

AICPA Proposes Significant Changes to Ethics Rules Governing Private Equity Investments in Accounting Firms

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On December 29, 2025, the American Institute of Certified Public Accountants (AICPA) Professional Ethics Executive Committee (PEEC) released an exposure draft proposing substantial revisions to its Code of Professional Conduct governing alternative practice structures (APS), which govern investments in accounting firms by private and public investors. The proposals represent the most significant regulatory development for private equity-backed accounting firms since PEEC first adopted APS guidance in 2000. This exposure draft follows a March 2025 discussion memorandum that resulted in the submission of 36 comment letters and extensive stakeholder engagement from accounting firm executives, state boards of accountancy, insurance liability carriers, accounting firms, academia, professional associations, and legal counsel for private equity sponsors.

SUMMARY OF PROPOSALS

- **New Comprehensive APS Interpretation.** The proposed rules would replace the existing “Alternative Practice Structures” interpretation with a revised framework specifically designed to address private equity investments in accounting firms, recognizing that current rules – developed in 2000 for public company affiliations – have become inadequate for the unique characteristics of private equity sponsors.
- **Revised Network Firm Definition.** The proposal would treat attest firms and their affiliated nonattest entities as “network firms” subject to identical independence requirements. However, the revised definition removes the automatic inclusion of entities “under common control” with a network firm and adds a new “cooperation” requirement where a controlling investor must be cooperating with the firm to enhance its ability to provide professional services before being treated as a network firm. The proposal also includes a significant carve-out to the network firm definition for passive private equity sponsors whose involvement is limited to investment activities and advising on budget and strategy without active participation in service delivery.
- **Restrictions on Attest Services to Portfolio Companies.** In a controlling investment, the attest firm generally cannot provide attest services to other portfolio companies when the private equity investor has significant influence over or controls those companies. Similar, though less restrictive, prohibitions apply to significant influence investments.
- **Prohibition on Serving Upstream Entities.** The attest firm cannot provide attest services to “upstream entities” of the nonattest entity – including the fund, general partner, investment adviser, and private equity firm entities – when the investor has significant influence or control.

- **Expanded Covered Member Definition.** Nonattest entity board members with authority over individual attest partner compensation are automatically considered “covered members” subject to independence rules. Other individuals in the investor’s structure – including executive committee members and individuals in an attest partner’s chain of command – must be evaluated for covered member status.
- **Conceptual Framework Application.** When relationships are not expressly prohibited, firms must apply a new conceptual framework to evaluate whether threats to independence exist and are at an acceptable level, considering factors such as the nature of the attest service, governance structures, and materiality of investments.
- **New Disclosure Requirements.** Firms must disclose to clients which services are provided by the attest firm versus the nonattest entity.

IMPLICATIONS FOR PRIVATE EQUITY INVESTORS

For Prospective Investments. Private equity sponsors evaluating new accounting firm investments should anticipate that the investment may trigger client conflict restrictions as a result of independence requirements. Specifically, controlling investments by private equity sponsors could substantially limit the attest firm’s ability to serve portfolio companies across the sponsor’s entire fund family, not just those in the same fund as the accounting firm investment. Transaction due diligence should include a thorough analysis of potential client restrictions, and deal terms may need to address revenue impact from client attrition or engagement limitations. Additionally, governance structures should be designed carefully, as board representation and compensation authority will determine which investor representatives become subject to independence rules as “covered members.”

For Existing Investments. Private equity sponsors with current accounting firm investments should assess compliance obligations under the proposed rules and evaluate their existing client base for conflicts. The proposals contemplate a one-year implementation period after adoption, providing time to restructure governance arrangements, modify board composition, or transition conflicted client relationships. Sponsors should also review whether the level of their investment – significant influence versus control – affects the scope of applicable restrictions, as controlling investments face more stringent prohibitions.

KEY TAKEAWAYS FOR PRIVATE EQUITY SPONSORS

- **Controlling investments carry greater restrictions.** The proposed rules impose more extensive attest service prohibitions for controlling investments than for significant influence investments, potentially affecting investment structuring decisions.
- **Portfolio company conflicts can be pervasive.** Restrictions extend beyond companies in the same fund as the accounting firm investment to include portfolio companies across other funds advised by the same investment adviser.
- **Governance matters.** The scope of individuals subject to independence requirements depends on board composition and compensation authority, making governance design a critical structuring consideration.
- **Undue influence concerns are central.** The AICPA has emphasized that investor participation in strategic, budgetary, and compensation decisions creates heightened “undue influence” threats to auditor independence that warrant stricter regulation – a point likely to inform ongoing debates about PE involvement in professional services.
- **Comment period provides opportunity for input.** Stakeholders should consider submitting comments by April 30, 2026, particularly regarding operational feasibility and unintended consequences of the proposals. The AICPA is specifically soliciting input on whether the prohibitions and conceptual framework approach are sufficient to address independence threats and whether the guidance is operational.

For further information on private equity investments in accounting firms and compliance implications, please contact the authors of this article.

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