

**Proposed Agenda  
SOUTH DAKOTA BOARD OF ACCOUNTANCY**

January 7, 2026, 9:00 a.m. (CST)

**Microsoft Teams:** [Join the meeting now](#)

Meeting ID: 231 287 096 475 94

Passcode: Yq3vQ222

**Dial in by phone:**

Conference Call Number: +1 605.679.7263

Conference Code: 910 478 806#

A. Call to Order (roll call)	Engelhart
B. Approval of Agenda	ACTION
C. Public Comment	Engelhart
D. Approval of Minutes of Meeting November 18, 2025	ACTION
E. Approval of Certificate & Firm Permits	ACTION
F. Approval of Financial Statements through November 2025	ACTION
G. Report to Board on Grades	ACTION
H. Report to Board on NASBA Ex. Dir. & Legal Counsel Conf.	ACTION
I. Executive Director's Report	Kasin

**AICPA**

J. Professional Ethics Division – Exposure Draft: Proposed revisions related to alternative practice structures	Engelhart
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**NASBA**

K. Board of Directors Meeting Minutes July 25, 2025	Engelhart
L. Board of Directors Meeting Highlights October 24, 2025	Engelhart
M. Private Equity Task Force White Paper	Engelhart

**EXECUTIVE SESSION pursuant to SDCL 1-25-2(6)**

N. Equivalent Reviews, Follow-ups Enforcement #103-26, #106-26 Consent Agreements #104-26, #108-26, #109-26 Amendment to Decision #125-25 Draft Agreed-Upon Procedure	Engelhart Kasin Kasin Doubledee Kasin
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## **DECISIONS FROM EXECUTIVE SESSION**

O. Equivalent Reviews, Follow-ups	ACTION
Enforcement #103-26, #106-26	ACTION
Consent Agreements #104-26, #108-26, #109-26	ACTION
Amendment to Decision #125-25	ACTION
Draft Agreed-Upon Procedure	ACTION

## **FUTURE MEETING DATES (all times CT)**

P. Meeting Dates	
March 16, 2026 – 9:00 Microsoft Teams	
April 30, 2026 – 9:00 Microsoft Teams	
Q. Adjournment	

**Meeting Minutes**  
**SOUTH DAKOTA BOARD OF ACCOUNTANCY**  
Meeting via Microsoft Teams  
November 18, 2025 9:00 a.m. CST

Chair Holly Engelhart called the meeting to order at 9:00 a.m. Roll call was taken. A quorum was present.

**Members Present:** Jay Tolsma, Russell Olson, Kelly Klein, Priscilla Romkema, Cathy Harr, and Holly Engelhart.

**Others Present:** Nicole Kasin, Executive Director; Julie Iverson, Licensing Administrator; Jennifer Doubledee, DLR Staff Attorney; and Bob Mercer, Keloland News.

Chair Engelhart asked if there were any additions to the agenda:

Additions to Executive Session Consent Agreements

Verbal modification to the agenda that the 9:00 hearing was cancelled due to a signed consent agreement to be reviewed in executive session.

Olson made a motion to approve the modified agenda with additions. Romkema seconded the motion. **MOTION PASSED.**

The Board welcomed the new board members, Kelly Klein and Cathy Harr.

The Chair opened the floor for public comment. No comments were received.

Olson made a motion to approve the August 13, 2025 meeting minutes. Tolsma seconded the motion. **MOTION PASSED.**

Tolsma made a motion to approve the September 30, 2025 meeting minutes. Romkema seconded the motion. **MOTION PASSED.**

Olson made a motion to approve contested case hearing 117-25 minutes. Tolsma seconded the motion. **MOTION PASSED.**

Tolsma made a motion to approve contested case hearing 123-25 minutes. Romkema seconded the motion. **MOTION PASSED.**

Tolsma made a motion to approve the issuance of certificates and firm permits through November 12, 2025. Olson seconded the motion. **MOTION PASSED.**

Olson made a motion to approve the financial statements through October 2025. Romkema seconded the motion. **MOTION PASSED.**

The Board discussed Natalie Neuharth's request for a second CPE extension.

Tolsma made a motion to grant the second CPE extension request from Natalie Neuharth through December 31, 2025, based on Neuharth meeting the requirements of ARSD 20:75:04:10. Olson seconded the motion. **MOTION PASSED.**

Executive Director Kasin discussed her report on annual renewals for individuals and firms, CPE extensions, CPE audits, the Board office move, NASBA/AICPA approved updates to Section 5 and 23 of UAA, recap of the NASBA Annual Conference held October 26 – 28, 2025, NASBA Committee appointments, NASBA Executive Director representative reappointment to the AICPA Board of Examiners, NASBA future meeting dates, and states proposals on the pathways for licensure.

The Board took a break from 9:41 to 9:45.

The regular meeting of the board was suspended at 9:45 a.m. for the contested case hearing for Michael Nieman, case no. 125-25. See minutes of administrative hearings for action taken.

The regular meeting of the Board was reconvened at 10:52 a.m.

The Board discussed the NASBA Board of Directors meeting minutes from April 25, 2025 and May 7, 2025; the Board of Directors meeting highlights from July 25, 2025; the NASBA Bylaws 2025 Proposed Revisions; and the Exposure Draft – Statement on Standards for CPE Programs.

The Private Equity Task Force White Paper was tabled until the next meeting.

Tolsma made a motion at 11:03 a.m. to enter executive session in accordance with SDCL 1-25-2(6) for peer reviews, follow-ups, and consent agreements. Harr seconded the motion. **MOTION PASSED.**

The Board came out of executive session at 11:25 a.m.

Olson made a motion to accept the peer reviews and follow-ups as discussed in executive session. Romkema seconded the motion. **MOTION PASSED.**

Tolsma made a motion to accept the consent agreements as discussed in executive session. Olson seconded the motion. **MOTION PASSED.**

**FUTURE MEETING DATES** (all times CT)

January 7, 2026 – 9:00 a.m. Teams

March 16, 2026 – 9:00 a.m. Teams

April 30, 2026 – 9:00 a.m. Teams

Romkema made a motion to adjourn the meeting. Olson seconded the motion. **MOTION PASSED.**

All business having come before the board was concluded and Chair Engelhart adjourned the meeting at 11:37 a.m.

**CERTIFIED PUBLIC ACCOUNTANT CERTIFICATES  
BOARD COPY**

**Issued Through December 30, 2025**

Number	Name	Date Issued	Location
3769	Cole Robert Van Zee	11/20/25	Sioux Falls, SD
3770	Noraa Jane Vaughn	12/01/25	Sioux Falls, SD
3771	Matthew August Edward Schoessow	12/12/25	Sioux Falls, SD
3772	Elaine Carol Gotto	12/12/25	Denison, IA
3773	Isaac William McCormick	12/15/25	Sioux Falls, SD
3774	Irina Mazan	12/16/25	Sioux Falls, SD
3775	Andrew John Nesheim	12/22/25	Sioux Falls, SD
3776	Cooper Daniel Hansen	12/23/25	Sioux Falls, SD
3777	Valerie Ann Kaiser	12/30/25	Yankton, SD
3778	Mario Alberto Hernandez	12/30/25	Victoria, TX

**FIRM PERMITS TO PRACTICE PUBLIC ACCOUNTANCY  
BOARD COPY**

**Issued Through  
December 30, 2025**

<b>Number</b>	<b>Name</b>	<b>Date Issued</b>	<b>Basis/Comments</b>
1829	Simple Solutions Tax & Accounting, PLLC Waverly, SD	10/18/25	New Firm
1830	Brady Martz, PLLC Grand Forks, ND	10/18/25	New Firm
1831	Murphy, Miller & Baglieri, LLP Glen Rock, NJ	12/30/25	New Firm
1832	KRSP Advisory LLC Sturgis, SD	12/30/25	New Firm
1833	Blom, P.C. Rapid City, SD	12/30/25	New Firm

AGENCY: 10 LABOR & REGULATION  
BUDGET UNIT: 1031 BOARD OF ACCOUNTANCY - INFO

COMPANY	CENTER	ACCOUNT	BALANCE	DR/CR	CENTER DESCRIPTION
6503	103100061802	1140000	471,136.69	DR	BOARD OF ACCOUNTANCY
COMPANY/SOURCE TOTAL 6503 618			471,136.69	DR *	
COMP/BUDG UNIT TOTAL 6503 1031			471,136.69	DR **	
BUDGET UNIT TOTAL 1031			471,136.69	DR ***	

STATE OF SOUTH DAKOTA  
 MONTHLY EXPENDITURE REPORT  
 FOR PERIOD ENDING: 11/30/2025

AGENCY 10 LABOR & REGULATION  
 BUDGET UNIT 1031 BOARD OF ACCOUNTANCY - INFO  
 CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPVL #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
COMPANY NO 6503										
COMPANY NAME PROFESSIONAL & LICENSING BOARDS										
6503	103100061802	51010100	CGEX251113	11/14/2025					3,638.78	DR
6503	103100061802	51010100	CGEX251121	11/25/2025					440.00	DR
6503	103100061802	5101010	OBJSUB: F-T EMP SAL & WAGES	11/14/2025					4,078.78	DR *
6503	103100061802	51010200	CGEX251113						2,853.63	DR
6503	103100061802	5101020	OBJSUB: P-T/TEMP EMP SAL & WAGES	11/14/2025					2,853.63	DR *
6503	103100061802	51010300	CGEX251113	11/14/2025					1,328.00	DR
6503	103100061802	5101030	OBJSUB: BOARD & COMM MBRS FEES						1,328.00	DR *
6503	103100061802	5101	OBJECT: EMPLOYEE SALARIES						8,260.41	DR **
6503	103100061802	51020100	CGEX251113	11/14/2025					547.99	DR
6503	103100061802	51020100	CGEX251121	11/25/2025					33.66	DR
6503	103100061802	5102010	OBJSUB: 5102010 OASI-EMPLOYER'S SHARE	11/14/2025					581.65	DR *
6503	103100061802	51020200	CGEX251113	11/14/2025					344.05	DR
6503	103100061802	51020200	CGEX251121	11/25/2025					26.40	DR
6503	103100061802	5102020	OBJSUB: 5102020 RETIREMENT-ER SHARE	11/14/2025					370.45	DR *
6503	103100061802	51020600	CGEX251113	11/14/2025					1,073.28	DR
6503	103100061802	5102060	OBJSUB: 5102060 HEALTH/LIFE INS.-ER SHARE	11/14/2025					1,073.28	DR *
6503	103100061802	51020800	CGEX251113	11/14/2025					9.74	DR
6503	103100061802	51020800	CGEX251121	11/25/2025					.66	DR
6503	103100061802	5102080	OBJSUB: 5102080 WORKER'S COMPENSATION	11/14/2025					10.40	DR *
6503	103100061802	51020900	CGEX251113	11/14/2025					3.11	DR
6503	103100061802	51020900	CGEX251121	11/25/2025					.21	DR
6503	103100061802	5102090	OBJSUB: 5102090 UNEMPLOYMENT COMPENSATION	11/19/2025	192189				3.32	DR *
6503	103100061802	5102	OBJECT: 5102 EMPLOYEE BENEFITS						2,039.10	DR **
6503	103100061802	51	GROUP: 51 PERSONAL SERVICES						10,299.51	DR ***
6503	103100061802	52032300	CGEX251118	11/19/2025	192189				103.60	DR
6503	103100061802	5203230	OBJSUB: 5203230 AUTO-PRIV. (OUT-STATE) H/R	11/19/2025	192191				103.60	DR *
6503	103100061802	52032600	CGEX251118	11/19/2025	192188				662.47	DR
6503	103100061802	52032600	CGEX251118	11/19/2025	192189				515.94	DR
6503	103100061802	52032600	CGEX251118	11/19/2025	192189				348.96	DR
6503	103100061802	5203260	OBJSUB: 5203260 AIR-COMM-OUT-OF-STATE	11/19/2025	192191				1,527.37	DR *
6503	103100061802	52032800	CGEX251118	11/19/2025	192188				97.00	DR
6503	103100061802	52032800	CGEX251118	11/19/2025	192189				75.89	DR
6503	103100061802	52032800	CGEX251118	11/19/2025	192189				47.94	DR
6503	103100061802	5203280	OBJSUB: 5203280 OTHER-PUBLIC-OUT-OF-STATE	11/19/2025	192189				220.83	DR *
6503	103100061802	52033000	CGEX251118	11/19/2025	192189				968.58	DR

STATE OF SOUTH DAKOTA  
 MONTHLY EXPENDITURE REPORT  
 FOR PERIOD ENDING: 11/30/2025

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 CENTER-5 10310 BOARD OF ACCOUNTANCY

COMP	CENTER	ACCOUNT	DOCUMENT NUMBER	POSTING DATE	JV APPVL #, OR PAYMENT #	SHORT NAME	VENDOR NUMBER	VENDOR GROUP	AMOUNT	DR/CR
6503	103100061802	52033000	CGEX251118	11/19/2025	192188				968.58	DR
6503	103100061802	52033000	CGEX251118	11/19/2025	192191				968.58	DR
		OBJSUB: 52033000 LODGING/OUT-OF-STATE							2,905.74	DR *
6503	103100061802	52033200	CGEX251118	11/19/2025	192188				48.00	DR
6503	103100061802	52033200	CGEX251118	11/19/2025	192189				35.00	DR
		OBJSUB: 52033200 INCIDENTALS-OUT-OF-STATE							83.00	DR *
6503	103100061802	52033500	CGEX251118	11/19/2025	192189				94.00	DR
6503	103100061802	52033500	CGEX251118	11/19/2025	192191				92.00	DR
6503	103100061802	52033500	CGEX251118	11/19/2025	192188				92.00	DR
		OBJSUB: 52033500 NON-TAXABLE MEALS/OUT-ST							278.00	DR *
		OBJECT: 5203 TRAVEL							5,118.54	DR **
6503	103100061802	52040500	24-1000-02510693	11/14/2025	00996730	GLSOLUTION	12290765		6,711.16	DR
		OBJSUB: 5204050 COMPUTER CONSULTANT							6,711.16	DR *
6503	103100061802	52041800	DP610099	11/21/2025					961.05	DR
		OBJSUB: 5204180 COMPUTER SERVICES-STATE							961.05	DR *
6503	103100061802	52042000	PL610063	11/14/2025					429.94	DR
		OBJSUB: 5204200 CENTRAL SERVICES							429.94	DR *
6503	103100061802	52045300	TL610051	11/25/2025					123.00	DR
6503	103100061802	52045300	8381416X10242025	11/05/2025	00085869	ATTMOBILIT	12279233		101.56	DR
		OBJSUB: 5204530 TELECOMMUNICATIONS SRVCS							224.56	DR *
6503	103100061802	52045400	C106-099	11/19/2025	416124				32.09	CR
		OBJSUB: 5204540 ELECTRICITY							32.09	CR *
6503	103100061802	52047400	CI106A-016	11/19/2025	415744				94.74	DR
		OBJSUB: 5204740 BANK FEES AND CHARGES							94.74	DR *
6503	103100061802	52049600	1326	11/21/2025	00997467	NATIONALAS	12005047		7,494.94	DR
		OBJSUB: 5204960 OTHER CONTRACTUAL SERVICE							7,494.94	DR *
		OBJECT: 5204 CONTRACTUAL SERVICES							15,884.30	DR **
6503	103100061802	52050200	IN4982901	11/21/2025	02635159	INNOVATIVE	12550348		25.45	DR
6503	103100061802	52050200	IN4983621	11/21/2025	02635159	INNOVATIVE	12550348		44.89	DR
		OBJSUB: 5205020 OFFICE SUPPLIES							70.34	DR *
6503	103100061802	52053500	E106-087	11/05/2025					168.59	DR
6503	103100061802	52053500	8022-7641	11/07/2025	02632764	QUALIFIEDP	12011039		69.21	DR
6503	103100061802	52053500	8341-7705	11/07/2025	02632764	QUALIFIEDP	12011039		32.52	DR
		OBJSUB: 5205350 POSTAGE							270.32	DR *
		OBJECT: 5205 SUPPLIES & MATERIALS							340.66	DR **
6503	103100061802	52079010	1XNH-FK14-6M7Y	11/14/2025	00996796	AMAZONAPI	12603089		104.04	DR

STATE OF SOUTH DAKOTA  
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6503	103100061802	5228000	OBJSUB: 5207901 COMPUTER HARDWARE OBJECT: 5207 CAPITAL OUTLAY T106-033	11/07/2025					104.04 104.04 1,230.55	DR * DR ** DR
			OBJSUB: 5228000 OPER TRANS OUT -NON BUDGT OBJECT: 5228 NONOP EXP/NONBGTD OP TR GROUP: 52 OPERATING EXPENSES COMP: 6503 CNTR: 103100061802 B. UNIT: 1031						1,230.55 1,230.55 22,678.09 32,977.60 32,977.60 32,977.60	DR * DR ** DR *** DR **** DR ***** DR *****

# South Dakota Board of Accountancy

## Balance Sheet

As of November 30, 2025

12/03/25

Nov 30, 25

### ASSETS

<b>Current Assets</b>	
<b>Checking/Savings</b>	
1130000 · Local Checking - FIB	396.46
1140000 · Pool Cash State of SD	<u>471,136.69</u>
<b>Total Checking/Savings</b>	<u>471,533.15</u>
<b>Other Current Assets</b>	
1131000 · Interest Income Receivable	17,899.21
1213000 · Investment Income Receivable	<u>2,454.43</u>
<b>Total Other Current Assets</b>	<u>20,353.64</u>
<b>Total Current Assets</b>	<u>491,886.79</u>
<b>Fixed Assets</b>	0.00
<b>TOTAL ASSETS</b>	<b><u>491,886.79</u></b>

### LIABILITIES & EQUITY

<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Accounts Payable</b>	
2110000 · Accounts Payable	8,765.52
<b>Total Accounts Payable</b>	<u>8,765.52</u>
<b>Other Current Liabilities</b>	
2430000 · Accrued Wages Payable	16,728.24
2810000 · Amounts Held for Others	<u>44,480.85</u>
<b>Total Other Current Liabilities</b>	<u>61,209.09</u>
<b>Total Current Liabilities</b>	<u>69,974.61</u>
<b>Long Term Liabilities</b>	
2960000 · Compensated Absences Payable	45,669.30
<b>Total Long Term Liabilities</b>	<u>45,669.30</u>
<b>Total Liabilities</b>	<u>115,643.91</u>
<b>Equity</b>	
3220000 · Net Position	317,825.02
3900 · Retained Earnings	-166,798.74
Net Income	<u>225,216.60</u>
<b>Total Equity</b>	<u>376,242.88</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b><u>491,886.79</u></b>

**South Dakota Board of Accountancy**  
**Profit & Loss Budget vs. Actual**  
July through November 2025

	Jul - Nov 25	Budget	\$ Over Budget	% of Bud...
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	3,050.00	3,400.00	-350.00	89.7%
4293551 · Certificate Renewals-Active	122,800.00	111,350.00	11,450.00	110.3%
4293552 · Certificate Renewals-Inactive	33,100.00	30,770.00	2,330.00	107.6%
4293553 · Certificate Renewals-Retired	4,080.00	4,200.00	-120.00	97.1%
4293554 · Initial Firm Permits	900.00	1,275.00	-375.00	70.6%
4293555 · Firm Permit Renewals	28,000.00	25,500.00	2,500.00	109.8%
4293557 · Initial Audit	280.00	700.00	-420.00	40.0%
4293558 · Re-Exam Audit	1,070.00	1,800.00	-730.00	59.4%
4293560 · Late Fees-Initial Certificate	600.00	0.00	600.00	100.0%
4293561 · Late Fees-Certificate Renewals	3,600.00	3,000.00	600.00	120.0%
4293563 · Late Fees-Firm Permit Renewals	1,000.00	500.00	500.00	200.0%
4293564 · Late Fees-Peer Review	1,025.00	1,300.00	-275.00	78.8%
4293566 · Firm Permit Owners	173,215.00	203,500.00	-30,285.00	85.1%
4293567 · Peer Review Admin Fee	1,200.00	5,500.00	-4,300.00	21.8%
4293568 · Firm Permit Name Change	0.00	100.00	-100.00	0.0%
4293569 · Initial FAR	900.00	960.00	-60.00	93.8%
4293570 · Initial REG	280.00	540.00	-260.00	51.9%
4293571 · Initial BEC	0.00	0.00	0.00	0.0%
4293572 · Re-Exam FAR	1,120.00	1,260.00	-140.00	88.9%
4293573 · Re-Exam REG	960.00	1,650.00	-690.00	58.2%
4293574 · Re-Exam BEC	0.00	0.00	0.00	0.0%
4293575 · Initial BAR	40.00	150.00	-110.00	26.7%
4293576 · Initial ISC	0.00	150.00	-150.00	0.0%
4293577 · Initial TCP	40.00	150.00	-110.00	26.7%
4293578 · Re-Exam BAR	160.00	210.00	-50.00	76.2%
4293579 · Re-Exam ISC	40.00	210.00	-170.00	19.0%
4293580 · Re-Exam TCP	640.00	210.00	430.00	304.8%
4491000 · Interest and Dividend Revenue	16,633.22	0.00	16,633.22	100.0%
4896021 · Legal Recovery Cost	2,614.91	1,000.00	1,614.91	261.5%
4920045 · Undistributed Earnings	0.00	6,000.00	-6,000.00	0.0%
4950000 · Prior Period Refund Account	243.14			
<b>Total Income</b>	<b>397,591.27</b>	<b>405,385.00</b>	<b>-7,793.73</b>	<b>98.1%</b>
<b>Gross Profit</b>	<b>397,591.27</b>	<b>405,385.00</b>	<b>-7,793.73</b>	<b>98.1%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	38,895.33	103,778.00	-64,882.67	37.5%
5101020 · P-T/Temp Emp Sal & Wages	28,401.00	58,621.00	-30,220.00	48.4%
5101030 · Board & Comm Mbrs Fees	7,470.00	11,910.00	-4,440.00	62.7%
5102010 · OASI-Employer's Share	5,217.70	12,423.00	-7,205.30	42.0%
5102020 · Retirement-ER Share	3,535.77	9,744.00	-6,208.23	36.3%
5102060 · Health /Life Ins.-ER Share	11,026.35	33,447.00	-22,420.65	33.0%
5102080 · Worker's Compensation	100.99	227.00	-126.01	44.5%
5102090 · Unemployment Insurance	30.21	162.00	-131.79	18.6%
5203010 · In State-Auto-State Owned	0.00	250.00	-250.00	0.0%
5203020 · In State-Auto-Priv. Low Miles	192.67	400.00	-207.33	48.2%
5203030 · In State-Auto-Priv. High Miles	1,360.10	1,400.00	-39.90	97.2%
5203100 · In State-Lodging	245.34	600.00	-354.66	40.9%
5203120 · In State-Incidentals to Travel	0.00	100.00	-100.00	0.0%

