCW 34.05.

A Remedial Resolution is an informal settlement between the Executive Director on behalf of the Board and the respondent and must be signed by both parties. The Executive Director will consider the facts and circumstances of each violation and negotiate resolution based upon Table 1. The maximum fines are listed in Table 1. As part of the Remedial Resolution, the Executive Director may recover investigative and legal costs. All terms must be satisfied within 30 days of service unless otherwise specified. Failure to comply with the terms may result in commencement of formal disciplinary action.

## **Table 1**

	<b><u>Administrative Violation:</u></b>	<b><u>Remedial Resolution Proposed Settlement Terms:</u></b>	<b><u>Citation(s)</u></b>
1.	First-time use of a restricted title with a lapsed credential.	<ul style="list-style-type: none"><li>• \$1,000 fine</li><li>• Cease use of title while not licensed</li></ul>	RCW 18.04.345
2.	Failure to obtain a firm license by a firm who offers or performs attest services or compilations.	<ul style="list-style-type: none"><li>• \$1,500 fine</li><li>• Completion of Board approved Washington State Ethics course</li><li>• Comply with requirements under RCW 18.04.195(1)(a)</li></ul>	RCW 18.04.195 (1)(a)
3.	First-time use of title(s) by an un-credentialed individual.	<ul style="list-style-type: none"><li>• \$2,000 fine</li></ul>	RCW 18.04.345
4.	Failure to provide records to clients when requested, so long as the failure does not result in client financial harm.	<ul style="list-style-type: none"><li>• \$2,000 fine</li><li>• Completion of Board approved Washington State Ethics course</li></ul>	WAC 4-30-052
5.	Failure to timely inform the Board of matters in compliance with WAC 4-30-030, or to respond to a request for administrative information or documentation.	<ul style="list-style-type: none"><li>• \$750 fine</li><li>• Completion of Board approved Washington State Ethics course</li></ul>	WAC 4-30-030

**Non-Administrative Violations:**

The Executive Director may pursue formal disciplinary action in accordance with the Administrative Procedures Act 34.05 RCW for these violations or any other misconduct that is not listed above.

Effective: October 29, 2004

\*Revised: October 18, 2024; April 24, 2020; July 28, 2017; October 24, 2014; April 23, 2013; April 26, 2012; April 25, 2011; October 17, 2008; April 28, 2006; January 28, 2005





# Washington State Board of Accountancy

**Policy Number:** 2015-1

**Title:** Board Member Travel and Attendance at Group Gatherings

**Adopted:** January 30, 2015

**Approved:** \_\_\_\_\_  
Donald F. Aubrey, CPA, Chair

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## Purpose:

To ensure the continuity of the Board's authority to take legal action in the event of unexpected travel challenges or other events while some or all Board members are in group travel status.

To ensure that no Board actions occur at social, business, or professional gatherings attended by a quorum of Board members.

## Policy:

Board members may periodically travel or congregate together at social, business, or professional meetings. A quorum of voting Board members is required for the Board to conduct its business.

It is the policy of this Board that:

1. No more than three Board members shall travel together in a common vehicle or on a common carrier to ensure that any required Board action would be legally binding in the event of unexpected travel challenges or other events while some or all Board members are in travel status and not present to vote.
2. The Open Public Meetings Act of this state is designed to promote transparency when boards and commissions conduct public business. Board business or recommended Board actions shall not be discussed as a group if a quorum or more of Board members attend social, business, or professional gatherings.



# Washington State Board of Accountancy

**Policy Number:** 2017-1

**Title:** Investigative and Disciplinary Processes

**Revised:** July 19, 2024

**Approved:** \_\_\_\_\_  
Kate Dixon, Chair

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## **Purpose:**

The purpose of this policy is to further define and make available the Washington State Board of Accountancy's (Board) investigative and disciplinary process against Washington State licensees, or persons holding out as certified public accountants (Respondents) as described in chapter 18.04 RCW.

## **Authority and Delegation:**

The Board's authority to conduct investigations and enforce administrative discipline derives from Chapter 18.04 RCW (Public Accountancy Act) and chapter 34.05 RCW (the Administrative Procedures Act). The Board has delegated the responsibility for conducting such investigations to the Executive Director per RCW 18.04.045(7) and WAC 4-30-140. The Executive Director may work with staff, a Consulting Board Member (CBM), a contractor, and the Prosecuting Assistant Attorney General during the enforcement process so that the Board members may remain impartial and objective in the event of an administrative hearing.

## **Guiding Principles:**

The Board seeks to resolve disciplinary cases in a fair and equitable manner, and recognizes that administrative hearings are costly, time consuming, and delay resolution. Therefore, the Board seeks to resolve most disciplinary cases through informal consent agreements in accordance with the Administrative Procedures Act. Furthermore, the Board seeks respondent participation in the development of settlements in order to encourage future compliance, foster professional development, and advance the profession.

## **Complaint Intake:**

The enforcement activities are driven primarily by complaints received from the public; however, the findings of federal, state, or other disciplinary entities may serve as the basis of a complaint with the Board. The Executive Director may also initiate an investigation following an observation of a potential violation.

**Approval and Review:**

As part of the ongoing investigative and disciplinary process, all complaints within the Board's jurisdiction are reviewed by a CBM. The CBM is recused from any Board vote.

–Consent agreements must be approved by a majority vote of the Board. If approved by the Board, the consent agreement becomes effective and binding once signed by the respondent and Board Chair or designee, and served upon the respondent.

**Complainant Recourse:**

The Board shall not reopen closed complaints. If a complainant disagrees with the closure of a complaint, they may submit a new complaint with new material evidence.

**Cost Recovery:**

The Board has the power to recover investigative and legal costs through the disciplinary process by RCW 18.04.295. Investigative and legal costs may include, but are not limited to: staff time, travel costs, costs associated with an administrative hearing, and cost of contractors.

Effective: July 28, 2017

Revised: July 19, 2024; April 24, 2020



# Washington State Board of Accountancy

**Policy Number:** 2017-2

**Title:** Publication and Disclosure of Disciplinary Actions

**~~Adopted~~ Revised:** ~~July 19~~ April 25, 2024

**Approved:** Kate Dixon Tonia L. Campbell, CPA,  
**Chair**

## **Purpose:**

The Washington State Board of Accountancy's (Board) purpose is, in part, to protect the public interest. -The Board is also required to comply with the Public Records Act Chapter 42.56 RCW. -To help achieve this purpose, the Board shall make accessible disciplinary actions taken by the Board.

## **Guiding Principles:**

All disciplinary actions taken by the Board shall be published through the Board's licensee search, and through the Board's newsletter in summary. -For the purposes of this policy, disciplinary actions may include, but are not limited to, board orders issued at an administrative hearing, default orders, negotiated consent agreements, and emergency temporary cease and desist orders.

All disciplinary actions are subject to the Public Records Act and may be provided in response to a request in accordance with WAC 4-30-024. -The Board shall post any public safety notices on its website immediately.

The Board shall maintain updated disciplinary data through the National Association of State Boards of Accountancy (NASBA), data.wa.gov, and the Board's website in order to provide current licensee information to the public. -NASBA maintains CPAverify.org to provide public access license statuses.

**Effective:** October 27, 2017

**Revised:** April 25, 2025; July 19, 2024



# Washington State Board of Accountancy

**Policy Number:** 2020-1

**Title:** Peer Review

**Revised:** July 19, 2024

**Approved:** \_\_\_\_\_  
**Kate Dixon, Chair**

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## **Purpose:**

The purpose of this policy is to clearly define the Board's process and procedures for interacting with licensed firms who are required under WAC 4-30-130 to undergo peer review and to report the results using the AICPA's Facilitated State Board Access (FSBA) database at the time of their firm license renewal.

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## **Guiding Principles:**

The Board believes remediation is the fundamental goal of peer review. In the majority of instances where deficiencies are discovered through the peer review process, corrective action and follow through by the Administering Entity (AE) and/or Review Acceptance Body (RAB) should be allowed to proceed.

In certain instances the Board may impose a practice restriction or other measures through its disciplinary process when deemed appropriate.

## **Process for Dropped or Terminated Firms:**

The AICPA notifies the state boards when an AICPA member has been dropped or terminated from the peer review program.

Board staff will access FSBA to routinely review the list of firms that have been dropped or terminated from peer review. Per WAC 4-30-130, licensed firms who have provided attest or compilation services and who have been dropped or terminated from peer review by the AICPA must notify the Board. Board staff will generate reports detailing dropped firms and follow up with firms that have not reported.

Firms that have been dropped or terminated from peer review, have not responded to a board inquiry per WAC 4-30-034, and remain out of compliance will be referred to the Board's disciplinary process.

## **Board Evaluation of the Results of Peer Review:**

One member of the Board's Peer Review Oversight Committee and the Executive Director (ED) will review all failed reports. Board staff will make all files available electronically for the Board member's review.

**Fails and/or Sequential Fails:**

If there is one instance of a fail, the Board member and ED will review the peer review report for unusual facts or troubling trends, especially if the prior peer review was a Pass with Deficiencies (PWD). Board staff will follow up to ensure that corrective action, as recommended by the AE/RAB, is completed by the firm.

If a firm has two sequential fail reports over two renewal periods, a Board member and ED will evaluate the two fail reports to determine if the same topic is at issue in both periods. If not, Board staff will follow up to ensure that corrective action, as recommended by the AE/RAB, is completed by the firm.

If the firm is dropped or terminated from the peer review program, the disciplinary process noted above will be undertaken. The Board will determine what action is appropriate under the circumstances. Options, beyond the corrective action, include but are not limited to the following:

- Required remedial training through Consent Agreement
- Practice restriction through Consent Agreement or Board Order
- Discipline including fine and/or firm license revocation through Consent Agreement or Board Order

Effective: January 31, 2020

Revised: July 19, 2024; April 28, 2023; April 24, 2020



NASBA

Exposure Draft  
Issued March 4, 2025

# Uniform Accountancy Act Eighth Edition - January 2018

Comments are due through [this form](#) by May 3, 2025.

## **Joint AICPA/NASBA UAA Committee Exposure**

Amendments to UAA Section 5: Education requirements to sit for the CPA Exam and education requirements for a certificate;  
UAA Section 23: Practice privileges for individual mobility.

Published jointly by the

American Institute of Certified Public Accountants  
1345 6th Avenue 27th Floor, New York, NY 10105

National Association of State Boards of Accountancy  
150 4th Avenue, North, Nashville, TN 37219

March 4, 2025

Dear Interested Parties,

In September 2024, the American Institute of CPAs (AICPA) and the National Association of State Boards of Accountancy (NASBA) released proposed changes to the Uniform Accountancy Act (UAA), the model law governing the CPA profession. Following the conclusion of the comment period on December 30, 2024, the organizations received 194 stakeholder submissions, comprising:

- 124 comments from individuals (including educators, students/candidates, and other stakeholders)
- 7 comments from CPA firms
- 39 comments from state CPA societies
- 24 comments from state boards of accountancy

Two key themes emerged from these submissions: a strong desire across the profession for an additional pathway to CPA licensure, and broad support for the adoption of “individual-based mobility.” In response, the Boards of Directors of both the AICPA and NASBA have approved, for further exposure, revisions to the UAA that will:

- Specify the educational requirements to sit for the Uniform CPA Examination
- Define the requirements for an additional CPA licensure pathway
- Transition from mobility-based on state substantial equivalency to a model predicated on individual licensing criteria
- Encourage the adoption of mobility through an individual practice privilege, which is contingent upon meeting established licensing requirements. Additionally, the revised language provides a safe harbor for CPAs licensed under previously approved pathways.

The exposure draft establishes three pathways to CPA licensure:

- A post-baccalaureate degree with an accounting concentration, one year of experience, and the CPA Exam
- A baccalaureate degree with an accounting concentration supplemented by an additional 30 semester credit hours, one year of experience, and the CPA Exam
- A baccalaureate degree with an accounting concentration, two years of experience, and the CPA Exam

Moreover, the draft permits candidates holding a baccalaureate degree with an accounting concentration to sit for the Uniform CPA Examination, thereby broadening access to licensure.

We believe that these revisions will strengthen the profession by maintaining a strong pipeline of accounting talent while maintaining the system of cross-border practice currently enjoyed by CPAs. We trust that the revised language, which includes provisions to facilitate individual practice privileges and a safe harbor for legacy licensees, addresses the concerns raised during the 2024 comment period.

The AICPA, NASBA, and the Joint UAA Committee welcome your comments on this proposal.

**Thomas Neill, CPA**  
Chair, AICPA UAA Committee

**Dan Vuckovich, CPA**  
Chair, NASBA UAA Committee



The base documents are the January 2018 edition of the UAA (pertinent parts).  
Additions are shown in single underlined text, and deletions are shown in ~~single strike-through~~ text.

UAA – 8<sup>th</sup> Edition, January 2018

SECTION 5  
QUALIFICATIONS FOR A CERTIFICATE AS A CERTIFIED PUBLIC  
ACCOUNTANT

- (c) (1) The education requirement for a certificate, which must be met before an applicant is eligible to apply for the examination prescribed in subsection (d), shall be at least 150 semester hours of college education including a baccalaureate or higher degree conferred by a college or university acceptable to the Board, the total educational program to include an accounting concentration, or equivalent as determined by Board rule to be appropriate.

(2) The education requirement for a certificate shall be met through any of the following pathways:

(A) a post baccalaureate degree conferred by a college or university acceptable to the Board, the total educational program to include an accounting concentration or equivalent as determined by Board rule, or

(B) a baccalaureate degree plus an additional 30 semester credit hours, conferred by a college or university acceptable to the Board, the total educational program to include an accounting concentration or equivalent as determined by Board rule, or

(C) a baccalaureate degree conferred by a college or university acceptable to the Board, the total education program to include an accounting concentration, or equivalent as determined by Board rule.

*Comment:* In situations where the Candidate is enrolled in a dual degree accounting program where the bachelor's degree is conferred at or after the completion of the master's degree, the candidate is eligible to sit for the CPA Exam upon the completion of the bachelor's degree requirements and the accounting concentration as determined by board rule.

- (f) The experience for initial issuance of a certificate shall be as follows: An applicant for initial issuance of a certificate under this Section shall show that the applicant has had one year of experience. This experience shall include providing any type of service or advice involving the use of accounting, attest, compilation, management advisory, financial advisory, tax or consulting skills all of which was verified by a licensee, meeting requirements prescribed by the Board by rule. This experience would be acceptable if it was gained through

~~employment in government, industry, academia or public practice.~~

**(1) An applicant for initial issuance of a certificate under sections 5(c)2(A) and 5(c)2(B) shall show that the applicant has had one year of experience as defined by Board rule.**

**(2) An applicant for initial issuance of a certificate under section 5(c)2(C) shall show that the applicant has had two years of experience as defined by Board rule.**

**(3) This experience shall include providing any type of service or advice representing the skills needed at the time of initial licensure to serve the public and involves the use of accounting, attest, compilation, management advisory, financial advisory, tax or consulting skills, all of which was verified by a licensee, meeting requirements defined by Board rule. This experience would be acceptable if it was gained through employment in government, industry, academia, or public practice.**

*Comment:* Before an applicant may obtain a certificate, the applicant must obtain ~~actual~~ related experience; however, that experience can be obtained in any area of employment involving the use of accounting or business skills. In addition, experience should be acceptable whether it is gained through employment in government, industry, academia or public practice. The experience may be supervised by a non-licensee but must be verified by a licensee.

**SECTION 23**  
**SUBSTANTIAL EQUIVALENCY**  
**& PRACTICE PRIVILEGE**

- (a) (1) An individual whose principal place of business is not in this state and who holds a valid license in good standing as a Certified Public Accountant from any state ~~which the NASBA National Qualification Appraisal Service has verified to be in substantial equivalence with the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act shall be presumed to have qualifications substantially equivalent to this state's requirements and shall have all the practice privileges of licensees of this state without the need to obtain a license under Sections 6 or 7 provided that at the time of initial licensure, the individual was required to show evidence of having met the following requirements:-~~ Notwithstanding any other provision of law, an individual who offers or renders professional services, whether in person, by mail, telephone or electronic means, under this section shall be granted practice privileges in this state and no notice or other submission shall be provided by any such individual. Such an individual shall be subject to the requirements in Section 23(a) (2).

(A) passed the uniform CPA examination, and

(B) a post-baccalaureate degree with a concentration in accounting or an equivalent and not less than one year of work experience both as defined in Board rule; or

(C) a baccalaureate degree plus an additional 30 semester credit hours with a concentration in accounting or an equivalent and not less than one year of work experience both as defined in Board rule; or

(D) a baccalaureate degree including an accounting concentration or an equivalent and not less than two years of work experience both as defined in Board rule.

COMMENT: A state Board may utilize the NASBA National Qualification Appraisal Service, as its designee, for a recommendation to the Board when it considers a final determination as to whether an individual's certification criteria is equivalent to those in Section 23(a)(1). Individuals whose principal place of business is not in this state and who hold a valid license as a Certified Public Accountant from any state, and whose certification criteria were not equivalent to Section 23(a)(1) at the time of original licensure, but have subsequently met the equivalency standard, may apply to the Board for an evaluation for final Board determination.

- (2) An individual, whose principal place of business is not in this state, and who holds a valid active license as a Certified Public Accountant from any state, as of December 31, 2024, and as of such date, has practice privileges in this state under Section 23, shall continue to have all the privileges of licensees in this state without the need to obtain a license under Sections 6 or 7, which the NASBA National Qualification Appraisal Service has not verified to be in substantial equivalence with the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act shall be presumed to have qualifications substantially equivalent

~~to this state's requirements and shall have all the privileges of licensees of this state without the need to obtain a license under Sections 6 or 7 if such individual obtains from the NASBA National Qualification Appraisal Service verification that such individual's CPA qualifications are substantially equivalent to the CPA licensure requirements of the AICPA/NASBA Uniform Accountancy Act. Any individual who passed the Uniform CPA Examination and holds a valid license issued by any other state prior to January 1, 2012 may be exempt from the education requirement in Section 5(c) for purposes of this Section 23(a)(2).~~

**(3)** Notwithstanding any other provision of law, an individual who offers or renders professional services, whether in person, by mail, telephone or electronic means, under this section shall be granted practice privileges in this state and no notice or other submission shall be provided by any such individual. Such an individual shall be subject to the requirements of Sections 23(a)(31) and (2).

