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January 5, 2021

Via e-mail: ethics-exposedraft@aicpa-cima.com

Professional Ethics Executive Committee
Professional Ethics Division
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707

Re: Loans, acquisitions, and other transactions

Dear Professional Ethics Division and Members of the Professional Ethics Executive Committee:

BDO USA, LLP, appreciates the opportunity to provide comments on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) proposed revised interpretations and definition to the Code of Professional Conduct (the Code), as described in the exposure draft titled, *Loans Acquisitions, and other transactions* (the exposure draft). Our comments on the exposure draft follow.

We support the PEEC’s endeavor in setting high-quality and robust independence and ethics standards for the accounting profession in the United States. Overall, BDO supports the proposed revisions to the definition of “beneficially owned” (ET sec. 0.400.06), “Loans” Interpretation (ET sec. 1.260.010), “Loans and Leases With Lending Institutions” interpretation (ET sec. 1.260.020), “Immediate Family Members” interpretation (ET sec. 1.270.010) and the “Client Affiliates” interpretation (ET sec. 1.224.010) as contained in exposure draft.

General Comments

We believe the proposed revisions in the exposure draft modernize the independence rules while still safeguarding members’ objectivity and impartiality. We support the PEEC’s efforts to converge with the new SEC independence rules and where appropriate, the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (IESBA code).

Request for Comments

- a. **Are there any other components of the amended SEC rules that PEEC should consider converging with before it rescinds its temporary policy statement and, if so, why?**

No. We are not aware of any other components of the amended SEC rules that PEEC should consider converging with before it rescinds its temporary policy statement.

- b. **Do you agree the proposal should not limit whose expenses are covered by the student loan and why or why not?**



We agree that the proposal should not limit whose expenses are covered by the student loan. We do not believe there is an increased threat to independence regardless of whether the loan covers the expenses of an immediate family member, a close family member or a personal friend.

- c. **When an attest client or its affiliate is involved with a transaction that creates a new affiliate, the proposal provides some relief for existing interests and relationships that impair independence when certain safeguards are met.**

One such safeguard is that covered members believe they will be able to complete the remaining attest procedures in a “short period of time” (paragraph .10b).

Do you believe PEEC should provide parameters around what is meant by a “short period of time,” or should this be left to members professional judgment?

While we don’t believe a “short period of time” should be defined in the interpretation, we do believe it would be helpful if a FAQ were to be issued containing an example that would help members apply this provision. We believe the example should also address the application of paragraph .10a which requires that the member has completed a **significant amount of work** on the engagement (emphasis added):

a. The member or member’s firm completed a significant amount of work on the current financial statement attest engagement prior to the effective date of the acquisition or other transaction.

- d. **Do you agree that a three-month delayed effective date provides time to implement the proposals? If not, why not? What period would provide adequate time?**

We agree that a three-month delayed effective date provides sufficient time to implement the proposals.

Other

We strongly support the proposed revision to the “Client Affiliates” interpretation to address additional situations in which an attest client is involved in an acquisition or other transaction. It is not uncommon for an attest client, especially in the private equity environment, to acquire an entity (i.e., “new affiliate”) with which the firm has a pre-existing relationship that may impair independence and cannot be terminated immediately due to the potential hardship to the client. We believe the evaluation of threats and proposed safeguards described in the proposal are appropriate and sufficiently mitigate the threats to independence when the prohibited relationship cannot be terminated prior to the acquisition date.

While we agree with the proposed guidance, we do recommend certain editorial and conforming revisions (in red) to clarify the guidance as set forth below.

We recommend the following revisions to clarify that the member will not continue to provide services to the financial statement attest client as well as the *acquirer* under this scenario:



An Existing Financial Statement Attest Client Is Acquired and the Member or Member's Firm Will Not Continue Providing Financial Statement Attest Services ~~to Such Client~~ After the Current Attest Report Is Issued and the Report Does Not Include Periods After the Effective Date of the Acquisition

.06c. The member or member's firm will not continue to provide financial statement attest services to the existing financial statement attest client ~~or the acquirer~~ for periods after the effective date of the acquisition.

We recommend the following revisions to clarify that the financial statement attest services may be performed for the financial statement attest client as well as the *acquirer* in cases where the financial statement attest client is being acquired.

An Existing Financial Statement Attest Client or Its Affiliate Is Involved in an Acquisition or Other Transaction and the Member or Member's Firm Expects to Continue Providing Financial Statement Attest Services ~~to Such Client~~

.07 When an acquisition or other transaction creates a new affiliate of a financial statement attest client during the period of professional engagement and the member or member's firm expects to continue providing financial statement attest services to the financial statement attest client (or its acquirer where the financial statement attest client is being acquired) after the effective date of the acquisition or other transaction, the following conditions should be met:

We recommend the following revisions to conform to the drafting conventions used above in the heading to paragraph .06 and the guidance in paragraph .07.

An Existing Financial Statement Attest Client or Its Affiliate Is Involved in an Acquisition or Other Transaction and the Member or Member's Firm ~~Will Complete the Existing Financial Statement Attest Engagement but~~ Will Not Continue Providing ~~Such Financial Statement Attest~~ Services After the Current Attest Report Is Issued ~~but~~ ~~and~~ the Report ~~May~~ ~~Does~~ Include Periods After the Effective Date of the Acquisition or Other Transaction

.10 When an acquisition or other transaction creates a new affiliate of a financial statement attest client during the period of professional engagement and the ~~a~~-member or member's firm ~~will~~ ~~does not~~ ~~expect to~~ continue ~~to~~ ~~providing~~ financial statement attest services to the financial statement attest client (or its acquirer where the financial statement attest client is being acquired) ~~that is involved in an acquisition or other transaction~~, the member or member's firm may issue the current report covering a period after the effective date of the acquisition or other transaction if all the following ~~conditions~~ ~~criteria~~ are met:

We would be pleased to discuss our letter with you. If you would like to discuss our comments, please contact, Ms. Lisa A. Snyder, CPA (NJ), National Managing Partner - Independence at (732) 734-3052 or lsnyder@bdo.com.



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Respectfully,

/s/ BDO USA, LLP

BDO USA, LLP