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Independence Issues Committee

Issue Summary No. 99-2 – *Mergers of Accounting Firms*

June 8, 1999

IIC-99-2

Introduction

1. Recent mergers of accounting firms and announcements by other firms of plans to merge suggest a trend toward consolidation in the accounting industry. Such mergers can give rise to unique independence issues for the firms involved, for the partners and professional employees of those firms, and for the clients affected. Because of the sudden and dramatic change in "the firm," and therefore the "members"[1] to whom the independence rules will apply, many different, unusual, and unexpected circumstances may need to be addressed.

2. This Issue Summary discusses some of the common independence issues that accounting firms may face solely as a result of consummating a merger (or a similar consolidation) with another accounting firm. It also examines various actions in response to those issues, including actions to safeguard the independence of the merged firm,[2] and its partners and professional employees.

3. Many of the situations described in this Issue Summary may be appropriate for the auditor to include in his or her discussion with a client's audit committee under ISB Standard No. 1, Independence Discussions with Audit Committees.

Issues

4. A key issue that accounting firms may face during a merger is determining the date when independence of each other's clients is required and the period of time, if any, after that date during which "members" must achieve compliance. Issues may arise involving one or more of the following areas:

a. *Investments* - by the firm, its partners, and other members in audit clients of the other firm.

b. *Family relationships* – spouses, cohabitants, and dependents, and nondependent close relatives of members of one firm own financial interests in or hold official positions with audit clients of the other firm.

c. *Non-audit services* – rendered by one firm to audit clients of the other firm that go beyond permitted services to audit clients.

d. *Business relationships* – between one firm and the audit clients of the other firm that go beyond permitted relationships with audit clients.

e. *Loans, depository, and brokerage relationships* - of the firm and its members with audit clients of the other firm.

Establishing the Merger Date

5. When two firms intend to merge their practices, a key issue is determining the merger date (i.e., the date when each firm is required to be independent of the audit clients of the other firm). Often a number of conditions must be met before a merger can occur. For example, a vote by each firm's partners approving the transaction is required, perhaps more than once during the negotiations. The approval of one or more regulators also may be required. Once these votes and approvals are received, final negotiations between the parties may need to occur, and other arrangements (such as registering with state accountancy boards) may be required. However, the partner or regulatory approvals may bind neither party and until the legal consummation date of the transaction, the possibility may still exist that the merger will not occur.

Issue 1 - On what date is the requirement to be independent triggered (i.e., what is the "merger date")?

View A – "The Approval Date"- Both firms and the partners and professional employees of the firms are required to be independent of the other firm's clients when all necessary approvals (e.g., by the firms' partners and, if applicable, by regulators) have been received that would enable the merger to take place.

6. Proponents of this view believe that once all necessary approvals have been received, the two firms should effectively be treated as a merged firm. Proponents believe that partner and regulatory approvals are the major (and often the most difficult) conditions that must be met to enable a merger to take place. Further, they believe that upon receiving such approvals, the two firms could conduct certain activities jointly without being in contravention of the law. For example, partners of both firms could begin meeting with third parties to discuss combining two offices in the same city. Moreover, the time and effort invested in gaining partner acceptance of the transaction and gaining regulatory approvals evidences a strong commitment by both firms to move forward and makes it probable that the merger will be consummated. While proponents acknowledge that prior to the consummation date of the merger either party could decide not to complete the deal, they believe that is very unlikely to happen once partner and regulatory approvals have been received. Thus, the merger date is the approval date. Prior to that date, both firms should identify threats to independence that may arise as a result of the proposed merger, develop safeguards in response to those threats, and be prepared to begin implementing them on the merger date.

View B – "The Consummation Date" - Independence is required when the merger is consummated.

7. Proponents of this view recognize that, similar to the marriage of two individuals, each party has an ability up to the legal consummation date to decide not to complete the merger. Negotiations and other final arrangements that are necessary after partner and regulatory approvals are received must be completed before the merger can occur. They also can make projecting the consummation date a matter of speculation, especially since merger plans can dissolve at any time during the process. Moreover, if the merger did not occur, requiring independence prior to the consummation date would be unnecessary and could cause undue hardship for the clients, partners, and professional employees of both firms. Therefore, the merger date is the legal consummation date (i.e., the effective date of the merger). Prior to that date, both firms should identify the threats to independence that may arise as a result of the merger, develop safeguards in response to those threats, and be prepared to begin implementing them on the merger date.

