



PROFESSIONAL ETHICS EXECUTIVE COMMITTEE

Open Meeting Agenda

**February 12, 2019
New Orleans, LA**



AICPA Professional Ethics Executive Committee
Open Agenda
February 12, 2019
New Orleans, LA (Central Standard Time)

Open Meeting: Phone Access: +1 669 900 6833 (US Toll) or +1 646 876 9923 (US Toll)
Meeting ID: 203 315 087 **Web Access:** <https://aicpa.zoom.us/j/203315087>
International numbers available: <https://zoom.us/u/acurbIU0UJ>

<i>February 12th</i>	<i>Open Meeting Begins</i>	
9:00 a.m. – 9:10 a.m.	Welcome Mr. Burke will welcome the Committee members and discuss administrative matters.	
9:10 a.m. – 10:30 a.m.	Information Technology and Cloud Services Ms. Miller and Ms. Gorla will seek the Committee’s feedback on the Hosting Services FAQs and update the Committee on the progress made on the comments received on the Information Systems Services Exposure Draft. <ul style="list-style-type: none"> ❖ External Link - Hosting Services Interpretation ❖ External Link – Information Systems Services Exposure Draft ❖ External Link – Comment Letters 	Agenda Item 1A Agenda Item 1B Agenda Item 1C Agenda Item 1D
10:30 a.m. – 10:45 a.m.	<i>Break</i>	
10:45 a.m. – 11:30 a.m.	External Directors Mr. McKeown and Mr. Mercer will obtain the Committee’s feedback on FAQs developed by the Task Force.	Agenda Item 2A Agenda Item 2B
11:30 a.m. – 12:00 p.m.	Transfer of Files and Return of Client Records in Sale, Transfer or Discontinuance of Member’s Practice Ms. Sherman and Ms. Ziemba will request the Committee’s approval of a FAQ developed by staff.	Agenda Item 3A Agenda Item 3B
12:00 p.m. – 12:15 p.m.	References to Prior Code Sections Mr. Mercer will solicit the Committee’s approval to retain references to the pre-2014 Code and the Mapping Document in the extant Code. <ul style="list-style-type: none"> ❖ External Link: Mapping Document ❖ External Link: Code Section 0.200.030 	Agenda Item 4A
12:15 p.m. – 12:30 p.m.	IESBA Update Ms. Gorla will update the Committee on recent IESBA	

	activity.	
12:30 p.m. – 1:30 p.m.	<i>Lunch</i>	
1:30 pm. – 1:45 p.m.	<p>Staff Augmentation Ms. Snyder and Mr. Mercer will update the Committee on any significant comments received to date in response to the December 7, 2018 Exposure Draft.</p> <ul style="list-style-type: none"> ❖ External Link: Staff Augmentation Arrangements Exposure Draft ❖ External Link: Comment Letters 	
1:45 p.m. – 2:15 p.m.	<p>State and Local Government Ms. Miller will provide the Committee with an overview of the implementation guidance the Task Force has under development.</p> <ul style="list-style-type: none"> ❖ External Link – July 2017 SLG Exposure Draft ❖ External Link – Comment Letters ❖ External Link – January 2019 Exposure Draft 	Agenda Item 5
2:15 p.m. – 2:45 p.m.	<p>Independence and Selected Procedures Engagements Mr. Mercer and Mr. Hunter will update the Committee and seek feedback on independence questions previously raised by the ASB.</p> <ul style="list-style-type: none"> ❖ External Link: ASB Selected Procedures Exposure Draft ❖ External Link: ASB Meeting Discussion Memorandum 	Agenda Item 6A Agenda Item 6B Agenda Item 6C Agenda Item 6D
2:45 p.m. – 3:00 p.m.	<p>NOCLAR Mr. Denham will update the Committee on the Task Force's progress.</p> <ul style="list-style-type: none"> ❖ External Link – NOCLAR Exposure Draft ❖ External Link – Comment Letters 	
3:00 p.m. – 3:15 p.m.	<i>Break</i>	
3:15 p.m. – 4:15 p.m.	<p>Association Update Ms. Coffey will provide the Committee with a professional issues update.</p>	
4:15 p.m. – 4:55 p.m.	<p>2019 PEEC Strategy and Work Plan Ms. Lee-Andrews will solicit the Committee's input on issues and topics to be addressed by the <i>2019 PEEC Strategy and Work Plan Consultation Paper</i>.</p> <ul style="list-style-type: none"> ❖ External Link: Three-Year Project Agenda 	Agenda Item 7

