



March 11, 2019

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

Re: January 11, 2019 PEEC Exposure Draft (ED), *State and Local Government Client Affiliates (formerly Entities Included in State and Local Government Financial Statements)*

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 *Proposed Interpretation and Other Guidance: State and Local Government Entities (formerly Entities Included in State and Local Government Financial Statements)* (ED) and is providing the following comments for your consideration.

GENERAL COMMENTS

TIC appreciates the efforts of PEEC to address issues that arose during the last exposure process with this ED and to make changes that TIC feels were successful at addressing many of the concerns of stakeholders. However, TIC is concerned that this revised draft now is harder to follow because the guidance is more piecemeal than as originally presented, which could result in confusion in practice. A good example is that the term "nonaffiliate" is no longer defined anywhere in the revised draft.

TIC believes that PEEC should consider whether to just issue targeted Q&As that address specific fact patterns rather than issuing an Interpretation. TIC believes this ED, as written, will result in confusion in practice as certain terms are no longer as clearly defined as they were in the first draft.

SPECIFIC COMMENTS

Question 1: *Are the examples of circumstances or relationships with nonaffiliates that could result in the member consulting the “[Conceptual Framework for Independence](#)” helpful to assessing when the conceptual framework may be applicable? If not, please provide other suggested examples or circumstances that should be included.*

TIC believes that the examples in the ED could cause more confusion in practice. When examples are used, it can create the possibility of a “checklist” mentality (i.e. the need for the member to check whether these items are present in this entity, or the alternative, these items are not present and therefore no additional work is necessary). The language in paragraph 6G of the ED also notes that this “creates threats” rather than “could create a threat” where TIC believes the language is too strong here and it seems as though these issues would automatically result in a threat to independence which TIC does not believe was the intent.

In addition, paragraph 6F seems to be disjointed where TIC had trouble understanding what was meant and would suggest removal of this item to reduce confusion. TIC believes that paragraph 6G made more sense when PEEC had included upstream entities in the discussion.

TIC believes there may be unintended consequences due to the lack of definition of nonaffiliates so that firms will be forced to perform unnecessary research to identify entities that potentially could be nonaffiliates despite the fact that this has little impact on the reporting entity.

TIC is aware that PEEC is planning to create nonauthoritative practice aids and guidance, but TIC feels strongly that definitions (including a definition of nonaffiliate) should be authoritative and that the Interpretation should be clear as to the intent of which entities should be included or excluded. TIC also recommends that the nonauthoritative practice aids include the examples provided in paragraph 6 of the ED.

Question 2: *Does this exposure draft provide clear guidance to the member on how to determine which entities are affiliates to the financial statement attest client? If not, please explain what areas in this exposure draft are unclear.*

TIC does believe the guidance in the ED related to determining which entities are affiliates is fairly easy to follow. However, TIC believes that the term nonaffiliates will create practice issues since this term is not defined, as discussed previously in this letter.

Question 3: *Is it clear that investments will only be considered an affiliate if they are held by the financial statement attest client or by an affiliate under item a.i. of paragraph .03? If not, please provide a suggested clarification on how to make it clear that investments of these two entities only will be considered an affiliate.*

Yes. TIC believes the ED makes it clear that investments only will be considered an affiliate if they are held by the financial statement attest client or by an affiliate under item a.i. of paragraph .03 of the ED.

Question 4: *What implementation guidance do you believe would be helpful for the Ethics Division to develop so that the interpretation can be successfully implemented?*

TIC believes that rather than issuing this Interpretation, PEEC should consider addressing specific fact patterns in a series of Q&As. TIC would be happy to work with the Ethics staff in developing some of this guidance.

If this ED is issued as drafted, TIC understands that the Ethics staff will be working on some additional implementation guidance and tools to assist practitioners with implementation of this guidance. TIC would be happy to assist in reviews of these tools and, perhaps, be part of the task force or test groups that run different real-life scenarios through these tools to ensure the outcome is as expected. TIC also believes that PEEC should allow adequate time for firms to prepare for the adoption of this guidance, and the Interpretation should not be effective for at least one CPE cycle, and any implementation tools and resources also should be made available prior to the effective date.

ADDITIONAL COMMENTS

TIC would also encourage PEEC to work with the Peer Review Board to ensure that this Interpretation is not going to result in any additional documentation requirements or have other unintended consequences for firms that undergo peer review.

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