



December 4, 2017

Ms. Toni Lee-Andrews
Ethics Team
AICPA
220 Leigh Farm Road
Durham, NC 27707

Re: October 20, 2017 PEEC Exposure Draft (ED), *Proposed Revisions to the AICPA Code of Professional Conduct: Leases Interpretation (ET sec 1.260.040)*

Dear Ms. Lee-Andrews:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC agrees with the objectives of this ED, which achieve consistency between the ethics standards and the FASB updated standard on leases as well as the related independence requirements of other standard setters and regulators, including the Securities Exchange Commission (SEC), Governmental Accounting Office (GAO), Department of Labor (DOL), and the International Ethics Standards Board for Accountants (IESBA).

However, TIC has concerns regarding the specific identification of familiarity and undue influence threats in paragraph 01 of the ED. TIC believes that these would not be significant threats and therefore those terms should be removed from paragraph 01 of the ED as we articulate further in our response to question 6 in the specific comments section below.

TIC also notes that ET sec 1.260.020, *Loans and Leases with Lending Institutions*, only identifies self-interest as a threat. TIC believes this is appropriate. The ED does a very good job of conforming ET sec 1.260.040 with 1.260.020 except for the references to familiarity and undue influence threats, which based on the definitions, would not be significant threats.

SPECIFIC COMMENTS

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

TIC agrees that the provisions of this section should apply to affiliates and exceptions should not be extended.

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

TIC cannot think of any other situations or circumstances that should be grandfathered.

Question 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 attest client that is material to the attest client?*

TIC agrees that with the application of the materiality safeguard in paragraph .02 and TIC agrees that no safeguards would be available in the case of a material lease with a covered member.

Question 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?*

TIC agrees that there are no safeguards that would reduce the threat to an acceptable level in this circumstance.

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

TIC agrees that the requirements should extend to immediate family.

Question 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?*

TIC believes that the only threat to independence represented by leases is a self-interest threat. Based on the definitions of familiarity threat and undue influence threat, they are not significant in a lease between a covered member and an attest client that meets the safeguards in paragraph 02. The standard as written would create a hardship by adding the requirement to evaluate (and document) these threats and safeguards when TIC does not believe these threats would ever be significant. In addition, TIC does not believe any other threats, as contemplated in paragraph 03, would be relevant or significant to a lease that meets the safeguards in paragraph 02. Rather than requiring an evaluation of any other threats, TIC recommends this

requirement be removed from the ED and the factors in paragraph 03 be retained solely for purposes of evaluating the self-interest threat. Since these other threats are not relevant or significant, this effort will not add anything to the independence determination.

Other than the issues in the preceding paragraph, the interpretation should not require significant changes to monitor leases.

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

TIC believes it is appropriate to grandfather primary residence leases.

Question 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?*

TIC believes the factors affecting the significance of the threats in paragraph .03 are appropriate.

Question 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 more appropriate effective date?*

TIC believes the effective date is appropriate as proposed.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair
PCPS Technical Issues Committee
cc: PCPS Executive and Technical Issues Committees