



EXPOSURE DRAFT

Proposed Peer Review Standards Update No. 3, *Modernizing Peer Review Administration Requirements*

***(Amends AICPA Standards for Performing and
Reporting on Peer Reviews, Effective for Peer
Reviews Commencing on or After May 1, 2022)***

September 10, 2025

Comments are requested by October 25, 2025

**Prepared by the AICPA Peer Review Board for comment from
interested persons.**

**Comments should be addressed to Brad Coffey at
PR_expdraft@aicpa.org**

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Explanatory Memorandum

Introduction

This memorandum provides a summary of proposed Peer Review Standards Update (PRSU) No. 3, *Modernizing Peer Review Administration Requirements*, to be applied to the AICPA Standards for Performing and Reporting on Peer Reviews (standards) issued by the AICPA Peer Review Board (board) and solicits input from all interested parties regarding this exposure draft and proposed revisions to the standards.

A copy of this exposure draft and the extant standards (effective for peer reviews commencing on or after May 1, 2022, as amended) are also available on the AICPA Peer Review website at <https://www.aicpa-cima.com/resources/article/peer-review-standards>.

Overview

The AICPA Peer Review Program (program) monitors the quality of reviewed firms' accounting and auditing engagements through an evaluation of select engagements (when eligible for an engagement review) or by evaluation of firms' systems of quality management under which those engagements are performed (when system reviews are required or elected). Participation in the program is mandatory for AICPA membership, as explained in paragraph .03 of PR-C section 100, *Concepts Common to All Peer Reviews*,¹ and peer reviews are now required for licensure in nearly all state licensing jurisdictions.

As part of its efforts to maintain standards that are easy to read, understand, and apply, the board periodically conducts an environmental scan, which includes economic and regulatory considerations, to determine if revisions are necessary for the standards to remain relevant and appropriate to meet the current needs of the program. As a result, the board believes that certain requirements relating to the administration of peer reviews should be revised to account for risks to public interest associated with regulatory considerations and the evolving landscape of firm practice structures.

Regulatory Considerations

As the PCAOB maintains an increased focus on registered firms' systems of quality control according to QC section 1000, *A Firm's System of Quality Control*,² and given the increasing complexity of identified deficiencies and related disciplinary orders from the SEC and PCAOB, the board believes it is critical for peer review teams to have relevant experience to consider the implications of such matters in peer reviews. With an increasing number of firms electing the National Peer Review Committee (National PRC) as their administering entity (AE), the board recognizes an increased potential for review teams that can be approved under extant guidance while lacking familiarity with the current regulatory environment. Therefore, the board is proposing a revision to the qualifications to perform a review for a firm that performed or "played a substantial role in" (as defined by the PCAOB) an engagement under PCAOB standards with a period end during the peer review year.

¹ All PR-C sections can be found in AICPA *Professional Standards*.

² QC section 1000, *A Firm's System of Quality Control*, can be found in PCAOB *Standards and Related Rules*.

The extant requirement in paragraph .35 of PR-C section 100 states that firms are required to have their reviews administered by the National PRC if they meet any of the following criteria:

- The firm performed or “played a substantial role in” (as defined by the PCAOB) an engagement under PCAOB standards with a period ending during the peer review year.
- The firm is a provider of quality management materials (QMM) (or is affiliated with a provider of QMM) that are used by firms that it peer reviews.

Additionally, the extant requirement in paragraph .08 of PR-C section 200, *General Principles and Responsibilities for Reviewers*, states only that the team captain’s firm’s most recent peer review should have been administered by the National PRC (whether elected or required to do so). Consequently, there is a risk that the review team may not be familiar with PCAOB inspections and the potential impact on the peer review if the firm elected, but was not required, to have its review administered by the National PRC.

The board believes that firms should still be permitted to elect the National PRC as their AE; however, to address the preceding concerns related to the PCAOB environment, the board believes a team captain’s firm should also have been required (i.e., not elected) to have its most recent review administered by the National PRC according to paragraph .35a of PR-C section 100. The board believes the proposed revision to this requirement will ensure that review teams have relevant and appropriate experience to evaluate PCAOB-related matters. Furthermore, exceptions to this requirement may be granted when the review team submits a request to the National PRC with appropriate substantiation of qualifications that would enable the review team to effectively consider the implications of PCAOB inspections on the reviewed firm’s peer review.

