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February 28, 2020

Ms. Toni Lee-Andrews
Director of the AICPA Professional Ethics Division
AICPA
220 Leigh Farm Road
Durham, NC 27707

RE: AICPA Professional Ethics Division Strategy and Work Plan Consultation Paper

Dear Ms. Lee-Andrews

We appreciate the opportunity to provide comments on the AICPA Professional Ethics Division's Strategy and Work Plan ("SWP"). Overall, we are supportive of the topics identified by the Professional Ethics Executive Committee ("PEEC") Planning Task Force for proposed new projects and the Staff's efforts to bring clarifications to the AICPA Code of Professional Conduct ("the Code") through the development of the SWP. In evaluating the proposed new projects, we offer some comments for PEEC's consideration as well as provide answers to the questions posed in the SWP.

Overall considerations

We believe that the Code is most effective in identifying threats to an auditor's objectivity when the interpretations are principles-based. A principles-based Code provides adaptability in rapidly changing business environments by focusing on evaluations of threats to member's compliance with the rules such that the Code stands the test of time. In situations where significant threats to compliance with the interpretations exist, it would be appropriate for the Code to provide restrictions when there are no safeguards that can reduce threats to an acceptable level.

We have provided our responses to the specific questions in the SWP below:

Business relationships ([ET 1.265.010](#))

a) What business relationships do firms have with either nonattest or attest clients?

Firms may enter into contracting arrangements with clients to jointly provide services or products to third parties, to form alliances to capture new market opportunities, or to engage in supplier relationships for procurement of goods or services used internally or externally to deliver service or products.

b) What additional guidance related to business relationships, if any, would be helpful to address in the code?

We do not believe additional guidance is needed.

- c) *Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?*

The evolution of accounting firms, technologies, communications and client needs have impacted the types and nature of professional services accounting firms provide. However, the Conceptual Framework for Independence, existing interpretations and the principles-based interpretation regarding business relationships are effective mechanisms to enable the identification and evaluation of threats to the auditor's independence, and thus we do not have any recommendations for additional guidance.

Definition of “office” ([ET 0.400.36](#))

- a) *What challenges do firms encounter with the current definition of office?*

Firms encounter challenges in developing policies that define “office” when considering circumstances such as virtual work arrangements and engagement team mobility. It is no longer uncommon for engagement teams to be located around the world and/or for a lead audit engagement partner to serve an audit client outside of his or her designated office.

- b) *What additional guidance related to the definition of office, if any, would be helpful to address in the code?*

We request that PEEC consider whether the existing definition of “office” remains relevant to today's workplace, where engagement team mobility and information technology have brought about the use of virtual workplaces as a replacement to traditional work environments.

- c) *Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?*

Given the evolution of today's work environment to a virtual workplace, and the advancements in communication technologies, the determination of “office” and its impact on covered member restrictions is increasingly affecting professional practice. As the determination of “office” and covered members is critical to maintaining independence, we recommend that this be a priority project on the SWP.

Client affiliates ([ET 1.224.010](#))

- a) *How do firms currently apply guidance related to the affiliate definition in a situation when entities are owned by the same individual?*

To determine affiliates in a situation when entities are owned by the same individual, firms apply the Conceptual Framework for Independence to evaluate threats associated with services and relationships with multiple entities owned by the same individual, and apply safeguards.

- b) *What additional guidance related to client affiliates, if any, would be helpful to address in the code?*

The Conceptual Framework for Independence is effective in identifying significant threats to independence when determining affiliates in a situation when entities are owned by the same individual. We do not believe additional guidance is needed.

- c) *Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?*

Members are able to adequately apply the conceptual framework when significant threats are identified, and thus we do not believe this is an area necessitating additional guidance.