Issue 2 – Should the merged firm, its partners, and its professional employees be given a brief period of time after the merger date in which to achieve compliance with the independence rules?

8. The SEC's independence rules contain little that deals with firm merger situations,[3] except for Accounting and Auditing Enforcement Release No. 861,[4] and in a brief reference in the recently issued AAER No.1098. Further, the rules are silent with regard to transitional matters in connection with such mergers. However, Rule 2-01(c) provides that "the Commission will give appropriate consideration to all

relevant circumstances" when deciding questions of independence. Further, two examples in the SEC's Codification of Financial Reporting Policies (CFRP)[5] describe situations in which a firm was permitted to provide otherwise precluded services to a client on an "emergency and temporary" basis in unusual circumstances. Those circumstances may be no more unusual than the merger of two accounting firms.

View A – It is appropriate to provide a limited transition period during which compliance can be achieved.

9. Some believe it is extremely difficult for firms and members to achieve immediate compliance in certain situations, regardless of which merger date in Issue 1 is controlling. For example, certain financial interests requiring disposal may not be readily marketable (such as a limited partnership interest), and a period of time may be required to change or unwind certain nonaudit services and business relationships. Further, the examples in the SEC's CFRP are an indication that the SEC staff have drawn a distinction between independence issues that result from the ordinary activities of a firm and those that result from unusual circumstances. The merger of two accounting firms is sufficiently unusual to warrant a brief transition period during which compliance may be achieved.

10. Under this view, safeguards, when necessary, should be employed during the transition period to mitigate threats to the merged firm's independence. The ISB staff applied a threats and safeguards approach in addressing a merger-related situation involving the Australian firms of Coopers and Lybrand and Price Waterhouse.[6] View A proponents believe such an approach is appropriate.

View B – There should be no transition period; compliance is required immediately on the merger date.

11. Proponents of this view desire to adhere to a strict application of the independence rules on the merger date and believe there should be exceptions only in emergency situations. They believe AAER No. 861 suggests that compliance is required immediately on the merger date. They also point to Section 602.01[7] of the CFRP as suggesting that immediate compliance should be required. They also argue that both firms should be well aware of the matters that will need to be addressed once the merger occurs, would have an opportunity to begin planning well in advance of the merger date, and therefore should be in a position to implement the necessary corrective actions immediately at the merger date. Thus, the situation does not qualify as an emergency and should not receive special treatment.

12. Opponents of this view argue that implementing any corrective action in advance of the merger date would disrupt existing relationships with clients and burden partners and professional employees prematurely and possibly unnecessarily (i.e., if the merger ultimately does not go through). Thus, while corrective actions can to some extent be decided upon and planned, they should not be required to be implemented until the merger has occurred.

Investments

13. As a result of the merger, the merged firm or a member of the merged firm may hold a direct or material indirect financial interest in an audit client of the merged firm that was permitted prior to the merger but is prohibited after the merger (because the client was a client of the other firm). Such interests may include, for example, investments by a firm's retirement plan, individual investments by a firm and members of the firm, and investments held in employee benefit plans by a member's spouse that include client mutual funds or stock of the employer/client. Under Rule 2-01(b)(1), independence is considered to be impaired if a firm or a member of a firm owned an investment in an audit client during the period of the firm's engagement to audit the financial statements or at the date of the firm's report on those statements. Some investments are liquid because, for example, a ready market exists for the investments and, thus, they can be disposed of with little or no difficulty. Other investments are illiquid and as a result may be very difficult to dispose of (e.g., restricted stock or limited partnership interests) or even inaccessible because of constraints established by law (e.g., stock held in certain employee benefit plans).

Issue 3 – When should investments that become prohibited as a result of the merger be disposed of?

View A – The disposal process should begin immediately on the merger date and be completed within thirty days if the investment is liquid and ninety days if the investment is illiquid.

14. Proponents of this view believe that a thirty-day period for liquid investments is necessary to allow individuals who may be out of town or out of the country on the date independence is required (e.g., because they are on assignment or on vacation) a reasonable period of time to comply. It also provides sufficient time to enable members to conduct a thorough review and analysis of the list of new clients (and other entities) requiring independence as a result of the merger. In addition, the time period provides an allowance for dealing with difficult or unexpected matters such as replacing lost stock certificates, miscommunications with brokers, and the consequences of divorce proceedings.

15. For illiquid investments, including investments that are not transferable in their present state and those subject to judicial or similar constraints, the ninety-day period is necessary to allow members to work out arrangements with the issuers or the courts to permit disposal of investments by sale, redemption, gift, or forfeiture (except in situations involving certain employee benefit plans).