Alternative Practice Structures

Private equity (PE) investors have firmly established themselves as pivotal players across a wide range of industries for more than 75 years. PE’s interest in the accounting profession began in the early 2000s but really took hold in the 2020s, notably with Towerbrook Capital Partners’ investment in Eisner Advisory Group in 2021. Alternative practice structures (APSs) were an accessible model for PE investors to enter the accounting profession because, although a CPA firm is prohibited from having a passive commercial investment, a closely aligned nonattest service entity (NSE) is not. Therefore, PE could invest in the profession, and a CPA firm could comply with the profession’s ethical requirements and state regulations. Similarly, PE’s involvement in CPA firms utilizing an employee stock option plan (ESOP) has increased since 2020, notably with BDO’s ESOP restructuring, which incorporated private equity credit and debt financing.

PE investors provide capital, expertise, and resources to fuel growth and help accounting firms remain competitive in a rapidly changing market. The infusion of capital allows firms to focus on innovation, technology, talent retention, and improving professional services, all of which are essential to their long-term success. Notwithstanding the benefits that PE investors may offer firms, ensuring that the integrity of the attest function is not compromised under this type of APS is critical to protecting the public interest. PE’s involvement in the accounting profession has raised questions from various regulators, standard setters, CPA practitioners, and other stakeholders about potential conflicts. Thus, the board has considered the following specific concerns and potential risks related to a PE investment in a CPA firm:

- A conflict may exist between the CPAs’ motive and the PE investor’s motive, and the PE investor may place undue pressure on the attest firm’s partners or nonattest service entity’s (NSE’s) principals.

- Quality of services, both attest and nonattest, may be diminished through reductions in staff and other cost-saving measures.
- Monitoring compliance with independence and other professional standards may be less effective due to the increased complexity of the business model.
- Peer review effectiveness and enforceability of regulations and standards may be more difficult as the NSE is not part of the CPA firm.
- There may be undue influence and self-interest threats to the attest firm partners' independence and objectivity because they are compensated by two entities, one of which has representation by the outside investor.
- The terms of the services agreement between the CPA firm and the NSE may not have been drafted (or properly implemented) to avoid placing undue pressure on the CPA firm in ways that can impair independence, objectivity, or quality.

From time to time, the board has considered situations that may suggest a firm possessing certain engagements or characteristics should have its review administered by the National PRC due to the complexity of issues that may be encountered and to establish greater consistency by centralizing the administration of such firms' peer reviews. Generally, in these situations, the risks associated with the engagement or firm characteristics are significant and not necessarily expected to occur at a high frequency. Although administration by the National PRC may be needed for only a short period of time, the standards do not currently allow board discretion to require certain reviews to be administered by the National PRC. Accordingly, this PRSU proposes an update to the requirement in paragraph .35 of section 100 to allow the board to use discretion in determining whether a review should be administered by the National PRC when certain practice structures, engagements, or other services present an elevated risk to quality and to the profession.

Summary of Proposed Changes

As proposed, this PRSU has been developed by the board to update the standards in the following areas:

- Paragraph .35 of section 100 expands the criteria used to determine whether the National PRC should administer a firm's peer review.
 - Accordingly, paragraph .A50 is introduced to indicate that a firm with an APS is currently required to have its review administered by the National PRC.
- Paragraph .08 of section 200 has been revised to require a team captain's firm's most recent peer review to also have been required to be administered by the National PRC.
 - Accordingly, paragraph .A13 is introduced to describe when an exception to this requirement may be granted if the team captain submits a request in writing to the National PRC describing qualifications and experience that would enable the review team to effectively review the firm's engagements and the system of quality management.

Comment Period

The comment period for this exposure draft ends on October 25, 2025.

Guide for Respondents

The board welcomes feedback from all interested parties on this proposal. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to wording.

Written comments on this exposure draft will become part of the public record of the AICPA and will be made available on the AICPA's website. Please provide responses that are

- submitted as Microsoft Word or Adobe PDF documents by October 25, 2025, and
- directed to Brad Coffey at PR_expdraft@aicpa.org.

Effective Date

If approved by the board, the proposed revisions to the standards will be effective for peer reviews with years ending on or after December 31, 2025.

