



April 29, 2026

Anna Dourdourekas, Chair
Toni Lee-Andrews, Director
Professional Ethics Executive Committee
American Institute of Certified Public Accountants
Professional Ethics Division
220 Leigh Farm Road
Durham, NC 27707

By E-mail: ethics-exposedraft@aicpa.org

Re: Professional Ethics Division Exposure Draft: Proposed Revisions Related to Alternative Practice Structures

The New York State Society of Certified Public Accountants (NYCPA), representing more than 17,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned proposed revisions.

The NYCPA's Professional Ethics Committee reviewed the exposure draft and prepared the attached comments. If you would like additional discussion, please contact Jo Ann Golden, chair of the Professional Ethics Committee, at joanngoldencpa@aol.com or Keith Lazarus, NYCPA Staff, at 212-719-8378.

Sincerely,

NYCPA

NYCPA

Kevin Matz
President



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

**PROFESSIONAL ETHICS DIVISION EXPOSURE DRAFT: PROPOSED
REVISIONS RELATED TO ALTERNATIVE PRACTICE STRUCTURES**

April 29, 2026

Principal Drafters

Jo Ann Golden
Diane L. Jules
Renee Mikalopas-Cassidy
Keith Peterka
Adam M. Scarpati
Wendy Stevens

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	Michael R. Mattick	
	Andrew A. Matthews	
	Andrew M. Mintzer	

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NYCPA Staff

Keith N. Lazarus

New York State Society of Certified Public Accountants

Comments on

Professional Ethics Division Exposure Draft: Proposed Revisions Related to Alternative Practice Structures

The New York State Society of CPAs (NYCPA) welcomes the opportunity to respond to the AICPA's Professional Ethics Executive Committee's (PEEC's) invitation to comment on the Exposure Draft: Proposed revisions related to alternative practice structures (ED-APS). The principal drafters present perspectives from CPAs in both public and private practice in large and smaller firms and companies and independent standard setters and regulators.

General Comments:

Our general comments are followed by our responses to the specific ED-APS questions:

1. We question the need for such an extensive document to explain independence needs in such a prescriptive manner versus having a broader conceptual or principle-based standard. We would suggest that the document should be streamlined and simplified to allow for unambiguous and consistent compliance.

Flow charts as presented are overwhelming. Private Equity (PE) structures, while complicated, still boil down to a few basic corporate and partnership structures and similar ownership options. Perhaps a checklist format would be easier for potential clients and their auditors.

2. To meet the more immediate needs of stakeholders, along with principled based ethical standards, we believe nonauthoritative guidance that includes Frequently Asked Questions (FAQs) and examples along with Plain English narrative would be most helpful for practitioners and their clients in navigating independence in a balanced and principled way, while ensuring quality continues to be enhanced. We also recommend any revisions and nonauthoritative guidance clearly state that an APS does not change the requirements for evaluating prohibited nonattest services or impact the application of other Code sections.
3. We strongly support PEEC continuing to evaluate whether the Contingent Fees and Commissions and Referral Fee Rules should apply to the nonattest entity in an APS since a primary goal of PE is to leverage the attest relationship for nonattest services.
4. We also strongly support the efforts of PEEC in preparing this ED-APS, however, presently, despite PEEC's proposed revisions, ethical standards, rules and regulations, including independence for audit, other assurance and related services are too fragmented. The foundational principles underlying independence standards and rules and regulations are grounded in objectivity, meaning the service provider must be free from conflict and are absolute in requiring independence in both fact and appearance. Thus, we believe it may be time to consider a "codification" of the independence requirements across the different regulators and standard setters with a related

consolidated monitoring system thereon to maintain and enhance quality and public perception and trust in audit, other assurance and related services.

As expressed in our specific responses, we fully acknowledge that alternative practice structures (APS) are a difficult, challenging, and evolving condition for our profession, globally. We note that NASBA's recent work on private equity and APS emphasizes the importance of maintaining independence in both fact and appearance, particularly in light of increased investor involvement in governance and strategic decision-making.

We also note that the International Ethics Standards Board for Accountants (IESBA) is actively considering the topic of PE investment in accounting firms.

We encourage the AICPA to engage additional stakeholders, standard setters, including international bodies, in order to provide effective oversight, such as via the Peer Review Program or another independent program or inspection process such as ones executed by the Securities Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB), and to ensure a workable standard that is well defined, publicly available and quality focused.

Specific Comments:

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

Response: No, while we agree with the concept, we also recommend changes that provide more clarity. For example, the financial interest could be direct or indirect and the reference to appendix is confusing in the middle of the paragraph and could be dropped or footnoted. Further, the definition does not capture the strategic components of such investment.