**(34)** An individual licensee of another state exercising the privilege afforded under this section and the firm which employs that licensee hereby simultaneously consents, as a condition of the grant of this privilege:

**(A)** to the personal and subject matter jurisdiction and disciplinary authority of the Board,

**(B)** to comply with this Act and the Board's rules;

**(C)** that in the event the license from the state of the individual's principal place of business is no longer valid, the individual will cease offering or rendering professional services in this state individually and on behalf of a firm; and

**(D)** to the appointment of the State Board which issued their license as their agent upon who process may be served in any action or proceeding by this Board against the licensee.

**(45)** An individual who has been granted practice privileges under this Section who performs any attest service described in Section 3(b) may only do so through a firm which meets the requirements of Section 7(a)(1)(C) or which has obtained a permit issued under Section 7 of this Act.

**(b)** A licensee of this state offering or rendering services or using their CPA title in another state shall be subject to disciplinary action in this state for an act committed in another state for which the licensee would be subject to discipline for an act committed in the other state. Notwithstanding Section 11(a), the Board shall be required to investigate any complaint made by the Board of Accountancy of another state.

## Quality Management

### What happened?

In June 2022, March 2023 and June 2024, the Auditing Standards Board (ASB) and the Accounting and Review Services Committee issued six interrelated final standards on quality management (collectively, QM standards):

- Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*
- SQMS No. 2, *Engagement Quality Reviews*
- Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
- Statement on Standards for Accounting and Review Services (SSARS) No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*
- SQMS No. 3, *Amendments to QM Sections 10, A Firm's System of Quality Management, and 20, Engagement Quality Reviews*
- Statement on Standards for Attestation Engagements (SSAE) No. 23, *Amendments to the Attestation Standards for Consistency With the Issuance of AICPA Standards on Quality Management*

### What has changed?

- **New risk-based approach**, incorporating a risk assessment process driving firms to focus on quality management tailored to their circumstances
- **Revised components** of the system of quality management — two new components, including information and communication
- **More robust** leadership and governance requirements
- **Enhanced** monitoring and remediation processes
- **New** requirements for networks and service providers

### SQMS No. 1

SQMS No. 1 requires a firm to design, implement and operate a system of quality management that is customized for the nature and circumstances of its accounting and auditing practice. It consists of:

- Eight components that operate in an iterative and integrated manner
- Other requirements that address the roles and responsibilities for the system, leadership's overall evaluation of the system, network requirements or network services and documentation



SQMS No. 1 introduces a new risk assessment process aimed at achieving quality objectives. The firm is required to establish prescribed quality objectives, assess quality risks and design and implement responses.

SQMS No. 1 also requires the firm leadership to annually evaluate and conclude whether the system of quality management is meeting its objectives.

SQMS No. 1 is effective as follows:

- Systems of quality management in compliance with SQMS No. 1 are required to be designed and implemented by Dec. 15, 2025.
- Evaluation of the system of quality management required by SQMS No. 1 is required to be performed within one year following Dec. 15, 2025.

SQMS No. 1 will be codified in *AICPA Professional Standards* in section QM 10.

## SQMS No. 2

An engagement quality (EQ) review is a specified response the firm designs and implements to address quality risks. SQMS No. 1 requires that the firm determine when an engagement quality review is an appropriate response to quality risks.

*The new QM standards affect every firm that performs engagements in accordance with SASs, SSAEs or SSARSs.*

An EQ reviewer performs the review at the engagement level on behalf of the firm. SQMS No. 2 addresses

- the appointment and eligibility of the EQ reviewer and
- performance of engagement quality reviews.

SQMS No. 2 is effective for

- audits or reviews of financial statements for periods beginning on or after Dec. 15, 2025, and
- other engagements in the firm's accounting and auditing practice beginning on or after December 15, 2025. An engagement in the firm's accounting and auditing practice begins when an engagement letter or other agreement to perform attest services is signed or when the firm begins to perform the engagement, whichever is earlier.

SQMS No. 2 will be codified in *AICPA Professional Standards* in section QM 20.

## SAS No. 146

SAS No. 146 clarifies and strengthens the key elements of quality management at the engagement level. This is achieved by focusing on the critically important role of the engagement partner in managing and achieving quality on the audit engagement, and reinforcing the importance of quality to all members of the engagement team.

SAS No. 146 is effective for engagements conducted in accordance with generally accepted auditing standards for periods beginning on or after Dec. 15, 2025.

## SSARS No. 26

SSARS No. 26 amends the following AR-C sections in *AICPA Professional Standards* to enhance certain concepts related to quality management for engagements performed in accordance with SSARSs and to ensure that certain concepts related to quality management, where appropriate, are consistent between SAS No. 146 and SSARSs:

- Section 60, *General Principles for Engagements Performed in Accordance With Statements on Standards for Accounting and Review Services*
- Section 80, *Compilation Engagements*
- Section 90, *Review Engagements*

These amendments are effective for engagements performed in accordance with SSARSs for periods beginning on or after December 15, 2025.

## SQMS No. 3

The amendments to QM sections 10 and 20 conform certain terms to language used in SAS No. 149, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors and Audits of Referred-to Auditors)* and provide guidance on differentiating between a resource and an information source.

SQMS No. 3 is effective concurrently with the effective dates provided in QM sections 10 and 20.

### SSAE No. 23

SSAE No. 23 aligns certain concepts in the attestation standards related to quality management, where appropriate, with SQMS Nos. 1 and 2, SAS No. 146, and SSARS No. 26.

The most significant change introduced by SSAE No. 23 is the deletion of the defined term *other practitioner* and replacing it with 2 new terms – *participating practitioner* and *referred-to practitioner*. The revision is necessary to properly reflect the definition of *engagement team* introduced in SQMS No. 1. The revision differentiates the requirements related to other practitioners who are part of the engagement team (*participating practitioner*) and those that are not part of the engagement team (*referred-to practitioner*) and acknowledges that there are other scenarios involving other types of practitioners. The performance and reporting requirements are also revised to differentiate between participating and referred-to practitioners.

SSAE No. 23 is effective for engagements performed in accordance with the attestation standards beginning on or after December 15, 2025.

### Next steps?

The QM standards are available for firms and auditors to read and consider in order to adequately prepare for implementation, and can be viewed on the AICPA's website under "Recently Issued Standards."

Firms should begin gaining an understanding of the new standards and requirements now and put an implementation plan in place in order to meet the required effective dates. See "[Mapping Quality Control to Quality Management: What's Changing and What You Should Be Doing Now](#)" for more information.

## **Request Oversight Committee Report April 2025**

Brian Thomas, CPA, Chair

During the first quarter 2025, the Acting Director and a Consulting Board Member from the Request Oversight Committee took the following action:

### **Approved Firm Names:**

Jain Accounting PLLC  
Milner, Howard, Palmer & Edwards CPAs  
Clark Accounting LLC  
Sequoia CPA PLLC  
Campbell Tax & Accounting LLC  
TruDBooks  
Dimeler & Associates PLLC  
SkyRiver Advisors, PLLC

### **Professional/Educational Organization – Recognition Requests**

During the first quarter 2025, the Board did not receive any requests for recognition as an educational organization or professional association for purposes of obtaining list requests.





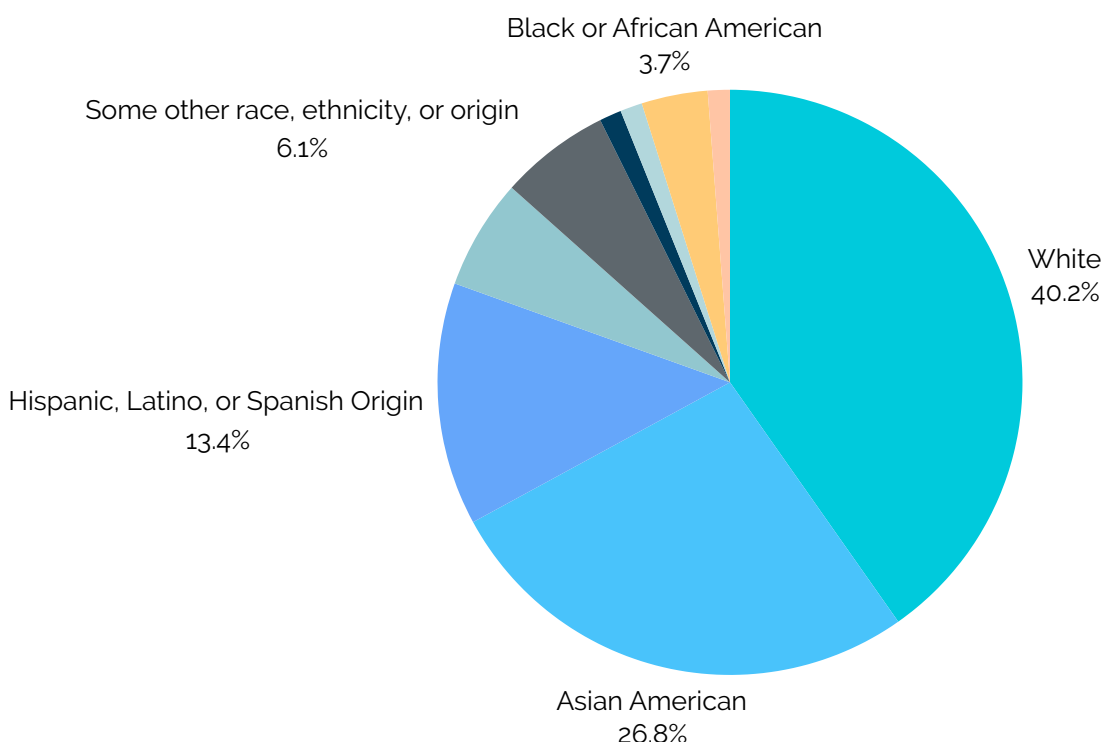
# Washington CPA Foundation

## 2025 Pre-Intake Scholarship Winner Data

### The Overview

The Washington CPA Foundation awarded 92 scholarships. 30 are \$10,000 master's awards; 62 are undergraduate at \$5,000 at a total award amount of \$610,000.

- 65 awards were SBOA funded; 30 master's & 35 bachelor's
- 250 students applied
- 64% of scholarship winners were female, 35% male with 1 unknown.
- 20 students categorized as low income as determined by Pell Grant/Zero Expected Family Contribution
- 25 are first-generation college students

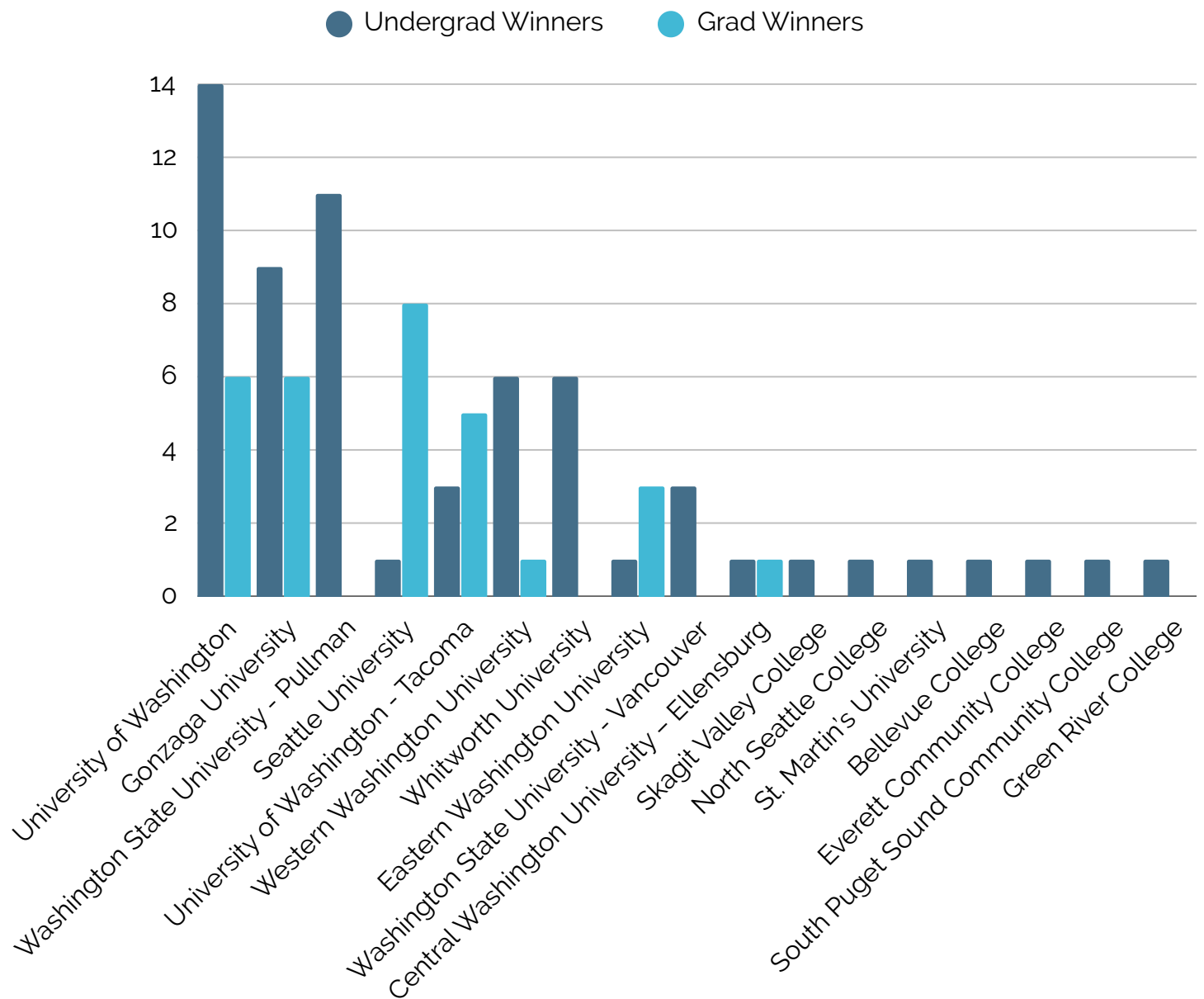


"Not only did I receive the validation that I had chosen accounting correctly, but accounting had chosen me too."

- Maria McDowell, Junior at Gonzaga University

## Colleges Attended

Winners were divided among 17 colleges, with University of Washington and Gonzaga being the top recipients.



\* Results based off of application data. Students will be surveyed again upon completing intake forms. Results may change slightly.

**April 6, 2025**

**To:** Washington State Board of Accountancy

**From:** The Board AICPA Rules Committee (BARC)  
(Scott Newman, Brooke Stegmeier, Brian Thomas, Jennifer Sciba)

**RE:** Discussion Topics: Private Equity Ownership and CPE Compliance

Following are two topics reviewed and discussed at the BARC meeting on March 31, 2025. Both topics require no decision, make no proposals, and are for Board informational purposes only at this time.

### **Topic 1: Private Equity Ownership of CPA Firms**

Private equity (PE) ownership of CPA firms (Alternative Practice Structures or APS) has emerged as a significant trend in the accounting profession.

This shift from traditional CPA-only ownership to alternative practice structures is driven by:

- Succession planning challenges as founding partners reach retirement
- Need for capital to fund technology investments
- Enhanced ability to attract and retain talent
- Industry consolidation trends

By some estimates, there are approximately 115 CPA firms nationwide (roughly 5% of firms with 20+ professionals) which now have PE investment. In Washington State, approximately 7 firms currently operate under PE ownership structures. The APS introduces potential threats to independence and public protection.

The AICPA has acknowledged this trend and risk while emphasizing that regardless of ownership structure, firms performing attest services must maintain independence in fact and appearance. The AICPA Professional Ethics Executive Committee (PEEC) has published a discussion memorandum on this topic and is soliciting comments by June 15, 2025. PEEC has outlined two options for addressing independence issues with Option 1 providing authoritative guidance and Option 2 focusing on nonauthoritative guidance.

BARC may need to review and revise WAC 4-30-112 (Firm Licensing Requirements), WAC 4-30-042 (Independence), and WAC 4-30-040 (Integrity and objectivity) depending on how this topic evolves.

It is possible no changes will be required for Washington State. For now, this is for information purposes only.

## Topic 2: CPE Compliance Considerations

Recent trends have highlighted persistent challenges in ensuring licensees meet CPE requirements. An increasing number of licensees are requesting second extensions to their CPE reporting periods, signaling potential issues with the current framework. Concurrently, a national movement to alleviate regulatory burdens on companies and individuals has prompted some states, such as North Carolina, to reduce CPE requirements or modify compliance methods. These developments may eventually impact reciprocity qualifications in Washington State, necessitating a proactive review by the Board.

The Board's authority over CPE is grounded in the following statutes and regulations:

- **RCW 18.04.216(6)(b):** Grants the Board authority to consider individual hardship cases
- **Relevant WACs:** 4-30-132, 4-30-133, 4-30-134, 4-30-136, and 4-30-138

Under current rules, licensees are limited to one extension per two consecutive CPE reporting periods. However, the Board has authority to adjudicate staff denials of extension requests. In practice, Board members reviewing CPA extension appeals occasionally overturn staff decisions, particularly when licensees demonstrate hardship. This flexibility, while beneficial, raises questions about consistency and clarity in applying the rules.

Observing other states' approaches to hardship exceptions, we identified the following considerations.

### Hardship Considerations

- **Defining Hardship:** Should the Board establish more explicit criteria for what qualifies as "individual hardship" to ensure equitable decisions?
- **Extension Limits:** Is the current restriction of one extension per two periods still appropriate, or does it unduly constrain licensees facing legitimate challenges?
- **Balancing Authority and Consistency**
- **Documentation Standards:** Are existing requirements for documenting hardship claims sufficient, or do they need refinement?

