PRIVATE EQUITY INVESTMENT IN ACCOUNTING FIRMS: KEY ETHICS AND INDEPENDENCE CONSIDERATIONS

This publication has been prepared by the Staff of the International Ethics Standards Board for Accountants (IESBA). It highlights a number of important ethics and independence considerations for professional accountants (PAs) in public practice (PAPPs), especially leadership of accounting firms, under the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code[1]) as they consider investment from private equity organizations and after they accept such investment.

This publication may also be of interest to regulators and audit oversight bodies, jurisdictional standard setters (JSS), private equity and other investors, professional accountancy organizations (PAOs), and others with an interest or role in the work of accounting firms, including audit.

This publication does not amend or override the Code, the text of which alone is authoritative. Reading this publication is not a substitute for reading the Code. The guidance in the publication is not meant to be exhaustive and reference to the Code should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

Topics Discussed in the Publication

[1] References to the Code in this publication are to the 2024 version of the Code incorporating approved pronouncements effective in December 2026, i.e., Tax Planning and Related Services (June 2025) and Using the Work of an External Expert (December 2026), except where otherwise stated.

I. Introduction

1. Private equity (PE) investment in accounting firms[2] has increased significantly over the past five years. Accounting firms (hereinafter referred to as firms[3]) may find PE investment an attractive source of capital to support business growth, investments in technology, succession planning, retirement funding, and securing talent.[4] Meanwhile, PE organizations may see opportunities to invest in stable and profitable firms with growth potential, aiming for consistent returns and a profitable exit in due course. Appendix 1 provides a high-level overview to facilitate understanding of a PE fund.

2. PE investment may introduce a variety of changes to a firm, including structural, strategic and operational changes. PE investment may also introduce increased complexity in a firm's business through restructurings, mergers and acquisitions, pursuit of new growth areas, shared service agreements, new reporting arrangements, implementation of new technology and other organizational changes or transformations. Given this context, firm leadership should be cognizant when contemplating a PE transaction that there may be implications for compliance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code), and that they need to be vigilant in upholding ongoing compliance with the Code after having accepted a PE investment, taking into account the nature and extent of changes to the firm.

3. A PE investment may be structured differently compared with another PE investment. Therefore, when considering PE investment, firms should identify the relevant principles in the Code and apply those principles and related provisions to the particular facts and circumstances in order to maintain compliance with the Code. This IESBA Staff Alert highlights a number of key ethics and independence considerations under the Code that might assist firms in this regard when they contemplate investment from a PE organization. Most of these considerations continue to be relevant even after a firm has accepted a PE investment.

4. To explain some of these considerations, this publication briefly describes some situations or developments that can arise in, or with respect to, a firm's business after it accepts PE investment, without over-generalizing or over-simplifying the impact of such investment. While PE investment presents significant growth and other opportunities, it can also create significant complexity. Therefore, firms should carefully analyze and consider the implications of such investment from an ethics and independence perspective, having regard to their particular circumstances.

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[2] This publication uses the term "accounting firm" or "firm" to refer to a firm that provides professional services performed by professional accountants, for example, accounting, auditing, other assurance, tax advisory and compliance, consulting, etc. When the publication refers to a firm that provides only audit and/or other assurance services and a firm that provides only non-assurance services, the terms "audit firm" and "non-audit firm," respectively, are used.

[3] The Code defines a firm as:

(a) A sole practitioner, partnership or corporation of professional accountants;

(b) An entity that controls such parties, through ownership, management or other means; and

(c) An entity controlled by such parties, through ownership, management or other means.

[4] PE investments in firms that have occurred globally have generally been in firms that belong to networks.

II. Considering PE Investment: Key Ethical Considerations

5. The Code applies to firms and all their professionals, regardless of their service area, e.g., tax, advisory, or assurance. The International Independence Standards (IIS) in Part 4A of the Code also apply to network firms.[5]

Compliance with the Fundamental Principles

6. The Code's five fundamental principles[6] are the bedrock of ethical conduct.

7. Threats to compliance with the fundamental principles might be created when a firm accepts PE investment. The following highlights some key considerations with respect to complying with some of the fundamental principles.

Professional Behavior

8. The principle of professional behavior requires PAs to behave in a manner consistent with the profession's *responsibility to act in the public interest* in all professional activities and business relationships.[7]

9. While PE investment may bring a wide range of benefits to a firm, it may also introduce a host of changes to the firm's business and increase the potential for conflicts of interest, undue pressure and other ethical challenges. The nature and extent of these challenges will depend on the nature and extent of the changes resulting from the firm accepting the PE investment. Notwithstanding the benefits the firm stands to gain, firm leadership should be especially mindful of their and the firm's overriding responsibility to act in the public interest in all circumstances.