View B – The disposal process should begin immediately on the merger date and be completed within five business days if the investment is liquid and ninety days if the investment is illiquid.

16. Proponents assert that the time it takes a broker to settle a transaction on behalf of an investor is generally no more than five days. Accordingly, investments for which there is a ready market can be and should be disposed of within that time period. While there is general acknowledgement that unexpected difficulties can arise in disposing of otherwise liquid investments, View B proponents would hold members to the five-day disposal period and deal with difficulties on a case-by-case basis.

View C – Investments should be disposed of on the merger date.

17. View C proponents believe that it is the responsibility of the firms to inform each member of the expected merger date and the responsibility of the members to anticipate that date and plan their disposals accordingly. These proponents recognize that a merger date is likely to be a moving date as a result of delays in negotiations, receiving approvals, etc. While such delays may disrupt the timing of a planned disposition, proponents assert that they also afford members more time to plan their disposals, which makes it harder to justify not being prepared to dispose on the merger date. An inability to immediately dispose of problem investments could necessitate termination either of the individual or the audit relationship.

Issue 4 – How should situations be handled in which the law prohibits disposal of an investment held by a benefit plan for a partner's spouse?

18. The prevalence of two-earner households and the popularity of employee benefit plans, such as the 401(k) plan, create the potential for a number of difficult situations involving investments in a client's stock through the benefit plan. For example, the spouse of a partner of one firm may be employed (in an acceptable position) by a client of the other firm and have an investment in the stock of the employer/client held by the company's 401(k) plan. Such plans generally do not allow for transfers or withdrawals of the stock unless the spouse terminates employment, and some plans require that the spouse also be of retirement age. In addition, ERISA[8] provides that benefit plan participants may not alienate their right to receive benefits from the plan. Thus, the spouse may not forfeit his or her interest in the stock. Under normal conditions, the SEC's example in this area[9] would preclude this type of situation from occurring to begin with. However, in this case the spouse's investment through the plan was permitted when it initially occurred (because the employer was not a client of the partner's former firm) and requires corrective action solely because of the merger.

View A – Further investments by the spouse in the client's stock should be precluded, and the existing investment should be temporarily "grandfathered." The partner should not provide any services, either

directly or indirectly, to the client and may not supervise any of the partners or professional employees who provide any services to the client. The partner also must commit that upon the spouse gaining the right to dispose of the stock, he or she will do so immediately.

19. View A proponents recognize that obtaining the stock from the benefit plan for any purpose is impossible without a plan amendment to permit such a transaction. They further assume that in most cases clients will be unwilling to amend their plans for the sake of one plan participant. View A proponents also believe that this situation (i.e., a permitted investment becomes impermissible because of a merger of firms) was not contemplated in the SEC example. Further, because of the constraints imposed by law, which deny access to the stock and preclude participants from giving up their rights to it, these proponents believe this situation should be viewed as analogous to those in some non-U.S. countries where the auditor is required by local law to own stock in his or her audit client and the SEC staff has not objected to the auditor's independence.[10] View A proponents argue that ownership of a direct financial interest in an audit client that is permitted in non-U.S. situations when such ownership is required by law is not substantially different from having a financial interest in the stock of an employer audit client through an employee benefit plan for which disposal is precluded by U.S. law. Nonetheless, View A proponents would insist on the safeguards described to protect the merged firm's independence.

View B - Apply View A only if the stock held by the plan is immaterial to the member.

20. View B proponents believe that an indirect interest through a benefit plan is too difficult to justify if it is material to the member.

View C - Allow no special concessions.

21. If the investment cannot be made acceptable under the rules, then either the partner or the audit relationship must be terminated.

Family relationships

22. At the merger date, a spouse, cohabitant, or dependent person of a member of one firm may hold a position with an audit client of the other firm that is covered by SEC CFRP Section 602.02.h. In addition, a nondependent close relative may hold such a position or own a material financial interest in an audit client. Resolution of such matters often requires a detailed analysis of the relative's employment position, lengthy discussions with client management, and, in the case of partners and managers, discussions within the firm about moving the individual involved to achieve geographic separation (for partners), to remove a manager from the member category for that client, or to terminate a partner or an audit relationship. And, in some cases, the client involved may consider changing the responsibilities of the relative. Moving the member also would be appropriate to resolve financial interest matters involving nondependent close relatives. While the ultimate resolution is being decided upon, the merged firm may need to start or complete an audit shortly after the merger occurs.