### Potential Rule Revisions

- **WAC 4-30-132:** Qualifying continuing professional education (CPE) activities.
- **WAC 4-30-133:** Reporting periods, carry-forward/back, and limitations on continuing professional education (CPE) credit.
- **WAC 4-30-134:** Continuing professional education (CPE) requirements.
- **WAC 4-30-136:** Reporting continuing education (CPE) to the board.
- **WAC 4-30-138:** Continuing professional education (CPE) documentation requirements.

This topic is not new to the Board, as CPE compliance and extension policies have been recurring discussion points. However, recent compliance difficulties, coupled with national shifts toward reduced regulatory burdens, bring renewed urgency to the issue. BARC is elevating this matter for consideration as other states explore significant changes to their CPE frameworks.

BARC proposes gathering detailed insights into other states' recent decisions on CPE requirements and extensions. With this information, we will develop specific recommendations for the Board's review and discussion at a future meeting. This approach will ensure any proposed changes are informed, strategic, and aligned with both Washington's needs and broader national trends. How might these trends affect Washington.



Professional Ethics Division

Discussion memorandum:

Potential revisions to the AICPA Code of Professional Conduct and guidance related to independence in alternative practice structures

March 10, 2025

Comments are requested by June 15, 2025

[ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

Standard-setting

# Potential revisions to the AICPA Code of Professional Conduct and guidance related to independence in alternative practice structures

## Invitation to comment

March 10, 2025

This discussion memorandum was developed and approved for invitation to comment by the Alternative Practice Structures Task Force of the AICPA Professional Ethics Executive Committee (PEEC).

The task force is issuing this memorandum to seek input from stakeholders on approaches that can improve clarity and consistency in the application of the AICPA Code of Professional Conduct (code) to an alternative practice structure (APS), including, in particular, an APS with a private equity investment.

**NOTE:** The task force's preliminary conclusions and potential options presented in this discussion memorandum constitute neither authoritative nor nonauthoritative guidance. Input received from respondents will supplement the task force's research and inform recommendations to PEEC regarding whether revisions to the code or to nonauthoritative guidance (or to both) are needed. If PEEC concludes that an interpretation of the code should be considered, an exposure draft will be issued in accordance with PEEC's usual standard-setting processes.

Your feedback is an important part of the evaluation of this critical and evolving subject matter. Please take this opportunity to comment. We must receive your response by June 15, 2025. All written replies to this discussion memorandum will become part of the public record of the AICPA.

Please email your comments to [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org).

Sincerely,

Anna Dourdourekas, Co-Chair  
Alternative Practice Structures Task Force



Lisa Snyder, Co-Chair



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



## Contents

Introduction .....	4
Overview of the structure and characteristics of an APS .....	5
APS with private equity .....	9
The task force’s analysis and preliminary conclusions related to independence in an APS .....	12
Two potential options to address evolving APS independence issues .....	22
Appendix 1 .....	25
Option 1 — Example APS interpretation including a PE investment.....	25
Appendix 2 .....	39
Option 2 — Example APS interpretation with nonauthoritative guidance including examples specific to an APS with PE .....	39
Appendix 3 .....	52
Table summarizing the differences between the two approaches .....	52
Acknowledgments .....	54



## Introduction

1. The AICPA Professional Ethics Executive Committee (PEEC) appointed the Alternative Practice Structures Task Force in November 2022 to determine whether a private equity (PE) investment in the nonattest entity of an alternative practice structure (APS) creates a need for revisions to the AICPA Code of Professional Conduct (code) or a need for nonauthoritative guidance. The task force has been evaluating current provisions in the code, including the “Alternative Practice Structures” interpretation (ET sec. [1.220.020](#)) of the “Independence Rule” (ET sec. [1.200.001](#)), for relevance and adequacy. The task force, which has met at least monthly since January 2023, consists of members practicing in an APS with a PE investment in the nonattest entity (APS with PE), members in a traditional firm structure, a consultant, attorneys, a NASBA representative, and AICPA ethics division staff.
2. The task force has provided PEEC regular updates during PEEC’s quarterly meetings, and PEEC has provided feedback on the task force’s activities. The task force has principally focused on the extant code’s application to independence in evolving APS.
3. The task force requests that stakeholders review this discussion memorandum and respond to the questions set forth in the “Questions for respondents” boxes throughout the document. Specifically, the task force is requesting feedback regarding
  - whether its depiction of an APS is clear;
  - whether respondents agree with the task force’s preliminary conclusions regarding threats to independence in an APS and with its proposed three-step process for determining independence; and
  - whether respondents prefer either of the two potential options presented for addressing both authoritative and nonauthoritative guidance.

Input provided by stakeholders, which will also be presented to PEEC, will enable the task force to address any questions and concerns expeditiously, resulting in more robust and timely output on this subject. In addition to considering any feedback received in response to the discussion memorandum, the task force anticipates addressing the potential need for 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](#)).

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

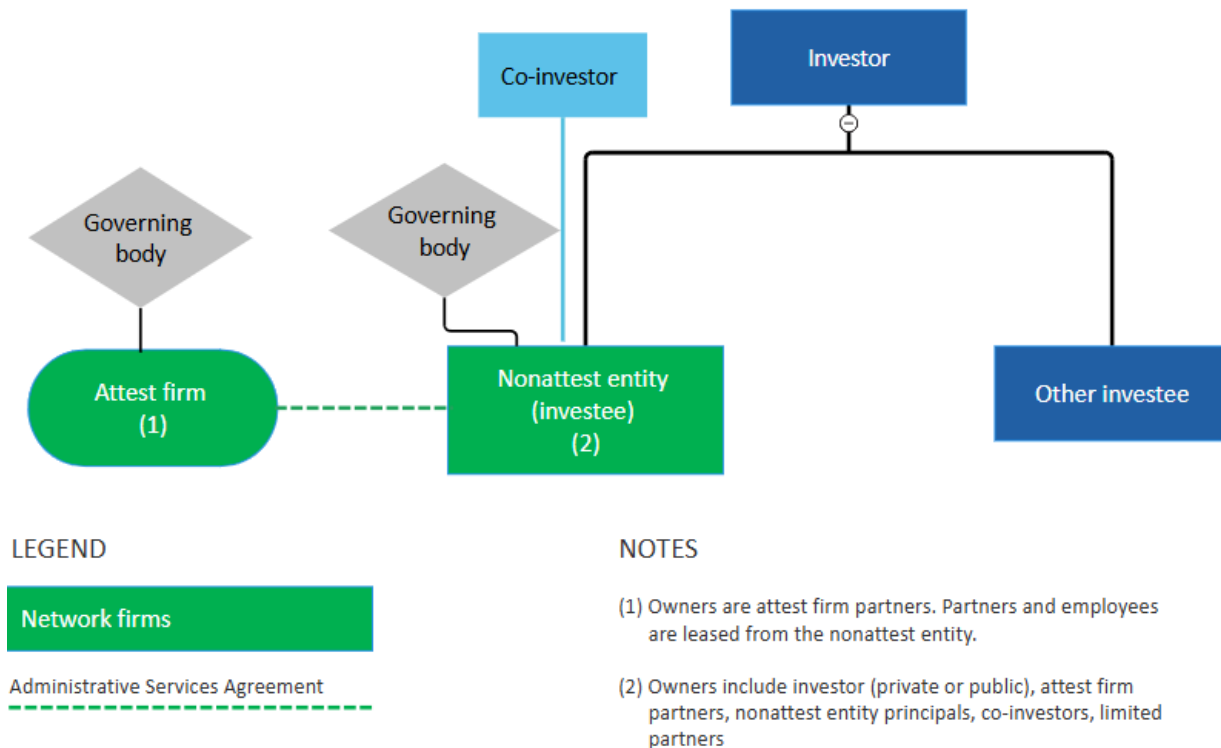
## Overview of the structure and characteristics of an APS

### Background

4. Accounting *firms* have been part of APSs for more than two decades. An APS is a form of organization in which a *firm* that provides attest services is closely aligned with another entity that performs other *professional services*. The other entity typically sells a portion of its nonattest business to an outside investor. In 2000, PEEC issued two interpretations that focused primarily on investments from *publicly traded entities*:
  - The “Alternative Practice Structures” interpretation (ET sec. 1.220.020) of the “Independence Rule”
  - The “Alternative Practice Structures” interpretation (ET sec. 1.810.050) of the “Form of Organization and Name Rule”

### Structure and characteristics

5. The following diagram, based on task force research and discussions with *members* currently practicing in APSs, depicts the basic structure of an APS with a public or private investor.



6. Although any guidance PEEC issues will clarify that these characteristics are not necessarily representative of every APS, the task force understands that these are the most common and basic characteristics of an APS:

- An accounting *firm* divides its attest<sup>1</sup> and nonattest<sup>2</sup> practices into distinct legal entities and sells a portion of its nonattest practice to an outside investor or investors.<sup>3</sup> The separation of the practices and investment in the nonattest entity enables the *firm* to comply with the requirements contained in the “Council Resolution Concerning the Form of Organization and Name Rule” (appendix B).<sup>3</sup> Generally, legacy *partners* of the accounting *firm* retain an equity interest in the nonattest entity.
- The outside investor has an investment that provides the investor with either *significant influence* or *control* over the nonattest entity. There may be other outside investors in the

<sup>1</sup> A *firm* that performs any *attest engagements*.

<sup>2</sup> An organization that does not meet the definition of *firm* that cannot perform attest services as referenced in footnote <sup>1</sup>.

<sup>3</sup> The division of the attest and nonattest practices occurs because the “Council Resolution Concerning the Form of Organization and Name Rule” states, “A majority of the ownership of the member’s firm in terms of financial interests and voting rights must belong to CPAs. Any non-CPA owner would have to be actively engaged as a member of the firm or its affiliates. Ownership by investors or commercial enterprises not actively engaged as members of the firm or its affiliates is against the public interest and continues to be prohibited.”

nonattest entity, including those with less than *significant influence* (co-investors) over the nonattest entity.

- The attest *firm* meets the requirements of the “Council Resolution Concerning the Form of Organization and Name Rule,” including majority ownership by CPAs (attest *firm partners*) and the prohibition on “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* are also employees of the nonattest entity.
- The nonattest entity does not meet the characteristics described in the “Council Resolution Concerning the Form of Organization and Name Rule.” The owners of the nonattest entity may include attest *firm partners*, nonattest entity principals, investors, and co-investors.
- 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*’s board is involved in budgetary decisions of the attest *firm*.
- The nonattest entity has its own governing body, such as a board of directors (nonattest entity board) that includes representation from the investor or co-investor oftentimes relative to its *financial interest* in the nonattest entity. Decisions regarding compensation, finance and budget, resource allocation, and strategy 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 leadership 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.
- The attest *firm* maintains an “administrative services” agreement with the nonattest entity, and compensates the nonattest entity for administrative support, leased employees, equipment, office space, and other resources.
- The chief executives or equivalents of the attest *firm* and nonattest entity are 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.

### Questions for respondents

1. Does the diagram present a clear and understandable representation of an APS? Are you familiar with any other forms of APS?
2. Are the APS characteristics we described broad enough to allow application across various forms of an APS?
3. Are there any APS characteristics we failed to address that should be included?

### Current standards

7. *Firms* currently operating in an APS are required to comply with the “Alternative Practice Structures” interpretations in the code. However, the current interpretation under the “Independence Rule” does not fully address evolving structures, such as those involving PE investments. The following are some of the incongruities, inconsistencies, and gaps that the task force has identified:
  - The model in the extant interpretation depicts a *controlling*<sup>4</sup> investment by a public company investor in the nonattest entity but does not address lower thresholds, such as a *significant influence*<sup>5</sup> investment, which is more common with PE investments.

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<sup>4</sup> The code defines *control* as follows:

As used in FASB *Accounting Standards Codification* (ASC) 810, *Consolidation*. When used in the “Client Affiliates” interpretation [1.224.010] of the “Independence Rule” [1.200.001], control depends upon the entity in question. For example, when used for not-for-profit entities, control is as used in FASB ASC 958-805-20; for commercial entities, control is as used in FASB ASC 810. [Prior reference: numerous ET sections; also see “Breakdown of the Term Control in the Code” at <https://www.aicpa-cima.com/resources/download/use-of-the-term-control>]

<sup>5</sup> The code defines *significant influence* as follows:

As defined in FASB ASC 323-10-15. Ability to exercise significant influence over operating and financial policies of an investee may be indicated in several ways, including the following:

- a. Representation on the board of directors
- b. Participation in policy-making processes
- c. Material intra-entity transactions
- d. Interchange of managerial personnel
- e. Technological dependency
- f. The extent of ownership by an investor in relation to the concentration of other shareholdings (but substantial or majority ownership of the voting stock of an investee by another investor does not necessarily preclude the ability to exercise *significant influence* by the investor).

- The extant APS interpretation describes an APS model where subsidiaries of the public company are under common *control* with the nonattest entity. This may not be the case in an APS with PE. 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.
- The “Network and Network Firms” interpretation ([ET sec. 1.220.010](#)) and related definitions of *network* and *network firm* (ET sec. [0.400.35](#) and [0.400.36](#)) had not been adopted when the extant APS interpretation was written. The extant APS interpretation allows the nonattest entity to provide nonattest services to *attest clients* of the attest *firm* that would impair *independence* if performed by the attest *firm*. The task force’s preliminary conclusion, however, is that the attest *firm* and nonattest entity are *network firms* under the *network* and *network firms* definitions because they “cooperate for the purpose of enhancing the *firms*’ capabilities to provide *professional services*” and share one or more of the listed characteristics of a *network*, such as sharing a common brand name or sharing significant professional resources. If treated as *network firms*, the nonattest entity will not be able to provide nonattest services to *financial statement* audit and review *clients* of the attest *firm* that would impair *independence* if performed by the attest *firm*.
- The terms *direct superiors*, *indirect superiors*, and *other public company entities* do not necessarily apply the same way in an APS with PE as they do under the extant APS interpretation.

## APS with private equity

8. The last few years have seen a significant increase in PE investments in accounting *firms*. A typical APS structure involves dividing the accounting *firm* into an attest *firm* and nonattest entity, and an investment from an investor in the nonattest entity.
9. Various stakeholders have communicated with the task force regarding this increase in PE investments. These include 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, the International Ethics Standards Board for Accountants (IESBA), and the National Association of State Boards of Accountancy (NASBA). The task force has considered the information and perspectives offered by these stakeholders in its evaluation of whether revisions to the code are necessary. Some of the task force’s key takeaways follow.

### PE role and potential benefits

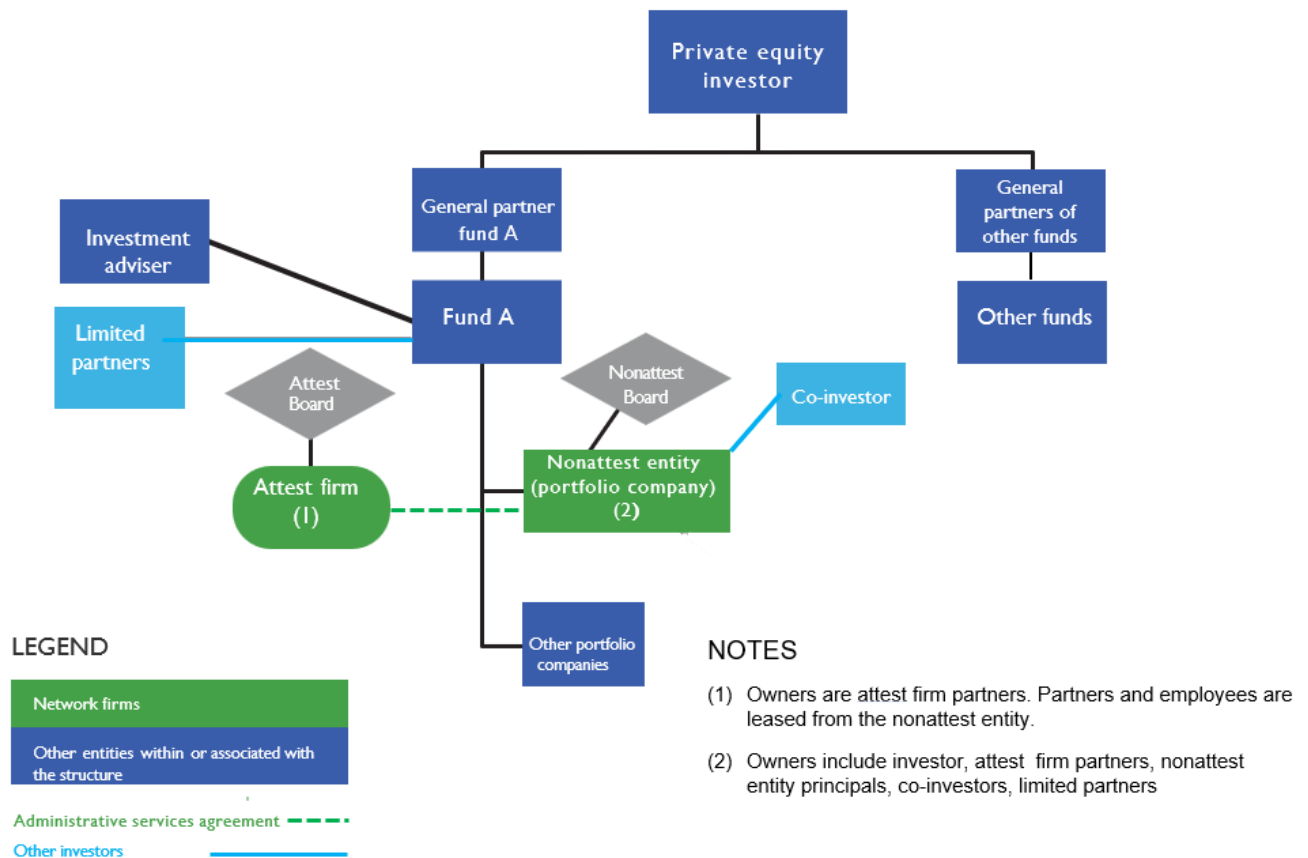
10. PE investors have firmly established themselves as pivotal players across a wide range of industries, including the accounting profession. When an APS is structured properly, and with proper due diligence by accounting *firm* leadership, PE investors can provide capital, expertise, and resources to fuel growth and help accounting *firms* remain competitive in a rapidly changing market. The infusion of capital allows *firms* to focus on innovation, technology, talent retention, and improved *professional services*, all essential to their long-term success.

