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January 15, 2018

Ms. Toni Lee-Andrews
Director of the Professional Ethics Division
AICPA
1211 Avenue of the Americas
New York, New York 10036-8775

RE: AICPA Professional Ethics Executive Committee Proposed Revision to the AICPA Code of Professional Conduct - Leases Interpretation

Dear Ms. Lee-Andrews:

We appreciate the opportunity to provide comments on the AICPA Professional Ethics Executive Committee's (PEEC) Proposed Revisions to the Code of Professional Conduct *Leases Interpretation* (the "proposed interpretation"). Overall, we are supportive of the changes being proposed. In evaluating the proposed interpretation, we offer some comments for PEEC's consideration, as well as provide answers to the questions posed in the exposure draft.

Short-Term Leases (ET 1.260.040.01)

We recommend that PEEC consider an exemption from the applicability of the proposed interpretation for short-term leases such as short-term rental properties, car rentals, and technology rentals. Self-interest, familiarity, and undue influence threats related to such leases are low because of the brief duration of the lease. The burden on the firm and the covered member to track such leases could be prohibitively high with respect to the low level of threats to independence resulting from short-term leases.

We believe that a reasonable lease term to qualify for the exemption would be a term not to exceed thirty days. In order to qualify for the short-term lease exclusion, the lease should not have a renewal option that extends the rental period beyond the period defined as short-term. We propose that PEEC consider the following wording be added to paragraph .01 in order to address the comments reflected above:

1.260.040.01.b This interpretation excludes short-term leases entered into by a covered member with an attest client, as threats to compliance with the "Independence Rule" [1.200.001] would be at an acceptable level and independence would not be impaired provided that the lease term is ## days or less, and there is no renewal or extension to the lease term beyond ## days.

Lease Exclusion (ET 1.260.040.01)

We believe that paragraph .06 is repetitive of the second paragraph of .01, as both discuss the exclusions around leases addressed by paragraph .04 of the "Loans and Leases with Lending Institutions" interpretation [1.260.020] of the "Independence Rule" [1.200.001]. We recommend that PEEC replace the second paragraph of paragraph .01 with paragraph .06, and remove paragraph .06.

Responses to Specific Comments

1. Are there any exceptions that should be extended to affiliates of financial statement attest clients?

We do not believe that exceptions should be provided for affiliates of attest clients.



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2. Are there are other situations or circumstances that should be grandfathered which are not grandfathered in the proposal?

We believe that PEEC should consider modifying the interpretation to include the following items as circumstances that should be grandfathered:

- a) *when a covered member enters into a lease with a counterparty prior to independence being required, but the lease with the counterparty is later sold or transferred to a counterparty who is an attest client; and*
 - b) *when a covered member enters into a lease with an attest client that is immaterial to the covered member or the attest client but subsequently becomes material to the covered member or the attest client.*
3. Do you agree with the application of the materiality safeguard in paragraph .02? Specifically, do you agree that there are no safeguards available when a covered member specified in paragraph .02 has a lease with the attest client that is material to that covered member?

We agree that when a lease with a covered member is material to the covered member, there are no safeguards available that would reduce the threat to an acceptable level.

4. Do you agree that there are no safeguards that would reduce the threat to an acceptable level when the lease with a covered member is material to the attest client?

We agree that when a lease with a covered member is material to the attest client, there are no safeguards available that would reduce the threat to an acceptable level.

5. Do you agree that the requirements of the proposal should extend to immediate family, as proposed?

We agree with the proposed interpretation with respect to including the immediate family members of the covered members.

6. What do you foresee as major obstacles to implementation or hardships? Do you expect significant changes in quality controls, procedures, tools, or technology to monitor leases?

Other than the impact on short-term leases as previously discussed, we don't anticipate significant changes in processes as a result of implementing this interpretation.

7. Do you agree that it is appropriate to grandfather primary residence leases in a similar manner to home mortgages, as proposed?

We believe it is appropriate to grandfather primary residence leases. However, since primary residence leases meet the grandfathering criteria in paragraph .04, we don't believe that paragraph .05 is necessary and could be confusing to practitioners.

8. Are there any other factors affecting the significance of the threats to independence that you believe should be added to paragraph .03? Do you believe any of the factors in paragraph .03 should be removed?

We have no changes to propose to paragraph .03.

9. Do you agree that an effective date consistent with the FASB Update effective date for private companies is appropriate (December 15, 2019)? If not, what is a more appropriate effective date?



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We believe the proposed December 15, 2019 effective date, with early implementation allowed, is appropriate.

We appreciate PEEC's careful consideration of our comments and observations. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Bill Mckeown at 484-802-2009 or wmckeown@kpmg.com.

Very truly yours,

KPMG LLP

A handwritten signature in black ink, reading "Theresa P. Ahlstrom". The signature is written in a cursive style with a large initial "T" and "A".

Theresa P. Ahlstrom
Partner in Charge - Independence

TPA:nm:pf