10. The principle of professional behavior also requires PAs to comply with relevant laws and regulations.[8]

11. When considering PE investment, firm leadership should exercise particular care to ensure that the firm will continue to comply, both in form and substance, with all applicable legal and regulatory requirements.

12. Laws and regulations addressing the ownership, governance and operations of a firm can be complex, especially if the firm undertakes regulated activities such as performing audit engagements, including for public interest entities (PIEs). In particular, there may be specific legal or regulatory requirements, whether at a federal or state or provincial level, regarding who can hold a controlling interest in an audit firm. Accordingly, when considering how to structure an investment from a PE organization, firm leadership should pay particular attention to maintaining compliance with legal or regulatory requirements regarding control of the firm.

13. In some jurisdictions, firms may also be subject to an audit firm governance code, particularly if they perform regulated services such as audits of PIEs. Therefore, when considering PE investment, firm leadership should exercise care to ensure that the firm continues to meet any requirements or

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[5] The Code defines a network firm as a firm or entity that belongs to a network.

[6] The five fundamental principles are integrity, objectivity, professional competence and due care, confidentiality, and professional behavior (paragraph 110.1 A1).

[7] Paragraph R115.1(b)

[8] Paragraphs 100.7 A1 and R115.1(a)

expectations under such governance code in the context of any changes that might be needed to its governance in accepting PE investment. Firms should consult with the relevant regulatory authority, the professional body with which they are registered or legal counsel in case of doubt or uncertainty.

14. The Code states that some jurisdictions might have provisions that differ from or go beyond those set out in the Code. The Code adds that PAs in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.[9] If there are specific jurisdictional provisions addressing PE investment from an ethics and independence perspective, firm leadership should therefore be cognizant of them and understand if they differ from provisions in the Code and comply with the more stringent ones, unless prohibited by law or regulation. (For illustration, see discussion of "covered persons" in paragraph 44.)

Professional Competence and Due Care

15. The principle of professional competence and due care requires PAs to:[10]

    (a) Attain and maintain professional knowledge and skills at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and

    (b) Act diligently and in accordance with applicable technical and professional standards.

16. New capital introduced through PE investment can enable service expansion and faster growth. If the firm expands its range of services to new market sectors or takes on more complex engagements as a result of receiving PE investment, firm leadership should ensure that the firm has the requisite expertise and resources and will be able to comply with all applicable technical and professional standards. This may mean recruiting or acquiring the necessary expertise or engaging external experts for those specific purposes. The Code emphasizes the need for diligence, which means acting in accordance with the requirements of an assignment carefully, thoroughly, and on a timely basis.[11]

Confidentiality

17. The principle of confidentiality requires, among other matters, that PAs respect the confidentiality of information acquired in the course of professional and business relationships, and not disclose or use it for the advantage of the PA, the PA's firm, or a third party, unless there is a legal or professional duty or right to do so, or the client has granted specific authorization and the disclosure or use of the confidential information is not prohibited by law or regulation.[12]

18. Some PE organizations may take an active management role in the portfolio companies[13] in which they invest, seeking to improve operational efficiencies and capabilities and creating strategic opportunities for faster growth.

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9 Paragraph 100.7 A1

10 Paragraph R113.1

11 Paragraph 113.1 A4

12 Paragraphs R114.1 to R114.3

13 A portfolio company is an operating business in which a PE organization invests.

19. In general, and in this particular context, there may be an increased risk of the PE organization gaining access, directly or indirectly, to confidential information about the firm's clients. Firm leadership should therefore carefully evaluate such a risk, having regard to the role the PE organization expects to play post-investment and any client information that might be exposed to the PE organization, to determine whether specific additional guardrails or other measures are needed to protect the confidentiality of client information. In this regard, firm leadership may consider setting clear expectations with the PE organization that it will not have access to client information without the firm obtaining explicit client consent.