### Public interest principle and independence

11. Notwithstanding the benefits that PE investors may offer *firms*, ensuring that the integrity of the attest function is not compromised under this type of APS is critical to the public interest. The increase in APSs with PE has raised questions from various regulators and the public about potential conflicts. Attest *firms* must demonstrate their steadfast commitment to the highest standards of audit quality and to the public interest by prioritizing *independence*, transparency, ethical practices, and robust governance.
12. *Members* are responsible for ensuring adherence to ethical standards to serve the public interest, including *independence*. A PE investor's willingness and ability to comply with the profession's *independence* standards, where applicable, are essential. This includes the cooperation and sharing of confidential information regarding existing investments and potential target entities so that the *firm* can monitor and evaluate any potential *independence* issues or conflicts with entities in the PE structure. *Firms* that have provided the task force with input note that the PE investors that have invested in their nonattest entities have dedicated significant time and resources to understanding the *independence* requirements that apply within an APS and have been responsive to the profession's *independence* standards and quality management requirements, including necessary monitoring procedures and related processes.

### Distinguishing characteristics of an APS with PE

13. In an APS with PE, the basic characteristics and diagram in paragraphs 5 and 6 still apply. PE investment in a nonattest entity is typically through a fund and provides the PE investor with *significant influence* or *control* over the nonattest entity. This fund may also invest in other entities (that is, portfolio companies), which might provide the PE investor with *significant influence* or *control* over the portfolio companies. This differs from the extant APS model where the investor (PublicCo) has *control* over the nonattest entity as well as its other subsidiaries. A depiction of a simplified APS with PE structure follows.



### Administrative services agreement

14. The administrative services agreement between the attest *firm* and nonattest entity plays a critical role. It describes the resources the nonattest entity will be providing to the attest *firm*, including administrative support, the leasing of employees, equipment, office space, and other resources. It is the attest *firm*'s responsibility to ensure that this contract provides resources sufficient for the attest *firm* to comply with applicable professional standards, including *independence* and quality management standards. In traditional accounting *firms*, such administrative service agreements generally do not exist; however, the attest and nonattest practices may be involved in discussions regarding resources through a budgetary process.

### Regulatory and legal consultations

15. Prior to entering an APS with PE, accounting *firms* have generally participated in extensive due diligence and consultation processes and engaged with legal counsel, regulators, and appropriate standard-setting bodies (for example, SEC, PCAOB, state boards, AICPA) to ensure that the transaction is compliant with existing laws, regulations, and professional standards. Such consultations help identify potential issues and safeguard audit quality and



long-term sustainability of the *firm*, while also mitigating reputational or operational risks associated with operating within an APS.

### Quality management policies and controls

16. Most accounting *firms* have preexisting *independence* policies and controls, are subject to peer review, and must adhere to quality management standards to ensure that their attest practices comply with professional standards. Attest *firms* operating within an APS with PE will likely need to implement additional policies, controls, and procedures. This includes addressing any concerns related to the potential influence of PE investors on the nonattest entity and ensuring that the attest function remains insulated from undue influence by the PE investors.
17. Existing APSs with PE have implemented controls to address *threats* to *independence*; examples of such controls follow:
  - Updating, for firm-wide distribution, policies, procedures, and guidance that reflect the APS transaction with the PE investor
  - Sharing relevant information between the attest *firm* and PE investor to monitor *independence*
  - Periodically confirming compliance with applicable *independence* requirements of the PE investor and of any PE investor associates who are required to maintain *independence* (including members of the nonattest entity board)
  - Monitoring applicable entities within the PE structure that may be subject to *independence* considerations in the *firm's* database and including such entities in conflict checks performed on prospective client engagements
  - Monitoring and performing conflict checks on new nonattest-entity lenders as a result of the transaction with the PE investor
  - Implementing robust administrative services agreements that address the provision of sufficient future resources to the attest *firm* to maintain audit quality and *independence*.

## The task force's analysis and preliminary conclusions related to independence in an APS

18. The extant "Alternative Practice Structures" interpretation of the "Independence Rule" states that, in an APS, *threats* to *independence* can arise from individuals and entities beyond *covered members*. The task force determined that although the investor does not have any ownership in the attest *firm*, *threats* exist due to the investor's potential ability to influence strategic and budgetary matters affecting the attest *firm*. The degree of influence depends

on factors such as ownership percentage in the nonattest entity and decision-making authority (for example, through representation on the nonattest entity board). To determine whether *threats* are at an *acceptable level*, all *threats*<sup>6</sup> should be considered in an evaluation of relationships and circumstances when an attest *firm* operates within an APS.

19. The task force has identified relationships and circumstances when *threats* cannot be reduced to an *acceptable level* (that is, the relationship should be prohibited) and others where the “Conceptual Framework for Independence” interpretation ([ET sec. 1.210.010](#)) should be applied to determine whether *threats* are at an *acceptable level*.
20. In discussing the relationships and circumstances involving the various entities within the APS, the task force has also addressed entities specific to an APS with PE.

### Terminology

21. Guidance would include the following new terminology to identify certain individuals and entities associated with an APS that are not otherwise defined in the code. The terms will be defined solely for the purpose of applying the new APS guidance.
22. An **investor** is an individual or entity that invests in, and has at least *significant influence* over, the nonattest entity. The investor could be a private equity investor (PE investor), partnership, corporate entity, or other investment vehicle. There may be one or more investors in the nonattest entity.

The term *investor*, instead of *PE investor*, is used to broaden the applicability to variations of an APS.

23. A **significant influence investment** 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* would apply the new APS guidance to each investor.

24. A **controlling investment** exists when an investor has *control* over the nonattest entity.

For this definition, the task force considered the concept of two separate investors investing in the nonattest entity. Because the concept of “joint control” does not exist in generally accepted accounting principles (GAAP), the task force is not introducing it here. Additionally, two entities cannot have *control* over an entity at the same time. Qualitative factors may assist in determining whether one entity has *control* or neither entity has *control*.

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<sup>6</sup> The following *threats* may exist: *adverse interest threat*, *advocacy threat*, *familiarity threat*, *management participation threat*, *self-interest threat*, *self-review threat*, and *undue influence threat*.

25. A **co-investor** is an individual or entity that invests in, but does not have *significant influence* or *control* over, the nonattest entity. A co-investor is not associated with other investors.

- *Co-investor* is defined because the task force has observed APS examples where, in addition to the lead investor, other individuals or entities invest in the nonattest entity and have less than *significant influence* over it. For example, one investor may hold a 45 percent investment, while two co-investors may each hold a 7.5 percent investment.
- A co-investor may have a seat on the nonattest entity board.

26. **Key stakeholders of the investor** are individuals who represent 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.

#### Questions for respondents

4. Are the new terms and their definitions clear? Are they broad enough to allow application across various forms of an APS? If not, please explain.
5. Are there other terms that should be defined in any resulting guidance?

#### Network firms in an APS

27. The task force believes that the attest *firm* and nonattest entity, including any entities *controlled* by the 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 as described in the definition of *network*. Therefore, the following would apply:

- For *financial statement* audit and review *clients*, the nonattest entity, including any entities *controlled* by the nonattest entity, should comply with the “Independence Rule” and its interpretations, including any prohibitions on providing nonattest services as set forth in the “Nonattest Services” subtopic (ET sec. [1.295](#)).
- For other *attest clients*, the *member* should apply the “Conceptual Framework for Independence” interpretation for any *threats* the *member* knows or has reason to believe may be created by the nonattest entity’s interests and relationships, including any entities *controlled* by the nonattest entity.

28. The task force does not believe that the investor, its funds, and other investees (for example, portfolio companies) should generally be considered *network firms* of the attest *firm* because the investor, its funds, and other investees generally do not cooperate with the attest *firm* for the purpose of enhancing their capabilities to provide *professional services*,

which is required under the definition of *network*.

29. Even though these entities are generally not *network firms* of the attest *firm*, certain relationships they may have with *attest clients* of the attest *firm* may create *threats to independence*. Examples that the task force has considered are outlined in paragraphs 36–43.
30. When evaluating whether a potential *network firm* relationship exists, the task force has preliminarily concluded that the attest *firm* should make the determination based on the relationship of the attest *firm* to the entity in the APS that is being evaluated.

For example, entities that are under common *control* with the nonattest entity would not be considered *network firms* of the attest *firm* because they are not under common *control* with the attest *firm*, unless other characteristics of a *network* exist with respect to the attest *firm*.

31. The definition of *network firm* would require amendment based on the conclusion in paragraph 30. The extant definition includes entities under common *control* with the *network firm*; this could scope in other investees, such as portfolio companies that are under common *control* with the nonattest entity. However, the task force concluded that such investees generally do not cooperate with the attest *firm* for the purpose of enhancing their capabilities to provide *professional services*. Therefore, the revised definition would refer *members* to the APS interpretation to determine if entities under common *control* with the nonattest entity are *network firms* of the attest *firm*.

#### Question for respondents

6. Do you agree with the preliminary conclusions the task force has reached regarding *network firms* in an APS (paragraphs 27–31)? If not, please explain.

#### Covered members associated with the APS

32. In addition to individuals who meet the *covered member* definition within the attest *firm* and nonattest entity, the task force believes other individuals associated with the APS may be *covered members*.
33. The most relevant component of the *covered member* definition for individuals outside of the attest *firm* is an *individual in a position to influence the attest engagement*. This includes one who
- evaluates the performance or recommends the compensation of the *attest engagement partner*;

- directly supervises or manages the *attest engagement partner*, including all successively senior levels above that individual through the firm's chief executive;
- consults with the *attest engagement team* regarding technical or industry-related issues specific to the *attest engagement*; or
- participates in or oversees, at all successively senior levels, quality management activities, including internal monitoring, with respect to the specific *attest engagement*.

34. The following individuals associated with the APS meet one or more of the above characteristics and are, therefore, *covered members*.

- Chief executive or equivalent of the nonattest entity, because this individual directly supervises or manages the *partners* of the attest *firm*, as these *partners* are also employees of the nonattest entity.
- Nonattest entity board members who have the authority to approve the compensation of the attest *firm partners* at the individual level.

If a nonattest entity board member is a *covered member* based on this criterion alone, an entity *controlled* by the nonattest entity board member [\(.0.400.14f\)](#) would not be considered a *covered member* for purposes of the APS guidance.

35. Other individuals associated with the APS who should be evaluated by the *member* to determine if they meet the definition of a *covered member* include the following:

- Nonattest entity board members who do not have the authority to approve the compensation of the attest *firm partners* at the individual level
- Nonattest entity senior leadership other than the chief executive or equivalent

#### Question for respondents

7. Do you agree with the task force's preliminary conclusions regarding *covered members* in an APS (paragraphs 32–35)? If not, please explain.

## Relationships with other individuals and entities associated with the APS that may create threats to independence

36. The task force recognizes that APSs continue to evolve; therefore, a one-size-fits-all set of rules is not appropriate. However, the task force believes there are some relationships that, if present, impair *independence*. Because numerous scenarios may arise where facts and circumstances vary, *members* will be required to use significant professional judgment when applying any APS guidance.

### ***Relationships that will impair independence***

37. The task force has identified relationships with other individuals and entities associated with the APS beyond the scope of *covered members* and *network firms* that may create *threats to independence*. The relationships and circumstances the task force believes impair *independence* may differ by investment type (that is, *significant influence* or *controlling investment*) (paragraphs 38–41).

38. When the investor holds a *significant influence* or *controlling* investment in the nonattest entity, an undue influence *threat* to independence exists that it is too significant to overcome with the application of *safeguards* if any of the following are in a *key position* at an *attest client*:

- Nonattest entity board members
- General partner of the fund that holds the investment in the nonattest entity
- Key stakeholders of the investor

The task force believes that key stakeholders have the ability to influence the board of the nonattest entity through ownership or advising or appointing nonattest entity board members.

#### Question for respondents

8. Do you agree with the task force's preliminary conclusion in paragraph 38? If not, please explain.

39. When the investor holds a *significant influence* or *controlling* investment in the nonattest entity, the task force believes *threats* to compliance with the “Independence Rule” are not at an *acceptable level* and cannot be reduced to an *acceptable level* through the application of *safeguards* if the attest *firm* provides an attest service to any of the following entities associated with the APS (these *threats* are due to their relationships with the nonattest entity):

- Investor (for example, PE investor)

- General partner of the fund that holds the investment in the nonattest entity
- Fund that holds the investment in the nonattest entity and other funds advised by the same registered investment adviser (RIA) or investment adviser
- RIA, investment adviser, investment management company, or fund manager of the fund that holds the investment in the nonattest entity.
- Co-investor

#### Question for respondents

9. Do you agree with the task force's preliminary conclusion in paragraph 39, including the individuals and entities listed? If not, please explain.

40. When the investor holds a *significant influence* or *controlling* investment in the nonattest entity, *threats* to compliance with the "Independence Rule" are not at an *acceptable level* and cannot be reduced to an *acceptable level* through the application of *safeguards* if the attest *firm* provides a *financial statement* attest service to an entity that invests in the investor when the entity has *significant influence* over the investor and the investment is material to the entity.

For example, if the investor is a PE investor, 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, and the LP interest allows the LP to exercise *significant influence* over the fund and is material to the LP, *threats* are not be at an *acceptable level* and cannot be reduced to an *acceptable level* through the application of *safeguards*.

#### Questions for respondents

10. Do you agree with the task force's preliminary conclusion in paragraph 40? If not, please explain.
11. Should the threshold for determining whether the attest *firm* can provide a *financial statement* attest service to an entity (for example, an LP) that invests in the investor be based on
- a. whether the entity (for example, an LP) has *significant influence* over the investor (such as a PE fund or public company) **and** the investment is material to the entity (that is, as proposed in paragraph 40); or

- b. whether the entity (for example, an LP or shareholder) has *significant influence* over the investor (such as a PE fund or public company) **or** the investment is material to the entity?

41. When the investor holds a *controlling* investment in the nonattest entity, *threats* to compliance with the “Independence Rule” are not at an *acceptable level* and cannot be reduced to an *acceptable level* through the application of *safeguards* when the attest *firm* provides a *financial statement* 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.

- When the investor is a PE investor, and the investee (that is, portfolio company) is in the same fund as the nonattest entity, threats are not at an *acceptable level* and cannot be reduced to an *acceptable level* by the application of *safeguards*. The task force’s preliminary conclusions regarding providing *financial statement* attest services to other investees of the PE investor are in paragraph 43.
- Due to the significance of the undue influence or self-interest *threat*, the task force’s preliminary conclusions are in some cases more restrictive than the requirements of the “Client Affiliates” interpretation ([ET sec. 1.224.010](#)). For example, under the “Client Affiliates” interpretation, the investee is not considered an *affiliate*<sup>7</sup> of the nonattest entity unless the investee and nonattest entity are both *controlled* by the investor and material to the investor.

#### Question for respondents

12. Do you agree with the task force’s preliminary conclusion in paragraph 41? If not, please explain.

### ***Relationships that require application of the conceptual framework***

42. The task force is recommending the application of the “Conceptual Framework for Independence” interpretation for other relationships and circumstances, including those in paragraph 43, that may create *threats* to *independence* that would not be specifically prohibited under paragraphs 38–41.
43. In evaluating *threats*, the *member* should consider the investment type (*significant influence* or *controlling*) and other relevant factors. Factors to consider when evaluating the significance of *threats* and possible *safeguards* are included in [appendix 1, table 2](#). The

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<sup>7</sup> Definition (e) of *affiliate*: A sister entity of a *financial statement attest client* if the *financial statement attest client* and sister entity are each material to the entity that *controls* both.



following are examples of such relationships and circumstances:

- The attest *firm* is determining whether it can provide an attest service to an entity associated with the APS that is not expressly prohibited under paragraphs 38–41.
- The attest *firm* knows or has reason to believe a co-investor is providing a nonattest service to an *attest client* of the attest *firm* that would impair *independence* if performed by the attest *firm*.
- The attest *firm* knows or has reason to believe that a financial, employment, or business relationship between the attest *client* and any of the following individuals who are not *covered members* exists and is not expressly prohibited under paragraph 38:
  - Nonattest entity board members who are not *covered members*
  - Nonattest entity senior leadership
  - General partner of the fund that holds the investment in the nonattest entity
  - Key stakeholders of the investor
  - Co-investors in the nonattest entity

Monitoring for these relationships should not be required, but the attest *firm* should evaluate any such relationship it becomes aware of.

#### Questions for respondents

13. Do you agree with the task force’s preliminary conclusion that the relationships and circumstances described in paragraph 43 should be evaluated under the “Conceptual Framework for Independence”? If not, please explain.
14. Are there any circumstances and relationships that would create *threats* to *independence* that the task force has not addressed but should?
15. Are there any additional factors and possible *safeguards* that should be included in [table 2?](#)

#### Relationships with other individuals and entities associated with the APS that generally do not create threats to independence

44. The task force has preliminarily concluded that relationships with certain individuals and entities associated with an APS generally do not create *threats* to *independence*. Paragraphs 45–48 describe these relationships.

45. Limited partners of the fund that holds the investment in the nonattest entity and have less than *significant influence* over the fund generally do not create *threats* to *independence*. However, a limited partner who, for example, serves on the nonattest entity board is subject to the guidance applicable to board members.
46. Immediate family members of individuals who are beyond the scope of *covered members* generally do not create *threats* to *independence*.
47. Other investees of the investor (for example, 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.