**South Dakota Board of Accountancy**  
**Profit & Loss Budget vs. Actual**  
**July through November 2025**

	Jul - Nov 25	Budget	\$ Over Budget	% of Bud...
5203140 · InState-Tax Meals-Not Overnight	14.00	100.00	-86.00	14.0%
5203150 · InState-Non Tax Meals-OVERNIGHT	160.00	400.00	-240.00	40.0%
5203220 · OS-Auto Private Low Mileage	0.00	0.00	0.00	0.0%
5203230 · OS-Auto Private High Mileage	260.38	200.00	60.38	130.2%
5203260 · OS-Air Commercial Carrier	4,955.57	9,000.00	-4,044.43	55.1%
5203280 · OS-Other Public Carrier	569.19	700.00	-130.81	81.3%
5203300 · OS-Lodging	7,757.68	12,500.00	-4,742.32	62.1%
5203320 · OS-Incidentals to Travel	259.00	750.00	-491.00	34.5%
5203350 · OS-Non Taxable Meals-OVERNIGHT	866.00	1,350.00	-484.00	64.1%
5204010 · Subscriptions	0.00	1,000.00	-1,000.00	0.0%
5204020 · Dues and Membership Fees	3,200.00	3,900.00	-700.00	82.1%
5204030 · Legal Document Fees	0.00	300.00	-300.00	0.0%
5204040 · Consultant Fees-Accounting	0.00	4,800.00	-4,800.00	0.0%
5204050 · Consultant Fees - Computer	13,422.32	32,000.00	-18,577.68	41.9%
5204160 · Workshop Registration Fees	2,550.00	9,500.00	-6,950.00	26.8%
5204180 · Computer Services-State	4,805.25	11,000.00	-6,194.75	43.7%
5204181 · Computer Development Serv-State	0.00	2,000.00	-2,000.00	0.0%
5204200 · Central Services	3,109.06	13,000.00	-9,890.94	23.9%
5204220 · Equipment Service & Maintenance	23.52	0.00	23.52	100.0%
5204230 · Janitorial/Maintenance Services	600.00	600.00	0.00	100.0%
5204330 · Computer Software Lease	572.05	1,000.00	-427.95	57.2%
5204360 · Advertising-Newspapers	0.00	500.00	-500.00	0.0%
5204460 · Equipment Rental	276.00	6,000.00	-5,724.00	4.6%
5204510 · Rent-Other	0.00	500.00	-500.00	0.0%
5204521 · Revenue Bond Lease Payment	13,495.66	43,650.00	-30,154.34	30.9%
5204530 · Telecommunications Services	1,155.93	5,500.00	-4,344.07	21.0%
5204540 · Electricity	170.30	400.00	-229.70	42.6%
5204560 · Water	26.85	240.00	-213.15	11.2%
5204590 · Insurance Premiums/Surety Bonds	0.00	2,500.00	-2,500.00	0.0%
5204740 · Bank Fees and Charges	7,800.79	8,650.00	-849.21	90.2%
5204960 · Other Contractual Services	3,535.25	0.00	3,535.25	100.0%
5205020 · Office Supplies	272.66	3,000.00	-2,727.34	9.1%
5205040 · Education & Instr. Supplies	0.00	500.00	-500.00	0.0%
5205310 · Printing State	0.00	100.00	-100.00	0.0%
5205320 · Printing/Duplicating/Binding Co	53.90	1,000.00	-946.10	5.4%
5205330 · Supplemental Publications	0.00	700.00	-700.00	0.0%
5205350 · Postage	312.86	2,000.00	-1,687.14	15.6%
5205540 · Finished Signs & Decals	0.00	500.00	-500.00	0.0%
5205700 · Retail Gasoline	0.00	100.00	-100.00	0.0%
5207430 · Office Machines	0.00	100.00	-100.00	0.0%
5207451 · Office Furniture & Fixtures	1,698.00	3,500.00	-1,802.00	48.5%
5207491 · Telephone Equipment	0.00	0.00	0.00	0.0%
5207900 · Computer Hardware	104.04	6,800.00	-6,695.96	1.5%
5207950 · System Development	0.00	1,000.00	-1,000.00	0.0%
5207955 · Computer Hardware Other	0.00	500.00	-500.00	0.0%
5207960 · Computer Software Expense	0.00	1,000.00	-1,000.00	0.0%
5228000 · Operating Transfers Out-NonBudg	3,872.95	11,000.00	-7,127.05	35.2%
5228030 · Depreciation Expense	0.00	0.00	0.00	0.0%
<b>Total Expense</b>	<b>172,374.67</b>	<b>436,902.00</b>	<b>-264,527.33</b>	<b>39.5%</b>
<b>Net Ordinary Income</b>	<b>225,216.60</b>	<b>-31,517.00</b>	<b>256,733.60</b>	<b>-714.6%</b>
<b>Net Income</b>	<b><u>225,216.60</u></b>	<b><u>-31,517.00</u></b>	<b><u>256,733.60</u></b>	<b><u>-714.6%</u></b>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR MONTHLY COMPARISON**  
November 2025

12/03/25  
Accrual Basis

	Nov 25	Nov 24	\$ Change	% Change
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	350.00	475.00	-125.00	-26.3%
4293551 · Certificate Renewals-Active	100.00	0.00	100.00	100.0%
4293554 · Initial Firm Permits	300.00	150.00	150.00	100.0%
4293555 · Firm Permit Renewals	100.00	0.00	100.00	100.0%
4293557 · Initial Audit	80.00	60.00	20.00	33.3%
4293558 · Re-Exam Audit	120.00	240.00	-120.00	-50.0%
4293561 · Late Fees-Certificate Renewals	100.00	0.00	100.00	100.0%
4293564 · Late Fees-Peer Review	100.00	0.00	100.00	100.0%
4293566 · Firm Permit Owners	2,225.00	325.00	1,900.00	584.6%
4293569 · Initial FAR	80.00	120.00	-40.00	-33.3%
4293570 · Initial REG	40.00	30.00	10.00	33.3%
4293572 · Re-Exam FAR	200.00	240.00	-40.00	-16.7%
4293573 · Re-Exam REG	200.00	240.00	-40.00	-16.7%
4293580 · Re-Exam TCP	120.00	0.00	120.00	100.0%
4491000 · Interest and Dividend Revenue	0.11	0.12	-0.01	-8.3%
<b>Total Income</b>	<b>4,115.11</b>	<b>1,880.12</b>	<b>2,234.99</b>	<b>118.9%</b>
<b>Gross Profit</b>	<b>4,115.11</b>	<b>1,880.12</b>	<b>2,234.99</b>	<b>118.9%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	4,078.78	10,347.87	-6,269.09	-60.6%
5101020 · P-T/Temp Emp Sal & Wages	2,853.63	8,184.25	-5,330.62	-65.1%
5101030 · Board & Comm Mbrs Fees	1,328.00	2,158.00	-830.00	-38.5%
5102010 · OASI-Employer's Share	581.65	1,448.80	-867.15	-59.9%
5102020 · Retirement-ER Share	370.45	977.15	-606.70	-62.1%
5102060 · Health /Life Ins.-ER Share	1,073.28	2,962.74	-1,889.46	-63.8%
5102080 · Worker's Compensation	10.40	31.51	-21.11	-67.0%
5102090 · Unemployment Insurance	3.32	2.97	0.35	11.8%
5203230 · OS-Auto Private High Mileage	103.60	0.00	103.60	100.0%
5203260 · OS-Air Commercial Carrier	1,527.37	1,294.48	232.89	18.0%
5203280 · OS-Other Public Carrier	220.83	120.12	100.71	83.8%
5203300 · OS-Lodging	2,905.74	1,998.06	907.68	45.4%
5203320 · OS-Incidentals to Travel	83.00	96.00	-13.00	-13.5%
5203350 · OS-Non Taxable Meals-Overnight	278.00	204.00	74.00	36.3%
5204180 · Computer Services-State	0.00	973.80	-973.80	-100.0%
5204200 · Central Services	429.94	342.02	87.92	25.7%
5204230 · Janitorial/Maintenance Services	0.00	200.00	-200.00	-100.0%
5204521 · Revenue Bond Lease Payment	0.00	1,470.00	-1,470.00	-100.0%
5204530 · Telecommunications Services	224.56	105.18	119.38	113.5%
5204540 · Electricity	-32.09	0.00	-32.09	-100.0%
5204740 · Bank Fees and Charges	94.74	74.33	20.41	27.5%
5205350 · Postage	42.54	0.00	42.54	100.0%
5207900 · Computer Hardware	104.04	0.00	104.04	100.0%
5228000 · Operating Transfers Out-NonBudg	1,230.55	806.04	424.51	52.7%
<b>Total Expense</b>	<b>17,512.33</b>	<b>33,797.32</b>	<b>-16,284.99</b>	<b>-48.2%</b>
<b>Net Ordinary Income</b>	<b>-13,397.22</b>	<b>-31,917.20</b>	<b>18,519.98</b>	<b>58.0%</b>
<b>Net Income</b>	<b>-13,397.22</b>	<b>-31,917.20</b>	<b>18,519.98</b>	<b>58.0%</b>

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
July through November 2025

12/03/25  
Accrual Basis

	Jul - Nov 25	Jul - Nov 24	\$ Change	% Change
<b>Ordinary Income/Expense</b>				
<b>Income</b>				
4293550 · Initial Individual Certificate	3,050.00	1,275.00	1,775.00	139.2%
4293551 · Certificate Renewals-Active	122,800.00	67,300.00	55,500.00	82.5%
4293552 · Certificate Renewals-Inactive	33,100.00	18,450.00	14,650.00	79.4%
4293553 · Certificate Renewals-Retired	4,080.00	1,950.00	2,130.00	109.2%
4293554 · Initial Firm Permits	900.00	400.00	500.00	125.0%
4293555 · Firm Permit Renewals	28,000.00	15,150.00	12,850.00	84.8%
4293557 · Initial Audit	280.00	180.00	100.00	55.6%
4293558 · Re-Exam Audit	1,070.00	660.00	410.00	62.1%
4293560 · Late Fees-Initial Certificate	600.00	150.00	450.00	300.0%
4293561 · Late Fees-Certificate Renewals	3,600.00	1,650.00	1,950.00	118.2%
4293563 · Late Fees-Firm Permit Renewals	1,000.00	50.00	950.00	1,900.0%
4293564 · Late Fees-Peer Review	1,025.00	250.00	775.00	310.0%
4293566 · Firm Permit Owners	173,215.00	135,340.00	37,875.00	28.0%
4293567 · Peer Review Admin Fee	1,200.00	300.00	900.00	300.0%
4293568 · Firm Permit Name Change	0.00	100.00	-100.00	-100.0%
4293569 · Initial FAR	900.00	510.00	390.00	76.5%
4293570 · Initial REG	280.00	120.00	160.00	133.3%
4293572 · Re-Exam FAR	1,120.00	780.00	340.00	43.6%
4293573 · Re-Exam REG	960.00	720.00	240.00	33.3%
4293575 · Initial BAR	40.00	90.00	-50.00	-55.6%
4293577 · Initial TCP	40.00	0.00	40.00	100.0%
4293578 · Re-Exam BAR	160.00	180.00	-20.00	-11.1%
4293579 · Re-Exam ISC	40.00	90.00	-50.00	-55.6%
4293580 · Re-Exam TCP	640.00	270.00	370.00	137.0%
4491000 · Interest and Dividend Revenue	16,633.22	18,135.48	-1,502.26	-8.3%
4896021 · Legal Recovery Cost	2,614.91	0.00	2,614.91	100.0%
4950000 · Prior Period Refund Account	243.14	0.00	243.14	100.0%
<b>Total Income</b>	<b>397,591.27</b>	<b>264,100.48</b>	<b>133,490.79</b>	<b>50.6%</b>
<b>Gross Profit</b>	<b>397,591.27</b>	<b>264,100.48</b>	<b>133,490.79</b>	<b>50.6%</b>
<b>Expense</b>				
5101010 · F-T Emp Sal & Wages	38,895.33	37,518.27	1,377.06	3.7%
5101020 · P-T/Temp Emp Sal & Wages	28,401.00	28,923.88	-522.88	-1.8%
5101030 · Board & Comm Mbrs Fees	7,470.00	8,134.00	-664.00	-8.2%
5102010 · OASI-Employer's Share	5,217.70	5,211.37	6.33	0.1%
5102020 · Retirement-ER Share	3,535.77	3,531.03	4.74	0.1%
5102060 · Health /Life Ins.-ER Share	11,026.35	10,965.19	61.16	0.6%
5102080 · Worker's Compensation	100.99	112.91	-11.92	-10.6%
5102090 · Unemployment Insurance	30.21	10.59	19.62	185.3%
5203010 · In State-Auto-State Owned	0.00	0.00	0.00	0.0%
5203020 · In State-Auto-Priv. Low Miles	192.67	170.21	22.46	13.2%
5203030 · In State-Auto-Priv. High Miles	1,360.10	1,607.37	-247.27	-15.4%
5203100 · In State-Lodging	245.34	467.14	-221.80	-47.5%
5203140 · InState-Tax Meals-Not Overnight	14.00	42.00	-28.00	-66.7%
5203150 · InState-Non Tax Meals-Overnight	160.00	174.00	-14.00	-8.1%
5203220 · OS-Auto Private Low Mileage	0.00	108.08	-108.08	-100.0%
5203230 · OS-Auto Private High Mileage	260.38	1,399.24	-1,138.86	-81.4%
5203260 · OS-Air Commercial Carrier	4,955.57	1,294.48	3,661.09	282.8%
5203280 · OS-Other Public Carrier	569.19	120.12	449.07	373.9%

**South Dakota Board of Accountancy**  
**PREVIOUS YEAR TO DATE MONTHLY COMPARISON**  
**July through November 2025**

	Jul - Nov 25	Jul - Nov 24	\$ Change	% Change
5203300 · OS-Lodging	7,757.68	5,938.44	1,819.24	30.6%
5203320 · OS-Incidentals to Travel	259.00	396.00	-137.00	-34.6%
5203350 · OS-Non Taxable Meals-Overnight	866.00	612.00	254.00	41.5%
5204020 · Dues and Membership Fees	3,200.00	3,200.00	0.00	0.0%
5204050 · Consultant Fees - Computer	13,422.32	13,044.04	378.28	2.9%
5204160 · Workshop Registration Fees	2,550.00	2,550.00	0.00	0.0%
5204180 · Computer Services-State	4,805.25	5,842.80	-1,037.55	-17.8%
5204200 · Central Services	3,109.06	2,967.50	141.56	4.8%
5204220 · Equipment Service & Maintenance	23.52	19.11	4.41	23.1%
5204230 · Janitorial/Maintenance Services	600.00	1,000.00	-400.00	-40.0%
5204330 · Computer Software Lease	572.05	572.05	0.00	0.0%
5204460 · Equipment Rental	276.00	948.36	-672.36	-70.9%
5204521 · Revenue Bond Lease Payment	13,495.66	7,171.50	6,324.16	88.2%
5204530 · Telecommunications Services	1,155.93	1,075.28	80.65	7.5%
5204540 · Electricity	170.30	211.55	-41.25	-19.5%
5204560 · Water	26.85	76.05	-49.20	-64.7%
5204740 · Bank Fees and Charges	7,800.79	5,292.46	2,508.33	47.4%
5204960 · Other Contractual Services	3,535.25	0.00	3,535.25	100.0%
5205020 · Office Supplies	272.66	225.72	46.94	20.8%
5205320 · Printing/Duplicating/Binding Co	53.90	84.70	-30.80	-36.4%
5205350 · Postage	312.86	0.00	312.86	100.0%
5207451 · Office Furniture & Fixtures	1,698.00	0.00	1,698.00	100.0%
5207900 · Computer Hardware	104.04	0.00	104.04	100.0%
5228000 · Operating Transfers Out-NonBudg	3,872.95	3,346.41	526.54	15.7%
<b>Total Expense</b>	<b>172,374.67</b>	<b>154,363.85</b>	<b>18,010.82</b>	<b>11.7%</b>
<b>Net Ordinary Income</b>	<b>225,216.60</b>	<b>109,736.63</b>	<b>115,479.97</b>	<b>105.2%</b>
<b>Net Income</b>	<b>225,216.60</b>	<b>109,736.63</b>	<b>115,479.97</b>	<b>105.2%</b>

## **REPORT TO BOARD ON GRADES**

Nicole Kasin

The grades were posted for review for the 86<sup>th</sup> window. These grades are through September 2025. CPA Evolution exam became effective starting January 2024.

Here are the pass rates and information from NASBA on 3Q25:

<b>CPA Evolution Exam</b>	<b>National Pass Rate</b>	<b>South Dakota Pass Rate</b>
<b>AUD</b>	<b>50.0%</b>	<b>63.2%</b>
<b>FAR</b>	<b>43.1%</b>	<b>60.7%</b>
<b>REG</b>	<b>66.1%</b>	<b>65.0%</b>
<b>BAR</b>	<b>39.5%</b>	<b>33.3%</b>
<b>ISC</b>	<b>66.9%</b>	**
<b>TCP</b>	<b>76.7%</b>	<b>100%</b>

\*\* SD didn't have 3 or more candidates in this section to post a percentage rate. There were 62 candidates that sat for 80 parts.

The Board needs to ratify the scores of the 2025-2 (86<sup>th</sup> Window) grades.

**REPORT TO BOARD ON NASBA ED/LEGAL COUNSEL CONFERENCE**  
Nicole Kasin

The NASBA Executive Directors Conference will be held in Austin, TX, March 24-26, 2026.

The NASBA Legal Counsel Conference will be held in Austin, TX, March 24-26, 2026.

This is a request for the Board to approve travel for the Executive Director and Legal Counsel to attend the conferences.