Artificial intelligence

- a) *What unique ethical challenges does the use of artificial intelligence present to members beyond what is already covered by the [“Integrity and Objectivity Rule”](#), [“General Standards Rule” \(1.100.001\)](#), and related interpretations?*

As artificial intelligence (“AI”) develops, becomes more sophisticated, and performs a higher volume of judgmental tasks, members in both business and public practice will need to understand the application of the AI to appropriately apply professional judgement in the analysis of the output. Over and uninformed reliance on sophisticated, judgmental AI could threaten a member’s objectivity, as well as threaten compliance with the principle of due care and the confidential client information rule.

- b) *If there are unique challenges, how do they differ for members in business and members in public practice?*

The reliance on technology may be for different purposes, but ethical considerations and challenges are largely similar for both members in business and members in public practice.

- c) *Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?*

Given the current state of AI, we do not see the ethical challenges associated with its use as having a direct impact on professional practice today. As the use of AI becomes more prevalent, the ethical challenges surrounding this matter may become more pronounced. Accordingly, we believe the subject of AI should be revisited in the future as AI applications begin to permeate business processes, including more subjective and judgmental applications.

Simultaneous employment or association with an attest client

- a) *What challenges are members encountering when complying with the [“Simultaneous Employment or Association With an Attest Client” interpretation \(1.275.005\)](#)?*

There are circumstances where professionals uninvolved in the audit engagement have employment relationships with audit clients or affiliates of audit clients that do not create significant threats to independence. In these circumstances, the interpretation might be unnecessarily restrictive by scoping in all professional employees for the audit client and all affiliates. For instance, a non-audit associate who wants to participate in an armed forces reserve is generally not in a position to influence the audit engagement of the entity because this employment does not place the individual in a key position at the audit client, or in a position to influence the accounting records or financial reporting. The extant Code is overly restrictive considering the benign nature of the relationship and the virtual absence of a threat the employment relationship creates to the audit.

b) What relief or exceptions should PEEC explore and why?

PEEC could consider circumstances, such as military service or public safety employment that could be exceptions to this interpretation to encourage such public service.

Digital Assets

a) What threats are encountered with digital assets and how are they addressed?

Ownership of a digital asset issued by the audit client may raise some of the same threats as those addressed in [ET 1.240 Financial Interests](#). Additionally, threats specific to digital assets include the following:

- When a public accounting firm is involved in mining of digital assets, and/or operating a node within a blockchain environment, it raises the threat of management participation, and potentially creates a self-review and adverse interest threat where attest clients of the firm are parties to the blockchain.
- When a covered member owns a digital asset that fluctuates in value, it creates increased threats to the member's objectivity and impartiality.

b) What issues related to digital assets would be helpful to address in the code?

We believe it would be helpful if the Code included a framework for determining what characteristics of a digital asset trigger evaluation as a financial interest. Additionally, if the digital asset is not considered a financial interest, the framework should address any other considerations for evaluating independence associated with owning the digital asset.

c) Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

Yes, we believe this matter is increasingly affecting professional practice. While the criticality of this topic fluctuates with the perceived value of digital assets in the marketplace,

it is important that additional guidance is published, as the lack of direction may result in divergence of practice across members in public practice.

529 college savings plans ([ET 1.240.070](#))

- a) *What challenges do those who invest in 529 savings plans encounter in monitoring the underlying investments held by these plans?*

It is challenging for account holders of a 529 savings plan to analyze changes in the underlying investments of their plan. Typically, the account holder selects a fund strategy rather than individual funds, which obstructs visibility into the underlying investments. Unlike publicly traded mutual funds, there are no common reference resources to learn of changes in the underlying investments of a given 529 plan. Additionally, automatic reallocation of funds in aged-based portfolios can be cumbersome to track. Finally, the scope and timing of communications from plan managers are inconsistent between fund administrators, and plan holders may not be notified of changes until after their investments have changed.

All of these information gaps create challenges for firms to establish appropriate quality controls to prevent or detect breaches of independence requirements by covered members.