The attest firm is generally not associated with investees other than the nonattest entity, and if the investees are portfolio companies, they are separate legal entities with separate governing bodies. In the extant APS interpretation, such services are permitted in a *controlling* investment where each subsidiary is also *controlled* by the public company.

48. There is generally not a *threat* to *independence* caused by board crossover when a board member of the nonattest entity also serves on the board of another investee of the investor (for example, portfolio company), and that investee may be providing nonattest services to an *attest client* of the attest firm that would *impair independence* if performed by the attest firm.

#### Questions for respondents

16. Do you agree with the task force's preliminary conclusions related to other individuals and entities associated with the APS who would generally not create *threats* to *independence* (paragraphs 45–48)? If not, please explain.
17. Should other individuals or entities associated with the APS be included in this category?

## Two potential options to address evolving APS independence issues

### Overview

49. Though practicing in an APS with PE is the most prevalent form of APSs today, any final *independence* interpretation or guidance PEEC issues should be broad enough to apply to *firms* operating in other types of APSs beyond those with a PE investor.
50. The task force has included two draft interpretations in this discussion memorandum reflecting its preliminary analysis and conclusions set forth above that would supersede the extant “Alternative Practice Structures” interpretation under the “Independence Rule.” The first option (option 1) is presented in appendix 1; the second option (option 2) is presented in [appendix 2](#). [Appendix 3](#) presents a chart summarizing the differences between options 1 and 2.

### Option 1 ([Appendix 1](#))

51. This option involves adoption of a new APS interpretation of the “Independence Rule” to supersede the extant interpretation. It addresses *independence threats* broadly, but it also includes a specific example of an APS with PE. Nonauthoritative guidance will address specific scenarios arising in practice.
52. The proposed interpretation outlines the terminology and characteristics of an APS and provides an example of an APS with PE. It also details three steps to determine *independence*:
- Identify *network firms*.
  - Identify *covered members*.
  - Identify relationships and circumstances involving additional individuals and entities associated with the APS that create *independence threats* and apply relevant prohibitions and the “Conceptual Framework for Independence.”

### Option 2 ([Appendix 2](#))

53. This option focuses on using nonauthoritative guidance to identify *covered members* and *network firms* and apply the “Conceptual Framework for Independence” interpretation to individuals and entities beyond *covered members*. Along with the nonauthoritative guidance, it includes a proposed new APS interpretation of the “Independence Rule” to supersede the extant interpretation that addresses APSs more broadly and identifies when *independence*
-

*threats* could not be reduced to an *acceptable level* by the application of *safeguards* and, therefore, *independence* is *impaired*. The three-step process described in paragraph 52 is the same.

54. The principal difference between option 1 and option 2 is in what material is presented as authoritative (that is, contained in the new interpretation) versus nonauthoritative guidance. Option 1 specifies which individuals and entities meet the definitions of *covered member* and *network firm* within the interpretation (that is, using authoritative guidance), whereas option 2 uses nonauthoritative guidance. Additionally, under option 2, nonauthoritative guidance will assist *members* in applying the “Conceptual Framework for Independence” interpretation to other relationships that may create *threats* to *independence*. Conversely, option 1 includes examples of relationships, factors to consider, and possible *safeguards* within the interpretation.
55. Authoritative guidance in the form of a new APS interpretation is still necessary in option 2 to address *threats* not currently covered in the code. The interpretation in option 2 would outline certain circumstances and relationships that impair *independence* and would be more evergreen, limiting references to specific APS types, such as those with a PE investment.

#### Questions for respondents

18. Do you agree with the three-step process for identifying, evaluating, and, where possible, mitigating *threats* to *independence* in an APS described in paragraph 52? If not, please explain.
19. In general, based on paragraphs 51–55 and appendixes 1 and 2, do you prefer option 1 or option 2?
- a. If you prefer option 1 ([appendix 1](#))
- i. Are there elements of the draft interpretation that you do not believe can be operationalized? If yes, please explain which elements.
  - ii. Are there elements of the interpretation that you believe would be more appropriately presented in nonauthoritative guidance?
  - iii. Should the APS example diagram presented after [paragraph .07](#) in appendix 1

remain in the interpretation or be moved to nonauthoritative guidance as presented in appendix 2?

- iv. Should the information presented in [table 1 of appendix 1](#) be presented as a table or in paragraph form, as in [paragraphs .09–.12](#) of the example interpretation in appendix 2?
- v. Should the information presented in the conceptual framework table ([table 2](#)) be in the interpretation in appendix 1 or should it be nonauthoritative guidance as presented in appendix 2?
- vi. Are there any other aspects of option 1 you would like to address?

b. If you prefer option 2 ([appendix 2](#)):

- i. Are there any aspects of the nonauthoritative examples that you believe should be included in the interpretation?
- ii. Should the *network firms* conclusions be presented as nonauthoritative guidance as in appendix 2, or included in authoritative guidance as in appendix 1, [paragraphs .09–.12](#)?
- iii. Are the *covered member* conclusions better presented as nonauthoritative guidance as in appendix 2, or included in authoritative guidance as in appendix 1, [paragraphs .13–.15](#)?
- iv. If you believe the information in table 2 should be presented as nonauthoritative guidance, do you agree with listing the circumstances necessitating the application of the conceptual framework as they are presented in the draft interpretation in appendix 2, [paragraph .13](#)?
- v. Are there any other aspects of option 2 you would like to address?

20. Is there an approach other than option 1 or option 2 that would be more appropriate for providing *independence* guidance on APSs? If so, please describe the approach.

## Appendix 1

### Option 1 — Example APS interpretation including a PE investment

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](#)).

The following example was prepared to convey the task force’s preliminary conclusions and should not be considered authoritative.

- .01 *Members* who practice in an alternative practice structure should apply this interpretation 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 (“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 that performs other *professional services* (nonattest entity).
- b. An investor is an individual or entity that invests in, and has at least *significant influence* over, the nonattest entity. The investor could be a private equity investor (PE investor), partnership, corporate entity, or other investment vehicle. There may be one or more investors in the nonattest entity.
- c. A *significant influence* investment exists when an investor has *significant influence* over the nonattest entity but not *control*.
- d. A *controlling* investment exists when an investor has *control* over the nonattest entity.
- e. A co-investor is an individual or entity that invests in, but does not have *significant influence* or *control* over, the nonattest entity. A co-investor is not associated with other investors.
- f. Key stakeholders of the investor are individuals who represent the investor and may include owners, managing partners, founders, or principals

## Characteristics and diagram of an APS

.05 The guidance in this interpretation assumes the APS has the following characteristics.

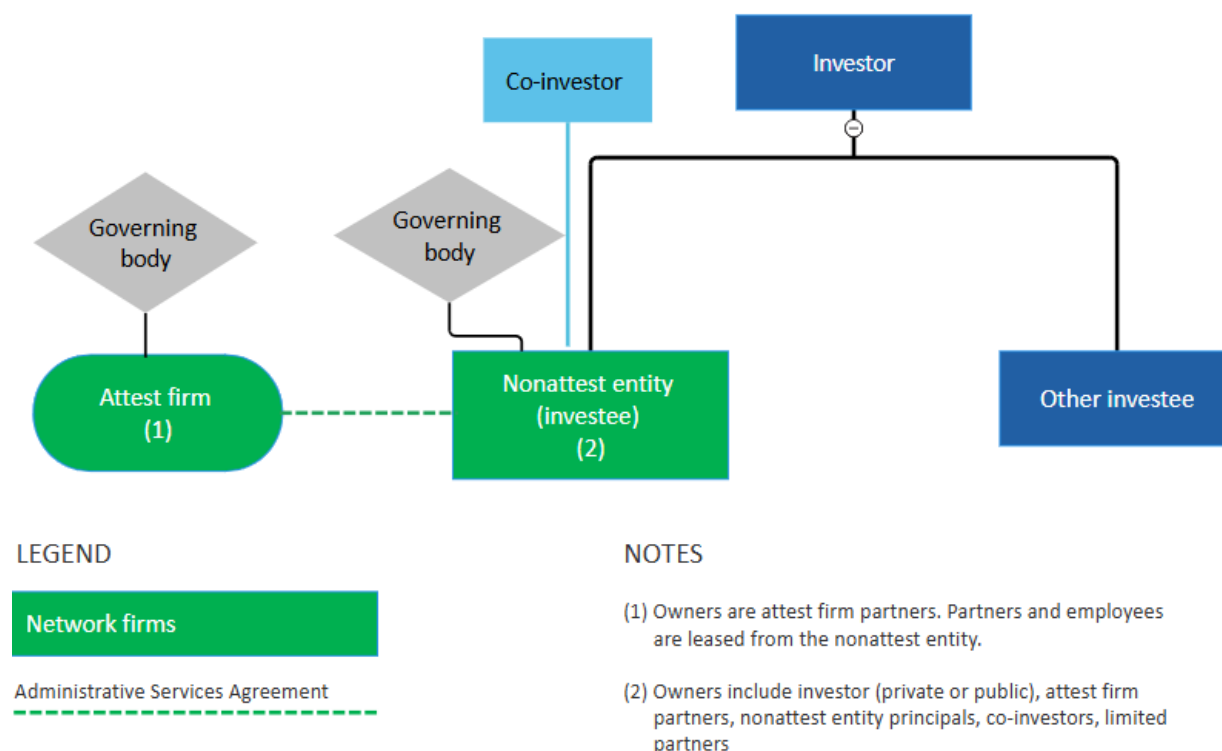
*Members, however, should apply professional judgment regarding the applicability of the concepts of the interpretation even if one or more of these characteristics vary in the member's APS.*

- a. A *firm* separates its attest practice (attest *firm*) and nonattest practice (nonattest entity) and sells a portion of its nonattest practice to an outside investor or investors. Generally, legacy *partners* of the *firm* retain an equity interest in the nonattest entity.
  - b. The outside investor has an investment that provides the investor with either *significant influence* or *control* over the nonattest entity. There may be other outside investors in the nonattest entity, including those with less than *significant influence* (co-investors) over the nonattest entity.
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- c. The attest *firm* meets the requirements of the “Council Resolution Concerning the Form of Organization and Name Rule,” 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* are also 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.” The owners of the nonattest entity may include attest *firm partners*, nonattest entity principals, investors, and co-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 its own governing body, such as a board of directors (nonattest entity board) that includes representation from the investor or co-investor oftentimes relative to its *financial interest* in 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 leadership 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.
  - g. The attest *firm* maintains an administrative services 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.
  - h. The chief executives or equivalents of the attest *firm* and nonattest entity are 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.
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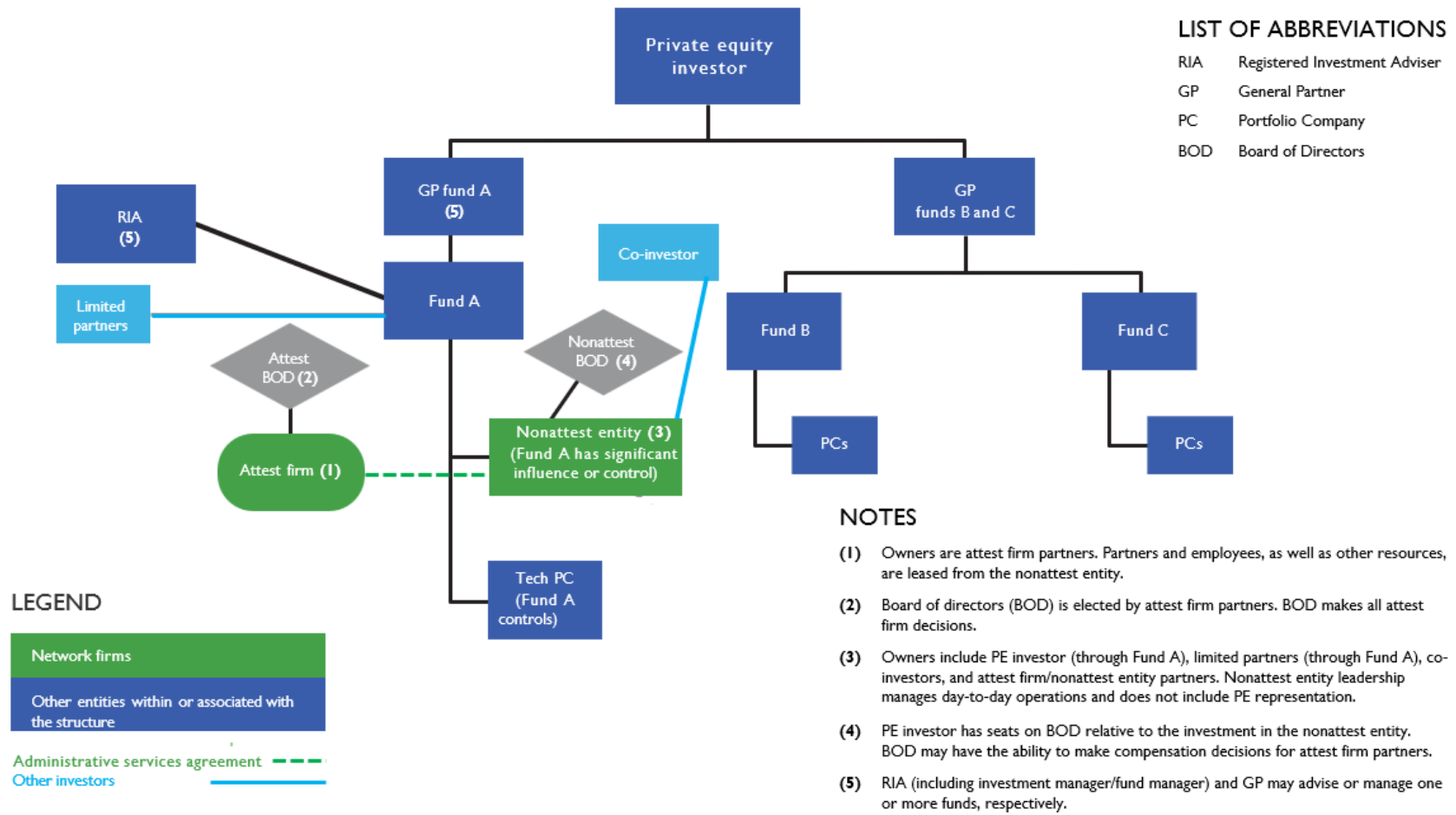


.06 The following diagram depicts an APS. The characteristics set forth in paragraph .05 are applicable.



### APS example

.07 The following diagram depicts an APS with a PE investor that has either a *significant influence* or a *controlling* investment in the nonattest entity. The investment in the nonattest entity may be held by one or more funds of the PE investor. The characteristics set forth in paragraph .05 are applicable.



## ***Interpretation***

.08 *Members* should perform the following steps when evaluating *independence* while operating in an APS.

- a. Determine which entities are *network firms*, (paragraphs .09–.12).
- b. Determine which individuals associated with the APS are *covered members*, (paragraphs .13–.15).
- c. Determine which additional relationships and circumstances associated with the APS create *threats to independence*:
  - i. Identify relationships and circumstances where *threats* would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*, and therefore *independence* would be *impaired* (table 1).
  - ii. Apply the “Conceptual Framework for Independence” interpretation [1.210.010] to any other relationships and circumstances that the *member* knows or has reason to believe may exist, such as those identified in table 2.

## ***Network firms associated with the APS***

.09 The attest *firm* and nonattest entity, including any entities *controlled* by the 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 as described in the definition of *network* [0.400.35].

- a. For *financial statement audit and review clients*, the nonattest entity, including any entities *controlled* by the nonattest entity, should comply with the “Independence Rule” and its interpretations, including any prohibitions for providing nonattest services as set forth in the “Nonattest Services” subtopic [1.295].
- b. For other *attest clients*, the *member* should apply the “Conceptual Framework for Independence” interpretation for any *threats* the *member* knows or has reason to believe may be created by the nonattest entity’s interests and relationships, including those of entities *controlled* by the nonattest entity.

.10 The investor, its funds, and other investees would generally not be considered *network firms*

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of the attest *firm* because the investor, its funds, and investees generally do not cooperate with the attest *firm* for the purpose of enhancing their capabilities to provide *professional services*.

.11 When evaluating whether a potential *network firm* relationship exists, the attest *firm* should make the determination based on the relationship of the attest *firm* to the entity in the APS that is being evaluated. For example, entities that are under common *control* with the nonattest entity would not be considered *network firms* of the attest *firm* because they are not under common control with the attest *firm* unless other characteristics of a *network* [0.400.35] exist with respect to the attest *firm*.

.12 Nonattest entity *partners*, *partner equivalents*, principals and professional employees remain subject to the interpretations of the “Independence Rule” that apply to individuals within *network firms*.

#### **Covered members associated with the APS**

.13 In addition to individuals who meet the *covered member* definition within the attest *firm* and nonattest entity, the following individuals are *covered members*.

- a. Chief executive or equivalent of the nonattest entity because this individual directly supervises or manages the *partners* of the attest *firm* as these *partners* are also employees of the nonattest entity.
- b. Nonattest entity board members who have the authority to approve the compensation of the attest *firm partners* at the individual level. If a nonattest entity board member is a *covered member* based on this criterion alone, an entity *controlled* by the nonattest entity board member [.0.400.14f] is not a *covered member* for purposes of this interpretation.

.14 Other individuals associated with the APS who should be evaluated to determine if they meet the definition of a *covered member* include the following:

- a. Nonattest entity board members who do not have the authority to approve the compensation of the attest *firm partners* at the individual level
- b. Nonattest entity senior leadership not captured in .13a–b (for example, executive committee)

.15 For individuals referenced in .14a–b who are not considered *covered members*, if the attest

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*firm* knows or has reason to believe any financial, employment, or business relationships exists between those individuals and an *attest client*, the attest *firm* should apply the “Conceptual Framework for Independence” interpretation. For factors to consider when evaluating the significance of *threats* and possible *safeguards*, refer to [table 2, item 3](#).