4:55 p.m. – 5:00 p.m.	Minutes of the Professional Ethics Executive Committee Open Meeting The Committee is asked to approve the minutes from the November 2018 open meeting.	Agenda Item 8
	<i>Open Meeting Concludes</i>	
Informational Purposes Only	Other Outstanding Exposure Drafts and Recent Official Releases ❖ External Link – December Official Release	
Informational Purposes Only	Committee Project Agenda ❖ External Link - Project Agenda	
	Future Meeting Dates <ul style="list-style-type: none"> • May 14-15, 2019 – Seattle, WA • August 2019 – TBD • November 2019 – TBD 	

Information Technology and Cloud Services Task Force**Task Force Members**

Shelly VanDyne (Chair), Cathy Allen, Katie Jaeb, Anna Dourdourekas, Dan O'Daly, John Ford, Nancy Miller. Staff: Ellen Gorla, Michele Craig

Task Force Objective

Recommend to the Committee any changes necessary to the nonattest services subtopic considering current information technology (including cloud) service offerings by members.

Reason for Agenda*Hosting Services*

Staff is seeking the Committee's input on the 7 FAQs included in **Agenda Item 1B**.

FAQ 1 explains that a subscription clearinghouse such as RIVIO is not considered a member's portal under item e. in paragraph .04 of the "Hosting Services" interpretation. The revisions made to this FAQ since November were to clarify that the FAQ was not intended to cover clearinghouses that are open to the public like EDGAR.

FAQ 2 is new and was added to address concern that members may believe they have to terminate a client's access to data or records that are in a member's portal that are related to engagements that completed prior to the effective date of the Hosting Services interpretation.

FAQ 3 provides guidance regarding what a reasonable period of time would be to terminate access to data or records that are in a member's portal. The answer to this question was revised to allow for a more judgmental approach.

FAQs 4 and 6 are substantially the same as the versions given to the Committee during the November 2018 meeting.

During the November 2018 PEEC meeting Mr. Brackens noted that he believes that some members use general ledger software that is located only on their servers or servers leased by the member when providing bookkeeping service and if the member wants to maintain their independence, they will implement procedures so that the attest client's books and records will be complete. When this is done, Mr. Brackens believes that the member would not be providing hosting services provided the member is not otherwise engaged to store the data and records for the client. Staff was asked to draft a FAQ that incorporated the substance of this conclusion for discussion with the Committee. Staff's draft can be found in **FAQ 5**.

FAQ 7 explains that the member should be alert to a situation in which the attest client repeatedly requests copies of data or records, which may signify that the member has begun providing hosting services as a de facto repository for the attest client's data or records. The answer was clarified that the interpretation is not trying to say that if this occurs your independence would be impaired for the engagements that those documents relate to, rather going forward.

Question for the Committee

1. Does the PEEC believe it should undertake a separate project to evaluate whether the use of technology to provide nonattest services could result in increasing challenges to

maintaining independence when the technology incorporates activities that would be considered management responsibilities? For example, is it really possible for a member to actually structure a bookkeeping engagement in a permissible way so as to not violate either the Management Responsibilities interpretation or the Bookkeeping interpretation?

Information System Services

The Committee received 27 [comment letters](#) on its [Information System Services Exposure Draft](#). The comments received are summarized by paragraph number in **Agenda Item 1C**. To facilitate the discussion of the comments, each comment has been given a row number. Comments appearing in red highlight are pending Task Force discussion and so any feedback on comments in these rows should be sent to Ms. Gorla and Ms. Craig via email (egorla@aicpa.org and mcraig@aicpa.org).

