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December 17, 2021

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

RE: AICPA Professional Ethics Executive Committee Exposure Draft: Proposed revised interpretations and definition – Loans, acquisitions, and other transactions

Dear Ms. Lee-Andrews:

We are pleased to respond to the request for public comment on the AICPA Professional Ethics Executive Committee's (PEEC) proposed revised interpretations and definition of the AICPA Code of Professional Conduct (the Code or ET) on Loans, acquisitions, and other transactions (the "proposed revisions" or "proposal"). Overall, we are supportive of the proposed revisions and PEEC's efforts to update and improve the effectiveness of its independence interpretations and definitions, such that they do not create arbitrary independence violations in situations that do not impair an auditor's objectivity, integrity, or professional skepticism. Unless otherwise noted in this letter, we concur with PEEC's position regarding the questions presented for specific comment, so we did not respond to each question individually. We have suggestions for PEEC's consideration in the response below.

Consumer Loans

ET 1.260.020.05(d) of the proposed revisions extends the permissibility of credit cards and overdraft reserve accounts to include all consumer loans with an aggregate outstanding balance of \$10,000 or less, provided the loan is obtained under the lender's normal lending procedures, terms, and requirements and the loan is kept current. We recommend PEEC replace the reference to "consumer loans" in the proposed revisions with "unsecured loans" to conform to the terminology in ET 1.260.020.02. We believe terminology used within the Code should be consistent to avoid confusion. Also, we don't believe that there are any meaningful differences to the threats to independence if consumer loans are intended to be a subset of unsecured loans. The safeguards described should be equally effective for all unsecured loans. We suggest PEEC consider including "small business loans for an immediate family member" and "general lines of credit" to the examples of unsecured loans provided in paragraph ET 1.260.020.05(d). We believe that adding "general lines of credit" to the examples in the interpretation would effectively clarify that the rule encompasses all consumer financing that borrowers routinely obtain for personal consumption.

Transition Framework

The proposed revisions in ET 1.224.010.05 refer to threats to independence that may be created by previous or current "interests or relationships" between the member or member's firm and the new affiliate. Conversely, the Conceptual Framework for Members in Public Practice in ET 1.000.010 refers to threats that are created by "relationships or circumstances" that may arise to create threats to the member's compliance with the rules. We ask that PEEC consider replacing the reference to threats as "interests or relationships" with "relationships or circumstances" to be consistent with the reference to threats elsewhere in the Code, unless the distinction serves an intended purpose, in which case we request clarification as to the reason for the need for different terms.



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Additionally, the proposal repeatedly requires members to evaluate the “level of the threats” created by the interest or relationship with the new affiliate. The AICPA Code does not currently refer to the “level of threats” created, but rather the “significance of threats” and whether relationships or circumstances give rise to threats that can be reduced to an acceptable level. We propose that PEEC replace “level of” with “significance of” so that the proposed revision is consistent with terminology used elsewhere in the code. Alternatively, if PEEC intended a difference between “level of threat” and “significance of threat,” then we suggest that clarification be provided as to the difference in expectation so that an effective evaluation can be performed.

Finally, ET 1.224.010.09(c) and ET 1.224.010.12 refer to “transitional measures applied.” We believe “transitional measures” is intended to be synonymous with the term “safeguards.” We recommend PEEC align the language in the proposal with that used elsewhere in the Code and replace “transitional measures” with “safeguards.” As noted above, we believe that utilizing consistent terminology within the Code drives understanding and compliance. Alternatively, if PEEC intended that the transitional measures are something other than safeguards, we recommend including examples or otherwise defining transitional measures.

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We appreciate PEEC’s consideration of our feedback. 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.

Very truly yours,

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Cc: Brian S. Lynch, Chair
Professional Ethics Executive Committee