***Other relationships with individuals and entities associated with the APS which may create threats to independence***

.16 *Threats* to compliance with the “Independence Rule” may exist due to relationships involving individuals and entities associated with the APS that are not considered *covered members*. The following table 1 illustrates the application of this interpretation to those relationships where no *safeguards* can be applied to reduce *threats* to an acceptable level. The term prohibited means that *independence* would be *impaired* if the relationship existed.

Table 1: Relationships	Significant influence investment	Controlling Investment
<b>1. Individuals serving in a key position at attest client</b>		
a. Nonattest entity board members	Prohibited	Prohibited
b. General <i>partner</i> of the fund that holds the investment in the nonattest entity	Prohibited	Prohibited
c. Key stakeholders of the investor	Prohibited	Prohibited
<b>2. Attest firm providing any attest service</b>		
a. Investor (e.g., PE investor)	Prohibited	Prohibited
b. General <i>partner</i> of the fund that holds the investment in the nonattest entity	Prohibited	Prohibited
c. Fund that holds the investment in the nonattest entity and other funds advised by the same registered investment adviser (RIA) or investment adviser	Prohibited	Prohibited
d. RIA, investment adviser, investment management company, or fund manager of the fund that holds the investment in the nonattest entity	Prohibited	Prohibited
e. Co-investor	Prohibited	Prohibited
<b>3. Attest firm providing a financial statement attest service</b>		
a. An entity that invests in the investor when the entity has <i>significant influence</i> over the investor and the investment is material to the entity. If the investor is PE, an entity includes a limited <i>partner</i> (LP) of the fund that holds the investment in the nonattest entity if the LP interest allows the LP to exercise <i>significant influence</i> over the fund and is material to LP.	Prohibited	Prohibited
b. Investee of the investor when the investor either <b>(a)</b> has <i>significant influence</i> over the investee and the investee is material to the investor or <b>(b)</b> <i>controls</i> the investee. If the investor is PE, this applies to investees (e.g., portfolio companies) in the same fund as the nonattest entity that the investor either <b>(a)</b> has <i>significant influence</i> over and is material to the fund or <b>(b)</b> <i>controls</i> .	Apply the “Conceptual Framework for Independence” interpretation to determine if <i>threats</i> are at an <i>acceptable level</i>	Prohibited* *To determine if the <i>attest engagement</i> can be completed when (1) the <i>attest client</i> is being acquired by the investor, refer to the acquisition guidance in the “Client Affiliates” interpretation [1.224.010], or (2) when the attest firm acquires another firm that is providing <i>financial statement</i> attest services to a portfolio company, apply the “Conceptual Framework for Independence.”

.17 The following table depicts examples of relationships and circumstances when the *member* should apply the “Conceptual Framework for Independence.” The table also provides factors to consider when evaluating the significance of the *threats* and possible *safeguards*.

Table 2: Relationship/ circumstance	Factors to consider when evaluating the significance of <i>threats</i>	Possible <i>safeguards</i>
<p>1. Attest <i>firm</i> is determining whether it can provide an attest service to an investee (e.g., portfolio company) of the investor (e.g., PE investor) that is not prohibited by 3b in table 1.*</p> <p>*If an <i>attest client</i> is being acquired by the investor, the <i>member</i> should refer to the acquisition guidance in the “Client Affiliates” interpretation [1.224.010], beginning with paragraph .05 for possible <i>safeguards</i>.</p>	<ul style="list-style-type: none"> <li>• Nature of attest service and level of assurance</li> <li>• Whether the investor has <i>significant influence</i> over or <i>controls</i> the portfolio company</li> <li>• Whether the investment is material to the fund</li> <li>• Whether the portfolio company is in the same fund as the nonattest entity</li> <li>• Whether the general <i>partner</i> is the same for the portfolio company and the nonattest entity</li> <li>• Whether the portfolio company is an existing <i>attest client</i> that the investor is targeting as an acquisition</li> </ul> <p><b>Consider these additional factors in a <i>controlling investment</i>:</b></p> <ul style="list-style-type: none"> <li>• If in a different fund than the nonattest entity, whether the investor <i>controls</i> the portfolio company</li> <li>• If in a different fund than the nonattest entity, whether the attest service is a <i>financial statement</i> attest service</li> </ul>	<ul style="list-style-type: none"> <li>• The attest <i>firm</i> initiates the involvement of another professional accountant who (a) reviews the attest work that was performed by the <i>attest engagement team</i> for the <i>attest client</i> (or reviews a draft of the attest report prior to issuance) or (b) otherwise advises the <i>attest engagement team</i>. This individual could be someone from outside the <i>firm</i> or someone from within the <i>firm</i> who is not otherwise associated with the <i>attest engagement</i>.</li> <li>• The attest <i>firm</i> monitors the fund that owns the <i>attest client</i> and reevaluates <i>threats</i> if the <i>attest client</i> moves into the same fund as the nonattest entity.</li> </ul>

Table 2: Relationship/ circumstance	Factors to consider when evaluating the significance of <i>threats</i>	Possible <i>safeguards</i>
<p>2. Attest <i>firm</i> is determining whether it can provide an attest service to a general <i>partner</i>, fund, or RIA that is not prohibited by 2b–d in table 1.</p>	<ul style="list-style-type: none"> <li>• Nature of the attest service and level of assurance</li> <li>• Whether any investor representation associated with the entity is on the board of the nonattest entity</li> <li>• Whether the investor <i>controls</i> the nonattest entity</li> <li>• The materiality of the nonattest entity to the investor</li> <li>• Whether the fund is material to the investor</li> </ul>	<ul style="list-style-type: none"> <li>• The general <i>partner</i>, fund, or RIA terminates the relationship with the attest client or sufficiently limits their relationship to reduce <i>threats</i> to an <i>acceptable level</i>.</li> </ul>
<p>3. Attest <i>firm</i> knows or has reason to believe a financial, employment, or business relationship exists between the <i>attest client</i> and any of the following individuals who are not <i>covered members</i> and that is not prohibited by 1a–c in table 1.</p> <ul style="list-style-type: none"> <li>• Nonattest entity board members who are not <i>covered members</i></li> </ul>	<ul style="list-style-type: none"> <li>• Nature of the attest service and level of assurance</li> <li>• The percentage of ownership by one or more co-investors in the <i>attest client</i></li> <li>• Whether the relationship gives the individual <i>significant influence</i> over the <i>attest client</i></li> <li>• The nature of the relationship and whether it is material or significant to the individual or <i>attest client</i></li> <li>• Whether the relationship is with the <i>attest client</i>, an <i>affiliate</i>, or an individual associated with the <i>attest client</i>; and if an individual associated with the <i>attest client</i>, the role of that individual</li> <li>• Whether the relationship was entered into based on market terms or established at arm's length</li> <li>• The duration of the relationship and whether it exists during the <i>period of the professional engagement</i></li> </ul>	<ul style="list-style-type: none"> <li>• The individual recuses him or herself from discussions that involve the specific <i>attest client</i>.</li> <li>• The individual terminates the relationship with the <i>attest client</i> or sufficiently limits their relationship to reduce <i>threats</i> to an <i>acceptable level</i>.</li> <li>• The attest <i>firm</i> implements monitoring procedures for the percentage of ownership and the materiality to the individual, including acquiring affirmations.</li> <li>• The attest <i>firm</i> implements procedures to monitor the individual's relationship with the <i>attest client</i> and reevaluates <i>threats</i> if any changes occur.</li> <li>• The attest <i>firm</i> initiates the involvement of another professional accountant who (a) reviews the attest work that was performed by the <i>attest engagement team</i> for the <i>attest client</i> (or reviews a draft of the attest report prior to issuance) or (b) otherwise advises the <i>attest engagement team</i>. This individual could be someone from outside the</li> </ul>



Table 2: Relationship/ circumstance	Factors to consider when evaluating the significance of <i>threats</i>	Possible <i>safeguards</i>
<ul style="list-style-type: none"> <li>• Nonattest entity senior leadership</li> <li>• General <i>partner</i> of the fund that holds the investment in the nonattest entity</li> <li>• Key stakeholders of the investor</li> <li>• Co-investors in the nonattest entity</li> </ul>	<ul style="list-style-type: none"> <li>• Whether the subject matter of the relationship will be subject to attest procedures or <i>financial statement</i> disclosures</li> <li>• Whether the <i>attest client</i> represents a large portion of total fees of the attest <i>firm</i></li> </ul>	<i>firm</i> or someone from within the <i>firm</i> who is not otherwise associated with the <i>attest engagement</i> .

Table 2: Relationship/ circumstance	Factors to consider when evaluating the significance of <i>threats</i>	Possible <i>safeguards</i>
<p>4. Attest <i>firm</i> knows or has reason to believe a co-investor is providing a nonattest service to an <i>attest client</i> of the attest <i>firm</i> that would impair <i>independence</i> if performed by the attest <i>firm</i>.</p>	<ul style="list-style-type: none"> <li>• Whether the co-investor has a financial relationship with an <i>attest client</i> that gives the investor <i>significant influence</i> or <i>control</i> over the <i>attest client</i></li> <li>• Whether the co-investor has representation on the nonattest entity board</li> <li>• Percentage of ownership by the co-investor in the nonattest entity</li> <li>• Whether the investment in the nonattest entity is material to the co-investor</li> <li>• Nature of the prohibited nonattest service</li> <li>• Whether the fees for the nonattest services are material to the co-investor</li> <li>• Whether the subject matter of the prohibited nonattest service will be subject to attest procedures</li> <li>• Whether the prohibited nonattest service will be provided to an <i>affiliate</i> of the <i>attest client</i></li> </ul>	<ul style="list-style-type: none"> <li>• The co-investor terminates or sufficiently reduces the relationship with the <i>attest client</i>.</li> <li>• The attest <i>firm</i> implements monitoring procedures (e.g., requiring confirmations from the co-investor regarding the service provided to the <i>attest client</i>) and reevaluates <i>threats</i> if any changes occur.</li> <li>• The <i>attest client</i> engages another party to evaluate the results of the nonattest service or to reperform the nonattest service</li> <li>• The attest <i>firm</i> initiates the involvement of another professional accountant who (a) reviews the attest work that was performed by the <i>attest engagement team</i> for the <i>attest client</i> (or reviews a draft of the attest report prior to issuance) or (b) otherwise advises the <i>attest engagement team</i>. This individual could be someone from outside the <i>firm</i> or someone from within the <i>firm</i> who is not otherwise associated with the <i>attest engagement</i>.</li> </ul>

***Other relationships with individuals and entities associated with the APS that generally do not create threats to independence***

- .18 Relationships with the following individuals and entities associated with the APS generally do not create *threats to independence* in both noncontrolling and controlling investments by the investor; therefore, these individuals and entities are not subject to the “Independence Rule” and its interpretations.
- a. LPs of the fund that holds the investment in the nonattest entity if they have less than *significant influence* over the fund.
  - b. Investees of a co-investor, unless they meet the definition of *network firm*.
  - c. *Immediate family* members of individuals who are not *covered members* but who are subject to *independence* requirements. These individuals may include nonattest entity board members, general partners, key investor stakeholders, RIAs, co-investors, and LPs.
- .19 An investee (for example, portfolio company in any fund) of the investor, that is not in the attest *firm’s network*, may provide nonattest services to an attest *client* of the attest *firm* that would *impair independence* if performed by the attest *firm*.

## Appendix 2

### Option 2 — Example APS interpretation with nonauthoritative guidance including examples specific to an APS with PE

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](#))

The following example was prepared to convey the task force’s preliminary conclusions and should not be considered authoritative.

- .01 *Members* who practice in alternative practice structures should apply this interpretation 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 (“Compliance with Standards Rule” [1.310.001]) and all other provisions of the code, including “Structure and Application of the AICPA Code” [0.200].
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## **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 that performs other *professional services* (nonattest entity).
- b. An investor is an individual or entity that invests in, and has at least *significant influence* over, the nonattest entity. The investor could be a private equity investor (PE investor), partnership, corporate entity, or other investment vehicle. There may be one or more investors in the nonattest entity.
- c. A *significant influence* investment exists when an investor has *significant influence* over the nonattest entity but not *control*.
- d. A *controlling* investment exists when an investor has *control* over the nonattest entity.
- e. A co-investor is an individual or entity that invests in, but does not have *significant influence* or *control* over, the nonattest entity. A co-investor is not associated with other investors.
- f. Key stakeholders of the investor are individuals who represent the investor and may include owners, managing *partners*, founders, or principals.

## **Characteristics and diagram of an APS**

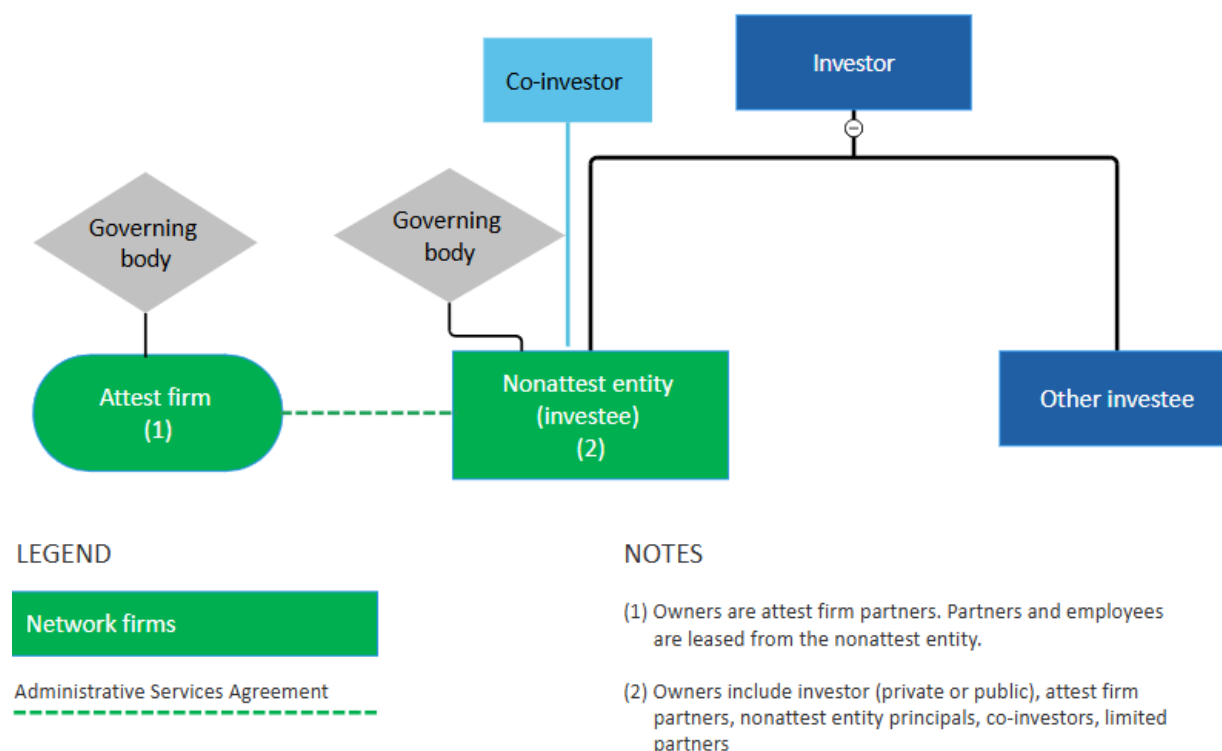
.05 The guidance in this interpretation assumes the APS has the following characteristics.

*Members*, however, should apply professional judgment regarding the applicability of 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 outside investor or investors. Generally, legacy *partners* of the accounting *firm* retain an equity interest in the nonattest entity.
  - b. The outside investor has an investment that provides the investor with either *significant influence* or *control* over the nonattest entity. There may be other outside investors in the nonattest entity, including those with less than *significant influence* (co-investors) over the nonattest entity.
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- c. The attest *firm* meets the requirements of the “Council Resolution Concerning the Form of Organization and Name Rule,” 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 are also 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.” The owners of the nonattest entity may include attest *firm* partners, nonattest entity principals, investors, and co-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 its own governing body, such as a board of directors (nonattest entity board) that includes representation from the investor or co-investor oftentimes relative to its *financial interest* in 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 leadership 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.
  - g. The attest *firm* maintains an administrative services agreement with the nonattest entity compensating the nonattest entity for administrative support and for leasing employees, equipment, office space, and other resources.
  - h. The chief executives or equivalents of the attest *firm* and nonattest entity are 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.
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.06 The following diagram depicts an APS applying the characteristics in .05:



### Interpretation

.07 When operating in an APS, *members* should first determine

- which entities are *network firms* and apply the “Network and Network Firms” interpretation [1.220.010] to those entities.
- which individuals associated with the APS are *covered members* and apply the “Independence Rule” and its interpretations to those individuals.

.08 *Threats* to compliance with the “Independence Rule” may exist beyond those addressed by the “Network and Network Firms” interpretation and the *covered member* definition.

- Relationships and circumstances where *threats* would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*, and therefore *independence* would be impaired (paragraphs .09–.12).

- b. Other relationships and circumstances that the *member* knows or has reason to believe exist should be evaluated to determine if *threats* could be reduced to an *acceptable level*, including the examples in paragraph .13.

.09 When the investor holds a *significant influence* or *controlling* investment in the nonattest entity, *threats* to compliance with the “Independence Rule” would not be at an *acceptable level* and could not be reduced to an *acceptable level* through the application of *safeguards* if any of the following individuals are in a *key position* at an *attest client*.

- a. Nonattest entity board members
- b. General *partner* of the fund that holds the investment in the nonattest entity
- c. Key stakeholders of the investor

.10 When the investor holds a *significant influence* or *controlling* investment in the nonattest entity, *threats* to compliance with the “Independence Rule” would not be at an *acceptable level* and could not be reduced to an *acceptable level* through the application of *safeguards* when the attest *firm* provides an attest service to one of the following entities associated with the APS.

