



National Association of State Boards of Accountancy

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January 3, 2018

Professional Ethics Executive Committee Via email: Ethics-ExposureDraft@aicpa-cima.com
Professional Ethics Division
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707
Re: Proposed Revisions to the AICPA Code of Professional Conduct (Code)
 Leases Interpretation (ET sec. 1.260.040) (Exposure Draft)

Dear Members of the Professional Ethics Executive Committee (PEEC) and Staff of the AICPA:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments to the above referenced Exposure Draft. NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories.

In furtherance of that objective, we offer the following comments on the questions presented in the Exposure Draft and an additional comment following our responses.

Responses on Requests for Specific Comment

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

No, NASBA does not believe that the PEEC should add any exceptions to a covered member's leasing arrangements with affiliates of financial statement attest clients as (i) exceptions would add unnecessary complexity to the interpretation, and (ii) such treatment would be inconsistent with the way that other financial relationships (e.g., banking or brokerage relationships) are treated under the Code.

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

No, NASBA does not believe there are other situations involving a covered member's lease with an attest client that should be grandfathered (in addition to those scenarios suggested).

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?*

Yes, NASBA agrees that the materiality safeguard is essential within the context described in paragraph .02 of the proposed interpretation, that is, entering into a lease that is material to certain covered members creates an insurmountable threat to the firm's independence.

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?*

Yes, NASBA agrees that a lease agreement between a covered member (as described in paragraph .02 of a proposed interpretation) and an attest client that is material to the attest client impairs independence.

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

Yes, NASBA agrees that the requirements of the proposed interpretation should also apply to the covered member's immediate family, which is generally consistent with the application of other independence interpretations in the Code to those persons.

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?*

NASBA believes that two possible challenges to implementation may fall more heavily on practitioners in smaller firms: (i) lack of awareness of the revised independence requirements, which would prevent firms from preparing for the changes, and (ii) interrelationships between the smaller firms and their clients are likely to be more prevalent than in larger firm environments, thus the smaller firms (especially in more rural areas) may find it challenging to avoid or safeguard against situations that create significant threats to their independence. Thus, we believe these practitioners will need significant lead time to develop appropriate safeguards and effectively implement the proposed revisions.

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

Yes, NASBA believes it is appropriate to grandfather primary residence leases in a similar manner to home mortgages, as proposed, since under the new lease accounting standard, leases generally will be treated as secured loans.

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?*

NASBA believes that the factors in paragraph .03 are sufficient as proposed, however, paragraph .03(d), *the extent to which the lease will be subject to attest procedures or financial statement disclosures*, seems to imply a possible self-review threat, which is not otherwise mentioned in the proposed interpretation. Also, from a practical standpoint, it is questionable whether the practitioner will be able to effectively assess this factor during pre-engagement.

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?*

NASBA believes it is appropriate to sync the effective date of the proposed independence standard, which requires a new approach to addressing leasing relationships, to that of the FASB Update for leases.

Additional Comments on the Proposal

In addition to the above responses, NASBA offers a few other comments for the PEEC's consideration:

In comparing the proposed revisions to the existing loan interpretation (1.260.020), we noted that the loan interpretation includes a fundamental safeguard that is absent from this proposal, i.e., the Code only permits loans to a covered member from an attest client if the attest client makes loans as part of its normal business operations. We understand the PEEC considered this fact and concluded that because real estate investment trusts, which are not lending institutions, frequently issue real estate leases, the addition would not be appropriate. However, we also note that the current definition of "lending institution" does incorporate automobile lessors. Thus, for consistency purposes and to significantly strengthen the proposed leases interpretation, we suggest that PEEC consider whether a similar notion pertaining to lessors more broadly should be incorporated into this standard as a fundamental safeguard.

Lending institution. *An entity that, as part of its normal business operations, makes loans. This definition is not meant to include an organization that might schedule payment for services for a client over a period of time. Examples of such entities are banks, credit unions, certain retailers, and insurance and finance companies. For example, for automobile leases addressed by the "Loans and Leases with Lending Institutions" interpretation [1.260.020] of the "Independence Rule" [1.200.001], an entity is considered a lending institution if it leases automobiles as part of its normal business operations. [Prior reference: paragraph .09 of ET section 92]*


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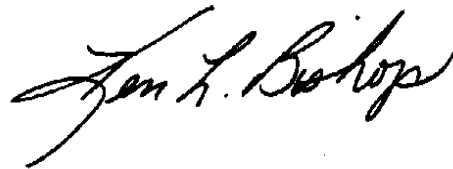
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Thank you for the opportunity to comment on the Proposed Revisions to the AICPA Code of Professional Conduct Leases Interpretation exposure draft.

Very truly yours,

A handwritten signature in black ink that reads "Ted Long". The letters are cursive and somewhat stylized.

Theodore W. Long, Jr., CPA
NASBA Chair

A handwritten signature in black ink that reads "Ken L. Bishop". The signature is written in a cursive, flowing style.

Ken L. Bishop
NASBA President and CEO