**Tentative Itinerary**

**Tuesday, March 24, 2026**

5:30 pm – 6:30 pm Registration  
6:30 pm Welcome Reception (with Legal Counsel)

**Wednesday, March 25, 2026**

7:15 – 8:30 am Complimentary Headshots  
7:30 – 8:30 am Breakfast (with Legal Counsel)  
8:30 – 10:45 am General Session (with Legal Counsel)  
10:45 – 11:15 am Break  
11:15 am – 12:30 pm General Session  
12:30 – 1:30 pm Lunch (with Legal Counsel)  
1:30 – 3:30 pm General Session  
3:30 – 3:45 pm Break  
3:45 – 4:45 pm General Session

**Thursday, March 26, 2026**

7:45 – 9:00 am Complimentary Headshots  
8:00 – 9:00 am Breakfast (with Legal Counsel)  
9:15 – 10:45 am General Session  
10:45 – 11:00 am Break  
11:00 am – 12:30 pm General Session  
12:30 – 1:30 pm Lunch (with Legal Counsel)  
1:30 – 3:00 pm Breakout Session: State Society CEOs (Closed Sessions)  
3:00 pm Adjourn  
6:30 pm Closing Celebration (Offsite) (with Legal Counsel & State Society CEOs)

**Friday, March 27, 2026**

9:00 am – 1:00 pm State Society Relations Committee Meeting (Committee Members Only)

## EXECUTIVE DIRECTOR'S REPORT

Nicole Kasin

### CPE Audits

The list of licensees has been selected for CPE audits. Emails and letters were sent out to those selected on September 16, 2025. The documentation was due in our office no later than October 31, 2025. 95% of the audit documentation was received via email and 5% was received via mail. The following is the current status of the audits:

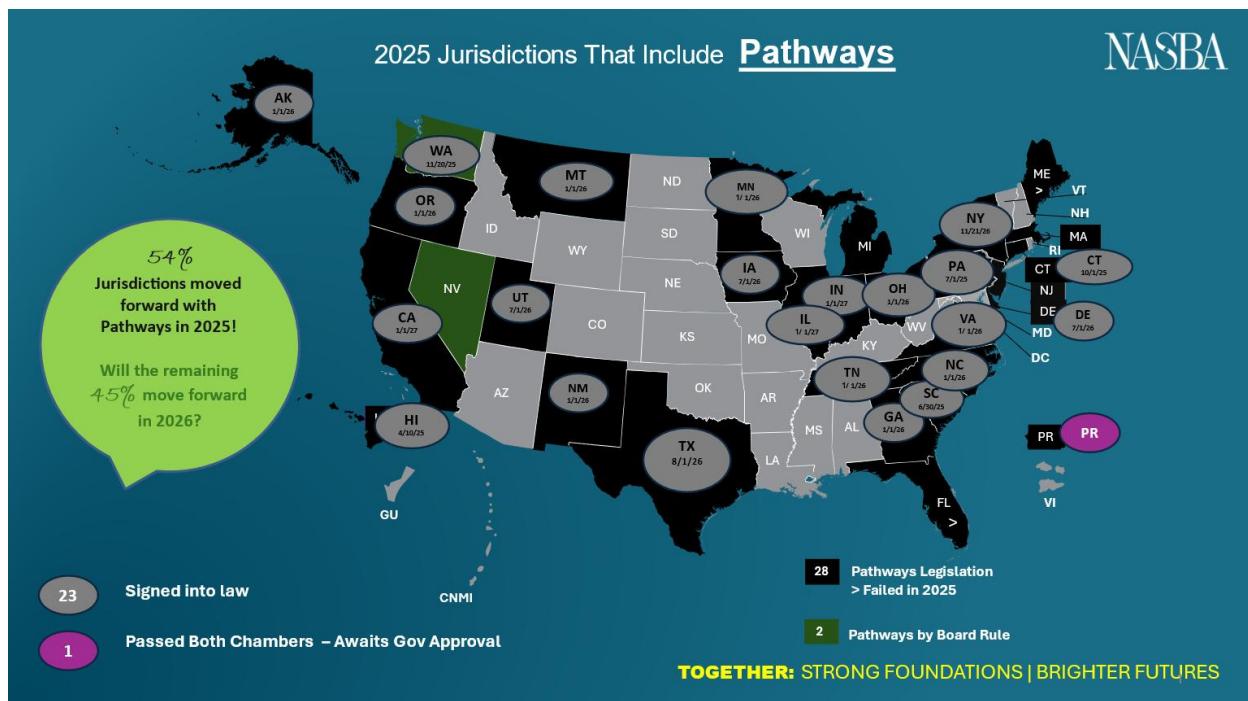
	Selected	Complied	Not Complied	Granted Extension	Approved CPE Audit	Failed CPE Audit
<b>CPA (Active)</b>	130	130	0	0	124	2
<b>CPA – Verify Out of State Affidavit</b>	106	106	0	0	106	0

### NASBA Issues/Topics

1. NASBA [press release](#) for Department of Education reclassification of accounting degree
2. NASBA Executive Directors/Legal Counsel Conference March 24-26, 2026
3. NASBA Western Regional Meeting tentative June 23-25, 2026
4. NASBA Annual meeting October 25-28, 2026

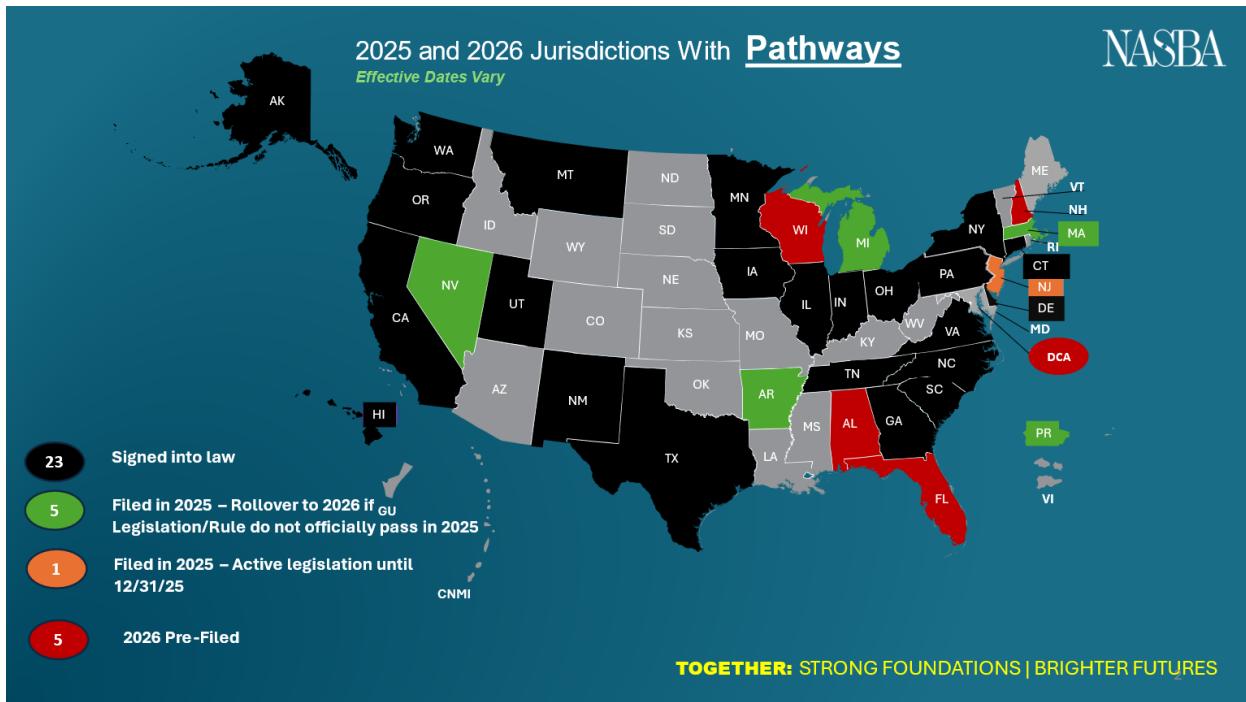
### State Proposals for Pathway/Substantial Equivalence/Practice Privilege

Update as of 12-9-25:



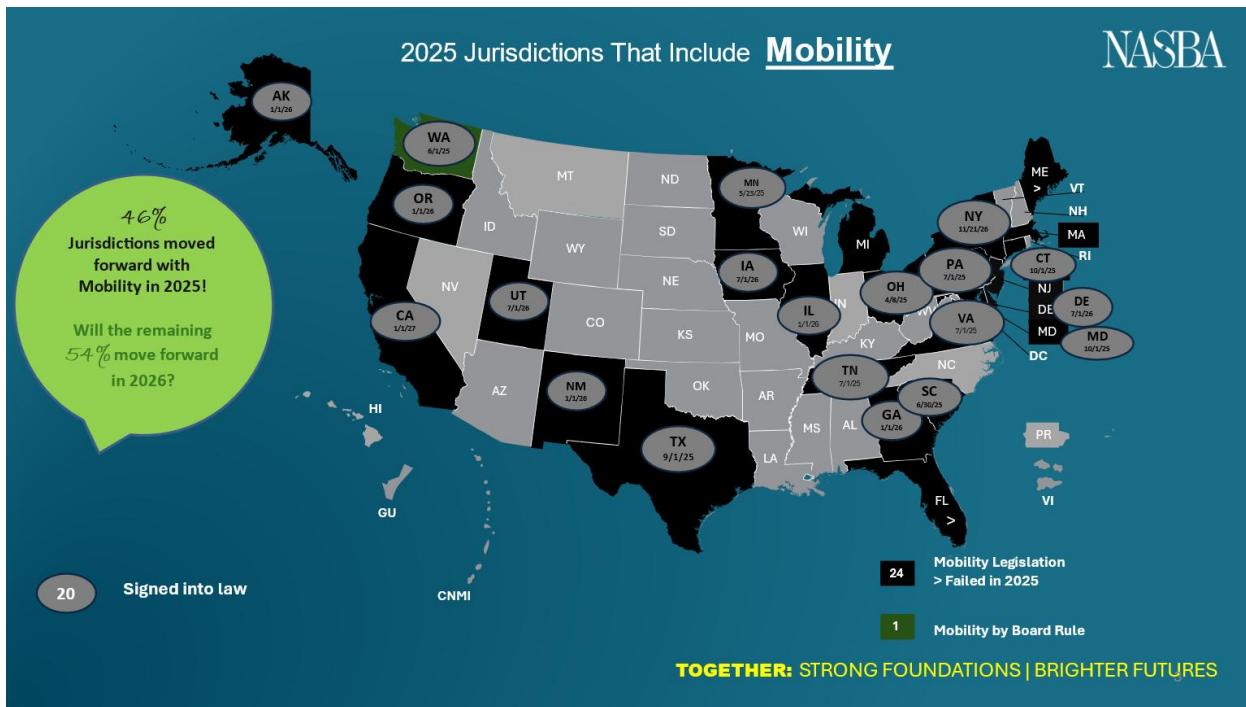
## 2025 and 2026 Jurisdictions With Pathways Effective Dates Vary

NASBA



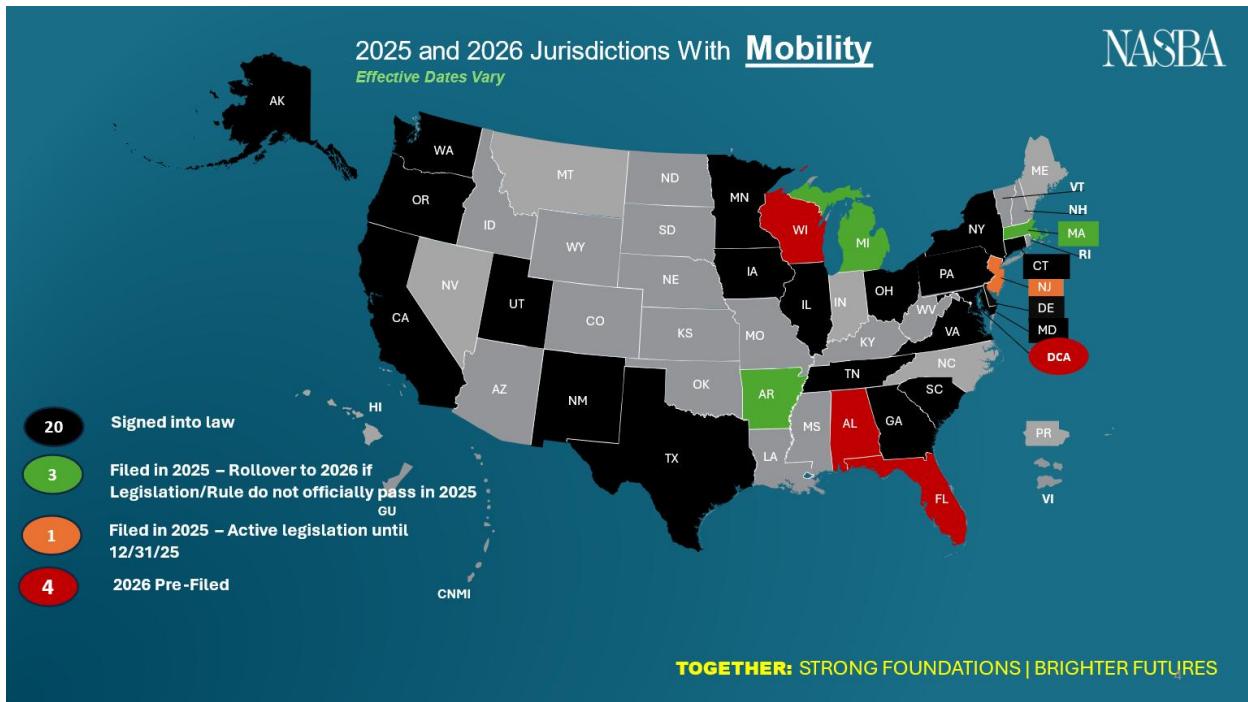
## 2025 Jurisdictions That Include Mobility

NASBA



## 2025 and 2026 Jurisdictions With **Mobility** *Effective Dates Vary*

NASBA





Professional Ethics Division

Exposure draft:

Proposed revisions related to alternative  
practice structures

December 29, 2025

Comments are requested by April 30, 2026

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

A decorative graphic at the bottom of the slide consisting of a series of vertical, rounded blue and white bars of varying heights, creating a wavy, sound-wave-like effect.

Standard-setting

## Invitation to comment

December 29, 2025

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

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

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

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

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

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

Sincerely,



Anna Dourdourekas, Chair  
Professional Ethics Executive Committee



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

## Contents

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# Explanation of the new interpretation and revised definition and interpretations

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

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

## Background

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

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

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

### Evaluation

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

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

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<sup>2</sup> ET section 0.400.12.

<sup>3</sup> ET section 1.220.020.04e.

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

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<sup>4</sup> ET section 0.400.35.

<sup>5</sup> ET section 0.400.36.

<sup>6</sup> ET section 0.400.14.

<sup>7</sup> ET section 0.400.25.

<sup>8</sup> ET section 0.400.49.

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

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

### **Outreach and stakeholder engagement**

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

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

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

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

#### Structure of an APS

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

#### Terminology

15. The terminology section (.04) introduces terms defined solely for the purpose of applying the interpretation.
16. An “alternative practice structure” (.04a) is defined broadly to reflect the substance of the form of organization — one in which a firm that provides attest services (attest firm) is closely aligned with another public or private entity, partly or wholly owned by an investor or investors, that performs professional services other than attest services (nonattest entity).
17. “Closely aligned” (.04b) is defined to describe the relationship between the attest firm and the nonattest entity. The dependency of the attest firm on the nonattest entity is what provides the basis for treating the nonattest entity the same as the attest firm for independence purposes.
18. The term “investor” (.04c) is used to broaden application across various APSs and to incorporate any individual or entity that has a *financial interest*<sup>9</sup> in the nonattest entity, including an individual, PE firm, partnership, corporate entity, or other type of investor. The interpretation specifies when it is necessary to identify whether an investor has less than significant influence, significant influence, or control over the nonattest entity.
19. A “significant influence investment” (.04d) exists when an investor has significant influence over the nonattest entity but not control. More than one investor may have significant influence over the nonattest entity. If more than one investor has significant influence over the nonattest entity, the member will apply the APS guidance to each investor.
20. *Significant influence*, defined in the code,<sup>10</sup> is based on FASB Accounting Standards

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

<sup>10</sup> ET section 0.400.49.

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

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

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

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

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

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<sup>11</sup> ET section 0.400.12.

## Characteristics of an APS

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

## APS models

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

## Network firms

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

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

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

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

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

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

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<sup>13</sup> ET section 0.400.35.

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

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

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

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

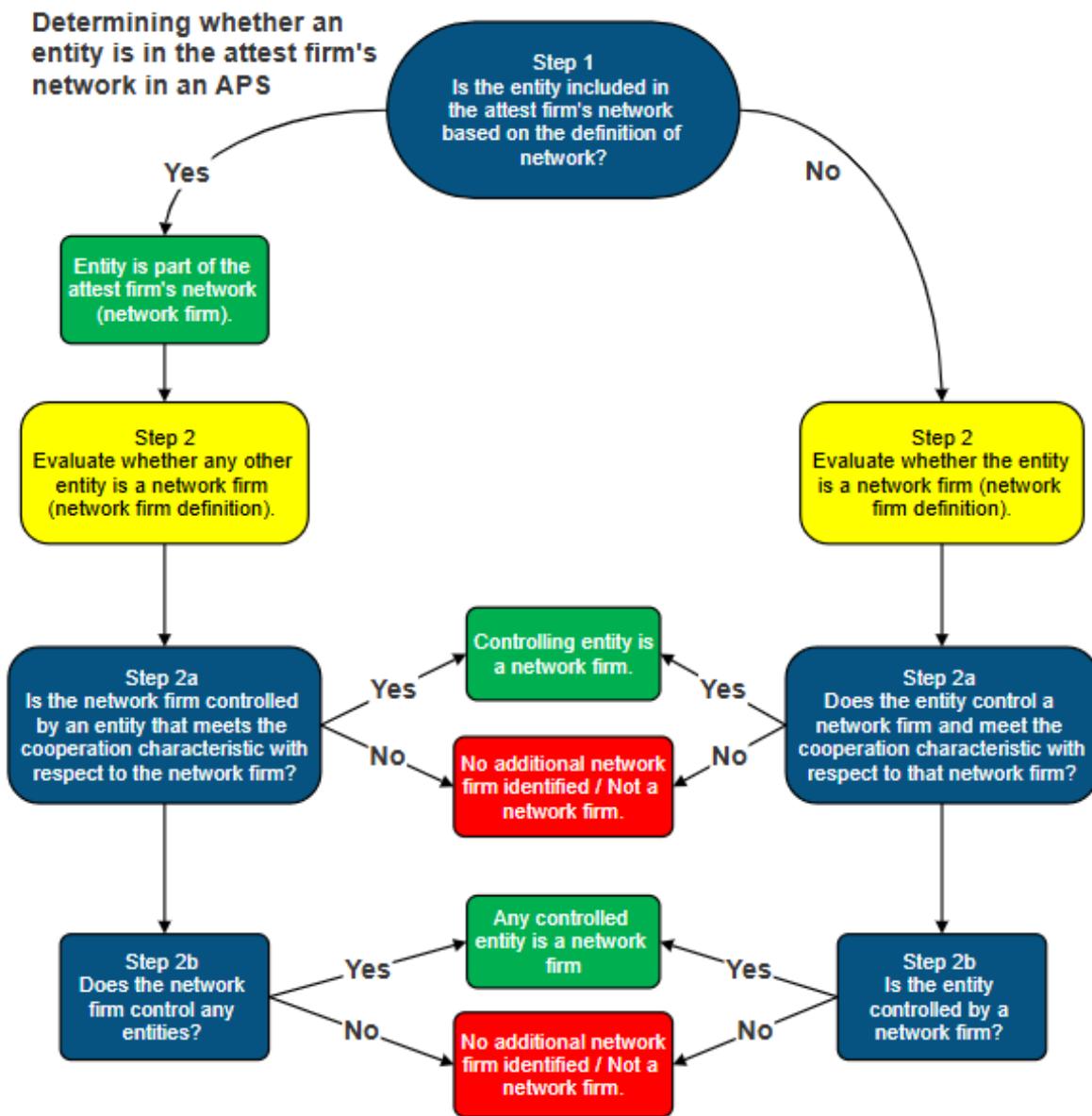
34. Controlled acquisitions of the nonattest entity are network firms based on the definition of a *network firm* because they are controlled by a network firm (i.e., the nonattest entity) (.12).

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

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<sup>14</sup> ET section 0.400.43.

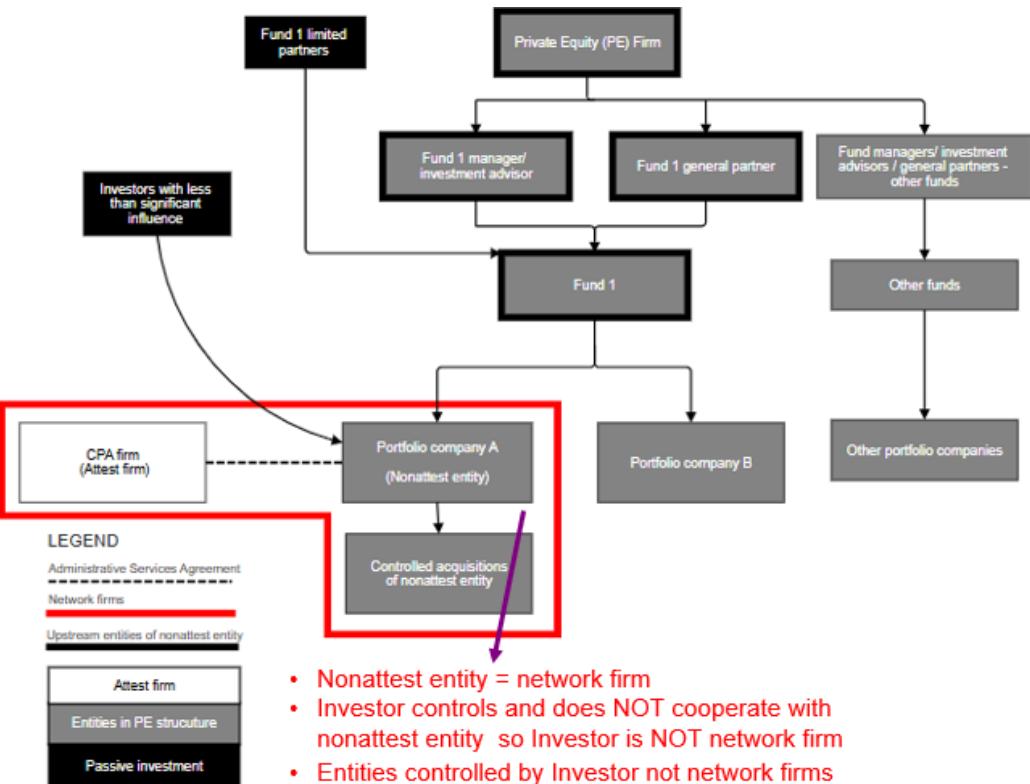
**Diagram A**



## Diagram B

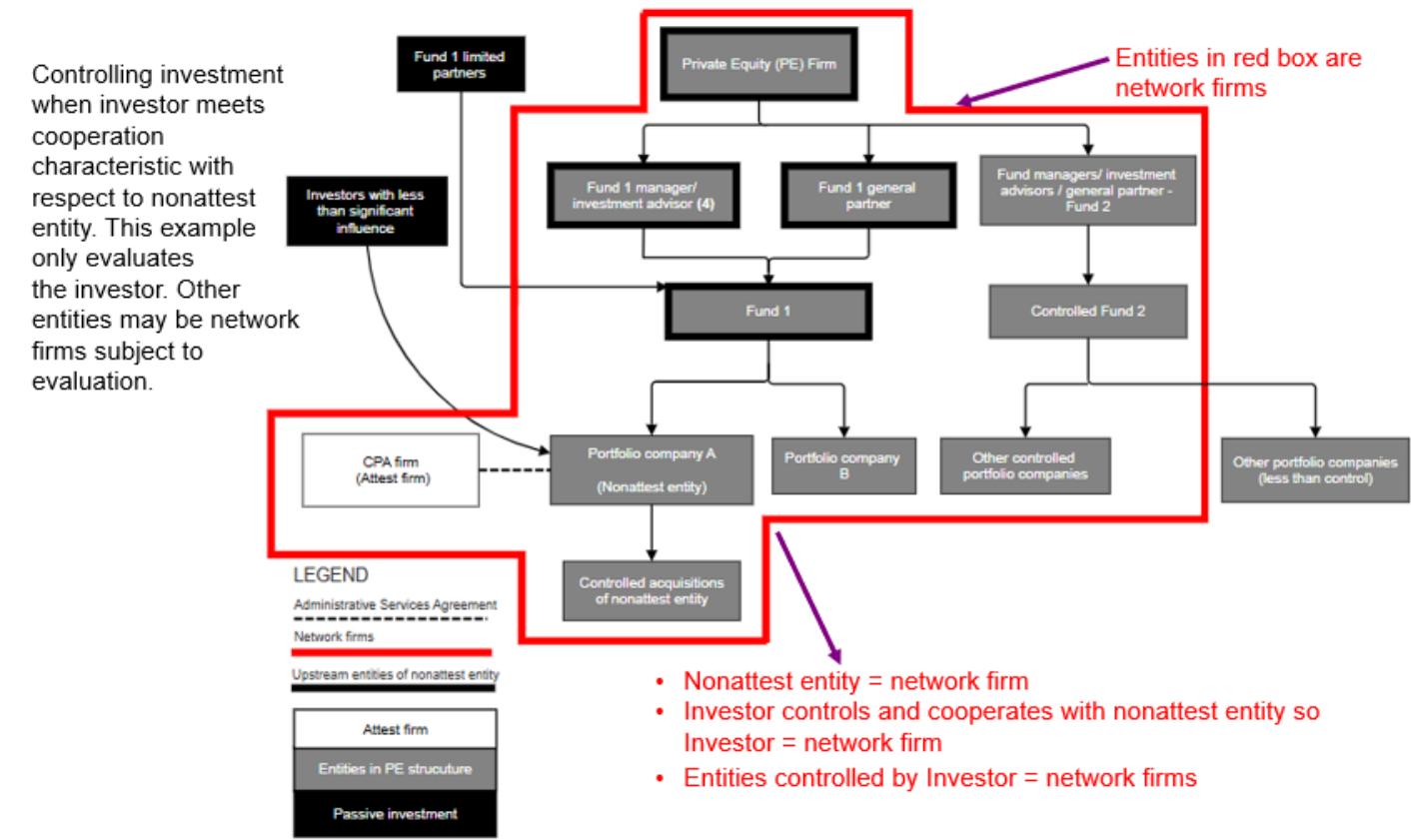
Controlling investment when investor does not meet cooperation characteristic with respect to nonattest entity. This example only evaluates the investor. Other entities may be network firms subject to evaluation.