- b) *What guidance related to 529 savings plans would be helpful to include in the code?*

We believe it would be helpful if PEEC considers revising the guidance for 529 savings plans to remove the specification that a covered member who is an account owner has a direct financial interest in the underlying investments of the plan.

- c) *Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?*

This matter is increasingly affecting professional practice by requiring substantial time and effort for members to monitor investments in 529 plans. We recommend that this be a priority project on the SWP, as 529 savings plans seldom create significant threats to independence, while often resulting in a significant compliance burden.

Reporting of an independence breach to an affiliate that is also an attest client ([ET 1.298](#))

- a) *Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?*

Reporting an independence breach to an affiliate that is also a financial statement attest client is increasingly affecting professional practice. Providing guidance on the following would be helpful:

- determining when a breach extends to affiliate entities that are also financial statement attest clients of the firm; and

- evaluating reporting requirements, if any, for communications to those charged with governance at financial statement attest client affiliates of the audit client directly impacted by the breach.

It is particularly challenging to determine reporting requirements for large conglomerate structures or investment company complexes.

PEEC could clarify the requirements of the interpretation to allow a member to apply judgment in determining the need to communicate to sister and downstream affiliates. If a member determines that the breach has been communicated to those charged with governance for the directly impacted attest client and there is no impact on the independence for the audits at those other affiliates that are also financial statement attest clients, then the communication may not be necessary, unless specifically requested by the affiliate that is also a financial statement attest client.

- b) *How are you currently applying the “Breach of an Independence Interpretation” subsection in relation to affiliates that are also attest clients?*

We comply with the “Breach of an Independence Interpretation” subsection.

De minimis fees

- a) *Is this matter increasingly affecting professional practice and how valuable would you find additional guidance regarding this matter?*

PEEC could consider removing the bright line test with regard to Unpaid Fees ([ET 1.230.010](#)) where trivial and inconsequential amounts owed by the attest client to the firm impair independence. Such an approach would better align the interpretation to evaluating the significance of self-interest threats that may exist when considering unpaid fees. In addition, changing the bright line one year test to a consideration of amounts outstanding for an extended period of time may be a better criteria in evaluating the significance of self-interest threats.

PEEC could also consider aligning the AICPA Code with the IESBA Fees – Overdue guidance in [IESBA Code R410.7 A1 to R410.8](#).

Data security and breaches

- a) *What additional guidance, if any, would be helpful to assist members with data security or responding to data breaches?*

We do not believe additional guidance is needed.

Conflicts of interest ([ET 1.110](#))

- a) *What additional guidance, if any, would be helpful to assist members with better understanding and applying the conflicts of interest interpretations?*

We do not believe additional guidance is needed.

Operational enhancements to the code

- a) *What operational enhancements should be made to the code to make it more user friendly?*

We appreciate the ease of navigation within the Code; however, we have suggested a few operational enhancements below:

- Reduce the size of the “AICPA Online Professional Library” banner at the top of the page in the online code.
- Migrate the FAQs onto the dynamic online platform to allow bookmarking and searching, rather than maintaining them as a separate PDF document.
- Provide the ability to customize user profiles that enable users to set and receive alerts. For example, it would be beneficial to members if they could set a preference within their profile to automatically receive an alert to their inbox when an update is made to the Code (i.e. a new FAQ added or an interpretation changed).
- Eliminate a user’s session time-out, or extend the session duration period before time-out.
- Display the subject of Professional Ethics on the www.aicpa.org homepage, and maintain a quicklink path to the PEEC page, and/or the Code to emphasize the importance of ethics to our profession. Currently, users must navigate to the Code through the following path: www.aicpa.org > Topics > Explore all topics > Professional Ethics > Code of Professional Conduct > Online Code of Professional Conduct.

We appreciate PEEC’s consideration of our comments and observations. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Bill McKeown at wmckeown@kpmg.com or Nancy Miller at nancymiller@kpmg.com.

Sincerely,


KPMG LLP