Requests for Comment

Respondents are requested to provide feedback on the changes proposed in this PRSU and any other comments or suggestions to assist the board with determining whether any additional changes are appropriate before issuing the final update to the standards.

1. Regarding the proposed revision to paragraph .35 of PR-C section 100, please provide your views on the following:
 - a. Do you agree with the proposed change? If not, please explain your reasoning.
 - b. Is the revised requirement sufficiently clear and understandable? If not, please explain any suggestions for improvement.
 - c. Does the corresponding application and other explanatory material proposed in paragraph .A50 provide sufficient understanding for users to apply the related requirement? If not, please explain any suggestions for improvement.
2. Regarding the proposed revision to paragraph .08 of PR-C section 200, please provide your views on the following:
 - a. Do you agree with the proposed change? If not, please explain your reasoning.
 - b. Is the revised requirement sufficiently clear and understandable? If not, please explain any suggestions for improvement.
 - c. Does the corresponding application and other explanatory material proposed in paragraph .A13 provide sufficient understanding for users to apply the related requirement? If not, please explain any suggestions for improvement.
3. Do you agree with the proposed effective date (for peer review years ending on or after December 31, 2025)? If no, please explain your reasoning and note any concerns or anticipated challenges.

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(***Boldface italics*** denotes new language. Deleted text is shown in ~~strike through~~.)

PR-C Section 100, *Concepts Common to All Peer Reviews*

[Paragraphs .01–.34 are unchanged.]

.35 Firms are required to have their reviews administered by the National PRC if they meet any of the following criteria: (Ref: par. .A49)

- a. The firm performed or “played a substantial role in” (as defined by the PCAOB) an engagement under PCAOB standards with a period end during the peer review year.
- b. The firm is a provider of quality management materials (QMM) (or is affiliated with a provider of QMM) that are used by firms that it peer reviews.
- c. ***The firm’s practice structure is deemed by the board to present an elevated risk to quality and to the profession, or the firm’s practice includes certain engagements or services deemed to present such risk. (Ref: par. .A50)***

[Paragraphs .36–.53 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A49 are unchanged.]

.A50 The board currently requires a firm to have its review administered by the National PRC when the firm is closely aligned with a non-CPA-owned entity (an alternative practice structure). In these situations, the board also requires a member of the review team to have a thorough understanding (represented on the reviewer’s resume) of the independence requirements regarding alternative practice structures and network firms.

[Paragraphs .A50–.A58 are renumbered to .A51–.A59. The content is unchanged.]

PR-C Section 200, *General Principles and Responsibilities for Reviewers*

[Paragraphs .01–.04 are unchanged.]

Requirements

Reviewer Qualifications

[Paragraphs .01–.07 are unchanged.]

.08 In order to be qualified as captain for a peer review of a firm whose review is required to be administered by the National Peer Review Committee (PRC) *because the firm performed or “played a substantial role in” (as defined by the PCAOB) an engagement under PCAOB standards with a period end during the peer review year as described in paragraph .35a of section 100*, a captain should currently be employed by or be an owner of a firm whose most recent review was *also required to be* administered by the National PRC *for the same reason*. (Ref: par. .A12–~~A14~~¹³)

[Paragraphs .09–.38 are unchanged.]

Application and Other Explanatory Material

Reviewer Qualifications (Ref: par. .05–.08)

[Paragraphs .A1–.A11 are unchanged.]

.A12 If a firm elects, but is not required, to have its peer review administered by the National PRC, the captain does not have to be employed by or be an owner of a firm whose most recent review was administered by the National PRC.

.A13 *If a firm is required to have its peer review administered by the National PRC according to paragraph .35a of section 100 and the team captain’s firm’s most recent peer review was not required to be administered by the National PRC for the same reason, an exception to the requirement in paragraph .08 may be granted when the team captain submits a request in writing to the National PRC that describes the experience and qualifications that enable the review team to effectively review the firm’s engagements and its system of quality management.*

.A14¹³ For other requirements for a captain in a system review, see section 210, *General Principles and Responsibilities for Reviewers — System Reviews*, and for other requirements of a

captain in an engagement review, see section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*.

[Paragraphs .A14–.A46 are renumbered to .A15–.A47. The content is unchanged.]