Entities in red box are network firms



- Nonattest entity = network firm
- Investor controls and does NOT cooperate with nonattest entity so Investor is NOT network firm
- Entities controlled by Investor not network firms

## Diagram C



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

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

<sup>15</sup> ET section 1.295

<sup>16</sup> ET section 1.220.010.04.

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

37. The network firm relationship between the attest firm and nonattest entity in an APS is more closely aligned<sup>20</sup> than network firms in a traditional network of accounting firms due to the attest firm’s relationship with, and dependency on, the nonattest entity. For example, in an APS, attest partners and professional staff are employees of the nonattest entity, and the attest firm relies on the nonattest entity for professional resources; this level of dependency generally does not exist in a traditional network of accounting firms. Therefore, PEEC believes the nonattest entity, including entities controlled by the nonattest entity, should be subject to the same independence requirements as the attest firm. Other network firms are not affected by this extended requirement. The effect of the extended requirement means that the exceptions noted in paragraph 36 of this explanatory material do not apply to the nonattest entity and entities it controls (.14).

#### Covered members

38. Members are expected to apply the *covered member* definition when evaluating independence and to apply the “Independence Rule” and its interpretations to such individuals and entities.

39. The *covered member* definition includes *an individual in a position to influence the attest engagement*. In an APS, this may include individuals who

- evaluate the performance or recommend the compensation of the attest engagement

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<sup>17</sup> ET section 1.110.010.08.

<sup>18</sup> ET section 1.230.040.02.

<sup>19</sup> ET section 1.295.020.04.

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

partner; or

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

40. In an APS, covered members may exist in the attest firm, nonattest entity, or in other entities in the investor's structure (.15–16.). Since covered members may exist outside the attest firm and nonattest entity, PEEC believes including specific examples of who meets the *covered member* definition, or who should be evaluated under the *covered member* definition, will remove any ambiguity and promote consistency in practice. Nonattest entity board members who have the authority to approve the compensation of the attest firm partners at the individual level meet the first bullet in paragraph 39 of this explanatory material and are, therefore, covered members<sup>21</sup>.

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

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

Relationships with individuals and entities that may create threats to independence

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

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<sup>21</sup> PEEC's "White Paper, Independence Rules Modernization Project" concluded that individuals who actively participate in compensation decisions for specific attest engagement partners are covered members.

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

#### Relationships that impair independence

43. After a member determines network firms (.09–.14) and covered members (.15–.16) and applies the “Independence Rule” and its interpretations to the respective individuals and entities, members should determine which relationships and circumstances exist in an APS beyond the scope of covered member and network firms that create threats to independence. Independence requirements that extend beyond those required for covered members and network firms are based on the close alignment of the attest firm and nonattest entity. The public interest principle recognizes that members may face conflicting pressures and obliges members to act with integrity, “... guided by the precept that when members fulfill their responsibility to the public, clients’ and employers’ interests are best served.”<sup>23</sup> PEEC believes that there is at least a perceived greater undue influence threat<sup>24</sup> to independence in an APS where an investor has input into strategic and budgetary decisions of the attest firm which may affect a member’s objectivity and independence<sup>25</sup> even when an investor is not a network firm.
44. The relationships and circumstances that impair independence may differ based on the level of investment of the investor in the nonattest entity (that is, less than significant influence, significant influence, or control). These circumstances are described in paragraphs 45–57 of this explanatory material and outlined in paragraph .18a–d. of the interpretation.

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

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

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<sup>22</sup> ET section 1.210.010.01.

<sup>23</sup> ET section. 0.300.030.03.

<sup>24</sup> ET section 1.210.010.18.

<sup>25</sup> ET section 0.300.050.

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

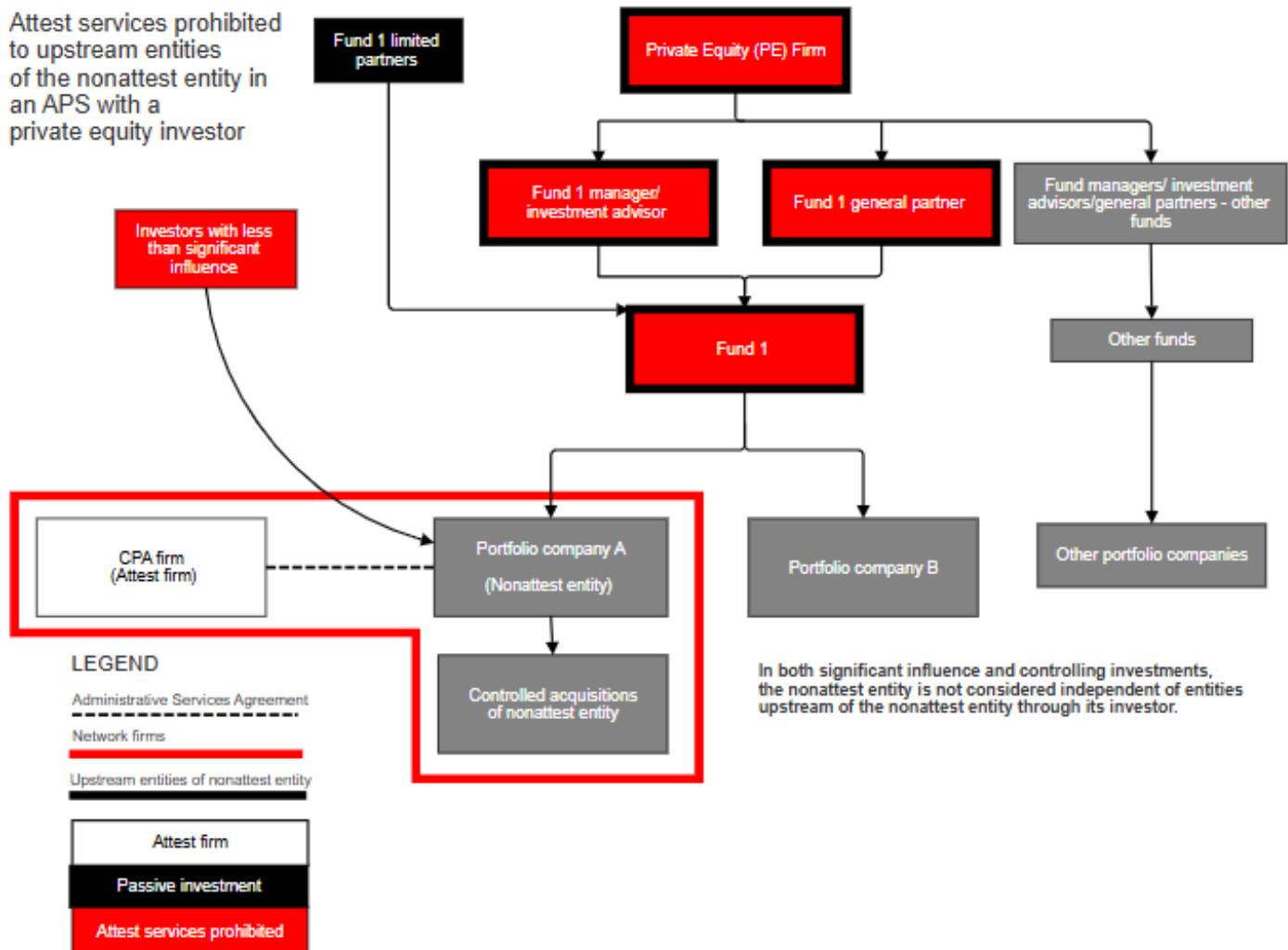
*Significant influence or controlling investment by investor*

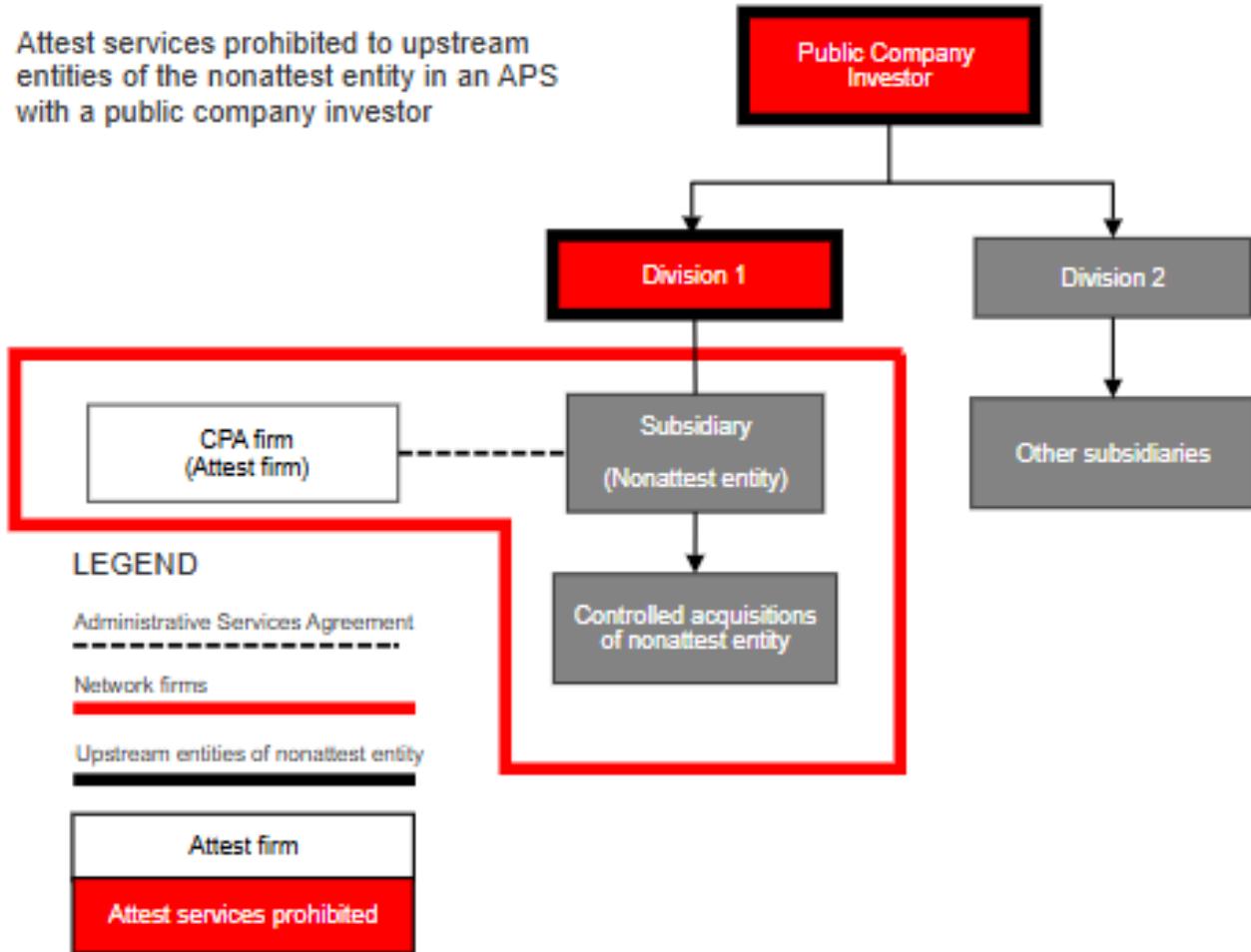
46. In a significant influence investment or controlling investment, when the investor is a network firm, partners and professional employees of the investor would be required to comply with the interpretations of the "Independence Rule" applicable to network firms, including within the "Current Employment or Association with an Attest Client" subtopic.<sup>26</sup>
47. When the investor is not a network firm, an undue influence threat to independence still exists that is not at an acceptable level and cannot be reduced to an acceptable level with the application of safeguards if an individual who is a member of those charged with governance<sup>27</sup> over the nonattest entity is in a key position at an attest client of the attest firm (.18a.). The definition of *those charged with governance* includes both individuals and organizations.
48. In a significant influence investment or controlling investment, the nonattest entity is not considered independent of upstream entities of the nonattest entity through its investor even when such entities are not network firms. Because the nonattest entity is a network firm of the attest firm and is not considered independent of these upstream entities, independence will be impaired if the attest firm provides an attest service to any of those entities (.18b.). In an APS with a public company investor, this prohibition applies to upstream entities of the nonattest entity through the public company investor. The following diagrams depict this when the investor is a PE firm or a public company.

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<sup>26</sup> ET section 1.275.

<sup>27</sup> ET section 0.400.53.





49. In a significant influence investment or controlling investment, independence is impaired if an upstream entity of the nonattest entity is an affiliate<sup>28</sup> of a financial statement attest client of the attest firm (.18b.). This restriction is, in part, to align with the client affiliate interpretations<sup>29</sup> that require the attest firm and its network firms to be independent of a financial statement attest client and its affiliates. In cases where the nonattest entity is not independent of an affiliate of a financial statement attest client, independence will be impaired.

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

<sup>28</sup> ET section 0.400.02.

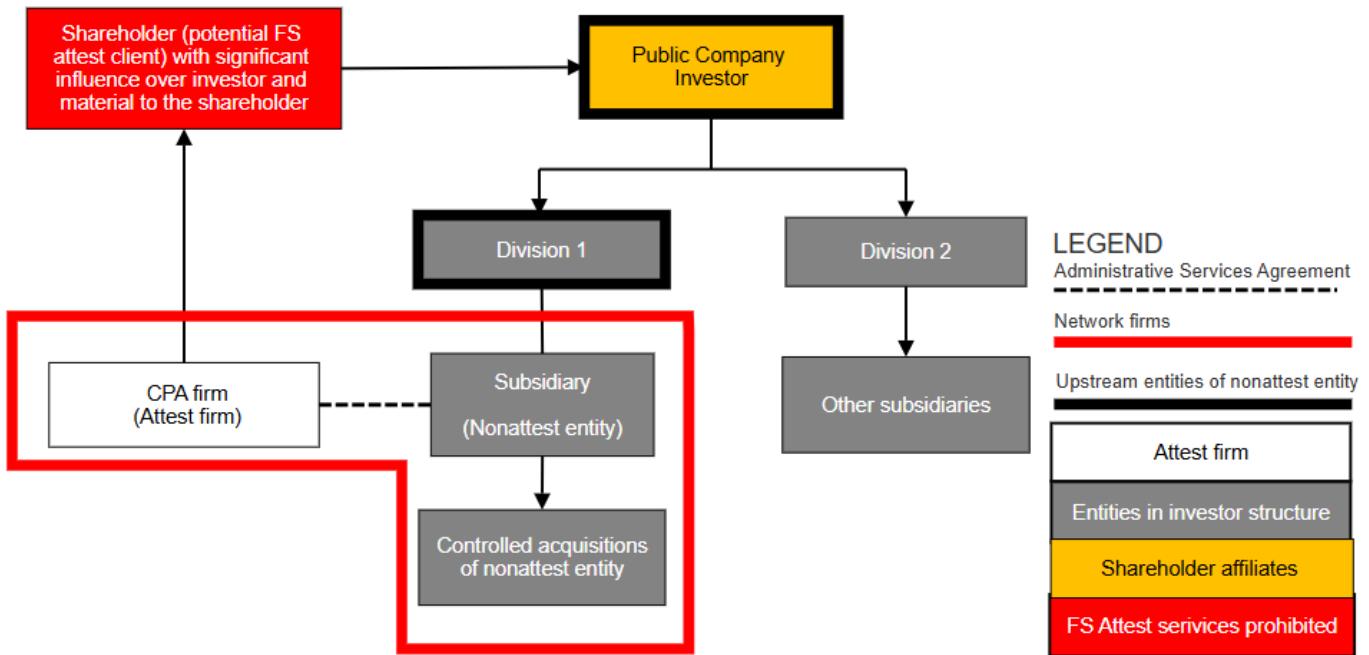
<sup>29</sup> The “Client Affiliates” interpretation (ET sec. 1.224.010) and the “State and Local Government Client Affiliates” interpretation (ET sec. 1.224.020).

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

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

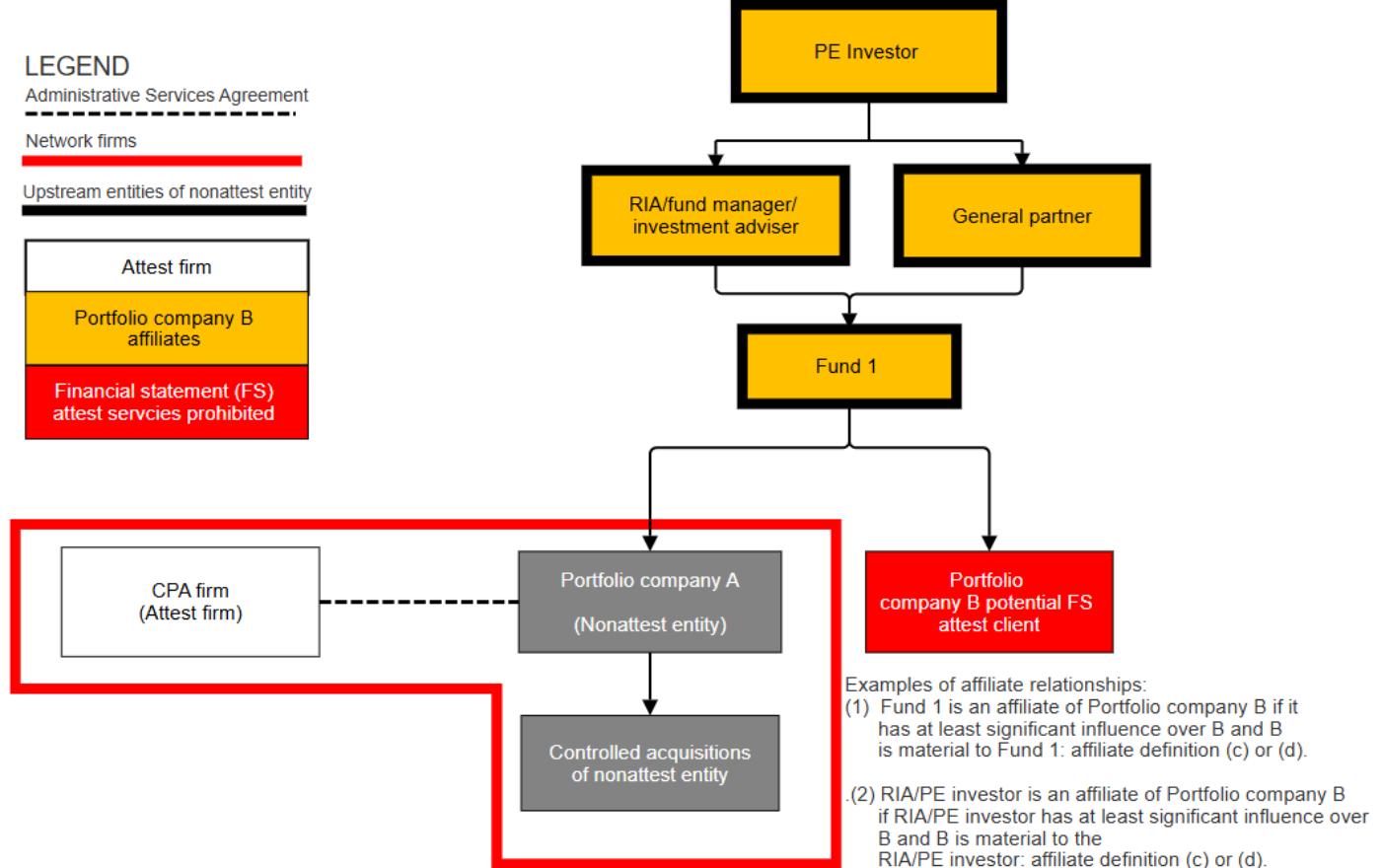
**Significant influence or controlling investment:**  
attest client invests in investor