Issue 5 – What actions with respect to the first audit after the merger should be taken when spouses, cohabitants, and dependents, and nondependent close relatives of members of one firm hold proscribed positions with audit clients of the other firm (or when nondependent close relatives hold material financial interests in a client) at the merger date?

View A – If certain safeguards are implemented, the merged firm may perform the first audit after the merger.

23. If the relative is a spouse, cohabitant, or dependent, or a nondependent close relative and the member is a partner or manager, for the first audit after the merger, the engagement team, including the engagement partner, must come from either of the following:

a. an office located in another city, or

b. an office in the same city as the partner and manager (other than the office of the partner or manager with the family relationship)[11] provided that for the period from the merger date through the completion of the first audit:

- individuals on the engagement team do not serve any audit clients of the other firm, and
- the partner or manager with the family relationship does not serve any audit clients of the other firm and does not supervise any of the other firm's professional staff.

24. View A proponents argue that while a. above may be preferable to some, the safeguards outline in b. provide in substance the same result and that both safeguards substantially mitigate any threat that the partner or manager could be perceived as possessing the ability to influence the conduct of the audit.

View B – The first audit after the merger must be conducted from an office located in a city different from that of the partner or manager with the family relationship.

25. View B proponents are less concerned about the disruption to the client of changing audit teams temporarily and are more concerned about preserving the appearance of independence. While they agree that both actions provide in substance the same result, View B proponents believe that the action in 23 a. is more compelling from an appearance standpoint than the action in 23 b. which walls off the partner and manager from the audit engagement team and the professionals of the other firm.

View C - Apply the present rules regardless of the merger.

26. View C proponents would require, for example, that adequate geographic separation be achieved immediately for nondependent close relative situations involving members. They would take the position that if adequate geographic separation is not achieved or if a member's spouse will continue in his or her employment position after the merger date, the merged firm must immediately terminate the member or the audit relationship.

Non-Audit Services

27. Non-audit services may have been rendered by one firm to audit clients of the other firm that go beyond permitted services to audit clients because independence was not required when the services were initially agreed to or rendered. For example, one firm may have rendered bookkeeping services to the audit client of the other firm that would not meet the SEC's limited exception to providing such services. After the merger, the merged firm may be asked to audit the financial statements covering the period during which the services were rendered.

Issue 6 – Should safeguards be established with respect to audit procedures performed after the merger? If so, what types of safeguards would be appropriate?

View A – Yes. A threat and safeguard analysis is necessary to mitigate the effects of having performed management functions and the possibility of self-review.

28. Proponents of View A believe that it is not enough to argue that the services were rendered at a time when the firm rendering the service was not required to be independent. If the results of those services will be subject to audit by the merged firm, safeguards such as the following should be considered after analyzing the threats to avoid the possibility of self-review or mitigate the effects of having performed management functions:

a. assumption by the client or a third party for judgments made in rendering the non-audit service,

b. re-performance of the work by a third party,

c. special internal reviews of the audit, depending on the significance of the non-audit service to the financial statements.

View B – Yes. However, safeguards in addition to those supported by proponents of View A also should be implemented.

29. View B proponents believe that the safeguards supported by proponents of View A do not go far enough in protecting the independence of the auditor. In addition to those safeguards, members of the firm that rendered the non-audit service should be precluded from participating in any audit-related activity for the client. Also, for the first audit after the merger, to the extent possible, the merged firm should maintain in place the team responsible for the audit immediately prior to the merger.

View C – Yes, but safeguards may be used only if the non-audit service was not material to the client.

30. View C proponents believe that if the non-audit service was material to the client (e.g., bookkeeping at a client's significant subsidiary), the threat to independence is too strong to overcome with safeguards. In that case, if the service was rendered to a significant subsidiary of the client, another auditor would need to audit the subsidiary's financial statements. If the service was rendered directly to the parent, the merged firm would need to resign the audit relationship. If the non-audit service was not material to the client, View C proponents would adopt View A or B depending on the facts and circumstances.

Issue 8 – May the non-audit service be continued for a limited period of time after the merger date if appropriate safeguards (such as those described above) are implemented?

31. Some non-audit services may involve legally binding contracts and may extend into several future periods during which the merged firm will be asked to perform the audit.

View A – Yes, if certain conditions are met.