- a. Investor
- b. General *partner* of the fund that holds the investment in the nonattest entity
- c. Fund that holds the investment in the nonattest entity and other funds advised by the same registered investment adviser (RIA) or investment adviser
- d. RIA, investment adviser, investment management company, or fund manager of the fund that holds the investment in the nonattest entity
- e. Co-investors

.11 When the investor holds a *significant influence* or *controlling* investment in the nonattest entity, *threats* to compliance with the “Independence Rule” would not be at an *acceptable level* and could not be reduced to an *acceptable level* through the application of *safeguards* when the attest *firm* provides a *financial statement* attest service to an entity that holds an investment in an investor that allows the entity to exercise *significant influence* over the investor and is material to the entity.

.12 When the investor holds a *controlling* investment in the nonattest entity, *threats* to compliance with the “Independence Rule” would not be at an *acceptable level* and could not be reduced to an *acceptable level* through the application of *safeguards* when the attest *firm*

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provides a *financial statement* 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.

- a. To determine if the *attest engagement* can be completed when an *attest client* is being acquired by the investor, refer to the acquisition guidance in the “Client Affiliates” interpretation [1.224.010].
- b. To determine if the *attest engagement* can be completed when the attest *firm* acquires another *firm* that is providing a *financial statement* attest service to an investee of the investor, apply the “Conceptual Framework for Independence.”

.13 *Members* should also consider other relationships and circumstances that may create *threats* to *independence*. In evaluating *threats*, the *member* should consider the investment type (*significant influence* or *controlling*) and other relevant factors. The following are examples of such *threats* and circumstances that require the application of the “Conceptual Framework for Independence.”

- a. The attest *firm* is determining if it can provide an attest service to another entity associated with the APS, other than an investee, that is not prohibited by paragraph .10.
- b. The attest *firm* is determining if it can provide an attest service to an investee of the investor that is not prohibited by paragraphs .11 and .12.
- c. The attest *firm* knows or has reason to believe that a co-investor is providing a nonattest service to an *attest client* of the attest *firm* that would impair *independence* if performed by the attest *firm*.
- d. The attest *firm* knows or has reason to believe that a financial, employment, or business relationship exists between the *attest client* and any of the following individuals who are not *covered members* and that is not prohibited by paragraph .09.
  - i. Nonattest entity board members who are not *covered members*
  - ii. Nonattest entity senior leadership
  - iii. General *partner* of the fund that holds the investment in the nonattest entity
  - iv. Key stakeholders of the investor

v. Co-investors in the nonattest entity

.14 Relationships with the following individuals and entities associated with the APS generally do not create *threats to independence* in both *significant influence* and *controlling* investments and, therefore, these individuals and entities are not subject to the “Independence Rule” and its interpretations.

- a. Limited partners of the fund that holds the investment in the nonattest entity with less than *significant influence* over the fund.
- b. Investees of a co-investor, unless they meet the definition of a *network firm*.
- c. *Immediate family* members of individuals who are not *covered members* but who are subject to *independence* requirements. These individuals may include nonattest entity board members, general *partners*, key investor stakeholders, registered investment advisers, co-investors, and limited partners.

.15 An investee of the investor that is not in the attest *firm’s network* may provide a nonattest service to an *attest client* of the attest *firm* that would *impair independence* if performed by the attest *firm*.

## Examples of nonauthoritative content

### **Q&A section XXX: Network Firms Associated With an APS**

*Inquiry:* Which entities associated with an APS are *network firms*?

*Reply:* When determining which entities in an APS are *network firms*, *members* should consider the following.

- The attest *firm* and nonattest entity, including any entities *controlled* by the 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 as described in the definition of *network* [0.400.35].
  - For *financial statement* audit and review *clients*, the nonattest entity should comply with the “Independence Rule” and its interpretations, including any prohibitions on providing nonattest services as set forth in the “Nonattest Services” subtopic [1.295].
  - For other *attest clients*, the *member* should apply the “Conceptual Framework for Independence” interpretation for any *threats* the *member* knows or has reason to believe may be created by the nonattest entity’s interests and relationships.
- The investor, its funds, and portfolio companies would generally not be considered *network firms* of the attest *firm* because the investor, its funds and portfolio companies are not cooperating with the attest *firm* for the purpose of enhancing their capabilities to provide *professional services*.
- When evaluating whether a potential *network firm* relationship exists, the attest firm should determine based on the relationship of the attest firm to the entity in the APS being evaluated. For example, entities that are under common *control* with the nonattest entity would not be considered *network firms* of the attest *firm* because they are not under common control with the attest *firm* unless other characteristics of a *network* (0.400.35) exist with respect to the attest *firm*.
- Nonattest entity *partners*, *partner equivalents*, principals and professional employees remain subject to the interpretations of the “Independence Rule” that apply to individuals within *network firms*.

### **Q&A section XXX: Covered Members Associated With the APS**

*Inquiry:* Which individuals associated with an APS are *covered members*?

*Reply:* When determining which individuals associated with an APS would be *covered members*, *members* should consider the following.

- In addition to individuals who meet the *covered member* definition within the attest *firm* and nonattest entity, the following individuals are *covered members*.
  - Chief executive or equivalent of the nonattest entity because this individual directly supervises or manages the partners of the attest *firm* as these partners are also employees of the nonattest entity.
  - Nonattest entity board members who have the authority to approve the compensation of the attest *firm* partners at the individual level. If a nonattest entity board member is a *covered member* based on this criterion alone, an entity *controlled* by the nonattest entity board member (0.400.14f) is not a *covered member* for purposes of the “Alternative Practice Structures” (1.220.020) interpretation.
- Other individuals associated with the APS who should be evaluated to determine if they meet the definition of a *covered member*, include the following.
  - Nonattest entity board members who do not have the authority, whether exercised or not, to approve the compensation of the attest *firm partners* at the individual level.
  - Nonattest entity senior leadership not captured in 1. (for example, executive committee)

### **APS With PE Example and Conceptual Framework for Independence Table**

The APS example is one in which a PE investor has either a *significant influence* or *controlling* investment in the nonattest entity. The investment in the nonattest entity may be held by one or more funds of the PE investor. The table following the diagram provides examples of relationships and circumstances when the *member* should apply the “Conceptual Framework for Independence” interpretation (ET sec. 1.210.010). The table includes factors to consider when evaluating the significance of *threats* and possible *safeguards* to reduce *threats* to an *acceptable level*.

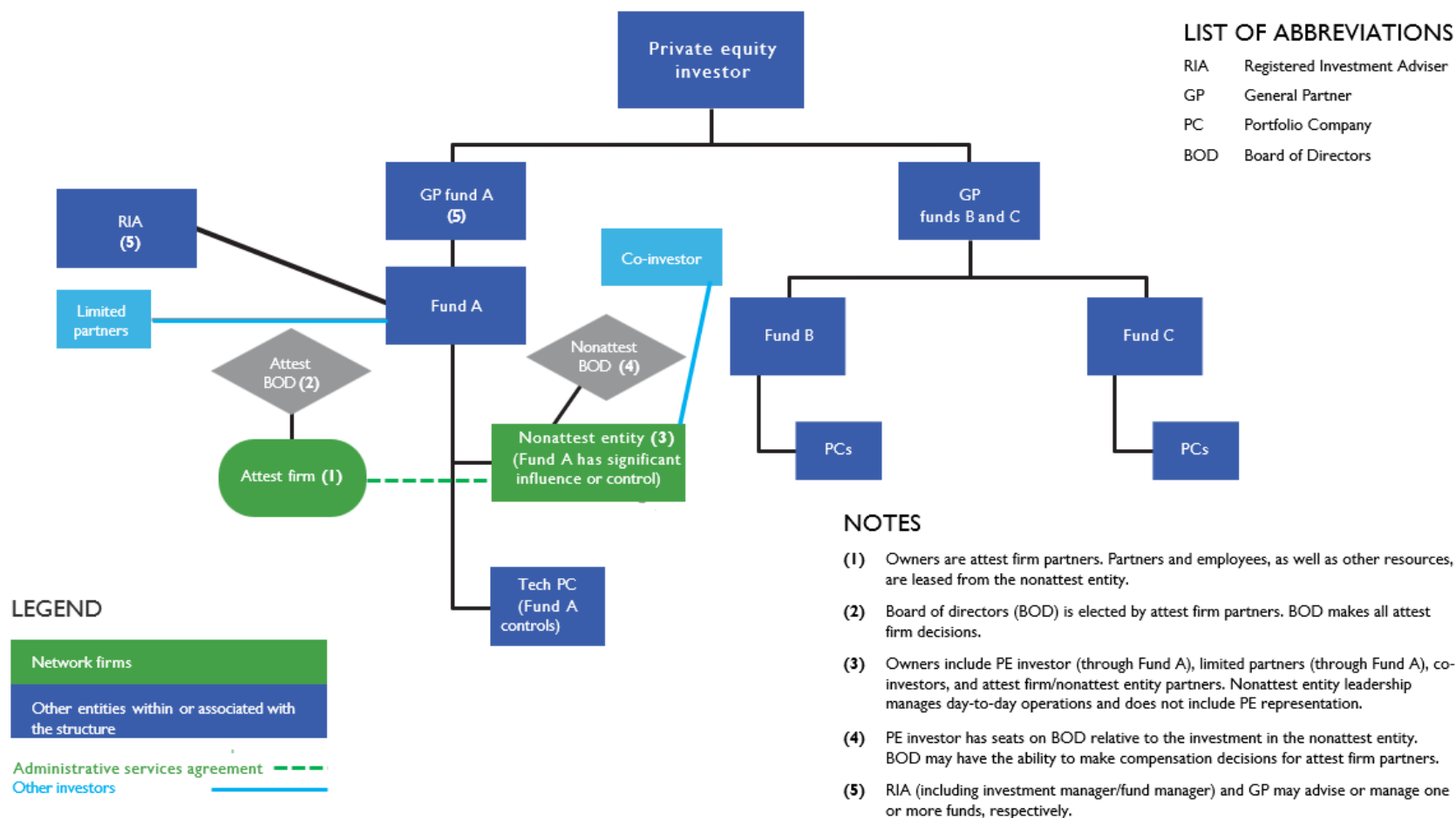


Table 2: Relationship/ Circumstance	Factors to consider when evaluating the significance of threats	Possible safeguards
<p>1. Attest <i>firm</i> is determining whether it can provide an attest service to an investee (e.g., portfolio company) of the investor (e.g., PE investor) that is not prohibited by 3b in table 1.*</p> <p>*If an <i>attest client</i> is being acquired by the investor, the <i>member</i> should refer to the acquisition guidance in the “Client Affiliates” interpretation [1.224.010] beginning with paragraph .05 for possible <i>safeguards</i>.</p>	<ul style="list-style-type: none"> <li>• Nature of attest service and level of assurance</li> <li>• Whether the investor has <i>significant influence</i> over or <i>controls</i> the portfolio company</li> <li>• Whether the investment is material to the fund</li> <li>• Whether the portfolio company is in the same fund as the nonattest entity</li> <li>• Whether the general partner is the same for the portfolio company and the nonattest entity</li> <li>• Whether the portfolio company is an existing <i>attest client</i> that the investor is targeting as an acquisition</li> </ul> <p><b>Consider these additional factors in a <i>controlling investment</i>:</b></p> <ul style="list-style-type: none"> <li>• If in a different fund than the nonattest entity, whether the investor <i>controls</i> the portfolio company</li> <li>• If in a different fund than the nonattest entity, whether the attest service is a <i>financial statement</i> attest service</li> </ul>	<ul style="list-style-type: none"> <li>• The attest <i>firm</i> initiates the involvement of another professional accountant who (a) reviews the attest work that was performed by the <i>attest engagement team</i> for the <i>attest client</i> (or reviews a draft of the attest report prior to issuance) or (b) otherwise advises the <i>attest engagement team</i>. This individual could be someone from outside the <i>firm</i> or someone from within the <i>firm</i> who is not otherwise associated with the <i>attest engagement</i>.</li> <li>• The attest <i>firm</i> monitors the fund that owns the <i>attest client</i> and reevaluates <i>threats</i> if the <i>attest client</i> moves into the same fund as the nonattest entity</li> </ul>

Table 2: Relationship/ Circumstance	Factors to consider when evaluating the significance of threats	Possible safeguards
<p>2. Attest <i>firm</i> is determining whether it can provide an attest service to a general partner, fund, or RIA that is not prohibited by 2b–d in table 1.</p>	<ul style="list-style-type: none"> <li>• Nature of the attest service and level of assurance</li> <li>• Whether any investor representation associated with the entity is on the board of the nonattest entity</li> <li>• Whether the investor <i>controls</i> the nonattest entity</li> <li>• The materiality of the nonattest entity to the investor</li> <li>• Whether the fund is material to the investor</li> </ul>	<ul style="list-style-type: none"> <li>• The general <i>partner</i>, fund, or RIA terminates the relationship with the attest client or sufficiently limits their relationship to reduce <i>threats</i> to an <i>acceptable level</i>.</li> </ul>
<p>3. Attest <i>firm</i> knows has reason to believe a financial, employment, or business relationship between the <i>attest client</i> and any of the following individuals who are not <i>covered members</i> and that is not prohibited by 1a–c in table 1.</p> <ul style="list-style-type: none"> <li>• Nonattest entity board members who are not <i>covered members</i></li> <li>• Nonattest entity senior leadership</li> </ul>	<ul style="list-style-type: none"> <li>• Nature of the attest service and level of assurance</li> <li>• The percentage of ownership by one or more co-investors in the <i>attest client</i></li> <li>• Whether the relationship gives the individual <i>significant influence</i> over the <i>attest client</i></li> <li>• The nature of the relationship and whether it is material or significant to the individual or <i>attest client</i></li> <li>• Whether the relationship is with the <i>attest client</i>, an <i>affiliate</i>, or an individual associated with the <i>attest client</i>; and if an individual associated with the <i>attest client</i>, the role of that individual</li> <li>• Whether the relationship was entered into based on market terms or established at arm's length</li> <li>• The duration of the relationship and whether it exists during the <i>period of the professional engagement</i></li> </ul>	<ul style="list-style-type: none"> <li>• The individual recuses him or herself from discussions that involve the specific <i>attest client</i>.</li> <li>• The individual terminates the relationship with the <i>attest client</i> or sufficiently limits their relationship to reduce <i>threats</i> to an <i>acceptable level</i>.</li> <li>• The attest <i>firm</i> implements monitoring procedures for the percentage of ownership and the materiality to the individuals, including acquiring affirmations.</li> <li>• The attest <i>firm</i> implements procedures to monitor the individual's relationship with the <i>attest client</i> and reevaluates <i>threats</i> if any changes occur.</li> <li>• The attest <i>firm</i> initiates the involvement of another professional accountant who (a) reviews the attest work that was performed by the <i>attest engagement team</i> for the <i>attest client</i> (or reviews a draft of the attest report prior to issuance) or (b) otherwise advises the <i>attest engagement team</i>. This individual could be someone from outside the <i>firm</i> or someone from within the <i>firm</i></li> </ul>

Table 2: Relationship/ Circumstance	Factors to consider when evaluating the significance of threats	Possible safeguards
<ul style="list-style-type: none"> <li>• General <i>partner</i> of the fund that holds the investment in the nonattest entity</li> <li>• Key stakeholders of the investor</li> <li>• Co-investors in the nonattest entity</li> </ul>	<ul style="list-style-type: none"> <li>• Whether the subject matter of the relationship will be subject to attest procedures or <i>financial statement</i> disclosures</li> <li>• Whether the <i>attest client</i> represents a large portion of total fees of the attest <i>firm</i></li> </ul>	<p>who is not otherwise associated with the <i>attest engagement</i>.</p>
<p>4. Attest <i>firm</i> knows or has reason to believe a co-investor is providing a nonattest service to an <i>attest client</i> of the attest <i>firm</i> that would <i>impair independence</i> if performed by the attest <i>firm</i>.</p>	<ul style="list-style-type: none"> <li>• Whether the co-investor has a financial relationship with an <i>attest client</i> that gives the investor <i>significant influence or control</i> over the <i>attest client</i></li> <li>• Whether the co-investor has representation on the nonattest entity board</li> <li>• Percentage of ownership by the co-investor in the nonattest entity</li> <li>• Whether the investment in the nonattest entity is material to the co-investor</li> <li>• Nature of the prohibited nonattest service</li> <li>• Whether the fees for the nonattest services are material to the co-investor</li> <li>• Whether the subject matter of the prohibited nonattest service will be subject to attest procedures</li> <li>• Whether the prohibited nonattest service will be provided to an <i>affiliate</i> of the <i>attest client</i></li> </ul>	<ul style="list-style-type: none"> <li>• The co-investor terminates or sufficiently reduces the relationship with the <i>attest client</i>.</li> <li>• The attest <i>firm</i> implements monitoring procedures (e.g., requiring confirmations from the co-investor regarding the service provided to the <i>attest client</i>) and reevaluates <i>threats</i> if any changes occur.</li> <li>• The <i>attest client</i> engages another party to evaluate the results of the nonattest service or to reperform the nonattest service.</li> <li>• The attest <i>firm</i> initiates the involvement of another professional accountant who (a) reviews the attest work that was performed by the <i>attest engagement team</i> for the <i>attest client</i> (or reviews a draft of the attest report prior to issuance) or (b) otherwise advises the <i>attest engagement team</i>. This individual could be someone from outside the <i>firm</i> or someone from within the <i>firm</i> who is not otherwise associated with the <i>attest engagement</i>.</li> </ul>



## Appendix 3

### Table summarizing the differences between the two approaches

Aspect	Option 1 ( <a href="#">Appendix 1</a> )	Option 2 ( <a href="#">Appendix 2</a> )
Scope of authoritative guidance	"Alternative Practice Structures" interpretation (ET sec. 1.220.020) that addresses APS broadly and includes guidance using an APS with PE as an example.	"Alternative Practice Structures" interpretation (ET sec. 1.220.020) that addresses APS broadly and does <b>not</b> include guidance using an APS with PE as an example.
Scope of nonauthoritative guidance	Additional nonauthoritative guidance will be developed as necessary.	Nonauthoritative guidance includes practice aids and examples specific to an APS with PE. Other nonauthoritative guidance will be developed as necessary.
Diagrams	Diagram of a generic APS and a diagram of an example APS with PE included in the interpretation.	Diagram of a generic APS included in the interpretation. Separate nonauthoritative practice aids include a diagram of an APS with PE.
Covered members	Interpretation includes examples of those who are considered covered members outside the attest firm in an APS.	Interpretation refers members to the covered member definition to determine who are covered members. Nonauthoritative guidance includes examples of covered members outside the attest firm.
Network firms	Interpretation includes examples of which entities would and would not be considered network firms and how to apply the network firms guidance in an APS.	Interpretation refers members to the <i>network firm</i> definition and interpretation to determine which entities are network firms. Nonauthoritative guidance includes examples of which

Aspect	Option 1 ( <a href="#">Appendix 1</a> )	Option 2 ( <a href="#">Appendix 2</a> )
		entities would and would not be network firms and how to apply the network firm's interpretation in an APS.
Prohibited relationships	Interpretation includes a table or text outlining the relationships that impair independence in an APS.	Interpretation includes a table or text outlining the relationships that impair independence in an APS.
Conceptual framework	Interpretation includes a table with relationships that require the application of the conceptual framework. Factors for consideration and possible safeguards included in the interpretation.	Interpretation includes a list of relationships that require applying the conceptual framework. Nonauthoritative guidance includes factors to consider and possible safeguards.
Permitted relationships	Interpretation includes relationships that generally do not create threats to independence in an APS.	Interpretation includes relationships that generally do not create threats to independence in an APS.

