



May 20, 2015

Professional Ethics Executive Committee
Attention: Lisa A. Snyder, Director
Professional Ethics Division
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Via e-mail: lsnyder@aicpa.org

Re: Comments on Exposure Draft, *Firm Mergers and Acquisitions Proposed Interpretation* AICPA Professional Ethics Division dated December 10, 2014

Dear Ms. Snyder and Committee Members:

Grant Thornton LLP (“Grant Thornton”) appreciates the opportunity to comment on the AICPA Professional Ethics Executive Committee’s (“PEEC”) recently issued Exposure Draft (“ED”) on providing guidance in situations where independence with respect to an attest client may become impaired as a result of a firm merger or acquisition. We provide the following specific comments and suggestions with respect to the new interpretation “Firm Mergers and Acquisitions” [1.220.040] under Independence Rule [1.200.001] of the *AICPA Code of Professional Conduct* (“AICPA Code”).

Grant Thornton supports PEEC’s position that a new interpretation is needed to address independence threats that may exist as a result of employment (or association) or the performance of nonattest services to, an attest client of the acquired or acquiring firm. Many firms are using a merger and acquisition strategy to grow their business and operations, improve market niches, and expand locations; therefore, providing such guidance to the profession is warranted.

Employment or Association with an Attest Client

While evaluating a relationship with an attest client of the acquiring firm that a partner or employee of the acquired firm has, we agree that any relationship should be reviewed by a responsible individual of the acquiring firm as soon as practicable. However, per paragraph .03.d. and .03.e. we would suggest including: **“Once the engagement is assigned to the acquiring firm, and as soon as practicable....”** We believe that such relationships should be addressed timely by those in charge of governance and the responsible individual from the acquiring firm as close as possible to the effective date of the merger/acquisition to ensure that any independence threats have been properly evaluated and the appropriate safeguards have been applied to eliminate or reduce the threats to an acceptable level (if necessary).

We believe that the timing of the communication with those in charge of governance needs to occur prior to the assignment or continuation of the professional services engagement to facilitate access to and/or the transfer of the client's confidential information as required under Confidential Client Information Rule and the Integrity and Objectivity Rule, as well as consistency with the requirements of the recently adopted breaches of independence requirements. We would believe that those in charge of governance should provide specific and informed consent when reaching its decision whether the acquiring firm can perform the professional services.

Nonattest Services

Prohibited Nonattest Services Provided by Acquiring Firm

Grant Thornton believes the application of a threats and safeguards approach would be more appropriate when the acquiring firm has provided prohibited nonattest services to an attest client of the acquired firm, because further consideration should be taken in relation to the date of the original engagement letter, date of the acquisition by the firm, and the client's financial periods reported on by the acquiring firm subsequent to the acquisition. We agree with PEEC's conclusion that if the acquiring firm has clearly performed a prohibited nonattest service as prescribed under the AICPA Code to an attest client of the acquired firm during any period covered by the acquiring firm's auditor's or attest report, then the acquiring firm's independence would be considered impaired since no safeguards can be applied to reduce the threat(s) to an acceptable level. We, in essence, agree with PEEC's conclusion that the acquiring firm cannot achieve a fresh start or become independent through the acquisition of any acquired firm. Grant Thornton believes that in applying the Independence Rule to an attest client of the acquired firm that the provisions of Section 1.295 would be applied to any financial statement or period covered by an attest client management's assertion that would be reported upon by the acquiring firm. We would encourage greater distinction between the "period of the engagement," which can include several periods that would not be subject to audit or other attest procedures.

In addition, we believe further clarity is needed in this section of the interpretation since it currently reads as though the attest clients of the acquired firm would automatically be considered attest clients of the acquiring firm. It should be clear in the guidance that the acquiring firm would need to be engaged as the new auditor of the acquired firm's attest client, and that a new or amended understanding with the attest client to the extent required by applicable professional standards should be assigned to the acquiring firm. To be consistent with the Confidential Client Information Rule, Grant Thornton would conclude that those in charge of governance at the attest client would need to give the acquiring firm specific consent. Therefore, the acquiring firm will need to carefully evaluate all nonattest relationships it may have with the acquired firm's attest clients since these in essence should be viewed as new attest clients upon the merger/acquisition.