Ethical Culture of the Firm

20. Maintaining an ethical culture within the firm is of paramount importance to protecting public trust in the firm and its reputation. The Code sets an expectation that PAs encourage and promote an ethics-based culture in the firm, taking into account their position and seniority, and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the PA or the firm has a professional or business relationship.[14] The Code also provides guidance on ways in which to most effectively promote an ethical culture within the firm.[15]

21. While PE investment brings not only fresh capital to rapidly grow a firm's business but also strategic levers, market intelligence and managerial know-how, it may also lead to changes in a firm's culture. This is because PE organizations generally have a specific investment horizon that is focused on maximizing growth opportunities and achieving operational efficiencies in their portfolio companies in order to meet their investors' expectations for investment returns. PE organizations are also not subject to the Code and may have different values than the firm.

22. Firm leadership should therefore be mindful of the potential for PE investment to influence the firm's culture through the strategic role played by the PE organization. This influence may manifest itself through a variety of means depending on the structure, terms and conditions of the PE investment, including financial incentives for partners to achieve growth and profitability targets, mergers or acquisitions of firms with different cultures, a greater focus on engagement profitability (including potentially through consideration of engagement budgets) which might detract from requirements under applicable quality management standards, and an approach to client acquisition or growth of the business with which the firm's partners may not be familiar.

23. There may also be uncertainty about the PE organization's exit strategy which may impact longer term planning for the firm and aspects of the firm's culture. This includes the firm's commitment to investing in the professional growth of its personnel, how firm leadership will communicate internally with conviction about the firm's ethical values in the face of uncertainty about potential changes in ownership of the firm in the medium term, and how firm leadership will demonstrate a continued focus on ethical leadership when there may be additional demands on them to manage rapid changes in the firm's business.

24. In performing its due diligence, firm leadership should therefore seek to understand the intentions, strategic and operational plans, and values of the PE organization as well as how it plans to exit its investment, and assess the potential implications for the firm's culture.

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[14] Paragraphs 120.13 A3 and 300.5 A2

[15] Paragraph 120.13 A2

Pressure to Breach the Fundamental Principles

25. The Code prohibits PAs from:

    (a) Allowing pressure from others to result in a breach of compliance with the fundamental principles; or

    (b) Placing pressure on others that the PA knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.[16]

26. Firm leadership should be mindful that accepting PE investment may increase the potential for undue pressure to arise, given the revenue and value-creation goals of the PE organization and its relatively short investment horizon and anticipated exit. Circumstances might arise where firm leadership is subject to such undue pressure with respect to its management of the firm's business, particularly in the context of achieving specific revenue, growth or other performance targets. Such pressure may manifest itself in various ways, for example through:

    - Increasing cross-selling of services to existing audit or non-audit clients.
    - Rapid acquisition of new clients which may have a higher risk profile than the firm has historically accepted, or which may place significant pressure on existing resources to service.
    - A push to achieve rapid significant operational synergies or efficiencies as a result of a merger with, or acquisition of, another firm without adequate time to evaluate the longer-term implications of resource rationalizations.

27. There may also be the potential for undue pressure to be exerted on others within the firm to achieve operational targets, such as reducing engagement costs or taking on more client engagements without a commensurate increase in resources.

28. Section 270 of the Code provides detailed guidance on how to identify and address undue pressure that might lead to a breach of the fundamental principles, including pressure related to conflicts of interest, acting without sufficient expertise or due care, and financial interests.

29. Firm leadership is also reminded that the Code requires the firm to act diligently and in accordance with applicable technical and professional standards[17] in all its professional services, including, in the context of audits, reviews and other assurance engagements, complying with applicable quality management standards.[18]

III. Considering PE Investment: Key Independence Considerations

30. This section uses the term "accounting firm" or "firm" to refer generally to a firm that provides professional services, including audit and other assurance engagements. Where the discussion refers to a firm that provides only audit and/or other assurance services, this section uses the term "audit firm."[19]

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[16] Paragraph R270.3, which applies to PAs in public practice via the "applicability provision" in paragraph R300.5.

[17] Paragraph R113.1(b)

[18] Paragraphs R113.1(b) and 120.15 A3

[19] See also footnote 2.

Potential Enlargement of the Firm's Boundaries

31. The Code requires a firm performing an audit or assurance engagement to be independent.[20]

32. When considering a PE investment, it is important to determine whether the investment might cause the firm's boundaries to be enlarged to encompass entities that were previously not part of the firm. This is because the Code defines a firm to be:

    (a) A sole practitioner, partnership or corporation of professional accountants;

    (b) An entity that controls such parties, through ownership, management or other means; and

    (c) An entity controlled by such parties, through ownership, management or other means.