32. Proponents of View A recognize that to the extent that a legally binding contract governing a service is in place, a significant amount of time and effort may be required to break the contract. In addition, finding a new non-audit service provider may require time and effort on the part of the client and an immediate cessation of the service on or before the merger date may cause the client undue harm and disruption. If the client reasonably believes this to be the case, the service may continue for a reasonable and limited transitional period (determined by an analysis of the threats) if all of the following conditions are met:

a. the non-audit service is neither reaffirmed nor renewed beyond its original term nor expanded with respect to its scope;

b. the merged firm does not undertake senior management, financial, or controllership functions or otherwise exercise significant influence over the client's operating, financial, or accounting policies;

c. members of the firm that render the non-audit service are precluded from participating in any audit-related activity for the client for the period during which the non-audit service is rendered; and

d. the firm maintains in place the team responsible for the audit immediately prior to the merger to the extent possible.

33. View A proponents believe that if these conditions are met, in particular b., the client will not appear to be substantially dependent on the firm's skill and judgment but reliant only to the extent of the customary type of consultation or advice. In addition, as a result of condition a., the firm should not be perceived as having an incentive to compromise its objectivity to preserve a non-audit services engagement.

View B – Yes. However, in addition to the conditions set forth in View A, the non-audit service must be immaterial to both the firm and the client.

34. View B proponents recognize the difficulty some clients will face in trying to quickly replace certain non-audit services. Nonetheless, they believe an important mitigating factor that must be present to allow the continuation of the service for a brief period of time after the merger is that the service be immaterial to both the firm and the client. If it is material to either party, View B proponents believe that reasonable investors will perceive the service as too important for the auditor to be disinterested, impartial, and objective when conducting the audit, despite implementing the other safeguards.

View C - Yes. However, in addition to the conditions set forth in View A, if the services are performed at a material subsidiary, that subsidiary should be audited by a different firm.

35. View C proponents would require a separate auditor if the subsidiary is material to the consolidated financial statements. They believe this additional safeguard is important to address concerns that the merged firm will effectively be reviewing work it performed which is material to the consolidated financial statements. Since another firm would be responsible for the audit of the material subsidiary, that concern is alleviated.

View D – No.

36. View D proponents believe that despite the conditions set forth in the approaches supported by Views A, B and C proponents, and notwithstanding the legal difficulties in dissolving related contracts and the practical difficulties in the client finding a suitable replacement service provider, there is too significant an independence issue with continuing to render prohibited non-audit services after the merger, whether or not immaterial. Therefore the service must be discontinued.

Business relationships

37. Certain business relationships (i.e., those covered by Section 602.02.g of the SEC's CFRP) may exist between one firm and the audit clients of the other firm that go beyond permitted relationships with audit clients because independence was not required when the relationships were entered into. Those relationships, which may be governed by a legally binding contract, may still be in existence at the merger date.

Issue 9 - May the business relationship be continued in its present state for a limited period of time after the merger if appropriate safeguards are implemented?

View A – Yes, provided that certain conditions are met.

38. View A proponents believe that the nature of a business relationship can be revised to eliminate the potential impairment and believe such changes should be implemented whenever possible. When that is not possible, the answer generally is to dissolve the relationship as soon as possible after the merger, and such dissolution should be undertaken wherever practicable. However, dissolving a business relationship, especially one evidenced by a contractual arrangement, will require a significant amount of

time and effort for both parties. For example, the client will need to search for the appropriate replacement and the firm will need to transition responsibilities to that entity.

39. Under this view, if the client requests that the relationship continue for a limited transition period (determined by an analysis of the threats) to avoid undue harm and disruption, the following conditions must be met:

> a. the business relationship cannot be reaffirmed or renewed beyond its original term nor expanded with respect to its scope;
>
> b. members of the firm involved in the business relationship are precluded from participating in any audit-related activity for the client;
>
> c. the merged firm maintains in place the team responsible for the audit immediately prior to the merger to the extent possible.

40. View A proponents believe that condition a., coupled with the fact that the relationship may continue only for a limited transition period, precludes the perception that the firm has an incentive to conduct its audit in less than an objective manner. They point to the fact that because there would be no ability to preserve the business relationship, there would be no incentive to be less than objective when conducting an audit.

View B – Yes. However, in addition to the safeguards in View A, in no event may the relationship continue in its present state beyond the first audit after the merger unless the relationship is immaterial.

41. View B proponents believe that if the business relationship is material, it should be terminated before the firm commences the year-end phase of its audit. They believe that despite the safeguards set forth in View A, the firm could be perceived as having the incentive to be less than objective during its audit simply because the relationship is material. In their view, applying a materiality restriction is important to reduce the risk of creating a mutuality of interest. They point to existing rules on indirect business relationships (which are permitted only if they are immaterial to the firm and to the client) for support.