Prohibited Nonattest Services Provided by Acquired Firm

We believe the guidance under paragraph 07.b. is sufficiently clear; an acquiring firm would need to evaluate the nonattest services performed for the acquired firm's attest clients, and determine whether such services can be terminated or ceased prior to the effective date of the merger or acquisition using an applicable threats and safeguards approach. There may be prohibited nonattest services, which cannot be accepted by the acquiring firm, which will need to be concluded or terminated, or if such services cannot be terminated, such as certain expert services engagements, the acquiring firm will need to determine whether it will acquire those services and/or the engagement team providing those services or terminate the acquiring firm's attest engagement.

Further, certain nonattest services, together with the significance of that engagement team's importance to the acquired firm, may be so significant that the acquiring firm may very well reach the conclusion that no safeguards could be put into place to reduce the independence threats to an acceptable level. We believe that the conceptual framework approach provides sufficient guidance to allow the responsible individuals in the acquiring firm to make reasoned and informed judgments.

When an acquiring firm is evaluating the provision of nonattest services performed by the acquired firm in relation to current attest clients of the acquiring firm, we believe that the acquiring firm should obtain an understanding of any nonattest services that may have been provided (and completed) by the acquired firm in prior periods. The prior performance of such services may not impair independence even if prohibited, however, the acquiring firm should have an understanding of such services since it may be appropriate to disclose the prior services to management or those charged with governance. The application of safeguards, such as further segregation of the prior nonattest engagement team, may be needed to bring the appearance of significant independence threats to an acceptable level.

We also believe consideration within the interpretation of Confidential Client Information Rule [1.700.001] and access to a client's working papers needs to be considered when an acquiring firm is evaluating potential new clients during the merger/acquisition evaluation process.

Communications With Those Charged with Governance

Grant Thornton believes that additional clarity needs to be added concerning communicating with those charged with governance. For example, it is not clear which firm holds the responsibility for such communications with those charged with governance at the attest client, whether such discussions fall to the acquiring firm, the acquired firm, or both. We also would recommend further consideration of the timing of such discussions to comply with the Confidential Client Information Rule. Grant Thornton would encourage such communications prior to the assignment or agreement to permit the acquiring firm to proceed with the attest engagement or the nonattest services so that those in charge of governance can provide specific and informed consent.

Other Interests in and Relationships With an Attest Client

Under this section of the interpretation, PEEC should consider providing examples of other specific types of relationships that an acquiring firm should be evaluating since other relationships may pose an independence or conflict of interest issue. Paragraph 12 is broadly written, therefore, additional guidance or clarification will assist firms in identifying other interests or relationships that should be evaluated prior to the effective date of a merger or acquisition. This guidance may be in the form of FAQs or a basis for conclusion document affixed to this interpretation.

Other

In general, Grant Thornton believes PEEC should consider developing non-authoritative guidance, either through an FAQ, a basis for conclusions document, or enhancements to the Independence Conceptual Framework Toolkit to assist both acquiring firms and acquired firms better understand the application of the interpretation as they evaluate independence matters, such as immediate family or close relative relationships, lending relationships, or financial interests.

Effective date

Grant Thornton agrees with PEEC that a delayed effective date is not necessary for the “firm mergers and acquisitions” interpretation, except that pending mergers or acquisitions may need to be excluded. While practice may be similar to the requirements of the interpretation, we would believe that acquiring and acquired firms may have reached different conclusions as there was not available or substantive guidance. Therefore, a grace period for acquisitions or mergers that are in process should be considered.

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We would be pleased to discuss our letter with you. If you have any questions, please contact Trent Gazzaway, National Managing Partner of Professional Standards, at Trent.Gazzaway@us.gt.com or (704) 632-6834.

Very truly yours,