33. For firms that perform audit engagements, jurisdictional laws or regulations do not generally permit them to be controlled by parties who are not licensed PAs. It is incumbent on firm leadership to undertake due diligence when considering PE investment to ensure continued compliance with those laws or regulations.

34. A jurisdiction's laws and regulations might not prohibit a PE organization from holding a controlling interest in a firm that performs audit engagements. If a PE organization[21] were to hold a controlling interest in such a firm, the PE organization would be deemed to be part of the firm based on the definition of a "firm" under the Code. The PE organization would therefore be subject to all the independence requirements applicable to the firm with respect to audit and other assurance engagements. For example, the Code would prohibit the PE organization from holding a direct financial interest or a material indirect financial interest in the firm's audit clients.

35. The Code states that there might be unusual or exceptional circumstances in which a PA believes that complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the Code encourages the PA to consult with an appropriate body such as a professional or regulatory body.[22] If the PE organization holds a controlling interest in the firm, the firm may consult with an appropriate professional or regulatory body in the jurisdiction if it believes treating the PE organization as being part of the firm will lead to a disproportionate outcome in terms of assessing and monitoring the PE organization's independence from the firm's and any network firm's audit clients.

36. Appendix 2 illustrates a simple structure which involves a PE investment in a firm. There may be a variety of methods PE organizations may employ to structure their investments in practice. Accordingly, particular care may be needed to fully understand the intricacies or complexities of the ownership structure the PE organization intends to achieve.

Identifying Network Firms

37. The Code requires a network firm to be independent of the audit clients of the other firms within the same network.[23] Appendix 2 also illustrates a simple network arrangement post-PE investment.

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[20] Paragraphs R400.18 and R900.11

[21] Or another entity the PE organization controls which holds the controlling interest in the firm

[22] Paragraph 100.6 A3

[23] Paragraph R400.51

38. It is not uncommon for PE organizations to invest in multiple professional services firms – for example, two accounting firms in the same jurisdiction or different regions, or an accounting firm and a consulting firm. The portfolio firms[24] might initially have no connection with each other besides the common investor. However, post-investment, a PE organization might seek to develop a larger structure from the portfolio firms in which it has invested in order to achieve closer cooperation between the portfolio firms and scale the respective businesses. If such a situation were to arise, firm leadership should establish whether, given the facts and circumstances, a larger structure has been created that might be deemed to be a network as defined under the Code.

39. The Code provides detailed provisions to guide this assessment.[25] In addition to an aim to cooperate, they include considering whether the entities within the structure share common ownership, control or management; whether they share a common business strategy; and whether they share a significant part of professional resources.[26] The Code also makes it clear that it is not necessary for an entity to be a firm for it to be a network firm.[27] If a portfolio company is not in the business of providing professional services, it is unlikely to be a network firm. Nevertheless, careful consideration of the facts and circumstances is needed, applying the reasonable and informed third party test as required by the Code.[28]

Identifying Potential Additions to the Audit or Assurance Team

40. In the context of an audit engagement, the IIS in Part 4A of the Code apply to all members of the audit team.[29]

41. The Code defines an audit team to include, in addition to engagement team members, all others within, or engaged by, the firm who can directly influence the outcome of the audit engagement, and any other individuals within a network firm who can directly influence the outcome of the engagement. Those who can directly influence the outcome of the audit engagement include individuals who recommend the compensation of, or who provide direct supervisory, management or other oversight of, the engagement partner in connection with the performance of the engagement.

42. Post-PE investment, there may be changes to the compensation structure for partners in the firm and the compensation of individual partners may continue to be determined by the partners or an appropriate compensation committee within the firm without any involvement from the PE organization. Nevertheless, in considering a PE investment, firm leadership should carefully understand whether there might be individuals from the PE organization (or another organization it controls) who might play a role in recommending the compensation of engagement partners, or supervising or overseeing their work, with respect to the performance of audit engagements. If the PE organization intends to assign this role to a responsible individual within its team, this individual

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[24] Firms may establish larger structures in preparation for PE investment, in response to local laws and regulations regarding audit firm ownership.

[25] Paragraph R400.53

[26] Two portfolio firms (such as an audit firm and a non-audit firm) may share professional resources through a shared service agreement. Under such an agreement, the firms might share professional staff, a common IT platform, a joint marketing team, or centralized administrative support.