# Acknowledgments

## Alternative Practice Structures Task Force

Anna Dourdourekas, Co-chair

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# Washington State Board of Accountancy

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## Licensing and Regulation Committee (LARC) Update

To: Washington State Board of Accountancy

From: Kate Dixon, Chair

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### Composition:

The committee consists of the following:

Kate Dixon

Kimberly Scott

Jennifer Sciba

Mike Nelson

Brian Thomas, CPA

Tom Neill, CPA

Brooke Stegmeier, CPA

Mark Hugh, CPA

Rajib Doogar

Matt Medlin, CPA

### LARC Meeting: February 12, 2025

The committee held its first meeting and agreed upon objectives. The committee is comprised of individuals from diverse backgrounds including government, industry, public accounting, academia, and membership organizations on the local and national level. The primary goal of the committee is to address the alternative pathways being recommended in late 2024. The committee's deliverables will be the recommendation to the Board of Accountancy. This group agreed to stay adaptable due to rapidly changing legislative pathways and to consider ongoing information while maintaining the momentum of a clear pathway that leads to certainty by the 1<sup>st</sup> quarter of 2026.

A meeting was scheduled for April where Jennifer would provide updates from the Executive Directors meeting and national work group progress. The committee plans to provide a recommendation on pathways for licensure to the Board for its initial review in April, followed by continuous monitoring of legislative conditions through its completion. By presenting it to the Board early, we will maintain the momentum to be on track to provide rule implementation in the first quarter of 2026. We anticipate that there may be minor changes which can be proposed and addressed in the rule-making process. The primary goal of the Board is to address the alternative pathways introduced in late 2024 by NASBA and recommend to the Board the most beneficial action for our candidates and in line with our regulatory authority.

## **LARC Meeting: April 10, 2025**

The committee had a robust conversation about the various pathways being proposed on the national level.

As of April 8, 2025, twenty-three states have filed legislation regarding alternative pathways for licensure. Many states have eliminated the reference of 120/150 hours to bachelor/master's degree. The states will continue to require a specific amount of accounting and business semester hours in rule. The experience will be based on the amount of education.

The pathways include:

1. Bachelor's degree with a concentration in accounting and two years of experience.
2. Post-baccalaureate degree and one year of experience.
3. Bachelor's degree plus 30 hours and one year of experience.
4. Bachelor's degree and 150 credits and one year of experience (legacy pathway, which states will phase out).

## **Recommendation:**

The committee is recommending adding the following pathways into Board rules:

### **Pathway 1**

1. Bachelor's degree with an accounting concentration or equivalent, which includes:
  - a. Twenty-four semester hours (36 quarter hours) or the equivalent in accounting subjects of which at least 15 semester hours must be at the upper level or graduate level (an upper-level course is defined as a course that frequently carries completion of a lower-level course(s) as a prerequisite); and
  - b. Twenty-four semester hours (36 quarter hours) or the equivalent in business administration subjects at the undergraduate or graduate level.
2. Two years of experience consisting of a minimum of 24 months and 4,000 hours, which must be verified by an active CPA licensee who has held their license for a minimum of 5 years.

### **Pathway 2**

1. Post-baccalaureate degree with an accounting concentration or equivalent, which includes:
  - a. Twenty-four semester hours (36 quarter hours) or the equivalent in accounting subjects of which at least 15 semester hours must be at the upper level or graduate level (an upper-level course is defined as a course that frequently carries completion of a lower-level course(s) as a prerequisite); and

- 
- b. Twenty-four semester hours (36 quarter hours) or the equivalent in business administration subjects at the undergraduate or graduate level.
  2. One year of experience consists of a minimum of 12 months and 2,000 hours, which must be verified by an active CPA licensee who has held their license for a minimum of 5 years.

**Pathway 3 – With a 2030 review date**

1. Bachelor's degree (150 credits) with an accounting concentration or equivalent, which includes:
  - a. Twenty-four semester hours (36 quarter hours) or the equivalent in accounting subjects of which at least 15 semester hours must be at the upper level or graduate level (an upper-level course is defined as a course that frequently carries completion of a lower-level course(s) as a prerequisite); and
  - b. Twenty-four semester hours (36 quarter hours) or the equivalent in business administration subjects at the undergraduate or graduate level.
2. One year of experience consists of a minimum of 12 months and 2,000 hours, which must be verified by an active CPA licensee who has held their license for a minimum of 5 years.



STATE OF WASHINGTON  
DEPARTMENT OF ENTERPRISE SERVICES

1500 Jefferson Street SE, Olympia, WA 98501

March 19, 2025

**TO:** Washington State Board of Accountancy

**FROM:** Ian Shelley, Senior Financial Consultant  
DES Small Agency Financial Services

**SUBJECT:** February 2025 FINANCIAL REPORTS

February 2025 highlights

- 02J fund ended the month with a balance of \$4.139 million.
- \$291k in revenue this month.
- \$140k in expenses this month.

Biennium to date highlights

- Expenses: \$3.619 million to date.
  - \$701k underspend against allotments year to date. Underspend largely composed of:
    - EY software licenses: \$531k underspend to date.
    - Salaries/Benefits: Approx \$133k underspent to date. This will increase with Director vacancy.
- Revenues: \$4.158 million to date.
  - FY24 ended 11.3% higher than FY21. \$2.55 million FY24 versus \$2.29 million in FY21.
  - July through February FY25 has been 8.9% higher than FY22. \$1.60mil versus \$1.47mil.
  - FY25 projections are being held at 10% higher than FY22.
  - If 45% of revenues come in during March-June, following the historical average, then FY25 could end up to 16% higher. Holding at 10% increase is a middle ground.
  - March 2025 revenues through 3/18/25 are \$160k. March 2022 revenues were \$308k.

Projected BI25 end highlights

- Fund 02J balance of \$4.25 million. This is an increase from the BI25 starting balance of \$3.60 million.
- ACB is projecting to underspend authority by \$539k.

Changes from last month

- No significant changes. Revenue, expense, and fund balance projections have held steady.

Ian Shelley  
DES Small Agency Financial Services  
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**1650 - State Board of Accountancy***Allotment Expenditure/Revenue BTD Flexible***Report Number:** AEF04**Date Run:** Mar 31, 2025 11:58PM**Biennium:** 2025**As of Fiscal Month:** Mar FY2**Transactions Through:** Mar 31, 2025 8:00PM**Account:** 02J**Allotment Content:** Approved & Adjusted**Estimated Revenue Content:** Approved & Adjusted**Expenditure Content:** Cash, Accr(all)**Revenue Content:** Cash, Accr(all)

(For a complete listing of all input parameter values, please see the last page of the report)

	<b>BTD</b>	<b>BTD</b>	<b>BTD</b>	<b>BTD</b>	<b>BTD</b>	<b>Biennium</b>
	<b>Allotment</b>	<b>Disbursement</b>	<b>Accrual</b>	<b>Encumbrance</b>	<b>Variance</b>	<b>Remaining</b>
<b>By Account/Expenditure Authority</b>						
02J - Certified Public Accountants' Acct						
030 - Salaries and Expenses	4,537,357	3,678,254.92	(12,797.53)	0.00	871,899.61	1,522,542.61
<b>Total for Agency</b>	4,537,357	3,678,254.92	(12,797.53)	0.00	871,899.61	1,522,542.61
<b>By Account/Expenditure Authority</b>						
<b>By Object</b>						
A - Salaries and Wages	1,447,487	1,316,168.21	0.00	0.00	131,318.79	340,305.79
B - Employee Benefits	487,960	435,943.80	0.00	0.00	52,016.20	121,194.20
C - Professional Service Contracts	178,500	185,710.00	0.00	0.00	(7,210.00)	18,290.00
E - Goods and Services	2,351,465	1,686,796.83	(12,797.53)	0.00	677,465.70	1,014,408.70
G - Travel	54,095	52,198.82	0.00	0.00	1,896.18	9,381.18
J - Capital Outlays	17,850	1,437.26	0.00	0.00	16,412.74	18,962.74
<b>Total for Agency</b>	4,537,357	3,678,254.92	(12,797.53)	0.00	871,899.61	1,522,542.61
<b>By Object</b>						

# Fund View

Fund  
02J - CERTIFIED PUBLIC ACCOUNTANTS' ACCT  
Fund Type  
BA - SPECIAL REVENUE FUNDS  
Agency  
1650 - STATE BOARD OF ACCOUNTANC  
Budget Type  
A - Appropriated  
GAAP Fund Type  
B - SPECIAL REVENUE FUNDS  
Rollup Fund  
FBD - CENTRAL ADMIN AND REGULATORY FU

Treasury Type  
Treasury  
Statute  
18.04.105  
Status  
Active  
TALS Only  
No  
DOT Fund  
No

Mar 2025




Balance Date ↓	Cash Balance	Book Balance	Outstd. Warrants
03/31/2025	4,368,254.75	4,368,254.75	0.00
03/30/2025	4,336,799.75	4,336,799.75	0.00
03/29/2025	4,336,799.75	4,336,799.75	0.00
03/28/2025	4,336,799.75	4,336,799.75	0.00
03/27/2025	4,328,184.75	4,328,184.75	0.00
03/26/2025	4,328,982.24	4,322,594.75	6,387.49
03/25/2025	4,318,782.24	4,312,394.75	6,387.49
03/24/2025	4,346,345.25	4,339,957.76	6,387.49
03/23/2025	4,323,609.01	4,317,221.52	6,387.49
03/22/2025	4,323,609.01	4,317,221.52	6,387.49
03/21/2025	4,323,609.01	4,317,221.52	6,387.49
03/20/2025	4,315,561.76	4,315,561.76	0.00
03/19/2025	4,303,841.76	4,303,841.76	0.00
03/18/2025	4,285,576.76	4,285,576.76	0.00
03/17/2025	4,285,949.32	4,285,949.32	0.00
03/16/2025	4,254,934.32	4,254,934.32	0.00
03/15/2025	4,254,934.32	4,254,934.32	0.00
03/14/2025	4,254,934.32	4,254,934.32	0.00
03/13/2025	4,242,489.32	4,242,489.32	0.00
03/12/2025	4,240,663.32	4,240,663.32	0.00
03/11/2025	4,232,841.32	4,232,841.32	0.00
03/10/2025	4,254,463.73	4,254,463.73	0.00
03/09/2025	4,267,082.12	4,267,082.12	0.00
03/08/2025	4,267,082.12	4,267,082.12	0.00
03/07/2025	4,267,082.12	4,267,082.12	0.00
03/06/2025	4,257,400.31	4,257,400.31	0.00
03/05/2025	4,251,578.16	4,251,578.16	0.00
03/04/2025	4,249,783.16	4,249,783.16	0.00
03/03/2025	4,239,393.16	4,239,393.16	0.00
03/02/2025	4,216,543.16	4,216,543.16	0.00
03/01/2025	4,216,543.16	4,216,543.16	0.00

# Fund View

Fund  
20D - CPA SCHOLARSHIP TRANSFER ACCOU  
Fund Type  
BA - SPECIAL REVENUE FUNDS  
Agency  
1650 - STATE BOARD OF ACCOUNTANC  
Budget Type  
N - Nonappropriated/Nonallotted  
GAAP Fund Type  
B - SPECIAL REVENUE FUNDS  
Rollup Fund  
FBG - HIGHER EDUCATION FUND

Treasury Type  
Treasury Trust  
Statute  
28B.123.050  
Status  
Active  
TALS Only  
No  
DOT Fund  
No

Mar 2025 

Balance Date ↓	Cash Balance	Book Balance	Outstd. Warrants
03/31/2025	70,000.00	70,000.00	0.00
03/30/2025	70,000.00	70,000.00	0.00
03/29/2025	70,000.00	70,000.00	0.00
03/28/2025	70,000.00	70,000.00	0.00
03/27/2025	70,000.00	70,000.00	0.00
03/26/2025	70,000.00	70,000.00	0.00
03/25/2025	70,000.00	70,000.00	0.00
03/24/2025	70,000.00	70,000.00	0.00
03/23/2025	70,000.00	70,000.00	0.00
03/22/2025	70,000.00	70,000.00	0.00
03/21/2025	70,000.00	70,000.00	0.00
03/20/2025	70,000.00	70,000.00	0.00
03/19/2025	70,000.00	70,000.00	0.00
03/18/2025	70,000.00	70,000.00	0.00
03/17/2025	70,000.00	70,000.00	0.00
03/16/2025	70,000.00	70,000.00	0.00
03/15/2025	70,000.00	70,000.00	0.00
03/14/2025	70,000.00	70,000.00	0.00
03/13/2025	70,000.00	70,000.00	0.00
03/12/2025	70,000.00	70,000.00	0.00
03/11/2025	70,000.00	70,000.00	0.00
03/10/2025	70,000.00	70,000.00	0.00
03/09/2025	70,000.00	70,000.00	0.00
03/08/2025	70,000.00	70,000.00	0.00
03/07/2025	70,000.00	70,000.00	0.00
03/06/2025	70,000.00	70,000.00	0.00
03/05/2025	70,000.00	70,000.00	0.00
03/04/2025	70,000.00	70,000.00	0.00
03/03/2025	70,000.00	70,000.00	0.00
03/02/2025	70,000.00	70,000.00	0.00
03/01/2025	70,000.00	70,000.00	0.00

# Board of Accountancy

## Washington State

### Enforcement Report

<u>Quarterly Report (Jan 01, 2025 through Mar 31, 2025)</u>			
Complaint Workload			
	Received in Previous Period	Received in Report Period	Total
Complaints Open	14	20	34
Closed with No Action	(6)	(4)	(10)
Closed with Action Taken	(2)	(2)	(4)
<b>Complaints at End of Period</b>	<b>6</b>	<b>14</b>	<b>20</b>
Details of Complaint Closures			
Closed Disposition	Administrative	Public Harm	Total
No Action Taken	0	10	10
Revocation, Suspension, Restriction	0	0	0
Fines, costs, and other sanctions	0	1	1
Remedial Resolution (Policy 2004-1)	0	3	3
<b>Total Closed</b>	<b>0</b>	<b>14</b>	<b>14</b>

<u>Twelve-Month Lookback (Apr 01, 2024 through Mar 31, 2025)</u>			
Complaint Workload			
	Received in Previous Period	Received in Report Period	Total
Complaints Open	24	66	90
Closed with No Action	(16)	(35)	(51)
Closed with Action Taken	(8)	(11)	(19)
<b>Complaints at End of Period</b>	<b>0</b>	<b>20</b>	<b>20</b>
Details of Complaint Closures			
Closed Disposition	Administrative	Public Harm	Total
No Action Taken	0	46	46
Revocation, Suspension, Restriction	0	6	6
Fines, costs, and other sanctions	0	5	5
Remedial Resolution (Policy 2004-1)	1	5	6
<b>Total Closed</b>	<b>1</b>	<b>62</b>	<b>63</b>

# Board of Accountancy Washington State

## All complaints - resolved with and without discipline

	<u>Apr 2024 to Mar 2025</u>		<u>Apr 2023 to Mar 2024</u>	
	<i>All</i>	<i>Action Only</i>	<i>All</i>	<i>Action Only</i>
<b>Public Harm</b>				
Negligence - Attest related	2	1	0	0
Negligence, Disregard of standards	44	8	29	0
Use of Restricted Titles	9	6	6	2
Embezzlement, Theft, Breach of Fid. Duty	3	2	1	0
Breach of Confidentiality	0	0	0	0
Records Retention Causing Harm	2	0	0	0
<u>Subtotal</u>	60	17	36	2
<b>Administrative</b>				
Peer Review	1	1	0	0
<u>Subtotal</u>	1	1	0	0
<b>Total</b>	<b>61</b>	<b>18</b>	<b>36</b>	<b>2</b>

<u>Jan 01, 2025 through Mar 31, 2025</u>				
<b>CBM Report</b>				
	<b>BAP</b>	<b>Action</b>	<b>No Action</b>	<b>Total</b>
Rajib Doogar	0	0	1	1
Brooke Stegmeier	0	0	1	1
Cindy Kay	1	0	1	2
Tonia Campbell	0	0	0	0
Kate Dixon	0	0	1	1
Mark Hugh	0	1	0	1
Scott Newman	0	0	0	0
Thomas Sawatzki	0	0	2	2
Brian Thomas	0	0	0	0
None (2024-1 or no jurisdiction)	0	0	4	4
<b>Total</b>	<b>1</b>	<b>1</b>	<b>10</b>	<b>16</b>