



National Association of State Boards of Accountancy

150 Fourth Avenue North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615/880-4200 ♦ Fax 615/880-4290 ♦ Web www.nasba.org

December 17, 2021

Professional Ethics Executive Committee
c/o Toni Lee-Andrews, Director
American Institute of Certified Public Accountants
1345 Avenue of the Americas
New York, NY 10105

Via e-mail: ethics-exposedraft@aicpa.org

Re: Exposure Draft: Proposed Revised Interpretation - Unpaid Fees

Dear Members and Staff of the AICPA Professional Ethics Executive Committee (PEEC):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Exposure Draft, *Proposed Revised Interpretation - Unpaid Fees* (the Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

Overall Comment

The current interpretation on unpaid fees provides a bright-line, one-year provision that is simple, straightforward, and easily understood. We are concerned that the proposed changes in certain situations may put practitioners subject to the AICPA Code of Conduct at odds with their state laws and regulations relative to unpaid fees and subject them to enforcement actions. In addition, in certain situations, it may put State Boards that have not fully adopted the AICPA Code of Conduct at odds with their laws and regulations relative to unpaid fees. We encourage PEEC to consider those risks.

We do not believe the PEEC should replace this interpretation with a conceptual framework approach that introduces subjective terms and factors that will likely be more challenging for members to interpret and apply. An advocacy threat could exist when unpaid fees exist, and we do not believe that any safeguards mitigate the threats created by unpaid fees. The adoption by PEEC of its proposal is not in the public interest.

If the PEEC moves forward with the principles-based framework, then we have provided the following comments to the specific questions included in the Exposure Draft for consideration.

Comments on Specific Questions

PEEC does not believe unpaid fees create advocacy threats and, as such, proposes to eliminate this from the interpretation. Do you believe the advocacy threat is applicable to unpaid fees? If so, please explain.

NASBA believes that an advocacy threat could exist when unpaid fees exist. The interpretation applies to covered members. The definition of “covered member” in the Code includes, among other things, the partner leading the attest engagement *and* the firm. While the unpaid fees may be insignificant to the firm, the same unpaid fees could be significant to the engagement partner, causing him or her to become an advocate for the attest client (i.e., promoting the client’s interests as a means of retaining the client relationship and the fees).

Are the factors to consider when evaluating whether threats are at an acceptable level clear? Should any other factors be considered?

The first factor included in evaluating whether threats are at an acceptable level cites the significance of the unpaid fees to the covered member. We believe that the significance of the unpaid fees to the covered member is unclear because of the broad nature of the definition of “covered member.” As noted above, insignificant fees to the firm may be significant to the engagement partner.

Another factor that should be considered is the reason for the unpaid fees. We believe that the impact of unpaid fees on the covered member could be dependent on the underlying factor(s) behind the unpaid fees. For example, unpaid fees could result from professional services rendered, responding to client inquiries, client contingencies and/or other factors. These underlying reasons may impact the member’s objectivity and appearance of the member’s ability to maintain independence.

Do you agree with the use of the terms “clearly insignificant” and “significant” in paragraph .03 of the interpretation? Why or why not?

We do not agree with the use of subjective terms such as “clearly insignificant” and “significant” in this interpretation. Without more clarity or parameters on what would be deemed significant or insignificant, regulators will not be able to enforce the provision.

Should any other safeguards be provided as examples in paragraph .04?

We do not believe there are adequate safeguards to remove the existing bright-line one-year approach to addressing unpaid fees. This deadline is a clear date that members can use in dealing with the attest client regarding past, current, or future services (i.e., members have a better position to be able to discuss the matter with the client and resolve it). The bright-line, one-year approach is also easier for State Boards to regulate and enforce.

Are the safeguards in paragraphs .04a and .04d clearly delineated? Why or why not?

As stated above, we do not believe that any safeguards mitigate the threats created by unpaid fees and suggest PEEC maintain the existing bright-line one-year approach to addressing these matters.

We do not agree that obtaining a partial payment of the unpaid fees balance as defined in .04(b) is an appropriate safeguard. An immaterial payment on a substantial unpaid fee could be interpreted as having met the safeguard. We also do not believe that agreeing to a payment schedule before the current-year attest report is issued as outlined in .04(c) is meaningful. Agreeing to a payment schedule does not guarantee future payment of the previous year's unpaid fees. Finally, we do not believe that selecting the current attest engagement for post-issuance review will resolve independence or objectivity issues that could impair the engagement team members or the engagement partner.

We understand that the PEEC may ultimately decide to move away from the current bright-line approach and, in turn, the one-year bright-line on outstanding fees. If that occurs, we suggest that the one-year limit be considered as a possible threshold safeguard. In other words, if the unpaid fees have been outstanding for more than a year, the fact would trigger additional safeguards that should be employed.

Is it clear in paragraph .04f that communication with those charged with governance is not in itself a sufficient safeguard?

The introductory sentence to clauses .04a - .4f provides that they are examples of what might be safeguards. As written, it is not clear that .04f is not in itself a sufficient safeguard.

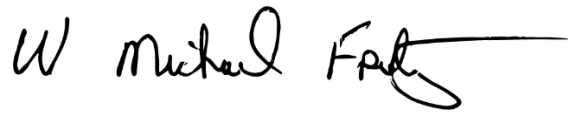
Do you agree that a six-month delayed effective date provides adequate time to implement the proposal? If not, why, and what period would provide adequate time?

If PEEC were to adopt the proposed revised interpretation, given that most recurring attest services are performed on an annual basis, NASBA believes that a one-year delayed effective date provides a more adequate time to implement the proposal than the proposed six-month delayed effective date.


* * * * *

Again, we appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Handwritten signature of W. Michael Fritz in black ink, featuring a large, stylized 'W' and a long horizontal flourish extending to the right.

W. Michael Fritz
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink, written in a cursive style with a prominent 'K' and 'B'.

Ken L. Bishop
NASBA President and CEO