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March 11, 2019

Ms. Toni Lee-Andrews
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

**Re: Proposed Interpretation — State and Local Government Client Affiliates
(formerly Entities included in State and Local Government Financial Statements)
Exposure Draft**

Dear Ms. Lee-Andrews:

Deloitte & Touche LLP is pleased to respond to the revised exposure draft prepared by the Professional Ethics Division of the American Institute of Certified Public Accountants' (the "AICPA") of *Proposed Interpretation — State and Local Government Client Affiliates* (formerly *Entities Included in State and Local Government Financial Statements*) (the "Proposed Interpretation").

We appreciate the AICPA's responsiveness to the feedback and comments received related to the July 7, 2017 Exposure Draft and our comment letter dated October 16, 2017. We commend the AICPA's efforts to make the Proposed Interpretation conceptually consistent with the private sector *Interpretation—Client Affiliates*, while acknowledging differences as necessary between the commercial sector and the state and local government sector.

We are supportive of the Proposed Interpretation and believe it contemplates scenarios in practice related to independence that have existed but may not have been explicitly addressed by *Interpretation—Entities Included in State and Local Government Financial Statements* ("the Extant Interpretation"). Financial reporting objectives for the state and local government sector differ from the commercial sector; therefore, it is critical that professional standards and guidance contemplate the financial reporting structure and are reflective of those objectives.

We have identified certain items, listed below, which we believe require consideration prior to finalizing the Proposed Interpretation (proposed edits are shown in bold text and strikethrough).

TERMINOLOGY

The term "financial reporting entity" is used in paragraph .09 but is not defined in the AICPA Code of Professional Conduct ("the Code") or in this Proposed Interpretation. Although this term is explained in paragraph 1.224.020.01 of the Extant Interpretation, no definition is provided in the Proposed Interpretation. As the Governmental Accounting Standards Board (GASB) has a unique industry-specific definition for *financial reporting entity*, it is unclear as to

whether practitioners are expected to apply the GASB definition, the definition included in the Extant Interpretation, or whether the term is more appropriately replaced with *financial statement attest client*. Our suggested edits to the Proposed Interpretation to address this issue are as follows:

.09 The overall facts and circumstances should be considered when evaluating the level of influence the *financial statement attest client* has over the accounting or financial reporting process of an entity in the ~~financial reporting entity~~ **financial statement attest client's financial statements**. The targeted analysis is applied solely to the accounting and financial reporting process of the entity as opposed to the analysis of what entities are included in the ~~financial reporting entity~~ **financial statement attest client's financial statements**. Factors such as the following may assist *members* with this evaluation.

MATERIALITY

We believe further clarification is necessary related to the application of materiality in paragraph .11 and have provided suggested edits as follows:

Material to the Financial Statements Attest Client's Financial Statements as a Whole

Determination of materiality is a matter of professional judgment. *Members* should consider both quantitative and qualitative factors when determining whether an entity or investment is material to ~~the financial statements~~ **financial statement attest client's financial reporting entity**. For purposes of this interpretation, ~~paragraphs .03a.ii and .03a.iii of this interpretation~~, **materiality is intended to be applied at the financial statement attest client's financial statements-financial reporting entity as a whole, rather than individual opinion units in circumstances in which there may be more than one opinion unit. For purposes of paragraph .03a.iv of this interpretation, materiality is intended to be applied at the investor's financial statements as a whole, rather than individual opinion units in circumstances in which there may be more than one opinion unit.**

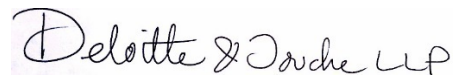
NONAFFILIATES

Paragraph .06 of the Proposed Interpretation provides examples of nonaffiliates that members should consider that may create threats to independence. We believe paragraph .06f, related to defeased debt issued by the financial statement attest client, should be deleted from the Proposed Interpretation, as (1) this circumstance relates to the financial statement attest client itself and not a nonaffiliate and (2) this situation does not create a threat, as defeasances of debt (by definition) are removed from the face of the financial statements when they meet certain criteria, including the criteria of essentially risk-free assets that have been set aside in trust by the financial statement attest client to repay the debt, which includes payments to any covered member(s) who owns such debt.

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If you have any questions concerning our response, please contact W. Mike Fritz, Partner, at +1 614 229 4806, Reem Samra, Managing Director, at +1 214 830 7376, or Christopher Cahill, Partner, at +212 436 4841.

Yours truly,

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Deloitte & Touche LLP