Because of the significant volume of comments, the Committee will not be asked to discuss every Task Force recommendation included in **Agenda Item 1C**, rather only those that appear in yellow highlight. This agenda paper maps the comments in yellow highlight to the paragraph that the Task Force recommends changing.

The Committee is asked to raise concerns it has with any Task Force recommendations that are not in yellow or red highlight.

The Task Force's recommendations to date are reflected in the updated draft interpretation found in **Agenda Item 1D**. ***Boldface italic or stricken text that is highlighted*** in this agenda item and in **Agenda Item 1D** are new revisions that the Committee has not yet seen.

Introduction – Paragraph .01

Paragraph .01 of the proposal states that the

Self-review and management participation *threats* to the *member's* compliance with the "Independence Rule" [1.200.001] may exist when a *member* provides services related to an *attest client's* information systems.

Comment Letter 12 (Row 1) requested that the Committee clarify that the interpretation only apply when a member is performing a separate IT engagement and does not apply when procedures described in the interpretation are performed as part of an attest engagement. The Task Force believes this can be clarified by adding the term "nonattest" to the phrase "may exist when a member provides ***nonattest*** services related to an attest client information systems."

Questions for the Committee

1. Are there any broader issues that the Committee believes should be addressed related to the use of oversight technology on the audit engagement? If so, what are the issues that need to be addressed, and where would the Committee envision this guidance appear (e.g., to the "Activities Related to Attest Services" section of the Scope and Applicability of Nonattest Services interpretation [1.295.010])?

Terminology Comments – Paragraph .02

Financial Information System – Item a. of paragraph .02

A financial information system is defined in item a of paragraph .02 as

“a system that aggregates source data underlying the financial statements or generates information that is significant to the financial statements or financial processes as a whole. To determine whether a nonattest service is related to a financial information system, members may consider factors such as whether the nonattest service will affect the following:

- i. System controls or system output that will be subject to attest procedures
- ii. A system that generates data that are used as an input to the financial statements
- iii. A system that gathers data that assist management in making decisions that directly impact financial reporting
- iv. A system that is part of the attest client's internal controls over financial reporting.”

During the November 2018 meeting, the Committee asked the Task Force to discuss the placement of the term “significant” in paragraph .02 a. and whether the term “significant” applies to a system that aggregates source data underlying the financial statements or if the first sentence could be drafted more clearly (Row 9). Since this sentence comes from the SEC literature the Task Force limited its recommendation to adding the term “either” to the sentence to clarify that the term significant applies to a system that generates information that is (1) significant to the financial statements or (2) significant to the financial process as a whole. The proposed revision to the first sentence reads as follows:

Financial information system (**FIS**) is a system that aggregates source data underlying the *financial statements* or generates information that is significant to **either** the *financial statements* or financial processes as a whole.

The next two revisions relate to the second sentence of the definition of a financial information system. Comment Letter 4 (Row 5) believes it would be clearer that members are expected to consider factors when determining whether a nonattest services is related to a financial information system if the phrase “may consider” was replaced with “should consider”. The Task Force recommends making this revision and notes that it would be consistent with the Division’s drafting conventions. The Task Force also believes the sentence’s clarity would be enhanced if it is clarified that the factors that the member should consider when determining whether a nonattest service is related to a financial information system are “*all relevant*” factors. The proposed revisions read as follows:

To determine whether a nonattest service is related to an **FIS** financial information system, *members should* ~~may~~ consider **all relevant** factors, such as whether the nonattest service will affect the following:

The next set of revisions relate to *example iii* in the definition of a financial information system. Comment Letters 9 and 11 (Rows 15 and 16) seek clarification regarding what significance is measured against. The majority of the Task Force believes that significance should be tied to the impact that the data gathered by the system could have on financial reporting matters and recommends some clarifying revisions to address this comment. The Task Force believes this

recommendation will also address: Comment Letter 18's (Row 21) concern that the example confuses the CPA's role in providing information (in the most general sense of the term, information, such as assurance is a type of information) with management decisions made from various sources of information; and Comment Letter 27's (Row 23) concern that the example elaborate on what is meant by the phrase "directly affect (or impact) financial reporting". Comment Letter 2 (Row 7) believes that if the term "dashboard" is included it should be defined. Comment Letter 4 (Row 8) suggested that in lieu of adding the term "dashboard" to the interpretation, it would be more helpful if the term that was added is less likely to fall out of use so quickly. The Task Force believes it would be better to include a broader term as an example.

Comment Letter 12 (Row 19) notes that it is possible that a system, once installed, could provide new information to management that management and the member were not previously aware of, or information that was not previously available, but provides significant insight into a company's operations, results, or activities in a nonfinancial way. The Task Force was not unanimous on how these situations should be treated and so seeks the Committee's input as noted in question 2 below.

The Task Force believes these concerns (aside from Comment Letter 12) could be addressed by revising the example iii to read as follows:

A system that gathers data that **is used in assist management's decision in making that could significantly decisions that directly impacting financial reporting matters, such as an analytical or reporting tool.**

During the November 2018 PEEC meeting, the Committee asked the Task Force to consider clarifying that a system that is part of the attest client's internal controls over financial reporting would be a system that is used to ensure what is being produced for the financial statements is accurate (Row 20). This request was considered in conjunction with Comment Letter 24's (Row 35) suggestion that consideration be given to whether the FAQ No. 7 of the Information Technology section of the [Nonattest Services FAQ Document](#) should be incorporated into the interpretation for clarification as to what would be considered unrelated to a financial information system or deleted from the Staff FAQs. FAQ 7 currently reads:

7. What criteria should a member use to determine whether an attest client's information system is unrelated to its financial statements or accounting records?

Information systems that produce information that is reflected in the amounts and disclosures in the *attest client's financial statements*, used in determining such amounts and disclosures, or used in effecting internal control over financial reporting are considered to be related to the *financial statements* and accounting records. However, information systems that are used only in connection with controlling the efficiency and effectiveness of operations are considered to be unrelated to the *financial statements* and accounting records.

The Task Force recommends clarifications be made to example ii and iv of paragraph .02 and one addition be made to the FAQ to address these comments. These revisions are as follows:

ii. A system that generates data that are *is* used as an input to the *financial statements*, **including data or information that is either reflected in or used in determining amounts and disclosures included in the financial statements**

iv. A system that is part of the *attest client's* internal controls over financial reporting, **including information systems used in effecting internal controls over financial reporting. For example, a system that is used to ensure what is being produced for the financial statements is accurate. However, information systems that are used only in connection with controlling the efficiency and effectiveness of operations are considered to be unrelated to the financial statements and accounting records.**

7. What criteria should a member use to determine whether an attest client's information system is unrelated to its financial statements or accounting records?

Information systems that produce information that is reflected in the amounts and disclosures in the *attest client's financial statements*, used in determining such amounts and disclosures, or used in effecting internal control over financial reporting are considered to be related to the *financial statements* and accounting records. However, information systems that are used only in connection with controlling the efficiency and effectiveness of operations **and will have no significant impact on the financial statements, accounting records or internal controls over financial reporting** are considered to be unrelated to the *financial statements* and accounting records.

Question for the Committee

2. When the Task Force was discussing the proposed revisions to example iii, it noted that members could encounter a situation where they are asked to design a system that can be used two ways, one which would significantly impact financial reporting matters and the other which wouldn't. The Committee is asked if the member has to consider both ways even if the attest client tells the member they are not going to use it in the way which would significantly impact financial reporting matters?

Designing an Information System – Item b. of Paragraph .02

Designing an information system is defined in item b. of paragraph .02 as

Designing an information system means determining how a system or transaction will function, process data, and produce results (for example, reports, journal vouchers, and documents such as sales and purchase orders) to provide a blueprint or schematic for the development of software code (programs) and data structures.