View C - Yes. However, in addition to the conditions set forth in View A, if the business relationship was with a material subsidiary, that subsidiary should be audited by a different firm.

42. View C proponents would require a separate auditor if the subsidiary is material to the consolidated financial statements. They believe that a mutuality of interest arising from a business relationship with a material subsidiary is not as susceptible to mitigation through the application of certain safeguards as is a self review threat, so this added safeguard would always be necessary.

View D – No.

43. View D proponents believe that despite the conditions and safeguards set forth in the approaches supported by Views A, B and C proponents, and notwithstanding the legal difficulties in dissolving related contracts and the practical difficulties in the client finding a suitable replacement, there is too significant an independence issue with continuing to remain in a direct business relationship after the merger, whether or not immaterial. Therefore, the auditor must discontinue the relationship or, depending on the pervasiveness of that relationship, resign the engagement.

Loan, depository, and brokerage relationships

Issue 10 - Should a limited transition period after the merger date be permitted to make necessary changes to loan, depository, and brokerage relationships, if appropriate safeguards are implemented?

View A – Yes, but the permitting of a transition period should be based on facts and circumstances.

44. View A proponents note that some loan, deposit, and brokerage arrangements may include contractual restrictions or other complexities that make them difficult, and perhaps impossible, to get out of immediately on or even shortly after the merger date. For example, material unsecured loans of the firm may require extensive negotiations to withdraw from and require substantial time and effort to place with a new lender. In addition, significant penalties may be triggered by such actions. The merged firm should analyze each situation to understand the difficulties involved and the threats to independence of an inability to move a relationship immediately. If appropriate safeguards can be established, such as those discussed in this Issue Summary in previous issues, it is appropriate to permit a limited transition period.

View B - No. The requisite actions should take place on or shortly after the merger date.

45. View B proponents believe that the firm and its members should be planning well in advance of the expected merger date to move these relationships on the merger date. Thus, loans that are not grandfatherable, deposit amounts that are materially in excess of insured limits, and margin or discretionary accounts with client brokers must be moved on or shortly after the merger date. It is not relevant that the firm or the member would be subject to a penalty imposed by the client for doing so. If the requisite actions cannot be implemented on or shortly after the merger date, the merged firm would need to terminate its audit relationship with the client.

46. Opponents of this view argue that if such relationships (especially loan arrangements that are not grandfatherable) require extensive work to move, it is unrealistic to expect that such a move can be accomplished on or shortly after the merger date. Further, it is punitive to the firm, members of the firm, and the clients involved to require corrective actions to be implemented so quickly given the difficulties in establishing the merger date.

[1]The terms "member" and "members" are used herein as defined in Rule 2-01(b) of SEC Regulation S-X and includes certain relatives as required under SEC rules.

[2]For purposes of this issue summary, the term "merged firm" refers to the combined firm that results when two firms merge.

[3]Example 3 in Section 602.02.b.ii of the SEC's Codification of Financial Reporting Policies deals with a merger situation but its focus is on the effectiveness of using an irrevocable trust to hold prohibited investments after a merger occurs.

[4]In the Matter of Michael Goodbread, CPA, the SEC stated, "It is clear from Section 602.01 of the FRC that had Goodbread sold the Kroger stock when the merger of the accounting firms became effective that no question would be raised about independence...Goodbread engaged in unethical and improper professional conduct by: 1. Failing to immediately divest himself of stock ownership of an SEC client when he became a partner of the merged firm..."

[5]See Example 6 (limited bookkeeping assistance) in Section 602.02.c.ii and Example 12 (back up rental of computer time) in Section 602.02.g.

[6]Refer to the ISB staff's response to Coopers & Lybrand - Australia dated July 22, 1998 located on the ISB's website at www.cpaindependence.org.

[7]Section 602.01 states in part: "Another example is where an accountant held stock in a company for which he had never had an engagement but sold it upon accepting an engagement. In these and other situations where it is clear from the facts that the independent status of the accountant is not prejudiced

by a particular relationship, we will upon request advise the accountant that no action will be taken because of this relationship."

[8]ERISA refers to the Employees Retirement Income Security Act of 1974, as amended.

[9]See Example 3 of SEC CFRP Section 602.02.h.

[10]See the Staff Report on Auditor Independence (March 1994) footnote 132.

[11]This assumes that after the merger the merged firm will have two offices in the same city for a period of time.

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