[27] Paragraph 400.51 A1

[28] Paragraph R400.52(b)

[29] Paragraph 400.8

will be deemed to be part of the audit team and therefore subject to the independence requirements that apply to the audit team under the IIS. It is incumbent on firm leadership to make the PE organization aware of such requirements under the Code to avoid an inadvertent breach of the Code.

43. Similar independence requirements apply to members of an assurance team in relation to assurance engagements within the scope of the IIS in Part 4B of the Code.[30] Refer to the specific definition of the term "assurance team" in the glossary to the Code.

"Covered Persons" in Some Jurisdictions

44. The concept of a "covered person" under certain regulatory frameworks may be broader in scope compared to the concept of an "audit team" as defined in the Code. Therefore, when contemplating and accepting PE investment, it is important for firm leadership to understand any jurisdictional independence requirements concerning covered persons and whether and, if so, how they differ from the relevant provisions in the Code, and comply with the more stringent provisions unless prohibited by law or regulation. (See also paragraph 14.)

Other Independence Considerations

45. PE investment, and strategic initiatives towards which the PE organization might steer the firm (such as a merger with, or acquisition of, another firm, or the formation of a network as defined under the Code), may give rise to new circumstances that might create new threats to independence. It is especially important that firm leadership clearly understands the PE organization's plans so as to enable the firm to identify those threats and evaluate and address them timely in compliance with the independence provisions in Part 4A and Part 4B of the Code, as applicable to the particular audit or assurance engagements. Equally, it is important for the firm to be transparent with the PE organization about the need to be diligent and thorough in identifying and addressing the threats, as being independent is fundamental to a firm's ability to perform a high-quality audit or other assurance engagement in accordance with applicable technical and professional standards.

46. The following subsections briefly discuss independence considerations relating to financial interests, business and family relationships, and the provision of non-assurance services (NAS) to audit clients. Similar considerations may apply with respect to assurance clients.

Financial Interests

47. Subject to an exception,[31] the Code prohibits a direct financial interest or a material indirect financial interest in an audit client to be held by:

    (a) The firm or a network firm;

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[30] This consideration is also relevant in the context of a sustainability assurance team performing a sustainability assurance engagement within the scope of the IIS in Part 5 of the Code. The scope of such sustainability assurance engagements is specified in paragraph 5400.3b. Part 5 of the Code, however, is effective only for sustainability assurance engagements on sustainability information for periods beginning on or after December 15, 2026, or as at a specific date on or after December 15, 2026, subject to certain provisions applicable to assurance work performed at value chain components, which are effective July 1, 2028.

[31] The exception relates to an immediate family member holding a direct or material indirect financial interest in an audit client as a result of employment rights (see paragraph R510.5).

(b) An audit team member, or any of that individual's immediate family;

(c) Any other partner in the office in which an engagement partner practices in connection with the audit engagement, or any of that other partner's immediate family; or

(d) Any other partner or managerial employee who provides non-audit services to the audit client, except for any whose involvement is minimal, or any of that individual's immediate family.[32]

48. Where the PE organization intends the firm to be engaged as the new auditor of one or more of its portfolio companies, the firm should identify any financial interests that might be held by any of the parties listed in paragraph 47 above in the portfolio companies. Should such financial interests exist, steps should be taken to dispose of them timely before the firm accepts appointment as auditor to the relevant portfolio companies.

49. Section 510[33] of the Code sets out additional provisions dealing with other circumstances involving financial interests, including financial interests in an entity controlling an audit client,[34] and financial interests held in common with an audit client.[35] Circumstances involving financial interests in potential audit clients can be complex. Accordingly, the firm should take special care to identify those financial interests and communicate with the PE organization as to how it plans to address them in compliance with the Code.

50. Independence considerations relating to financial interests may also arise when the firm joins a larger structure facilitated by the PE organization which may constitute a network under the Code. As noted in paragraph 47(a) above, the Code prohibits a network firm from holding a direct financial interest or a material indirect financial interest in an audit client of another firm within the network.

51. Likewise, care should be taken to identify all relevant financial interests if the PE organization intends to influence the firm's strategy to merge with or acquire another firm. In such circumstances, the audit clients of the other firm would become the firm's audit clients, and any financial interests held by the parties listed in paragraph 47 above in the audit clients of the other firm would be prohibited (subject to the exception in paragraph R510.5).

