



January 15, 2018

Professional Ethics Executive Committee
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Via e-mail: Ethics-ExposureDraft@aicpa-cima.com

Re: Comments on Exposure Draft, *Proposed Revisions to the AICPA Code of Professional Conduct Leases Interpretation*, AICPA Professional Ethics Division dated October 20, 2017

Dear Committee Members:

Grant Thornton LLP (“Grant Thornton”) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) October 2017 Exposure Draft (“Exposure Draft”), which proposes revisions to interpretation “Leases” (ET sec. 1.260.040).

Grant Thornton agrees with the PEEC recommendation to replace the extant GAAP categorization approach with a conceptual framework approach for evaluating whether a lease between a covered member and attest client could impair independence regardless of the nature of the lease, allowing for the consideration of factors that affect the covered member's objectivity and professional skepticism.

While Grant Thornton supports the revisions set forth in the Exposure Draft, we have provided the following comments for PEEC’s consideration.

General Comments

- Grant Thornton suggests the PEEC consider providing examples or illustrations to assist in the application of the new interpretation.

Request for Specific Comments

Below are Grant Thornton’s specific comments –as requested in the Exposure Draft.

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

Grant Thornton believes that as ownership interests can change frequently in our current business environment, it would be our recommendation to only require leases

that exist between a covered member and the attest client to be evaluated. We do not believe that a lease that exists between an affiliate (e.g., parent or a brother-sister entities not audited by the firm) and a covered member would impair the ability of a firm to be compliant with the Independence rule.

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

Grant Thornton agrees with the circumstances provided in the proposal for grandfathered leases. However, we suggest that PEEC consider providing further guidance on whether renewal of terms (or specific terms) of the original lease would be covered under grandfathered leases in the interpretation or in a frequently asked questions document. Specific examples should be provided. The proposal does state that automatic renewals provided for in the original lease are not considered changes in terms. However, specific guidance is not provided on whether other renewal of terms (not automatic renewals), but may be acceptable if the term revisions are not material to the original lease or are an extension of the original lease.

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?*

Grant Thornton agrees with the application of materiality in evaluating leases between a covered member and an attest client.

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?*

Grant Thornton agrees 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 do believe firms could appropriately segregate an individual that is not in the chain of command (or does not meet the other criteria for being a covered member) with leases that were material to an attest client which would result in the individual not being classified as a covered member.

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

Grant Thornton agrees immediate family member should also be required to comply with the requirements of the proposal for leases similar to other financial relationship requirements under the AICPA's Independence Rules.

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?*

Grant Thornton believes it would be appropriate to have a period of transition to allow firms to determine if changes need to be made to internal policies in identifying any leases that exist between the firm or covered members and attest clients. Firms will also need to determine whether their existing quality control procedures require revision due

to the new interpretation. We do not believe that significant changes would be needed as long as attest clients are only considered to be the attest client and downward affiliates. We agree that existing leasing relationship between a covered member and an attest client could be grandfathered which should alleviate potential hardships.

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

Grant Thornton agrees it would be appropriate to grandfather primary residence leases and individuals could renew the lease if the leases meet the safeguards established. We suggest the PEEC consider providing examples to assist with the application of this change, including clarification regarding automatic renewals and if rent increases are considered a change in terms.

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?*

Additional considerations that could be given would be the length of time of the lease as well as the date the lease originated. These factors could potentially impact the significance of a leasing relationship as well as the determination of whether a leasing relationship between a covered member or firm and the attest client may impair the firm's independence in fact or appearance.

9. *Do you agree that an effective date consistent with the FASB Update effective date for private companies is appropriate (December 15, 2019)?*

Grant Thornton does not believe the effective date of the proposal needs to be consistent with that of the FASB leasing standard. Based on the proposed revisions, we believe the proposed replacement of the extant GAAP categorization approach with a conceptual framework approach can be effective at any date. PEEC should consider allowing a one year effective date to provide adequate time for members to implement the proposed revisions.

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We would be pleased to discuss our letter with you. If you have any questions, please contact Anna Dourdourekas, National Partner in Charge, Ethical Standards, at Anna.Dourdourekas@us.gt.com or (630) 873-2633.

Very truly yours,



Grant Thornton LLP