Suggested reframing follows:

04(c) An investor is an individual or entity that has a direct or indirect *financial interest* in the nonattest entity and could be through different types of structures. There may be one or more investors in the nonattest entity.

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

Response: No, we do not agree with this description. While key stakeholders must always be included there may be situations where individuals who are not considered “key” under the current definition but should be to reflect the operational reality within the entities. Clarification is needed on when those additional individuals also should be included.

Current language is:

04(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.

We suggest adding language, such as the following:

04(f) Key stakeholders of the investor are individuals who represent or act on behalf of the investor and *should* include owners, managing partners, founders, or principals *and may include others*.

- 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.**

Response: No, our initial thought is the circumstances could be described in interpretation (.06-.07) and all diagrams released as nonauthoritative guidance. We are concerned that if these diagrams become requirements, then structures will change to manage around the structures depicted.

A further concern is how auditors would be able to validate the completeness and accuracy of information received in evaluating and documenting APS structures and related professional judgements.

- 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.**

Response: While technically the definitions of network and network firm seem appropriate, including the concepts of control and cooperation, we have some concerns and need additional nonauthoritative guidance as APS landscape evolves and changes.

For example, Diagram C suggests that there are too many entities included in the network and raises the question of just how many networks a fund or funds could be part of and be able to continuously manage the requirements.

As noted previously, we are concerned with how the engagement partner or firm would be able to validate the completeness and accuracy of the information provided.

We also can see how both conditions could be true where the investor may not be in the network but may be subject to independence considerations.

We acknowledge that there could be conditions in which there is extensive cooperation and sufficient influence which would lead to independence concerns but not fit the current proposed definition of network firm as PE investments will have both explicit and implicit cooperation aspects.

In addition, the attest and nonattest firm via PE investment will be exposed to opportunities from the PE firm’s other portfolio companies which would need to be evaluated for independence concerns.

- e. **Do you agree that in an APS (Alternative Practice Structures), 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)?**

Response: Yes, we agree that the nonattest entity should be subject to the same independence requirements as the attest firm, including SSAE (ET sec.1.297) (.14) and appropriate threats identified and evaluated.

- 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?**

Response: See above response.

- 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.**

Response: Yes, we understand and generally support the distinction that an investor that does not provide professional services, and whose activities are limited to investing and advising on budgetary or strategic matters, would not be considered a network firm. However, we believe the use of “generally” introduces ambiguity that may lead to inconsistent application in practice. In APS structures investor involvement in budgetary, strategic or governance matters can vary significantly. While typical investor oversight should not, on its own, result in network firm treatment, certain activities may create conditions that warrant further evaluation.

We recommend that PEEC clarify the different situations by providing examples that distinguish between routine or typical investor oversight activities, and activities that may give rise to an independence concern. For example, an investor would not typically be considered a network firm when its activities are limited to approving overall budgets, participating in high-level strategic discussions, or monitoring financial performance at a portfolio level. Evaluation would be warranted if the investor is involved in approving or influencing compensation structures for attest partners or firm leadership, participates in resource allocation decisions that affect engagement teams, or is involved in decisions that impact client acceptance, retention, or service delivery strategy.

Clarifying these boundaries would more appropriately help capture the varying types of situations where investor involvement may create an independence threat.

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

Response: We believe these factors are better suited for nonauthoritative guidance rather than inclusion in the authoritative interpretation.

Whether an investor meets the network firm criteria is highly fact-specific and will depend on the nature and extent of that investor's involvement in the APS firm. Presenting these factors through practical examples and context, rather than as prescriptive requirements, would make the guidance easier to apply and more adaptable as APS structures continue to evolve.

We also note that this aligns with our broader call for nonauthoritative guidance in our response to Question r, particularly in illustrating how the cooperation characteristic should be applied in practice.

- 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?**

Response: We believe that the factors for determining cooperation as described in paragraph 33 provide an appropriate baseline. However, additional clarification would be helpful to support consistent application in practice.

In particular, the analysis of cooperation should not be limited to direct involvement in the delivery of professional services. In APS structures, cooperation or influence may also arise through governance, operational, or economic involvement that affects how the firm operates.

For example, relevant considerations may include whether the investor or related entities have the ability to influence budgets, compensation structures for firm leadership, or strategic decisions that affect the direction of the attest practice.

In addition, financial and contractual relationships may also be relevant to the analysis. For example, financing arrangements, guarantees, or other economic relationships between the investor (or related entities) and the firm may create incentives or pressures that are relevant when evaluating independence in both fact and appearance. Similarly, obligations arising from lending or other third-party arrangements may warrant further evaluation in certain circumstances.

While these activities may not, on their own, meet the definition of cooperation, they may be relevant in assessing whether relationships create threats that should be evaluated under the conceptual framework. Providing additional examples that illustrate how these types of activities should be evaluated would help distinguish between routine investor oversight and circumstances that may warrant further consideration under the network or conceptual framework.