Business and Family Relationships

52. A close business relationship[36] between an audit firm, a network firm or an audit team member and an audit client or its management might create a self-interest or intimidation threat.[37] The Code prohibits such a relationship unless any financial interest is immaterial, and the business relationship is insignificant to the relevant parties.[38]

32 Paragraph R510.4, subject to the exception in paragraph R510.5

33 Section 510, *Financial Interests*

34 Paragraph R510.6

35 Paragraph R510.8

36 Section 520, *Business Relationships*

37 Paragraph 520.2

38 Paragraph R520.4

53. The Code also states that a self-interest or intimidation threat might be created if there is a close business relationship between the audit client or its management and the immediate family of an audit team member.[39]

54. Additionally, the Code states that the NAS provisions in Section 600 of the Code apply where a firm or network firm provides, sells, resells or licenses technology to an audit client or an entity that provides services using such technology to audit clients of the firm or network firm.[40]

55. Similar to circumstances involving financial interests, the firm should undertake appropriate due diligence to identify circumstances involving business relationships with entities that might become potential new audit clients as a result of the PE investment or strategies for growth that the PE organization intends to pursue. Network firm considerations relating to close business relationships, in addition to other network firm considerations, may also apply if the PE organization plans to steer the firm towards joining or forming a network with other firms in which the PE organization has invested.

56. Similar independence considerations apply with respect to family and personal relationships under Section 521 of the Code.[41] In particular, the Code prohibits an individual from participating as an audit team member in an audit engagement when any of their immediate family holds specified roles within an audit client, such as being a director or officer of the client.[42]

57. The Code also states that family and personal relationships between an audit team member and a director, officer or certain other employees of the audit client might give rise to a self-interest, familiarity, or intimidation threat.[43] Should such a circumstance arise as a result of the PE investment or strategic growth initiatives being planned by the PE organization, the firm should identify, evaluate and address the threats in accordance with Section 521 of the Code.

Non-Assurance Services to Audit Clients

58. Audit firms and network firms might provide a wide range of NAS to audit clients. Section 600[44] of the Code states that providing NAS to audit clients might create threats to compliance with the fundamental principles and threats to independence.[45]

59. Section 600 and its subsections contain extensive independence provisions addressing the provision of NAS to audit clients. These provisions include specific prohibitions against firms providing certain NAS to a PIE audit client, depending on the nature of the NAS and whether it might give rise to a self-review threat.[46]

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39 Paragraph 520.4 A1

40 Paragraph 520.7 A1

41 Section 521, *Family and Personal Relationships*

42 Paragraph R521.5

43 Paragraph 521.2

44 Section 600, *Provision of Non-Assurance Services to an Audit Client*

45 Paragraph 600.2

46 See the general provisions addressing self-review threats in paragraphs 600.14 A1 – R600.15 and R600.17, as well as prohibitions relating to a self-review threat for PIE audit engagements in the relevant subsections of Section 600.

60. As in the context of financial interests, acquisitions by the firm through PE investment or growth initiatives may result in new audit clients to which the firm has been providing NAS. Such circumstances may be particularly complex, especially if there is rapid enlargement of the firm's audit client portfolio as a result of a merger with, or acquisition of, another firm.

61. Network firm independence considerations relating to NAS may also be especially relevant and important if the PE organization intends that the firm joins or forms a network with other firms in which the PE organization has invested.

62. Finally, a key growth strategy that the PE organization may have planned for the firm is to accelerate cross-selling of NAS to the PE organization's portfolio companies. Some of those portfolio companies might be components of groups within the PE organization's portfolio. In such a situation, if the firm is also engaged as the component auditor of those portfolio companies, specific provisions in Section 405[47] of the Code may be relevant, especially NAS provisions relating to circumstances where the group audit client is a PIE.[48]

IV. Post-Investment: Key Ethical and Independence Considerations

63. Most of the key ethical and independence considerations in Sections II and III above when considering PE investment will continue to be relevant post-investment.

64. In fact, the Code sets an expectation that PAs remain alert to whether new information has emerged or changes in facts and circumstances have occurred that impact the level of a threat or affect the PA's conclusion regarding whether safeguards applied continue to be appropriate.[49] If so, the Code requires the PA to re-evaluate and address that threat accordingly.[50]

65. The post-investment period may bring significant changes to the firm's business, including restructurings, operational changes, new clients and the provision of new services to existing clients. Firms should monitor closely those changes, which may occur rapidly and on a large and complex scale, and be especially alert to the ethical and independence implications of the changes. Firms should refer to the Code for guidance on how to navigate those challenges and opportunities.