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

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

### Significant influence investment: fund is client affiliate

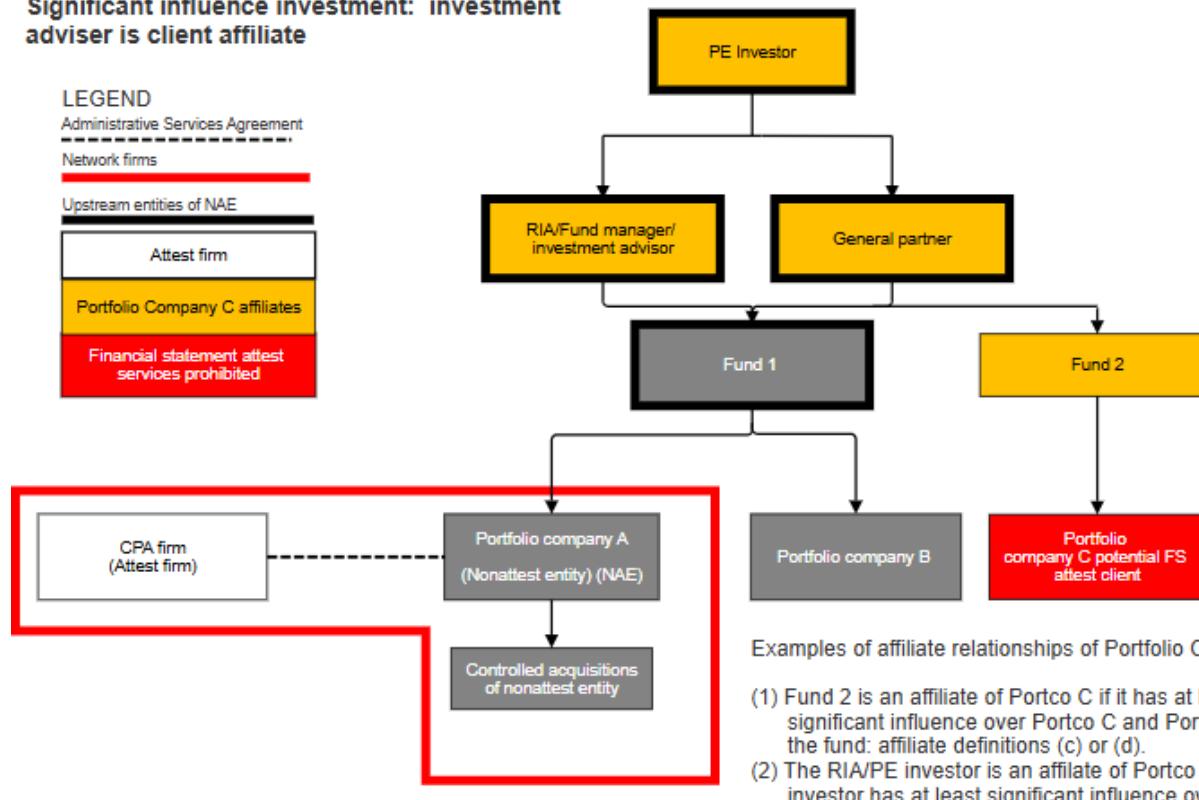


52. *Investment adviser is client affiliate.* Following is an example of the conclusion in paragraph 49 of this explanatory material of a significant influence investment where the potential financial statement attest client is a portfolio company in a different fund than the nonattest entity:

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

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

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

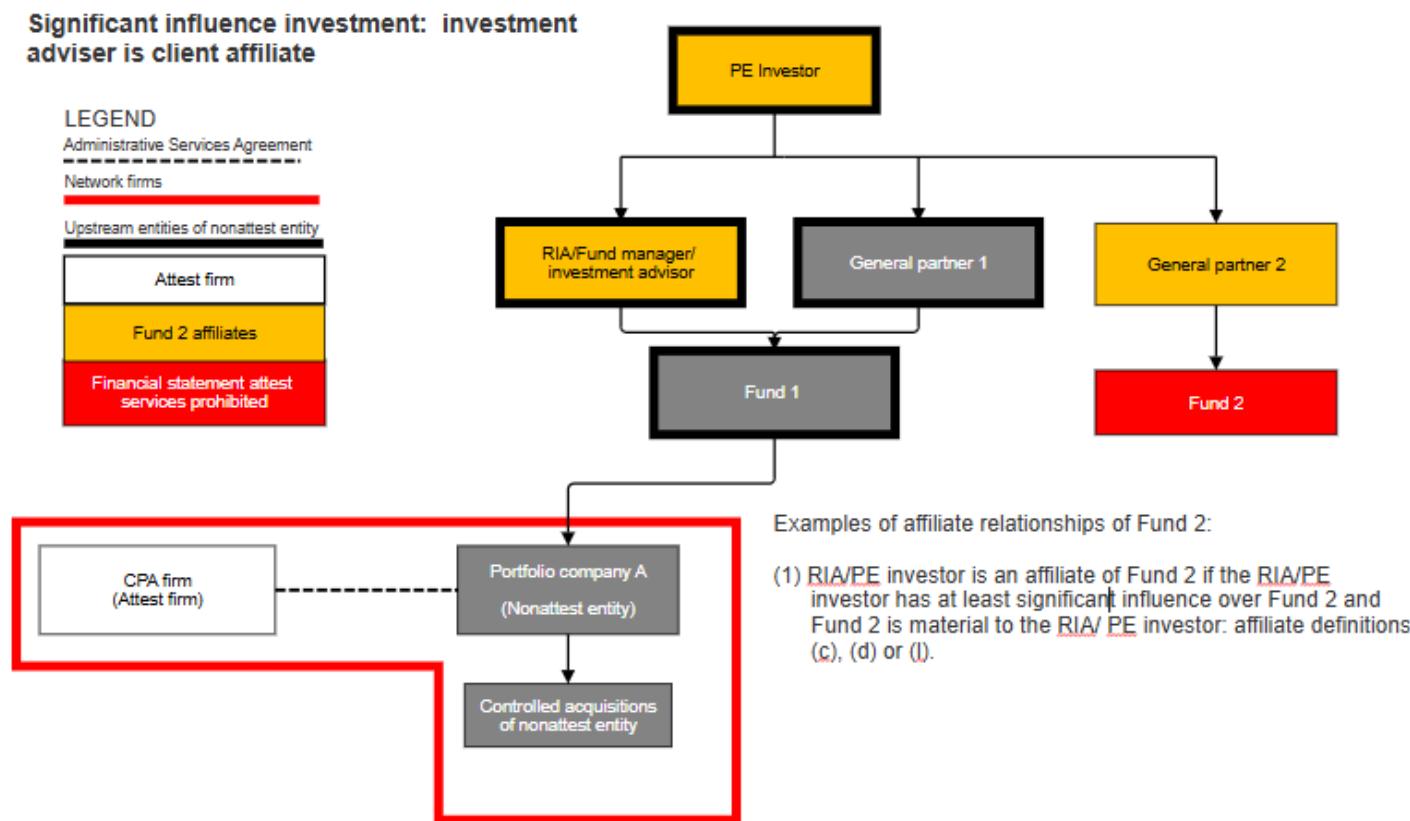


53. *Investment adviser is client affiliate.* Following is an example of the conclusion in paragraph 49 of this explanatory material in a significant-influence investment where the potential financial statement attest client is a fund other than the fund that invests in nonattest entity:

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

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

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



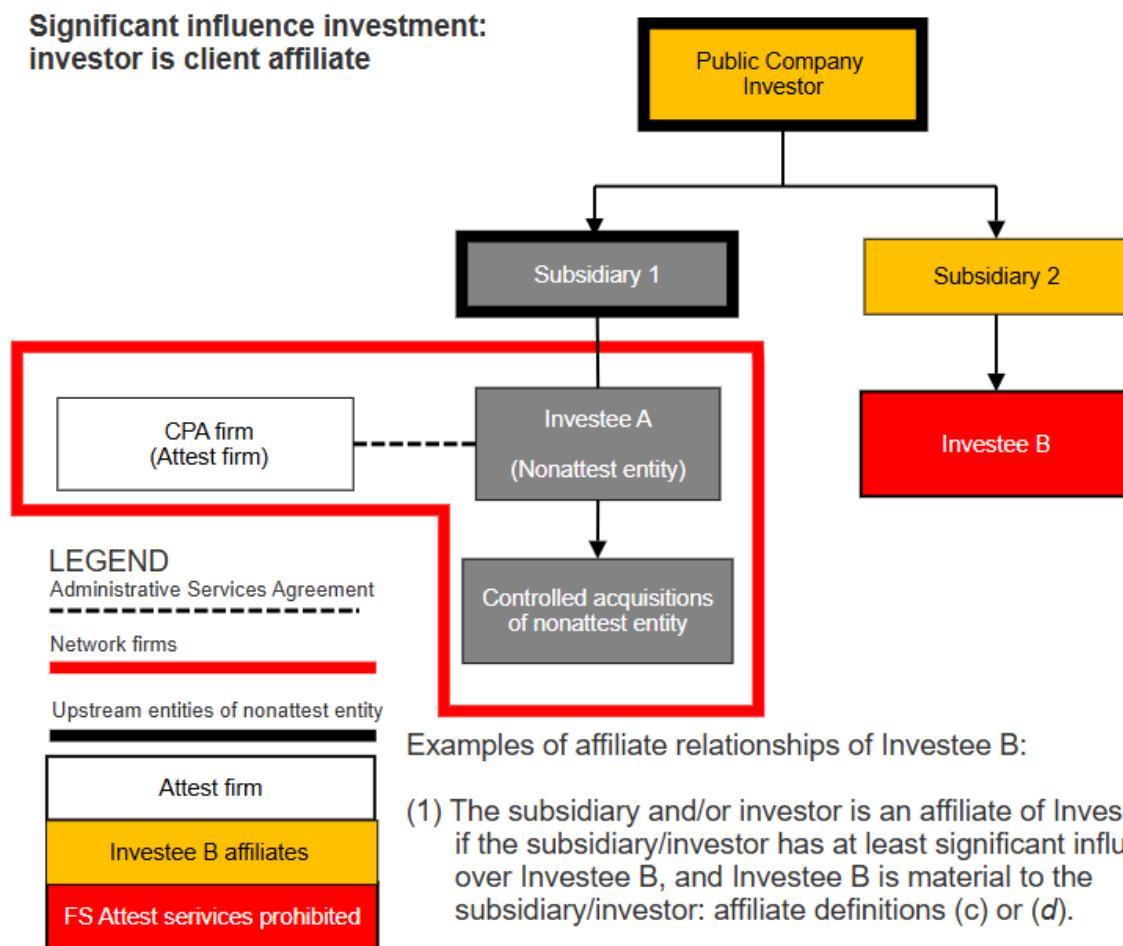
54. *Investor is client affiliate.* Following is an example of the conclusion in paragraph 49 of this explanatory material in a significant influence investment where the potential financial statement attest client is an investee of a public company investor:

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

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

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

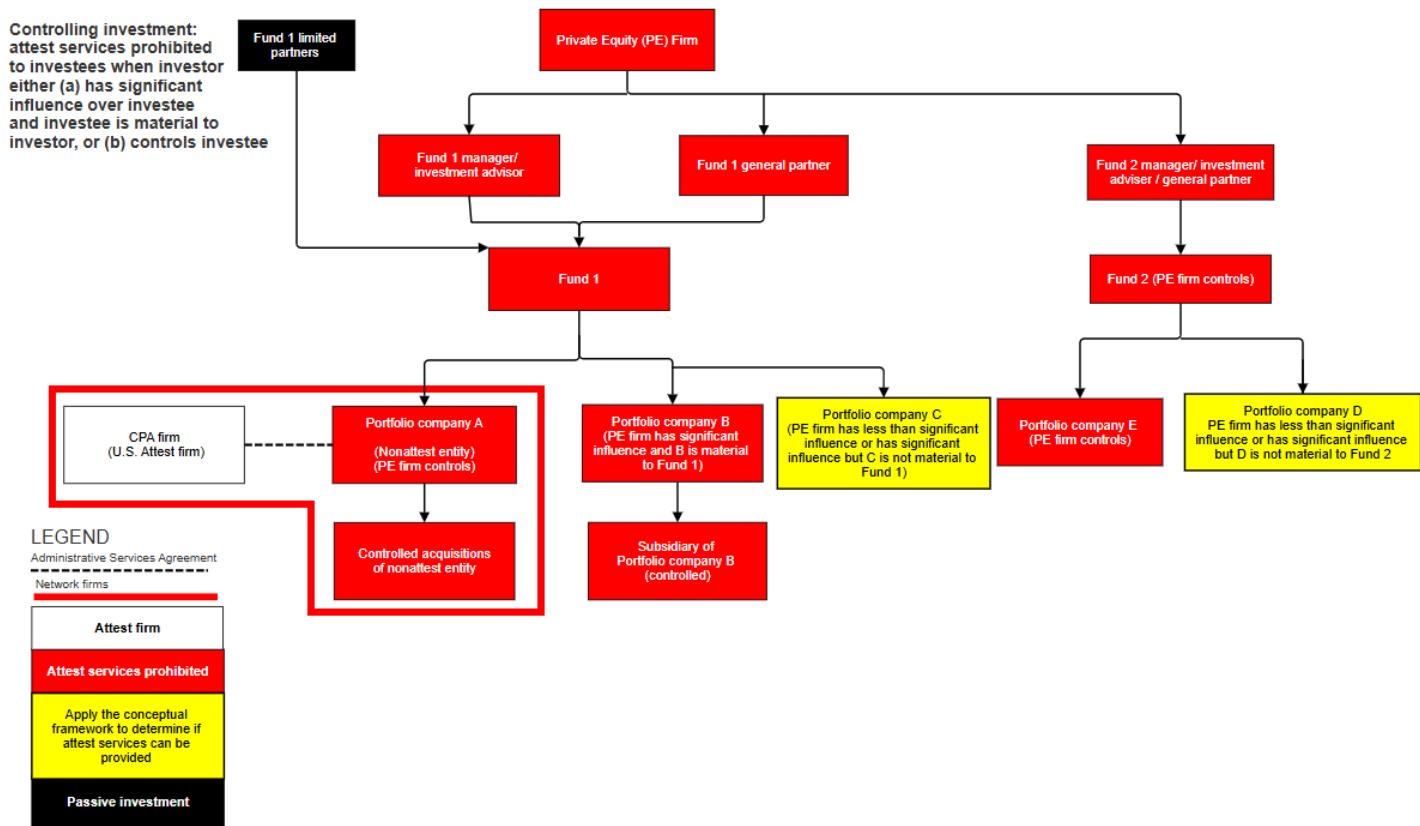
**Significant influence investment:  
investor is client affiliate**



*Controlling investment by investor*

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

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



Relationships that require application of the conceptual framework

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

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

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

#### Relationships that generally do not create threats to independence

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

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

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

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

64. PEEC is proposing the revision to paragraph .01 to broaden the application of the requirements to APS models.

65. Extant paragraph .03 is being deleted because it is redundant with the financial interest provision of the “Council Resolution Concerning the Form of Organization and Name Rule” (Appendix B). The attest firm must comply with the provisions in the resolution to provide the attest services outlined in paragraph A. of the resolution.

66. The new proposed paragraph .03 is intended to address a potential practice issue. The purpose is to promote transparency in practice, avoid the risk of misleading clients, and ensure accurate representation regarding which entity in the APS is responsible for performing each service.

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

67. Among the various types of threats to independence in an APS, the undue influence threat<sup>32</sup> tends to arise more frequently. This increased frequency is due to the additional relationships that must be considered in an APS, which can introduce more complex dynamics and potential sources of influence — though the threat itself is not inherently more significant. PEEC is proposing to include additional examples in the conceptual framework interpretations, which will assist members in identifying this threat when practicing in an APS.

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

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

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

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

69. Additionally, circumstances in which a member owns and controls a separate business will continue to be addressed in the “Ownership of a Separate Business” interpretation (ET sec. 1.810.010). According to this interpretation, a separate business under common control is required to comply with the code.
70. The second revision adds a precondition that an entity that controls a network firm also be cooperating with the network firm for the purpose of enhancing the network firm’s capabilities to provide professional services before the controlling entity is considered a network firm. The revised definition still requires a controlling entity of a network firm to be evaluated for inclusion as a network firm. The code continues to prohibit ownership in a CPA firm by an entity or by individuals who are not actively engaged as members of the firm.<sup>33</sup>

### Conclusion

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

### Effective date

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

### Request for comments

73. PEEC welcomes comments on all aspects of the proposed revisions to the code. In addition, PEEC seeks feedback on the following specific aspects (parenthetical references are to paragraphs in the proposed interpretation):
  - a. Do you agree that “investor” is defined appropriately (.04c)? If not, please explain.

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

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

- g. Do you agree with the factors for determining whether cooperation exists for the purpose of enhancing capabilities to provide professional services as described in paragraph 33 of the explanatory material?
  - i. If you agree, state whether you believe these factors should be in authoritative or nonauthoritative guidance.
  - ii. Do you believe any additional factors should be included for determining whether cooperation exists? If so, please provide the additional factors.
- h. Do you agree that the covered member section (.15–.16) should remain in the interpretation?
  - i. If not, should this section be presented as application material on how to apply the *covered member* definition in an APS in nonauthoritative guidance?
  - j. Do you agree that the chief executive of the nonattest entity (and other individuals in an attest partner's chain of command in the nonattest entity) should be evaluated under the *covered member* definition rather than be automatically considered covered members (.16)? If not, please explain.
  - k. Do you agree that when the investor has significant influence or control over the nonattest entity, the attest firm should not provide a financial statement attest service to an investee of the investor if an upstream entity of the nonattest entity is an affiliate of the investee (.18b.)? If not, please explain.
  - l. Do you agree that when an attest client has a financial interest in the nonattest entity, independence is impaired, regardless of whether the attest client has significant influence over the nonattest entity (.18c.)? If not, please explain.
  - m. Do you agree that, in an APS with PE when the PE investor controls the nonattest entity, the attest firm should not provide attest services to another portfolio company **in any fund** when the PE investor either a) has significant influence over the portfolio company and the investment is material the fund, or b) controls the portfolio company (.18d.)? If not, please explain.
  - n. Do you agree that the prohibitions described in paragraph .18b.–d. of the interpretation regarding the provision of attest services to investees and other entities of the investor (that is not a network firm), along with the use of the conceptual framework for independence for circumstances when the prohibitions

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

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

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

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

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

.01 *Members* who practice in an alternative practice structure should apply this and other applicable *interpretations* to determine their compliance with the “Independence Rule” [1.200.001].

.02 All such structures must be organized in a form that complies with applicable state and federal laws, rules, and regulations; the “Form of Organization and Name Rule” [1.800.001]; and the related “Alternative Practice Structures” interpretation [1.810.050] of the “Form of Organization and Name Rule.”