Comment Letter 12 (Row 27) suggests the Committee clarify if “designing” is intended to include determining the best COTS solution for a client. For example, would a member be considered to be designing an information system if the member used open source information to build a software system for a client or if the client used the member as a subcontractor and oversaw the member's work related to the design and development of the system.

The Task Force does not believe that “determining” applies to providing clients with advice. The Task Force seeks the Committee's input regarding whether it would be helpful if the Task Force

drafted an FAQ explaining that members can always provide clients with recommendations of COTs systems. The Task Force envisions this new FAQ replace dated extant FAQ 6. FAQ 6 currently reads as follows

6. Would assisting an attest client with procuring and securing Internet access impair independence?

No, provided an individual designated by the attest client to oversee the service has the necessary skill, knowledge, and/or experience and makes all decisions concerning the Internet provider and services to be provided.

Question for the Committee

3. Does the Committee believe it would be helpful for the Task Force to draft an FAQ that members can provide clients with recommendations of COTs systems?

Commercial Off-The Shelf – Item d. of Paragraph .02

A commercial off-the-shelf software package is defined in item d. of paragraph .02 as:

Commercial off-the-shelf (COTS) refers to a software package developed, distributed, maintained and supported by a third-party vendor, sometimes simply referred to as an “off the shelf” package or solution. COTS solutions have generally referred to traditional on-premise software that runs on a customer’s own computers or on a vendor’s “cloud” infrastructure. COTS solutions range from software packages that require only installation on a computer and are ready to run to large scale, complex enterprise applications.

Comment Letter 8 (Row 31) questions whether there could there be situations where a software package or solution designed and developed by a 3rd party (not the member) would not be considered a COTS solution and a Task Force member (Row 32) questions whether the term “vendor” was needed in this definition or whether it could be deleted. The Task Force believes that there could be multiple vendors or there could be no vendor (when the software is open source software and is available for free to users) and so recommends the following changes so that these solutions would be captured (conforming changes where the term vendor is mentioned were made throughout the proposal):

Commercial off-the-shelf (COTS) refers to a software package developed, distributed, maintained and supported by **an entity or entities that are not the member or member’s firm** (a third-party vendor), sometimes simply referred to as an “off the shelf” package or solution. COTS solutions have generally referred to traditional on-premise software that runs on a customer’s own computers or on a **third-party** vendor’s “cloud” infrastructure. COTS solutions range from software packages that require only installation on a computer and are ready to run to large scale, complex enterprise applications.

Designs or Develops a Financial Information System – Paragraph .04

Paragraph .04 of the proposal concludes that

When a member designs or develops an attest client's financial information system, threats to compliance with the “Independence Rule” would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and

independence would be impaired.” It goes on to explain that “Designing and developing a template that performs a discrete calculation such as a tax provision or depreciation calculation does not constitute designing or developing a financial information system and will not impair independence, provided the template does not perform an activity that, if performed directly by the member, would impair independence and the member complies with all the requirements of the "Nonattest Services" subtopic [1.295] of the "Independence Rule.

Comment Letter 7 (Row 36), Comment Letter 8 (Row 46) and Comment Letter 22 (Row 41) believe that if a spreadsheet was added as an example, this clarification would help achieve consistent application. Comment Letter 12 (Row 38) believes that discrete calculations should include (1) reformatting of information, (2) calculating standard financial ratios or financial relationships from client provided data, and (3) delivering to client a report that may be used for their financial decision-making process. The Task Force believes that replacing the term “template” with the term “tool” would address these concerns. The Task Force also seeks the Committee’s feedback on whether an FAQ should be drafted that discusses how a member might use a tool to create a system (e.g., use a tool such as Excel to create a connection that results in designing a system).