VI. Conclusion

66. This publication has summarized some of the key ethical and independence considerations relating to PE investment and is not intended to be a comprehensive analysis of all the ethical and independence issues that might arise in practice. As the landscape of PE investment evolves and a deeper understanding of its implications for firms from an ethics and independence perspective develops, including with respect to the PE organization's eventual exit from the investment, the IESBA will consider the need to commission further guidance to assist firms in navigating any specific complexities and challenges. Indeed, some of the considerations highlighted in this publication may require more detailed analysis in the context of specific fact patterns in the future.

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47 Section 405, *Group Audits*

48 Paragraphs R405.10 (for component auditor firms within the group auditor firm's network) and R405.16 (for component auditor firms outside the group auditor firm's network)

49 Paragraph 120.9 A1

50 Paragraphs R120.9 and 300.7 A7

67. In the meantime, the IESBA will continue to engage with firms, PAOs, regulators and oversight bodies, investors, the corporate governance community, jurisdictional standard setters, other international standard setters including the International Auditing and Assurance Standards Board (IAASB), PE organizations and others to advance further dialogue on the transformative impact of PE investment on the accountancy profession and its ethical and broader public interest implications.

Helpful links and resources

- Summary - Prohibition List for Public Interest Entity Audit Clients
- IESBA Staff Questions and Answers - Non-Assurance Services
- IESBA Staff Questions and Answers - Engagement Team Group Audit Independence
- IESBA Staff Questions and Answers - Revised Fee-related Provisions

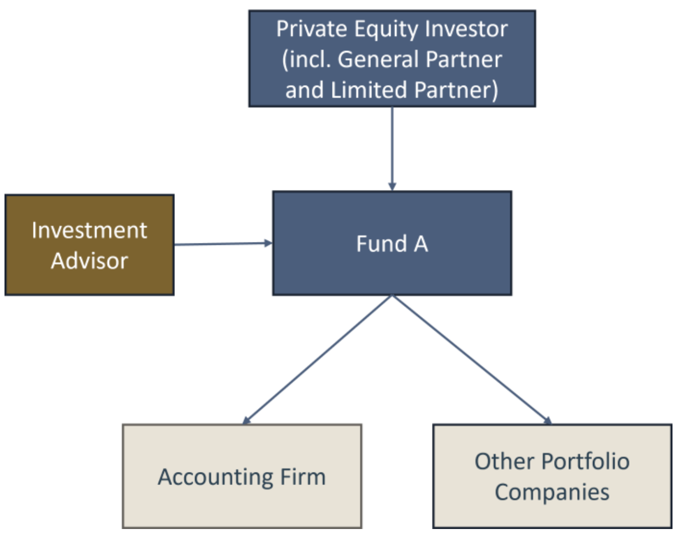
Appendix 1

Understanding Private Equity Funds

PE refers to a class of investors that raise capital to acquire private companies or take public companies private. Such an investment is typically made by a PE organization, which pools capital from various sources to acquire, manage, grow (organically and/or by acquisition) and, ultimately, exit the investment (a "portfolio company") by selling it to another PE organization or taking it public through an initial public offering.

PE investments involve several parties. General partners manage the investment funds and are responsible for identifying investment opportunities, conducting due diligence, and overseeing the strategic improvements of the invested businesses (referred to as portfolio companies). At the end of the investment period, the PE organization will exit the investment to generate returns. The capital for these investments is provided by limited partners, such as pension funds, insurance companies, endowments, and high-net-worth individuals. The limited partners commit funds to the PE organization but do not take part in the daily management of the investments. Others involved include fund administrators who provide support such as handling the fund's accounting records, investor reporting, and regulatory compliance.

The diagram below provides a visual representation of the different parties:



A PE organization can invest in companies through different strategies, depending on the stage of the businesses, their capital needs, and the PE organization's investment mandate. The most common investments in accounting firms include growth capital where a PE organization provides equity financing to an accounting firm to expand operations, enter new markets, or finance acquisitions. These investments often result in the PE organization obtaining a minority interest in a firm but could result in a majority interest in some instances.

A PE organization may invest in a "platform entity" that serves as the foundation upon which the PE organization will build a larger, more valuable business. Once the platform entity is acquired, the PE organization often executes a buy-and-build strategy, where it makes additional acquisitions to accelerate growth, expand capabilities, and increase valuation. These additional acquisitions are commonly categorized as tuck-in[51] or bolt-on[52] investments.

[51] These are small, easily integrated businesses that enhance the platform's offering in a focused way.