.03 To protect the public interest, the overriding focus of the “Council Resolution Concerning the Form of Organization and Name Rule” [appendix B] is that CPAs remain responsible for a *firm*’s attest work. In addition to the provisions of the resolution, other requirements of the code and bylaws ensure responsibility for

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

## **Terminology**

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

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

## **Characteristics and diagrams of an APS**

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

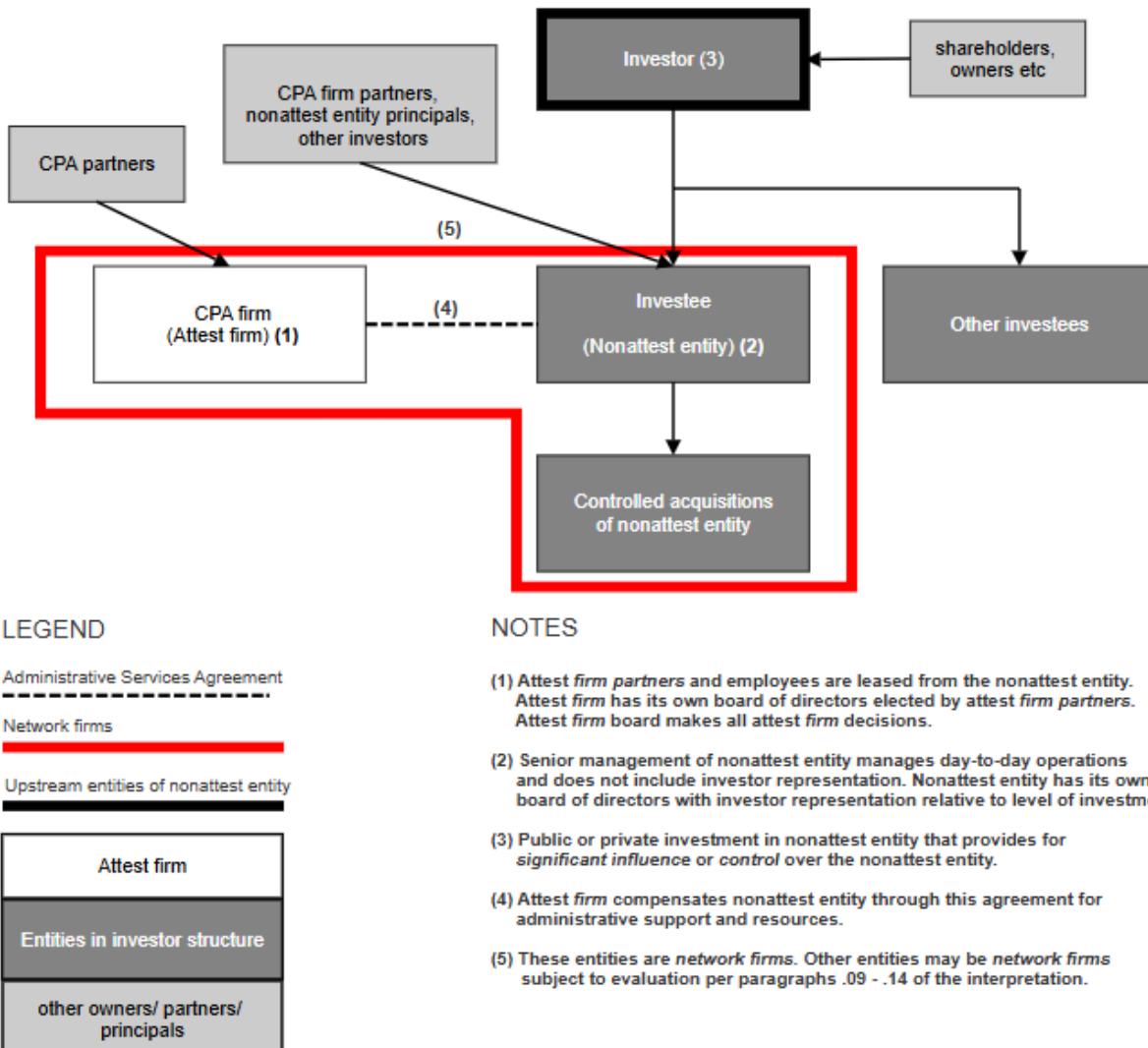
- a. A *firm* separates its attest practice (attest *firm*) and nonattest practice (nonattest entity) and sells a portion of its nonattest practice to an investor or investors. Legacy *partners* of the *firm* may retain an equity interest in the nonattest entity. Alternatively, an attest *firm* may closely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

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

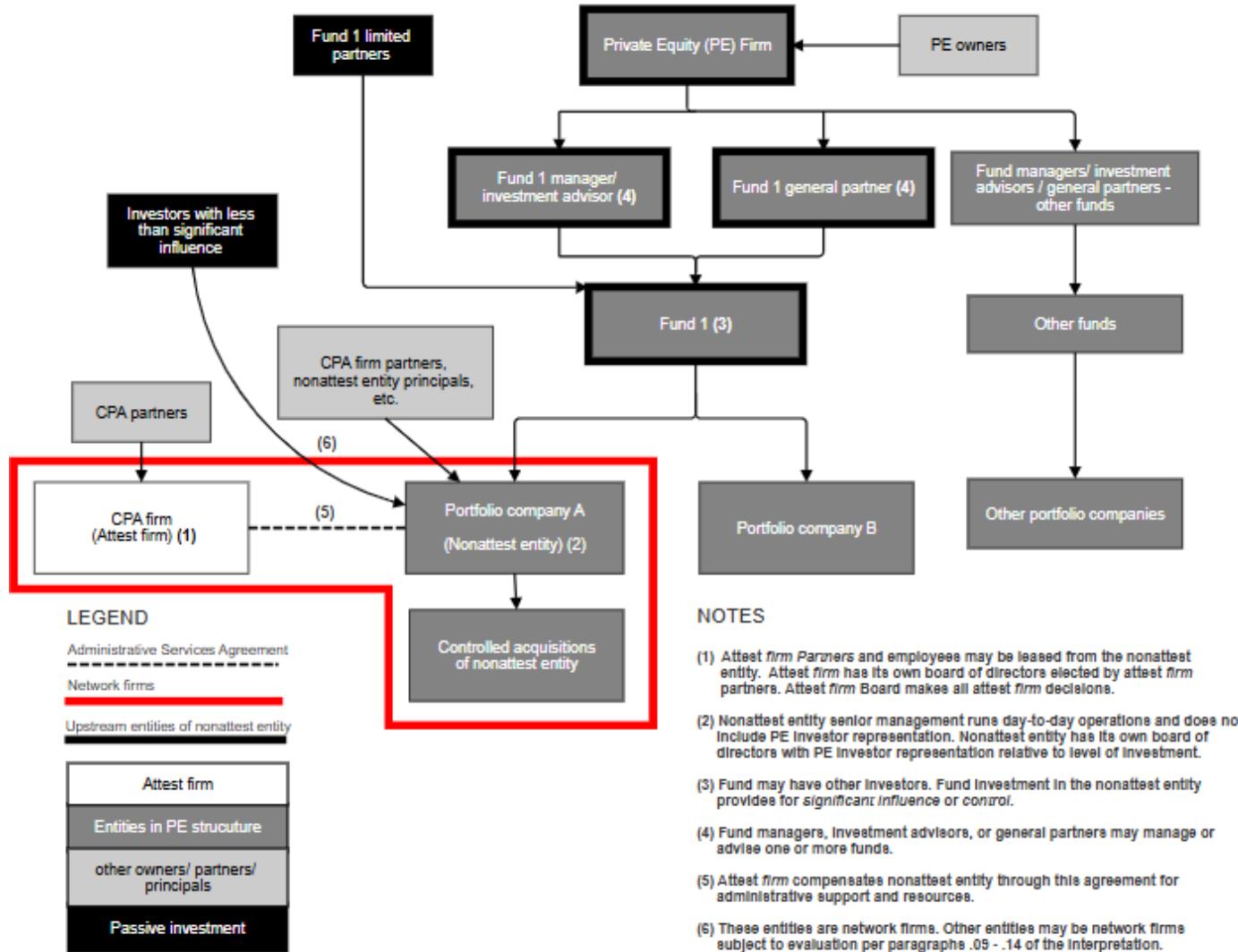
defined terms, renewal provisions, and termination rights, including the right to exit if the relationship is no longer aligned with professional standards.

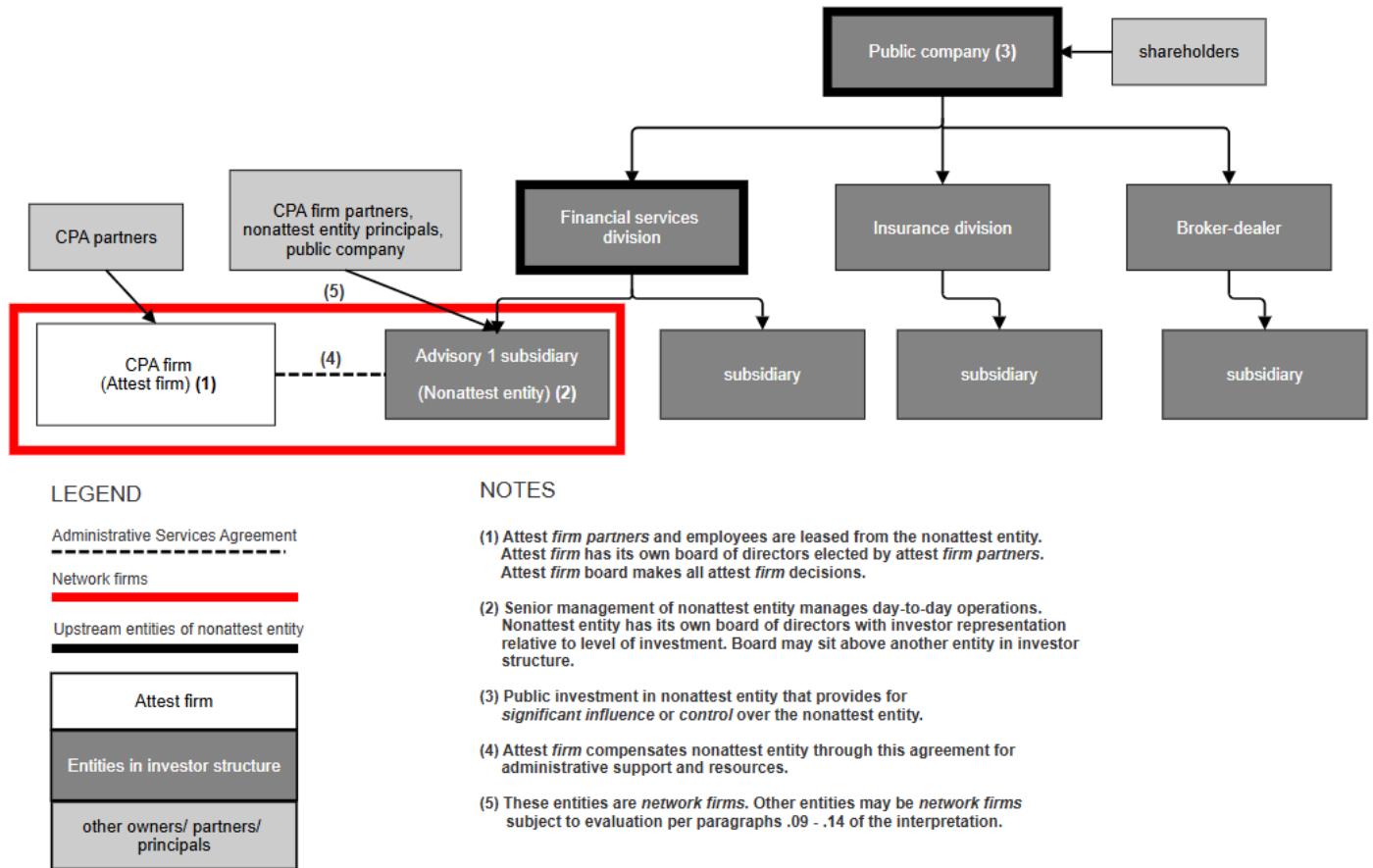
h. The chief executives or equivalents of the attest *firm* and nonattest entity are usually not the same individual. The chief executive or equivalent of the attest *firm* reports to the attest *firm* board, while the chief executive or equivalent of the nonattest entity reports to the nonattest entity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

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



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





## ***Interpretation***

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

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

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

### **Network firms**

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

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

### ***Covered members***

.15 Individuals outside the attest *firm* may be *covered members*. For example, nonattest entity board members who have the authority, whether exercised or not, to recommend or approve the compensation of the attest *firm partners* at the individual level are *covered members* because they are *individuals in a position to influence the attest engagement*.

.16 Other individuals may need to be evaluated to determine if they meet the definition of a *covered member*, including the following:

- a. Board members of the nonattest entity who do not have the authority to recommend or approve the compensation of the attest *firm partners* at the individual level
- b. Individuals in the nonattest entity who directly supervise or manage the *attest engagement partner*, including all successively senior levels through the chief executive or equivalent of the nonattest entity (for example, executive committee members)

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

.17 Threats to compliance with the “Independence Rule” [1.200.001] may exist due to additional relationships involving individuals and entities that are not *network firms* or *covered members*.

.18 Threats to compliance with the “Independence Rule” [1.200.001] are not at an *acceptable level* and cannot be reduced to an *acceptable level* through the application of *safeguards* and therefore, *independence* is *impaired* in the following circumstances:

- a. In a *significant influence* investment or *controlling* investment, when an individual who is a member of *those charged with governance* over the nonattest entity serves in a *key position* at an *attest client* during the *period of the professional engagement* or the *period covered by the financial statements*
- b. In a *significant influence* investment or *controlling* investment, when an *attest client* or an *affiliate* of a *financial statement attest client* is an upstream entity of the nonattest entity

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

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

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

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

- vii. Whether the investee or other entity of the investor is an existing *attest client* that the investor is targeting as an acquisition
- viii. Whether the *attest engagement* arose from a referral, introduction, or recommendation by a representative of the investor
- ix. Whether a key stakeholder of the investor is on the board of the investee or other entity of the investor
- x. Whether the investment in the investee or other entity of the investor is managed by the same individual or entity as the nonattest entity (for example, the fund, general partner, or investment adviser)

b. The attest *firm* knows or has reason to believe that a financial, employment (including *key positions*), or business relationship not prohibited by paragraph .18a exists between an *attest client* and any of the following individuals or entities that are not *covered members or network firms*:

- i. Nonattest entity board members who are appointed by an investor with at least *significant influence* over the nonattest entity
- ii. Key stakeholders of the investor with at least *significant influence* over the nonattest entity
- iii. Upstream entities of the nonattest entity including individuals in *key positions* at those entities
- iv. Investors with less than *significant influence* over the nonattest entity

c. The attest *firm* knows or has reason to believe that an *attest client* has a *financial interest* in an investor with at least *significant influence* over the nonattest entity that is not prohibited by paragraph .18b. Examples of factors to consider when evaluating whether *threats* exist and are at an *acceptable level* include the following:

- i. The nature of the attest service
- ii. Whether the *attest client* has *significant influence* over the investor
- iii. Whether the investment is material to the *attest client*
- iv. Whether the investment is a *direct* or *indirect financial interest* in the investor

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

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

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

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

# Proposed revisions to definition and interpretations (redline)

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

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

## 0.400.36 Definition of *network firm*

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

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

## 1.810.050 Alternative Practice Structures

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

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

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

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

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

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

#### **1.210.010 Conceptual Framework for Independence**

[Paragraphs .01–.17 are unchanged.]

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

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

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

[Paragraphs .19–.23 are unchanged.]

#### 1.000.010 Conceptual Framework for Members in Public Practice

[Paragraphs .01–.15 are unchanged.]

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

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

[Paragraphs .17–.24 are unchanged.]

# Proposed revisions to definition and interpretations (clean)

## 0.400.36 Definition of *network firm*

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

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

## 1.810.050 Alternative Practice Structures

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

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

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

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

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- c. The *member* receives a gift from the *attest client*, its management, or its significant shareholders. [1.285.010]
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- e. In an alternative practice structure, the investor pressures the *attest firm* and/or nonattest entity to meet internal or external targets.
- f. In an alternative practice structure, an individual representing the investor (for example, a nonattest entity board member), participates in decisions affecting the *attest firm*, such as *independence*, quality management, or compensation decisions of *attest partners*.

[Paragraphs .19–.23 are unchanged.]

## 1.000.010 Conceptual Framework for Members in Public Practice

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

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

[Paragraphs .17–.24 are unchanged.]

## Acknowledgments

### Alternative Practice Structures Task Force

Anna Dourdourekas, Co-chair

Lisa Snyder, Co-chair

Cathy Allen

Peter Bible

Andreea Danel

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Jason Evans

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### AICPA staff

Toni Lee-Andrews, Director — Professional Ethics

Ellen Goria, Associate Director — Professional Ethics

Joan Farris, Senior Manager — Professional Ethics

Summer Young, Manager — Professional Ethics

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



[aicpa.org](http://aicpa.org)

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**National Association of State Boards of Accountancy, Inc.**

**Meeting of the Board of Directors**

**July 25, 2025 – Sun Valley, ID**

**Call to Order**

A meeting of the Board of Directors of the National Association of State Boards of Accountancy was called to order by Chair Maria Caldwell at 9:00 a.m. MDT on Friday, July 25, 2025.

Chair Caldwell asked President and Chief Executive Officer Dan Dustin to report on the meeting's attendance.

**Report of Attendance**

President and CEO Dan Dustin reported the following were in attendance:

**Officers**

Maria E. Caldwell, CPA (FL), Chair  
Nicola Neilon, CPA (NV), Vice Chair  
Stephanie M. Saunders, CPA (VA), Past Chair  
J. Andy Bonner, Jr., CPA (TN), Treasurer  
Katrina Salazar, CPA (CA), Secretary

**Directors-at-Large**

Barry M. Berkowitz, CPA (PA)  
Alison L. Houck Andrew, CPA (DE)  
Stephen F. Langowski, CPA (NY)  
Jason D. Peery, CPA (ID)  
Michael Schmitz, CPA (ND)  
Kenya Y. Watts, CPA (OH)  
Gerald Weinstein, CPA (OH)

**Regional Directors**

Thuy Barron, CPA (WI), Great Lakes Regional Director  
Timothy F. Egan, CPA (CT), Northeast Regional Director  
Haley Lyons, CPA (OR), Pacific Regional Director  
Melissa Ruff, CPA (NE), Central Regional Director  
Wilhelmus Schaffers, CPA (AL), Southeast Regional Director  
Jeannette P. Smith, CPA (TX), Southwest Regional Director  
Dan Vuckovich, CPA (MT), Mountain Regional Director  
Laurie A. Warwick, CPA (VA), Middle Atlantic Regional Director

**Executive Directors' Liaison**

Nancy Glynn, Executive Director Committee, Virginia Board of Accountancy

## **Staff**

Daniel J. Dustin, CPA, President, and Chief Executive Officer  
Wendy S. Garvin, Executive Vice President  
Troy A. Walker, CPA, Vice President, and Chief Financial Officer  
Kent A. Absec, Vice President – State Board Relations  
John W. Johnson, Vice President – Legislative and Governmental Affairs  
William A. Emmer, Chief Operating Officer  
Thomas Kenny, Chief Communications Officer  
Philip Groves, CPA, Director of Finance and Controller

President Dustin announced there was a quorum present.

## **Approval of Minutes**

Secretary Katrina Salazar presented the minutes for the April 25, 2025, and May 7, 2025, meetings. Ms. Salazar asked if there were any revisions for each of the minutes. No revisions were needed for the May 7, 2025, minutes. There was a correction cited for the April 25, 2025, minutes. Ms. Salazar moved that the April 25, 2025, minutes be approved as corrected and the May 7, 2025, minutes be accepted as presented. Ms. Saunders seconded, and the motion passed unanimously.

## **Report of the Chair**

Chair Caldwell welcomed all. She reported that the Executive Committee met the prior day and several topics discussed would be presented to the Board later in the afternoon. She reported that the Relations with Member Boards Committee also met with the Executive Committee the prior day. Ms. Caldwell reported that she continues to be pleased with the level of engagement when she observes NASBA committee meetings and congratulated the eight Regional Directors on two very successful regional meetings.

Ms. Caldwell reported that the NASBA Awards Committee had made their selection of this year's award winners, which include Janice Gray (OK) as the recipient of the William H. Van Rensselaer Public Service Award; Faye Miller (ND) as the Distinguished Service recipient; and Viki Windfeldt as the recipient of the Lorraine P. Sachs Standard of Excellence Award. Ms. Saunders moved to approve the awards as recommended; Mr. Schaffers seconded, and the motion passed unanimously.

## **Report of the Vice Chair**

Vice Chair Neilon reported that she has continued to work on planning for the 2025-2026 committee year. To date, there have been 180 committee interest forms submitted for consideration. Vice Chair Neilon also noted that she has observed several committee meetings since April and remains excited about the level of engagement she is witnessing.

## **Report of the President and CEO – Relevance and Relationships**

President Dustin provided an organizational update that included several internal NASBA activities. Mr. Dustin reported that a Culture Champions team had been created within the organization. The team consists of some of the members of the Leadership Development and Professional Excellence training program which was initiated earlier in April. Mr. Dustin recognized J. Coalter Baker as the 2025-2026 vice-chair nominee and he

congratulated Board member Andy Bonner who was recognized for leadership and excellence as a recipient of the Tennessee Society of CPAs Lifetime Achievement Award. Mr. Dustin gave a report on the diagnostic project stating that participation of member boards is now at 89%. He also reported that the diagnostic would be completed by the Annual Meeting in October and anticipated creation of a Strategic Planning Taskforce in November. Mr. Dustin reported that he attended a recent event in which he interacted with several federal regulators. Mr. Dustin also gave an update on a recent meeting with the Executive Directors' Committee and a small group of executive directors who he meets with every 4-6 weeks.

Executive Vice-President Wendy Garvin highlighted some of her activities with both domestic and international accounting related organizations. This included her attending the AICPA Spring Council meeting. Ms. Garvin reported that the AICPA announced that the Experience, Learn, and Earn program offered through Tulane University was being sunsetted. The program will officially conclude at the end of this year's fall semester. Ms. Garvin also reported on her interaction with federal regulators in which great information was learned and will be passed on to NASBA's Enforcement Resources Committee. Ms. Garvin updated the board on meetings she had with the International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board (IAASB). She reported that the meetings produced learning on how new Standards are being implemented, particularly relating to sustainability. Ms. Garvin provided an update on discussions relating to CPA Canada and a tri-party MRA with Canada and Mexico and the upcoming international summit between Canada, Mexico, NASBA and AICPA in February.

Ms. Garvin updated the Board around risk and compliance including the latest SOC 2 Type 2 and AT 101 reports which were issued earlier in July. Ms. Garvin also announced there will be a SOC2 readiness assessment conducted by the audit team after the launch of the new Accountancy Licensing Database (ALD).

Vice-President Kent Absec reported on state board outreach. Mr. Absec reported that he interacted with several jurisdictions during the past quarter in which he gave presentations to state boards of accountancy. Mr. Absec reported that Middle Atlantic Regional Director, Laurie Warwick, joined him on a board visit to a jurisdiction in Ms. Warwick's area. He also mentioned that he, along with Vice-President John Johnson had been invited and had participated in several discussions with state boards and state societies who are collaborating on pathways and mobility legislation language. Mr. Absec also reported that he made a presentation to a group of newly licensed CPAs at a social event in a jurisdiction in the Northeast.

Vice-President John Johnson provided an update on legislative activity across the jurisdictions. Mr. Johnson reported that there have been 30 jurisdictions that filled legislation regarding pathways and/or mobility. Mr. Johnson gave the Board information regarding the differences in the 'guardrails' adopted by jurisdictions pertaining to mobility. He also reported on the number of jurisdictions which have adopted the UAA language as well as safe harbor language to grant current CPAs mobility moving forward. Mr. Johnson also reported to the Board that he is in discussions with vendors on the legislative tracking system that NASBA will utilize at the end of the current vendor contract.

Chief Communications Officer Thomas Kenny reported on the activity of the outreach campaigns the communications team has been working on both internally and externally. Mr. Kenny also reported that the NASBA website was updated to comply with the Web Content Accessibility Guidelines (WCAG) which are essential to ensure that a website is

usable for all visitors. Mr. Kenny also reminded the Board of the upcoming location and dates for the Annual Meeting in October.

#### Report of the President and CEO – Operations

President Dustin along with Ms. Garvin discussed the CPA exam and some recent trends which include test volumes and the testing patterns of candidates. Mr. Dustin reported that the organization is working with state boards to produce age stratification reporting of licensees in jurisdictions to identify where potential gaps exist and examine how the demographics of CPAs nearing retirement could impact the pipeline.