Comment Letter 22 (Row 42) believes the two examples of discrete calculations (tax provision or depreciation calculation) are inherently different applications and including these two examples together may potentially mislead practitioners as to what constitutes a “discrete calculation” and the intention behind the template exception. The Task Force recommends the tax provision calculation be removed as an example and instead, a FAQ be developed that demonstrates the vast range of tax provision software (software that would qualify as a discrete calculation to tax software that functions like a financial system). Comment Letter 27 (Row 43) recommends providing additional clarification on the application of the term “discrete”, which generally means “individually separate and distinct”. The Task Force believes that the proposed FAQ would also address these concerns.

Comment Letter 4 (Row 47) recommends language be added to clarify that design and development services should be looked at from an aggregated perspective as well and if significant then prohibited. Although the Task Force believes this is addressed by the [Cumulative Effect on Independence When Providing Multiple Nonattest Services](#) interpretation, the Committee is asked if it believes it would be helpful if the Task Force drafted an FAQ to clarify.

Comment Letter 1 (Row 48) and Comment Letter 49 (Row 49) recommend that members document their conclusion that the FIS is not significant. The Task Force is not supportive of this recommendation.

Comment Letter 27 (Row 44) recommends additional clarification on “the activity” the template would perform that would impair independence if performed directly by the member. The Task Force is recommending edits and some minor restructuring to address these concerns.

The Task Force recommends Paragraph .04 read as follows:

When a *member* designs or develops an *attest client's FIS* ~~financial information system~~, *threats* to compliance with the “Independence Rule” would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards* and

independence would be *impaired*. Designing and developing a ~~template~~ **tool does not constitute designing or developing an FIS** that **if all of the following safeguards are met:**

- a. **the tool** performs a discrete calculation such as ~~a tax provision or a~~ depreciation calculation; **and**
- b. ~~does not constitute designing or developing a financial information system and will not impair independence, provided the template~~ **the tool** does not perform an activity that, if performed directly by the *member*, would *impair independence*; **and**
- c. **and** the *member* complies with all the requirements of the "Nonattest Services" subtopic [1.295] of the "Independence Rule".

Questions for the Committee

4. Does the Committee believe the Task Force should draft a FAQ that discusses how a member might use a tool to create a system such as when you use a tool such as Excel to create a connection that results in designing a system?
5. Does the Committee believe the Task Force should draft a FAQ that demonstrates the vast range of tax provision software (software that would qualify as a discrete calculation to tax software that functions like a financial system)?
6. Does the Committee believe the Task Force should draft a FAQ that clarifies that design and development services should not be considered from an aggregated perspective using the guidance from the *Cumulative Effect on Independence When Providing Multiple Nonattest Services* interpretation?

Implementation of a COTS Financial Information System Software Solution – Paragraphs .05-.06

Paragraphs .05-.06 read as follows:

.05 Implementation services involve activities related to an attest client's information systems after the design and development of the system. Implementation ceases when the system is available on a regular basis to the client for its intended use. For example, implementation services can include activities such as installing, configuring, interfacing, customizing, and data translation. Services that are performed post-implementation, such as the maintenance, support, and monitoring of the system, are not considered to be implementation services.

.06 Threats created by certain COTS implementation services related to the attest client's financial information system may be reduced to an acceptable level by the application of safeguards; however, in other situations threats to compliance with the "Independence Rule" would be significant and could not be reduced to an acceptable level by the application of safeguards.

During the November 2018 PEEC meeting, the Committee recommended the Task Force add to the end of paragraph .06 clarification that implementation services that impair independence and those that do not impair independence will be discussed in the subsequent paragraphs. Although

the Task Force does not believe adding this is necessary, the following sentence was drafted for the Committee's consideration.

These situations are addressed in paragraphs .07 through .18 of this interpretation.

Question for the Committee

7. Does the Committee want to add to sentence to the end of paragraph .06?

Install a COTS Financial Information System Software Solution – Paragraphs .07-.08

Paragraphs .07 and .08 read as follows:

.07 To install a COTS financial information system software solution means the initial loading of software on a computer, normally onto a customer's server. Software configuration, integration, and conversion activities may follow installation.