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

Response: See above response.

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

Response: In addition, internal controls over these relationships should be established and monitored. Once the APS/PE relationship is identified, additional processes may be deemed necessary to determine if there is evidence of a lack of independence, including but not limited to, significant or unsupported changes in management's estimates, or positions for periods prior to PE acquisition or due to external pressures on the PE itself.

High-risk areas, such as reviewing projections and valuations, which may have impact on the assessment of goodwill and other intangibles impairment, going concern and tax valuations and may reflect evidence of lack of independence. These high-risk areas should be subject to stronger attestation processes understanding the APS/PE's framing of the entity.

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

Response: No, we believe that the concept of covered member should be modernized for the current operating environment in addition to the complexity introduced by APS structure. The PE investment is a strategic investment impacting both the attest and nonattest firm. Covered member guidance was established for under a pure CPA ownership model which no longer reflects the current PE business environment. We are concerned that independence is supported both in fact and appearance. The rest of our responses that involve "covered member" have not been modified for the view within this response.

- 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?**

Response: See above response.

- a. **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.**

Response: Yes, both chief executives and all key decision makers as appropriate should be included automatically as covered members (or modern version of this term as discussed above). To the extent that PE organizations will intentionally or unintentionally circumvent independence issues by strictly applying this guidance, no wiggle room should be allowed or opt-out scenarios by being the CEO of nonattest entities.

Independence should be both in form and substance, irrespective of the legal documents and processes put in place to avoid impairment.

- i. **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.**

Response: We agree that financial statement attest services should not be provided.

- j. **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.**

Response: We agree independence is impaired in this circumstance and that service should not be provided.

- k. **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.**

Response: We agree that service should not be provided.

- l. **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).**

Response: We support the objective of the proposed prohibitions to indicate the circumstances where threats to independence cannot be reduced to an acceptable level. However, we believe the prohibitions would benefit from clear guidelines which allow for minimal latitude or ambiguity. Prohibitions should be designed to support independence in fact and appearance for consistent application. In particular, PEEC should clarify how the prohibitions apply when relationships involve multiple entities with different levels of ownership, influence, or involvement. Without this, firms may apply the rules inconsistently. As currently drafted, the ED-APS seems to primarily focus on definitions such as networks from an attest perspective, while we believe that the reality of PE investments in attest firms is to allow access to their portfolio companies, thereby creating an “investor network” by its nature.

We acknowledge PEEC’s prior consultation efforts. However, at this stage, we believe additional steps focused on practical application would be helpful. Therefore, we strongly recommend additional deliberations on this matter including additional stakeholders and experts to be engaged in the process. For example, PEEC could consider targeted field-testing

involving firms operating in APS structures, along with audit committees and relevant regulators (e.g., SEC and PCAOB), to apply the proposed guidance to real world fact patterns.

This would help assess whether the proposed guidance is fit for purpose, can be applied consistently in practice, and achieves its intended objective of protecting independence in the public interest.

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?

Response: We support the objective of providing guidance to highlight relationships that generally do not create threats to independence. However, we believe this guidance would be more effective if included in nonauthoritative guidance rather than in the authoritative interpretation. Given the variability in APS structures, embedding these examples in authoritative guidance may lead to inconsistent application or overreliance without sufficient consideration of facts and circumstances.

We strongly recommend relocating this content to nonauthoritative guidance, where it can be supported with practical examples and updated as needed.

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)?

Response: We support the objective of ensuring that clients understand which entity within an APS is providing which services. That said, we believe paragraph .03 is better suited for nonauthoritative guidance rather than placement in the authoritative interpretation. The requirement for firms to “disclose to the client which professional services are provided by the attest firm, and which are provided by the nonattest entity” introduces an operational communication obligation that goes beyond the scope of what the Form of Organization and Name Rule has historically governed.

Two considerations that drive this view:

1. Firms are already handling these disclosures in different, effective ways (e.g., engagement letters, regulatory filings, quality management reports, and client onboarding materials). Imposing a disclosure requirement at the AICPA Code of Professional Conduct level may not accommodate the differences that exist in various APS structures and could unintentionally introduce inconsistency in practice.
2. This topic aligns more closely with implementation practice than with the authoritative rule itself. PEEC’s own explanatory material (paragraph 66) characterizes this as a practice issue, not a structural independence requirement. Nonauthoritative guidance

would allow PEEC to provide examples and practical illustrations without establishing a prescriptive disclosure requirement that will likely need to be refined as APS models evolve.

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

Response: We support the direction of the proposal; however, there are several areas that would benefit from additional clarification to improve operability as well as consistent application.