[52] These are larger and more strategic additions to the platform. These investments are used to broaden the platform's reach, enter adjacent markets, or gain competitive advantages.

Appendix 2

Diagram 1 (below) illustrates a structure for PE investment in which an accounting firm undergoes legal restructuring to form two distinct entities: a non-audit firm and an audit firm. The non-audit firm may provide professional services and resources to the audit firm through a shared service agreement.[53]

Where the non-audit firm and audit firm form a network as defined in the Code, the non-audit firm would be considered a network firm of the audit firm and is required to be independent of the audit clients of the audit firm.

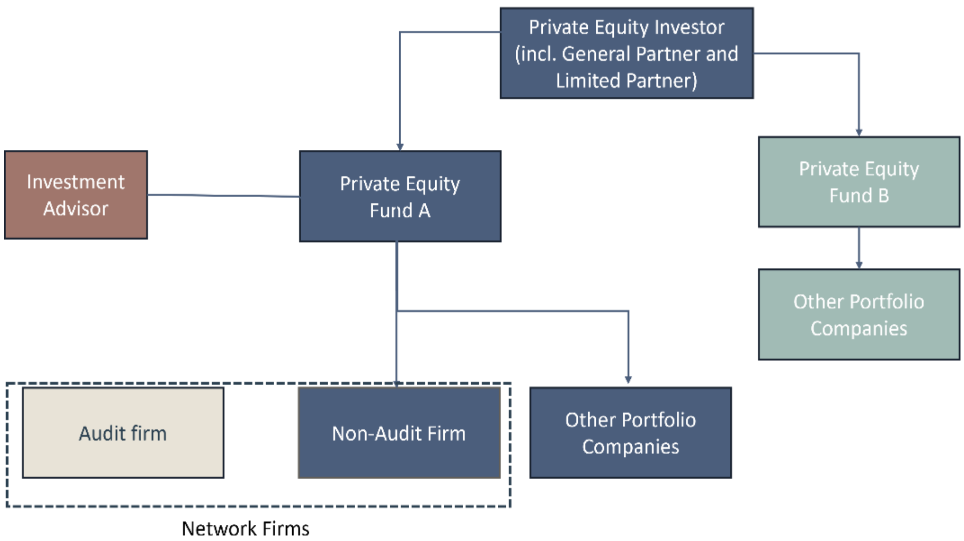
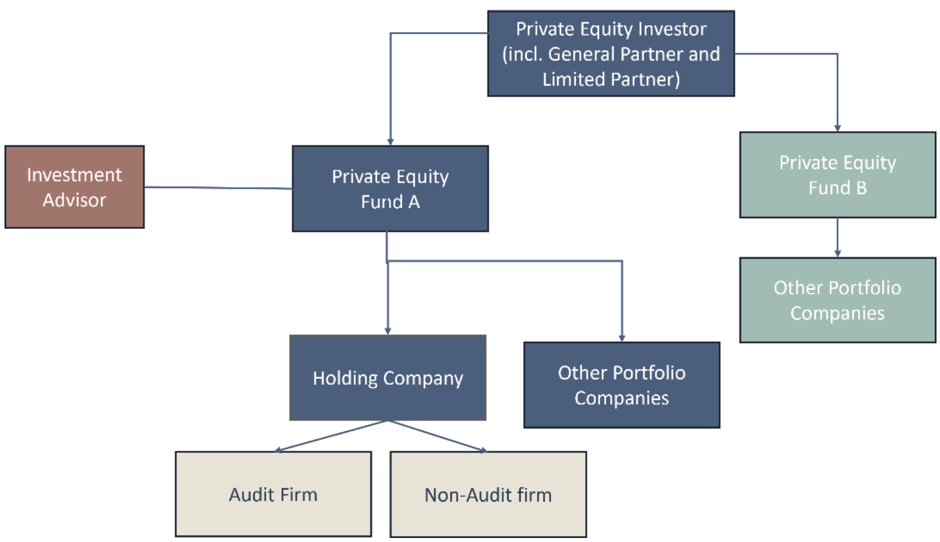


Diagram 2 (below) illustrates a PE investment in a Holding Company that has an interest in both an audit firm and a non-audit firm. Based on the interest of the Holding Company in the two separate firms and the relevant facts and circumstances, consideration should be given to whether the Holding Company controls the audit firm or non-audit firm or both, through ownership, management or other means (see paragraphs 33-35).



53 This agreement may include leasing professional staff, technology tools, administrative support, office space, and more.

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