Chief Operating Officer Bill Emmer provided an update on exam operations within the organization and provided the board members with an operations dashboard which contained information on key performance indicators relating to the exam. Mr. Emmer communicated that the Guam testing center will be ceasing operations in October 2025. He also reported that NASBA is currently conducting a review of exam security and examining the AICPA NDA and Informed Consent Agreement. Mr. Emmer reviewed the processing times for exam applications which continue to hold steady at 8-10 days. Mr. Emmer said there will now be a focus on applications submitted to NASBA's International Evaluation Services team. Mr. Emmer also provided information on NASBAs activities concerning information technology, including the CPA Mobile App set for launch in early September; the ALD rewrite which is set for launch in August; the licensing system workgroup established to guide a rewrite of NASBA's licensing system; work on the CPAmobility.org website; the launch of a webpage dedicated to new licensure pathways; and NASBA's work with artificial intelligence.

President Dustin previewed the trending topics that will be discussed during the afternoon session which include the recently formed Private Equity (PE) Task Force; the CPA Examination; and deregulation efforts happening within various jurisdictions.

#### Report of the Administration and Finance Committee

Treasurer J. Andy Bonner, Jr. started the report by providing an overview of the prior day's Administration and Finance (A&F) committee. He also reported that the Investment committee met with NASBA's investment advisors virtually during the prior week.

Vice President and Chief Financial Officer Troy A. Walker reported on the consolidated financial statements through May 31, 2025, and projected for Fiscal 2025. He stated the current projected operating excess was \$4.1 million. This was an increase of \$1.5 million from the previous projection and was \$2.8 million better than budgeted for the fiscal year. Mr. Walker noted that CPA Examination candidate volume since January 1, 2025, was better than budgeted and projected at the April meeting. Total projected revenue remains less than budget for the fiscal year, though, due to lower expired notice-to-schedule (NTS) and no-show revenue and previously discussed during the current fiscal year. As an offset to the lower revenue, total expenses for Fiscal 2025 were projected to be less than budget by \$4.2 million, including Special Technology Projects (STP) expenses. Mr. Walker stated investment income was currently projected to be \$4.7 million for Fiscal 2025. This resulted in a projected increase in net assets of \$8.8 million for the current fiscal year.

Mr. Walker then presented the Fiscal 2026 consolidated operating budget. He stated the key budget impacts for Fiscal 2026 included (1) a 1% increase in CPA Examination volume, (2) fee increases for CPA Examination Services, NASBA International Evaluation Services

and CPE Registry, (3) new positions, (4) Information Technology projects, and (5) higher travel and meeting expenses. Total budgeted revenue is \$43.2 million which is greater than projected Fiscal 2025 revenue. Total expenses are budgeted to be \$41.8 million. An additional \$0.5 million is budgeted for Special Technology Project expenses. This results in a consolidated operating excess budgeted to be \$0.9 million. In addition, \$3.8 million is budgeted for investment income which is based on the expected short-term return of the portfolio asset allocation which is 6%. This results in a budgeted increase in consolidated net assets of \$4.7 million. Mr. Walker also discussed the Fiscal 2026 capital budget which primarily includes various software development projects totaling \$2.9 million. Other budgeted items include annual computer replacements and other various equipment and furniture. The total capital budget for Fiscal 2026 is \$3.1 million.

Finally, Mr. Walker provided an investment report as of June 30, 2025. The investment securities balance was \$51.5 million. The preliminary investment return for the trailing five years, three years and twelve months was 7.2%, 8.5% and 8.1% respectively. The five-year return was better than the benchmark and the three-year and twelve-month returns slightly trailed the benchmarks. Mr. Walker presented the five-year returns for each of the past five-year periods, showing the returns for each year presented were better than the benchmark. Mr. Walker noted that this was a long-term fund, and the most important measure was the long-term returns. Whereas the short-term returns, such as on a quarterly basis, may be lower than the benchmark on a more frequent basis. Mr. Walker reviewed the asset allocation as of June 30, 2025, which was in line with the Investment Policy Statement target allocation. The current allocations were consistent with allocation during the prior twelve-month period.

Mr. Bonner made a motion that the May 31, 2025, consolidated financial statements, as recommended by the A&F committee, be accepted. Being a motion from the A&F committee, no second is required. Chair Caldwell called a vote on the motion and the motion carried.

Mr. Bonner made a motion to approve the Fiscal 2026 consolidated operating and capital budgets, as recommended by the A&F committee. Being a motion from the A&F committee, no second is required. Chair Caldwell called a vote on the motion and the motion carried.

#### Report of the Audit Committee

Mr. Schaffers provided an update on the activities of the committee, including the in-person meeting which was held in the month of May. Mr. Schaffers highlighted the presentations given to the committee during the meeting which covered numerous areas of importance within NASBA.

#### Report of the Nominating Committee

Ms. Saunders informed the Board on how seriously the committee took their role during the recent process to identify nominees for Director-At-Large and Regional Director positions. Mr. Saunders reported that the interviews during the process were terrific and that she feels that NASBA will continue to have a strong Board of Directors moving forward.

#### Report of the Committee on Relations with Member Boards

Ms. Smith reported that the committee discussed the recent Regional Meetings which were held in June and how to expand on the success of those meetings. The committee

discussed how to increase panel discussions at future meetings; how to increase the number of evaluations received from participants; and how to increase attendance at the meetings. She also reported on the committee meeting with the Executive Committee held the previous day. Ms. Smith reported that the committee spent considerable time discussing and working on the FOCUS questions which will be discussed during the upcoming regional calls.

#### Report of the Bylaws Committee

Mr. Peery led a discussion on the proposed changes to NASBA Bylaws. The Board reviewed and approved for consideration changes to Section 4.3.1, *Chair*, Section 4.5, *Qualification, Terms and Limitations of Office*, Section 6.1, *Annual Meeting*, and Section 6.8, *Rules of Order*. Mr. Peery moved, and Mr. Schaffers seconded the committee's recommendations for changes with the amendments discussed. The motion passed unanimously. The proposed changes will be sent to member Boards and voted on at the Annual Business Meeting.

#### Report of the CPE Committee

Ms. Warwick led the Board through a detailed discussion on the proposed revisions to the Statement on Standards for Continuing Professional Education (CPE) Programs (Standards). Ms. Warwick reported that a couple of the goals of the committee were to work on a simplification of the document and to look at the standards on how they can relate to society today. She also reviewed the process of putting forth an exposure draft including the length of the exposure period and the review of comments submitted. Ms. Warwick reported that the AICPA board of directors will need to also vote on whether to expose the proposed changes. Ms. Warwick moved to expose the proposed changes, and Ms. Ruff seconded the motion. The motion passed unanimously.

#### Report of the Executive Director Committee

Ms. Glynn reported that executive directors are supportive of the Private Equity Task Force and are looking forward to getting information on potential questions to ask firms that have various alternative practice structures. Ms. Glynn stated that further guidance around alternative practice structures, particularly private equity ownership, would be beneficial. Ms. Glynn also discussed the CPA exam, particularly the low pass rate for the BAR discipline. Other items of discussion included the subjects of mobility, how NASBA can further support state boards, and continuing professional education.

#### Report of the Education Committee

Ms. Houck Andrew reported on the activities of the committee which included the budget for grant rewards this year and that the NASBA website update included a webpage relating to education grants. Ms. Houck Andrew also conveyed four subject areas: artificial intelligence and its impact on the audit function; the impact of private equity on the CPA profession; adequacy of CPE requirements; and changing retirement to aid the CPA pipeline that the committee was considering as topics of research for the next grant period and asked the Board for their thoughts on the topics and/or suggestions on possible subject areas.

## Alerts from Other Committees

### Enforcement Resources Committee

Ms. Ruff reported that the committee hosted a webinar on July 15, 2025, that was attended by 60 participants. Ms. Ruff mentioned that additional webinars would be held throughout the remainder of the year.

### Standard-Setting and Professional Trends Advisory Committee

Mr. Egan discussed the plans to refresh the standard setting matrix which was last updated in October 2022. The matrix summarizes an evaluation of the key practices in standard setting among the primary professional standard setting accounting bodies in the US. Mr. Egan reported that the research supporting the evaluations is conducted by the committee members. The matrix and the corresponding evaluations are key to helping the public and the accounting profession have confidence in the standards. The process used to develop, monitor and amend these standards is crucial and therefore they need to be fair and transparent. Mr. Egan indicated that the committee should have a final report on this project by the next board meeting in October.

### Regulatory Response Committee

Mr. Langowski highlighted the activity of the committee which includes work on a proposal by the Auditing Standards Board to do a rewrite of the fraud standards. Mr. Langowski noted that because of the breadth and complexity of this matter, the committee is going to handle their work a little differently. He noted they will hold an information-only meeting to make sure all the members are in alignment on what's being proposed. This will be followed by a meeting in which possible responses will be discussed. Mr. Langowski invited all board members to participate in the process.

### Resolution of the Board of Directors for New Hampshire

President Dustin noted that although his contract empowers him to sign contracts on behalf of NASBA, a state of New Hampshire government requirement necessitates specific NASBA board action to provide its authority to sign a contract. He reported that he is seeking approval to sign contracts with the state of New Hampshire. Mr. Peery moved, and Mr. Berkowitz seconded the motion. The motion passed unanimously.

### Policy Discussions

President Dustin, aided by Mr. Emmer led a discussion on the business continuity around the CPA examination. Mr. Emmer explained that the organization is going through a process of looking at a range of incidents that might impact the exam. These incidents ranged from very small to very significant and included NASBA, AICPA and Prometric. Mr. Emmer stressed that security of the exam remains the top priority. He explained that each party has a business continuity plan of its own and there is also a business continuity plan that incorporates the three parties. Mr. Emmer also indicated that each party has a cyber incident response plan in the case of a cyber security breach. Mr. Emmer stressed that each party is continuing to focus on risk and probability and what would need to take place, from a national perspective,

to be prepared should something occur.

Ms. Garvin, with the assistance of Mr. Vuckovich led the board through a discussion on the Private Equity Task Force, its activities, and alternative practice structures in general. Ms. Garvin informed the board on the work that the task force has done to date. The concerns being elevated include issues such as use of title, firm ownership requirements (including active owner participation), and the definition of natural person. Solutions include a potential list of questions for boards of accountancy to inquire of a firm applying for or renewing a firm registration, the evaluation and reporting out of research that has been conducted by the NASBA legal team on these topics, and the work on a document or whitepaper that could be utilized by the boards of accountancy for informational purposes or by an executive director when out speaking to stakeholders. Ms. Vuckovich laid out a timeline for the future meetings and when the task force may be ready to publicly release information/guidance to state boards. Mr. Vuckovich also reminded the board of the work of the AICPA PEEC committee concerning independence and that the task force is closely monitoring the work of PEEC.

President Dustin along with Mr. Johnson addressed deregulation efforts that are being reported within some of the 55 jurisdictions. Mr. Johnson discussed the resources that are available to state boards that he has accumulated over time through NASBA's affiliation with the Alliance for Responsible Professional Licensing (ARPL). Mr. Johnson also reviewed the seven categories in which the ARPL resources pertain and talked about strategies that can be utilized as a jurisdiction faces a deregulation bill. He also asked for suggestions that the Legislative Committee could discuss as a possible strategy moving forward. The board was informed that ARPL has hired a lobbyist in Florida.

#### New Business

Ms. Neilon did a high-level recap of items that were discussed during the meeting. Items mentioned included the CPA examination, operational needs, input from executive directors on NASBA support, CPE, matters involving research grants, the PE Task Force and a toolkit to help in cases of deregulation efforts.

#### Future Meetings

Chair Caldwell provided the dates and location of the next board meeting which will take place in Chicago, IL, prior to the annual meeting in October.

Chair Caldwell thanked everyone for their effort and commitment to the board.

#### Executive Session

Ms. Barron moved, and Mr. Egan seconded the motion to adjourn to executive session at 4:08 p.m.

Chair Caldwell called the meeting to order at 4:18 p.m. The Board ratified certain Executive Committee recommendations related to confidential (personnel) matters.

The Executive session was adjourned to Regular session at 5:12 p.m.

### Regular Session

Chair Caldwell identified the next order of business as the approval of the changes to the Compensation Policy as recommended by the Executive Committee. Mr. Schaffers moved to adopt the revised Compensation Policy as presented, Ms. Warwick seconded. The motion passed unanimously.

Ms. Saunders moved to adjourn the meeting, Mr. Schaffers seconded. There was no additional discussion related to the motion. Mr. Berkowitz provided a short update on the legislative Key Contacts Program. Chair Caldwell called for a vote on the motion to adjourn and it passed unanimously.

### Adjournment

Chair Caldwell adjourned the meeting at 5:15 p.m. MDT.

**NATIONAL ASSOCIATION OF STATE BOARDS OF ACCOUNTANCY, INC.**

**Highlights of the Board of Directors Meeting**

**October 24, 2025 – Chicago, IL**

At a duly called meeting of the Board of Directors of the National Association of State Boards of Accountancy, held on Friday, October 24, 2025, in Chicago, IL, the Board took the following actions:

- Unanimously approved the minutes of July 25, 2025, Board of Directors meeting.
- Chair Maria Caldwell (FL) reported her activities for the quarter which included observing NASBA committee meetings and a meeting the Executive Committee had with the Relations with Member Boards Committee the prior day.
- Vice Chair Nicola Neilon (NV) updated the Board on her activities during the past quarter, which included attending numerous committee meetings and reporting that over 180 volunteers were placed on NASBA 2025-26 committees. She reported that members of the Strategic Planning Task Force have been named and the diagnostic initiative will be utilized as the starting point for the strategic planning process.
- Brendan Tapley provided a 30-minute high-level overview of the diagnostic to give the board some insights prior to the presentation at the Annual Meeting. Mr. Tapley reviewed the process that was followed during the particular stages of the diagnostic, reporting that he spoke to 106 people for a total of 104 hours and gathered 368 pages of feedback. Mr. Tapley also lead a discussion on the six areas of focus that were identified through the process. Those areas include brand identity, communications and engagement, governance, internal operations, meetings, and deregulation.
- President and CEO Daniel J. Dustin and Executive Vice President Wendy Garvin provided an organizational update and discussed numerous civic as well as employee focused activities. Mr. Dustin noted NASBA's involvement at the American Accounting Association's Annual Meeting, the most recent NASBA/AICPA Summit and a recent meeting with The Accountant's Coalition.
- Chief Operations Officer William Emmer provided an operational update which included an overview of NASBA's Client and Compliance Services through the operations dashboard which covers key performance indicators such as application and quality assurance processing times. Mr. Emmer reviewed the latest quarterly CPA examination statistics as well as comparing year-over-year trends in the areas of total candidates, exam sections taken and scores. Mr. Emmer also updated the board on projects ongoing within the IT area of the organization.
- The Board heard a report from Treasurer J. Andy Bonner, Jr. (TN) and Vice President and Chief Financial Officer, Troy Walker on the Administration and Finance Committee. The Fiscal Year 2025 increase in net assets was \$9.8 million. Total revenue decreased by \$1.4 million, or 3.2% from the prior year, driven primarily by ancillary revenue sources outside of

examination application fees. Total expenses also decreased by \$0.9 million, or 2.3%, from the prior year. The net operating excess for Fiscal Year 2025 was \$4.8 million.

- Audit Committee Chair Wilhelmus Schaffers (AL), reported on the results of the audit for Fiscal Year 2025. The Board unanimously passed a motion to approve the Fiscal Year 2025 audit report on the consolidated financial statements for NASBA and appointment of the auditor for Fiscal Year 2026.
- Relations with Member Boards Chair Jeannette Smith (TX) reported on the activities of the committee's recent meetings which included a discussion on the recently completed regional calls and the preparation work for next year's regional meetings.
- Center for Public Trust President (CPT) and NASBA's Chief Ethics Officer Sedrik Newbern provided an update on the CPT which detailed the focus on growing the certification program across the country as well as the CPT Speaker Series on college campuses and their current fundraising efforts.
- The board unanimously approved the nominations of Dr. Linda Biek, Dr. Ruben Davilla, Marcus Rayner and Turney Stevens to be appointed to the board of directors for the CPT. The board also unanimously approved proposed changes to the CPT bylaws which created an Ex-Officio role and defined leadership terms.
- Executive Directors' Committee Chair Nancy Glynn (VA) provided an update on the activities of the committee and discussed various areas of interest relating to the Executive Director community.
- The Board heard updates from the Peer Review Compliance and Uniform Accountancy Act (UAA) Committees.

The next meeting of the NASBA Board of Directors will be held on January 23, 2026, in Clearwater, FL.

*Distribution: State Board Chairs/Presidents, Members and Executive Directors, NASBA Board of Directors and Committee Chairs, and NASBA Staff Directors.*



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## White Paper

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**National Association of State Boards of Accountancy  
Private Equity Task Force**

**Alternative Practice Structures & Private Equity:  
Considerations and Questions for Boards of Accountancy**

**October 24, 2025**

**Comments are requested by January 31, 2026**

**Submit all comments to [petaskforce@nasba.org](mailto:petaskforce@nasba.org)**

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## **National Association of State Boards of Accountancy Private Equity Task Force**

### **Alternative Practice Structures & Private Equity: Considerations and Questions for Boards of Accountancy**

#### **Executive Summary**

Private equity (PE) investment in the accounting profession is an emerging trend that offers opportunities for growth, modernization, and succession. Yet it also raises questions related to how Boards of Accountancy regulate this issue to ensure public protection.

In response to these questions, National Association of State Boards of Accountancy (NASBA) Chair Maria Caldwell appointed the NASBA Private Equity Task Force (PE Task Force) to evaluate the implications of PE investment in the accounting profession and identify ways to support state boards in their oversight responsibilities. The PE Task Force is also charged with exploring how PE ownership may impact the public interest, firm independence, governance structures, and audit quality.

The members of the Private Equity Task Force are:

- Dan Vuckovich, CPA, Chair—NASBA Board of Directors’ Member; NASBA Mountain Regional Director; Member, Montana Board of Public Accountants
- Barry Berkowitz, CPA—NASBA Board of Directors’ Directors-at-Large Member
- Boyd Busby, CPA—Executive Director, Alabama State Board of Public Accountancy
- Dominic Franzella—Executive Officer, California Board of Accountancy
- Dale Mullen, Esq.—Member, Virginia Board of Accountancy
- David Nance, CPA—Executive Director, North Carolina Board of CPA Examiners
- Steve Platau, CPA—Member, Florida Board of Accountancy
- Melissa Ruff, CPA—NASBA Board of Directors’ Member; NASBA Central Regional Director; Chair, Nebraska Board of Public Accountancy

The purpose of this paper is for the PE Task Force to educate Boards of Accountancy and policymakers about both the benefits and challenges of PE investment and raise questions

about how best to protect investors and the public interest. While identifying key questions, this paper is not intended to provide guidance on how Boards of Accountancy should modify their oversight practices or statutory frameworks.

The paper includes:

- Background on Board of Accountancy regulation of certified public accountants (CPAs) and CPA firms
- An introduction to CPA firms operating in Alternative Practice Structure (APS) models that have PE investment
- Three key topics and questions for Boards of Accountancy on regulating PE investment in CPA firms

NASBA's Private Equity Task Force seeks feedback from Boards of Accountancy and other key stakeholders regarding the content of this white paper, and in particular regarding the key topics and questions. Please submit any comments and questions to [petaskforce@nasba.org](mailto:petaskforce@nasba.org) by January 31, 2026.

### **Background on Board of Accountancy Regulation of CPAs and CPA Firms**

State legislatures charge Boards of Accountancy with regulating CPAs and CPA firms<sup>1</sup> to protect the public interest. Boards of Accountancy accomplish this by enforcing standards of competence, ethical conduct, and independence in the performance of public accounting services.

Generally, CPAs and CPA firms must be licensed to perform attest engagements. These engagements produce an examination, opinion, agreed-upon procedures report, or assurance regarding information provided by a third party. Financial statement users (including investors and banks) rely on attest work to make key investment decisions. Therefore, Board of Accountancy regulation of attest work is critical to the functioning of the U.S. economy.

Additionally, Boards of Accountancy require CPAs and CPA firms to comply with various professional standards, such as generally accepted auditing standards and the American

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<sup>1</sup> The Uniform Accountancy Act defines "CPA Firm" in §3 of the Ninth Edition (2025):

"Firm" means a sole proprietorship, a corporation, a partnership or any other entity that is practicing public accountancy as defined by the Act and has been duly registered with the appropriate State Board of Accountancy." Uniform Accountancy Act, §3(f), 2025. For purposes of this paper, we distinguish between firms registered and licensed to practice public accountancy ("CPA firms") and all other entities, which are regarded as "non-CPA firms" under the regulatory framework. See also Fn. 5.

Institute of CPAs (AICPA) Code of Professional Conduct.<sup>2</sup> Due to the evolving nature of the accounting profession, Boards of Accountancy also require CPAs to complete continuing professional education to maintain or enhance their knowledge.

Boards of Accountancy require CPA firms that provide attest services to participate in an approved peer review program. The primary objective of peer review is to monitor and enhance the quality of accounting, auditing, and attestation services provided by CPA firms. Peer review evaluates a firm's system of quality control/management as it relates to its accounting and auditing practice for non-issuer (privately held) clients (when a system review is required or elected) or through an evaluation of select engagements (when eligible for an engagement review). In contrast, audits of issuers (public companies) fall under the oversight of the Public Company Accounting Oversight Board. Peer review gives the public, regulators, and other financial statement users greater confidence in the reliability of the information they receive.

### **An Introduction to CPA firms operating in APS models that have PE investment**

Non-CPA minority ownership has long been permitted within CPA firm structures. However, regulatory requirements governing firm ownership impose important limitations. Most states' laws mandate that a majority of a CPA firm's ownership—both in terms of equity and voting rights—be held by licensed CPAs.<sup>3</sup> In addition, at least 44 jurisdictions require that non-CPA firm owners be individual persons who are actively engaged in the firm's business.<sup>4</sup> These legal provisions restrict the extent to which non-licensees and passive investors can hold an ownership interest in a CPA firm. As a result, PE investors often structure their involvement in CPA firms through APSs which allow for investment in the non-attest side of the firm's business while ensuring that attest services remain under the control and oversight of licensed CPAs, in compliance with professional and regulatory requirements.