First, several new concepts (e.g., “closely aligned,” “key stakeholders of the investor,” “significant influence investment,” “controlling investment,” and “upstream entities of the nonattest entity”) require firms to make nuanced judgments. These concepts are understandable at a high level, but firms will need to apply them consistently across varied APS structures. Although APS-structured firms typically have clear governance delineation between the attest firm and the nonattest entity, the practical application of these concepts (especially in determining upstream entities within multi-fund private equity structures) will require additional illustrative examples that clearly link the underlying facts to the conclusions reached.

Second, as drafted, the network firm assessment introduces a multi-step analysis that is conceptually sound but highly fact-specific. APS typically involve cooperation between the attest firm and the nonattest entity for purposes of resource sharing and operational support, thereby meeting the “cooperation” element. However, the PE investor itself does not participate in service delivery. Additional examples outlining when an investor’s activities do, and do not, meet the cooperation characteristic would significantly improve consistency in application.

Third, the extension of independence obligations to the nonattest entity and all entities it controls, as described in paragraph .14, is operational in situations where the nonattest entity houses most firm personnel. However, clarity is needed to avoid inadvertent scoping of ancillary or incidental subsidiaries of the nonattest entity where no meaningful connection to attest practice exists.

For those reasons, we believe the proposal is directionally operational, but additional application guidance, particularly in the form of examples, would materially enhance its application across diverse APS structures. While the Exposure Draft includes illustrations, further refinement to improve clarity and usability would enhance their effectiveness in practice. PEEC should provide clear, practical examples demonstrating how the proposed concepts apply in common APS structures, including situations involving multiple entities, layered ownership, and varying levels of investor involvement in governance or strategic decision-making. PEEC could further strengthen these examples by validating them through targeted field testing with APS firms, audit committees, and relevant regulators (e.g., SEC and PCAOB) to help ensure they support consistent, fit-for-purpose application in practice.

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.

Response: The ED appropriately identifies many APS-specific independence threats, including the heightened undue influence risk in structures where investors participate in budgetary or strategic matters affecting the attest firm. This aligns with APS structures, where investor-appointed nonattest entity board members approve budgets and compensation pools, even though the attest firm maintains governance autonomy.

One area that may merit additional consideration is the intersection between independence safeguards and conflicts of interest and objectivity considerations within shared-service APS environments. In practice, there are situations where individuals outside the attest firm (e.g., nonattest entity executives or investor representatives) interact with attest-related resource planning, compensation structures, or cross-functional initiatives. These situations may not rise to the level of an independence impairment under the proposed interpretation but may still involve appearance or objectivity considerations that require analysis.

We therefore support PEEC’s initiative to develop nonauthoritative, cross-cutting guidance addressing how independence, integrity and objectivity, confidentiality, and solicitation rules interact in APS settings.

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

Response: We believe the following areas would significantly benefit from nonauthoritative guidance and help promote consistent application while avoiding over-prescription within the authoritative literature:

1. Practical examples applying the new APS terminology and relationships. For example, illustration of the following will help operationalize the definitions of “closely aligned,” “upstream entities,” and “key stakeholders.”
 - Multi-fund private equity structures.
 - Circumstances where the investor has limited operational involvement.
 - Situations involving shared service centers and resource dependencies.
2. Additional clarity on the network and network firm analysis, for example to assist in determining:
 - When a PE investor’s activities constitute “cooperation.”
 - When an investor should be evaluated solely under the conceptual framework.
 - How to assess cooperation when the investor’s involvement is limited to governance and high-level financial oversight.

Given the complexity of PE structures, examples that walk through multi-tier entity charts would be especially helpful.

3. How to identify covered members in APS structures. For example, case studies illustrating when the following individuals meet (or must be evaluated under) the covered member definition would promote consistent practice:

- Attest partners employed by the nonattest entity.
 - Nonattest entity board members who approve compensation pools.
 - Senior nonattest entity leaders who may indirectly influence attest personnel.
4. Illustrations applying the conceptual framework to common APS fact patterns, for example:
- Interactions with portfolio companies in different funds.
 - Situations where an attest client invests in the investor or related investment vehicles.
 - Conflicts created by shared branding, technology, or client acquisition channels.
 - As noted in our general comments, nonauthoritative guidance should clearly state that an APS does not change the requirements for identifying prohibited nonattest services or the application of other sections of the Code. Illustrative examples of these circumstances should be provided.

We also believe that development of this guidance could be informed by targeted field testing. For example, PEEC could work with firms operating in APS structures, along with audit committees and relevant regulators (e.g., SEC and PCAOB), to apply the proposed guidance to representative fact patterns. PEEC may also consider limited involvement of private equity investors in such efforts, given their role in governance, capital allocation, and access to information, to help validate how the guidance operates in practice.