The AICPA Code of Professional Conduct defines an APS as “a form of organization in which a CPA firm that provides attest services is closely aligned with another public or

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<sup>2</sup> The American Institute of CPAs (AICPA) Code of Professional Conduct is widely adopted throughout the U.S. At least 37 Boards of Accountancy have adopted the AICPA Code of Professional Conduct by reference in whole or in part. A further 8 Boards of Accountancy have their own state code of professional conduct, containing references to, or largely based on, the AICPA Code of Professional Conduct. Thus, any existing or new AICPA Code of Professional Conduct requirements will flow down to most states' laws and rules.

<sup>3</sup> Two jurisdictions (Hawaii and the Commonwealth of the Northern Mariana Islands) require 100% CPA ownership of firms. All other jurisdictions require majority licensee ownership.

<sup>4</sup> The Ninth Edition of the Uniform Accountancy Act (2025) at §7(c)(2) also includes this requirement: “Any CPA or PA firm as defined in this Act may include non-licensee owners provided that ... [a]ll non-licensee owners are of good moral character and active individual participants in the CPA or PA firm or affiliated entities.” The terms “active individual participant” and “affiliated entities” are not defined in the Uniform Accountancy Act or Model Rules.

private organization [non-attest entity]<sup>5</sup> that performs other professional services.”<sup>6</sup> This non-attest entity may receive PE investment, provide non-attest services, and perform key administrative functions for both entities. See Appendix 2, Table 1 for a diagram of a simplified ownership structure of an APS structured CPA firm.

Generally, APS, as it pertains to PE in CPA firms, operates in a business structure whereby the CPA firm providing attest/assurance services (often referred to as the “attest firm”) is closely aligned with the non-attest entity. See Appendix 2, Table 2 for a diagram of a simplified ownership structure of a CPA firm operating in an APS model that has PE investment.

During the 1990s, many CPA firms sought to expand beyond traditional audit and tax services into consulting, technology, and financial advisory work. However, as mentioned previously, state laws and professional regulations limit non-CPA ownership and investment in CPA firms. These restrictions made it difficult for firms to access external capital or form partnerships with non-CPA professionals, such as management consultants and IT specialists. To overcome these barriers, firms began developing APSs which allowed investors and non-CPAs to participate financially in the broader business while keeping the attest function under the control of licensed CPAs, as required by law.

Following the proliferation of this new investment model, the AICPA and Boards of Accountancy clarified rules and standards on ownership and independence, reinforcing that only CPA-owned entities could issue attest reports. APSs provided a way to separate the attest entity (CPA-owned) from the non-attest entity (which could be owned and/or funded by non-CPAs). This model preserved compliance with state accountancy laws while enabling firms to remain competitive and attract non-CPA expertise and investment.

The APS framework remains relevant today, as PE investment in APS firm structures has recently increased significantly. The APS model allows firms to balance the profession’s regulatory requirements with market flexibility and growth opportunities. This increased PE investment has occurred across the country in larger and smaller markets, and has impacted small, medium, and large firms.<sup>7</sup> PE investment in CPA firms follows several

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<sup>5</sup> The Ninth Edition of the Uniform Accountancy Act (2025) does not include a definition for “non-CPA firm” or “non-attest entity.” Rather, a non-CPA firm or non-attest entity is understood contextually as any entity providing accounting-related services that is not licensed by its Board of Accountancy. That is, a firm which does not hold a permit to practice public accountancy. Uniform Accountancy Act, §3(f).

<sup>6</sup> Alternative Practice Structures interpretation (ET sec. 1.220.020) of the Independence Rule.

<sup>7</sup> Press accounts from 2023 and 2024 cite examples of small, medium, and large sized attest firms being approached by PE investors. See, e.g., Journal of Accounting, *Private Equity Eyes CPA firms Large and Small*, Feb. 1, 2023 (noting that more than half of the largest attest firms are involved in, or contemplating, PE-backed APS structures); see also CFO Brew, *Private Equity is Reshaping the Accounting Profession*, Sept. 17, 2024 (Reportedly, “you have midsized PE firms partnering with midsized accounting firms, and now you even

other recent trends, including PE investment in other licensed professions, such as medical and engineering professions.<sup>8</sup> This trend has also coincided with the increased adoption of artificial intelligence within the CPA profession; the need for access to increased capital to supply attest firms with improved information technology resources; and recent waves of firm consolidation and restructuring associated with retirements at small firms.<sup>9</sup>

Reportedly, PE investors find CPA firms to be an attractive investment vehicle for several reasons, including the fact that they “often have stable, recurring revenue streams,” and given that “the fragmented nature of the accounting industry presents opportunities for consolidation and economies of scale.”<sup>10</sup>

Under the APS model, attest firms provide audit and assurance services, as required by law. The attest firm’s ownership structure must continue to adhere to requirements that maintain CPA ownership and control of the attest firm. The non-attest entity provides non-attest services including tax, consulting, management, and advisory services. The ownership structure for the non-attest firm varies, and may include a combination of CPAs, CPA partners in the attest firm, PE investors, and potentially other individuals and/or entity owners.

The attest firm and non-attest entity operate under a wide-ranging administrative services agreement. The non-attest entity provides centralized administrative functions to the attest firm including human resources, staffing, information technology, marketing, and general office administration. The attest firm and non-attest entity generally share branding, websites, and some operational leadership.

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have small PE firms partnering with small CPA firms”); see also CFO Brew, *Private Equity Now Has a Stake in 20 of the Top 30 CPA Firms*, Nov. 20, 2024.

<sup>8</sup> Some CPAs have asked questions about news and periodical coverage critical of private equity investment in medical professions. See, e.g., Bloomberg Tax, *Private Equity-Fueled Shakeup Coming for Accounting Industry*, April 30, 2025 (“Some studies have shown a deterioration in patient care after private equity targeted the health care industry, for instance, while others reported slightly improved care”); see also Wall Street Journal, *Doctors Warn Accountants of Private-Equity Drain on Quality: You Could be Next*, May 7, 2025 (“many doctors have decried private-equity firms’ push into healthcare, saying patient care has eroded under their ownership”).

<sup>9</sup> See Thomson Reuters, *Some Tax, Audit & CPA firms are Rejecting Private Equity in Favor of Independence*, May 30, 2025 (“Private equity has flooded the profession with capital for firms to pay retiring partners, acquire smaller firms, improve technology, and expand client services.”)

<sup>10</sup> See Thomson Reuters, *The Rise of Private Equity in Accounting: Not Just for Large Firms Anymore*, Aug. 20, 2024.

## **Three Key Topics and Questions for Boards of Accountancy on Regulating PE Investment in CPA Firms**

The PE Task Force has identified three key topics for consideration by Boards of Accountancy: independence and professional standards; disclosure and public understanding; and regulatory oversight and enforcement. Under each of these three categories below, this white paper poses questions for Boards of Accountancy regarding responsible regulation of the accounting profession and protection of the public interest.

### **1. Independence and Professional Standards**

#### **Summary:**

Independence remains the cornerstone of public trust in the accounting profession. When PE investors become closely aligned with CPA firms through APSs, complex relationships emerge that can threaten both actual and perceived independence.<sup>11</sup> The fundamental challenge lies in ensuring that attest firms maintain the requisite professional judgment, technical competence, and ethical standards while operating within increasingly sophisticated ownership and management structures.<sup>12</sup> Boards of Accountancy should evaluate whether existing independence frameworks adequately address the unique risks posed by PE involvement, including potential conflicts arising from shared management, compensation structures, and client relationships across attest firms and non-attest entities.

To ensure compliance with professional standards, non-attest entities' involvement in management, compensation, and performance evaluation decisions regarding CPAs at attest firms must not affect audit quality and auditor independence. The current version of the AICPA Code of Professional Conduct (AICPA Code) includes independence rules;<sup>13</sup> requirements for organizational structures and names;<sup>14</sup> guidance regarding organizational structures and names,<sup>15</sup> including defining whether a firm is part of a “network” and determining what name requirements would apply to connected and related attest firms and related non-attest organizations.<sup>16</sup>

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<sup>11</sup> Wall Street Journal, *Private Equity Has Closer Ties to Companies’ Auditors Than Ever Before*, Oct. 30, 2024.

<sup>12</sup> Accounting Today, *Capital vs. Control: PE’s Impact on CPA Firms*, Dec. 5, 2024.

<sup>13</sup> AICPA Code of Professional Conduct, last updated March 1, 2025, at Secs. 1.200.001; 1.220.020; and Sec. 1.800.001.

<sup>14</sup> *Id.* at Sec. 1.800.001.

<sup>15</sup> *Id.* at Sec. 1.810.050.

<sup>16</sup> *Id.* at Sec. 400.35.

In response to the proliferation of PE investment in attest firms, AICPA's Professional Ethics Executive Committee (PEEC) recently issued a memorandum flagging potential gaps in this guidance as it pertains to attest firms operating in an APS model with PE investment.<sup>17</sup> PEEC's review and revision process should result in an exposure draft of the standard changes later in 2025, followed by the roll-out of new AICPA Code language aimed specifically at PE investment practices.<sup>18</sup>

### **Core Questions:**

- How should attest firms operating in an APS model with PE investment maintain audit quality and avoid undue influence and pressure to perform, if non-attest entities influence the attest firm's management, compensation, and performance evaluations?
- What restrictions should apply to PE investors and their portfolio companies becoming attest clients of an attest firm within their same shared APS structure?
- How should peer review processes address the complexity of independence considerations introduced by APS structures with PE investment?
- Are there adequate safeguards to ensure that attest firms maintain the necessary internal knowledge and frameworks for compliance with the AICPA Code, and federal/state laws and rules, specifically around the protection of confidential client information?
- How can Boards of Accountancy and other standard setting bodies address independence concerns based on the size and scale of attest firms' relationships?
- Are there positions taken within PEEC's memorandum *Potential revisions to the AICPA Code of Professional Conduct and guidance related to independence in alternative practice structures* that you believe should impose more restrictive requirements regarding attest firm independence? If so, which provisions, how would you modify them, and why?
- Would your Board of Accountancy consider adopting stricter laws or rules associated with independence than those in the AICPA Code, to enhance public protection?

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<sup>17</sup> See AICPA Professional Ethics Division, *Potential revisions to the AICPA Code of Professional Conduct and guidance related to independence in alternative practice structures*, March 10, 2025.

<sup>18</sup> See *id.* NASBA has responded to the PEEC request for comments with a June 13, 2025 response letter, available on NASBA's website: <https://nasba.org/wp-content/uploads/2025/06/June-13-2025-NASBA-Response-Letter-PEEC-APS-DM-FINAL.pdf>.

## 2. Disclosure and Public Understanding

### **Summary:**

Commentators have noted that "an auditor's objectivity, both real and perceived, is critical to the business of [CPA] firms, which typically also have consulting and tax operations."<sup>19</sup> Thus, "experts stress the importance of a clear distinction between which parts of a firm are owned by CPAs and which are not, both from a legal standpoint and a client relationship perspective."<sup>20</sup>

The public's ability to make informed decisions about professional services depends on clear, accessible information about firm ownership, service boundaries, and regulatory oversight. When APS structures with PE investment blur traditional firm boundaries, enhanced disclosure requirements become essential to maintain transparency and consumer protection.

### **Core Questions:**

- Should Boards of Accountancy require more prominent and standardized disclosures on websites and marketing materials, distinguishing attest and non-attest entities under common control?
- How can Boards of Accountancy better educate consumers about the distinction between attest and non-attest services in APS structures?
- What clarity is needed regarding Uniform Accountancy Act and Model Rules' wording on the use of the CPA title<sup>21</sup> by individuals not associated with attest firms?
- How should advertising practices be regulated to provide transparency regarding the relationship between attest firms and non-attest entities?

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<sup>19</sup> Wall Street Journal, *Private Equity Has Closer Ties to Companies' Auditors Than Ever Before*, Oct. 30, 2024.

<sup>20</sup> Accounting Today, *Capital vs. Control: PE's Impact on CPA Firms*, Dec. 5, 2024.

<sup>21</sup> When individuals who have earned the CPA license are allowed to display the designation, consumers are afforded a greater understanding regarding these individuals' background. Consumers can review Board of Accountancy websites to understand the regulatory framework, including how individuals obtained licensure; consumers can review online licensing records, including prior enforcement information; and consumers have a place to file a complaint, should the need arise.

### **3. Regulatory Oversight and Enforcement**

#### **Summary:**

The emergence of APS models that have PE investment creates challenges for Board of Accountancy oversight and enforcement capabilities. Traditional regulatory frameworks were designed for simpler firm structures operating within clear jurisdictional boundaries. Firms operating in an APS structure with PE investment often operate across multiple states with complex ownership structures, exposing regulatory gaps or inconsistencies between jurisdictions.

Boards of Accountancy should adapt their oversight mechanisms to ensure effective regulation of these sophisticated structures while maintaining their core mission of public protection. This includes developing new approaches to licensing, monitoring, and enforcement that account for the interstate and multi-entity nature of modern attest firms.

#### **Core Questions:**

- What are the implications of differing state definitions of “the practice of public accountancy” for attest firms operating nationally under APS models?
- Would Boards of Accountancy find it helpful for the UAA to include definitions of “active individual participant” or “affiliated entities” within its requirements for non-CPA firm owners?<sup>22</sup>
- How should Boards of Accountancy coordinate oversight when CPA firms operating under an APS model with PE investments conduct business across multiple jurisdictions?
- Regarding CPA firm registration requirements, do Boards of Accountancy need details on an attest firm’s principal place of business and physical presence in the jurisdiction, to ensure compliance with relevant laws and rules?

#### **Conclusion**

The PE Task Force encourages responses from Boards of Accountancy and other key stakeholders regarding the questions and topics included in the white paper. Please submit any comments and questions to [petaskforce@nasba.org](mailto:petaskforce@nasba.org) by January 31, 2026.

Responses received will guide NASBA and the PE Task Force’s next steps on this issue, including potentially suggesting revisions to the Uniform Accountancy Act and Model Rules

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<sup>22</sup> Uniform Accountancy Act § 7(c)(2)(B): “Any CPA or PA firm as defined in this Act may include non-licensee owners provided that ... All non-licensee owners are of good moral character and active individual participants in the CPA or PA firm or affiliated entities.”

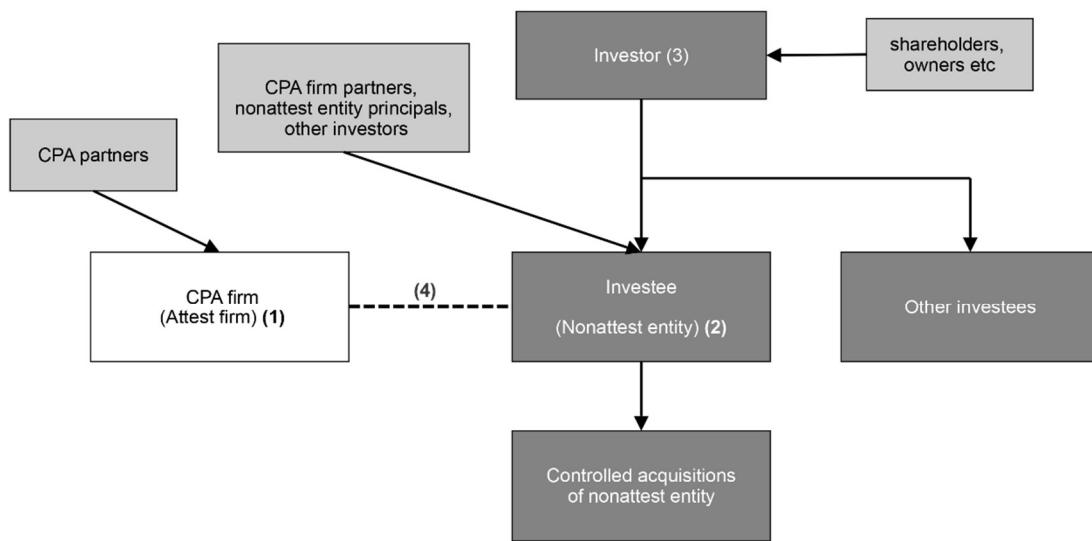
for consideration by the AICPA/NASBA Uniform Accountancy Act Committee; a PE Task Force report highlighting key questions and concerns; and future webinars and presentations educating stakeholders on this topic.

## **Appendix 1: Sources**

- Journal of Accountancy, *Private Equity Eyes CPA firms Large and Small*, Feb. 1, 2023.
- Thomson Reuters, *The Rise of Private Equity in Accounting: Not Just for Large Firms Anymore*, Aug. 20, 2024.
- CFO Brew, *Private Equity is Reshaping the Accounting Profession*, Sept. 17, 2024.
- Wall Street Journal, *Private Equity's Ties to Companies' Auditors Have Never Been Closer. That Worries Some Regulators*, Oct. 30, 2024.
- CFO Brew, *Private Equity Now Has a Stake in 20 of the Top 30 CPA Firms*, Nov. 20, 2024.
- Accounting Today, *Capital vs. Control: PE's Impact on CPA Firms*, Dec. 5, 2024.
- Bloomberg Tax, *Private Equity-Fueled Shakeup Coming for Accounting Industry*, April 30, 2025.
- Wall Street Journal, *Doctors Warn Accountants of Private-Equity Drain on Quality: You Could be Next*, May 7, 2025.
- Thomson Reuters, *Some Tax, Audit & CPA firms are Rejecting Private Equity in Favor of Independence*, May 30, 2025.

## Appendix 2: Tables

**Table 1:** The following is a diagram of a typical APS structure, applicable to any investor.<sup>23</sup>



### LEGEND

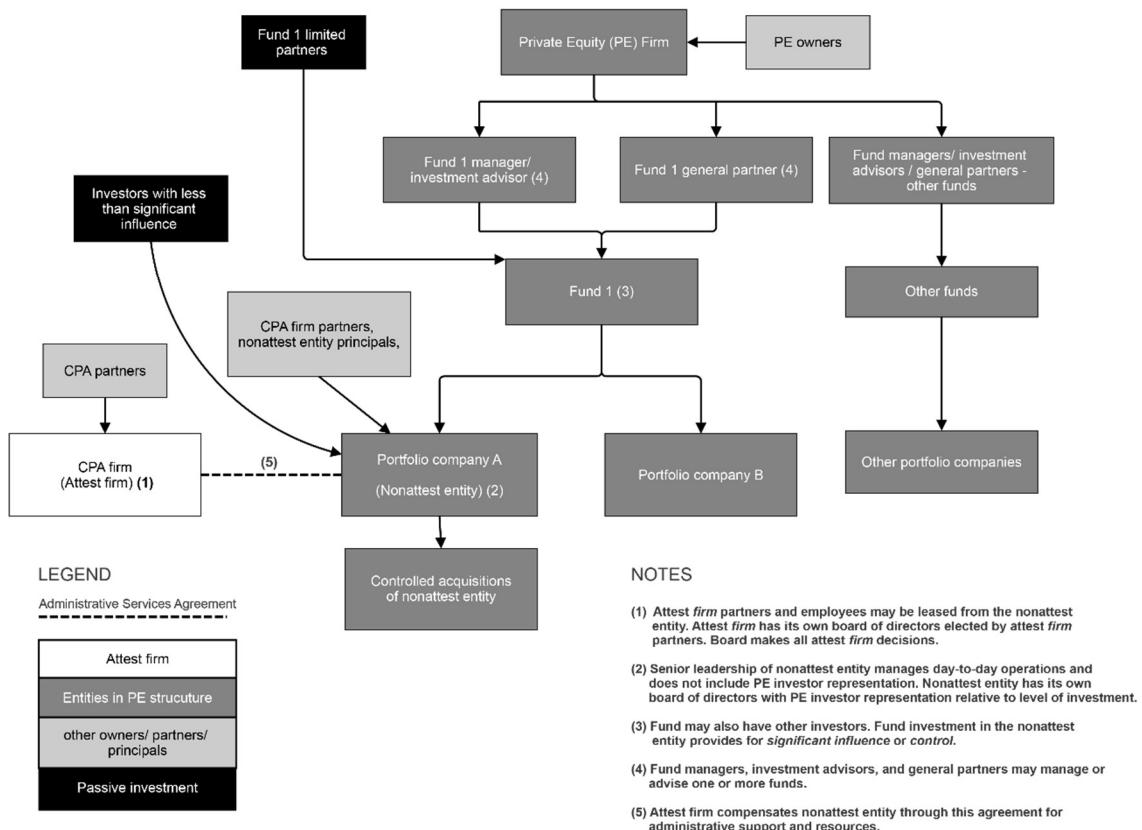
-----	Administrative Services Agreement
-----	Attest firm
-----	Entities in investor structure
-----	other owners/ partners/ principals

### NOTES

- (1) Attest firm partners and employees are leased from the nonattest entity. Attest firm has its own board of directors elected by attest firm partners. Attest firm board makes all attest firm decisions.
- (2) Senior leadership of nonattest entity manages day-to-day operations and does not include investor representation. Nonattest entity has its own board of directors with investor representation relative to level of investment.
- (3) Public or private investment in nonattest entity that provides for significant influence or control over the nonattest entity.
- (4) Attest firm compensates nonattest entity through this agreement for administrative support and resources.

<sup>23</sup> See AICPA Professional Ethics Division, *Potential revisions to the AICPA Code of Professional Conduct and guidance related to independence in alternative practice structures*, March 10, 2025.

**Table 2:** The following is a diagram of a typical ownership structure of a CPA firm operating in an APS model that has PE investment.<sup>24</sup>



<sup>24</sup> See *id.*