.08 When a member installs a COTS financial information system software solution, threats to compliance with the "Independence Rule" would be at an acceptable level, provided all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met.

Comment Letter 7 (Row 52) recommends paragraph .07 also address systems installed in cloud environments. Comment Letter 12 (Row 53) suggests the installing of the system be on customer's "designated hosting site" (i.e. install to cloud vs. server) to allow for more industry changes, including changes in terminology or technology that could happen in the future. Comment Letter 19 (Row 55) recommends the paragraph be revised to incorporate modern technology systems, as there are significant concerns that this paragraph does not consider current business practices The Task Force recommends replacing the phrase "computer, normally onto a customer's server" with the phrase "designed hosting site".

Configure a COTS Financial Information System Software Solution – Paragraphs .09-.10

Paragraphs .09 and .10 read as follows:

.09 To configure a COTS financial information system software solution means selecting the software features, functionality options, and settings provided by the vendor that will determine how the software will perform certain transactions and process data. Configuration options may also include selecting the predefined format of certain data attributes and the inclusion or exclusion of such attributes. For purposes of this interpretation, configuring a COTS financial information system software solution does not involve developing new software code or features to modify or alter the functionality of the COTS software solution in ways not pre-defined by the vendor.

.10 When a member configures a COTS financial information system software solution, threats to compliance with the "Independence Rule" would be at an acceptable level, provided all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met.

Comment Letter 3 (Row 56) believes that selecting the predefined format of certain data attributes and the inclusion or exclusion of such attributes." may not be easily understood and so paragraphs .09 and .10 should be expanded and at least one example provided. Comment Letter 22 (Row

57) does not believe it is clear that management must determine the features and options for the system, and the member may only input management's selection by physically selecting those client-determined settings. The Task Force believes the following revisions will address these concerns:

.09 To configure a COTS ~~FIS financial information system~~ software solution means selecting **inputting the client selected the software** features, functionality options, and settings **within the software** provided by the **third-party** vendor, **that which** will determine how the software will perform certain transactions and process data. Configuration options may also include selecting the predefined format of certain data attributes and the inclusion or exclusion of such attributes. For purposes of this interpretation, configuring a COTS ~~FIS financial information system~~ software solution does not involve developing new software code or features to modify or alter the functionality of the COTS software solution in ways not pre-defined by the **third-party** vendor.

.10 When a *member* configures a COTS financial information system software solution **based on the client selected features, functionality options and settings within the software provided by the third-party vendor**, *threats* to compliance with the "Independence Rule" would be at an *acceptable level*, provided all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met.

Interface a COTS Financial Information System Software Solution – Paragraphs .13 - .15 and Data Translation Services Related to a COTS Financial Information System Software – Paragraphs .16 -.18

The comments that the Task Force is ready to discuss on these two topics are only related to the API discussion which is found in paragraphs .15 and .18. These paragraphs were exposed as follows:

.15 If a *member* uses an application program interface (API) that is developed by a third party to interface legacy or third-party COTS financial information system software solutions, *threats* to *independence* would be at an *acceptable level*, provided the *member* will not be designing or developing code for the API to work and all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met.

.18 If a *member* uses an API developed by a third party to perform data translation services for a COTS financial information system software solution *threats* to *independence* would be at an *acceptable level*, provided the *member* will not be designing or developing code for the API to work and all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met.

Comment Letter 7 (Row 63, 69) recommends clarifying in that API means that the API must be unaltered and auditable in how it is used and how it processes data that is moved through that API protocol in the interpretation or non-authoritative guidance.

Comment Letter 12 (Row 64, 70) believes that more than just APIs should be scoped out for purposes of these paragraphs because data is not being created when performing these services, rather, just moving data and so safeguards should be able to be put in place. For example, with advances in machine learning, some interfaces could be "bot to bot" that has machine learning

on each side of the application. This would not be considered an API and safeguards should be able to be put in place to reduce threats to independence to an acceptable level.

Comment Letter 18 (Row 74) believes that an API may not be used correctly in this paragraph .18 because a member could use a third-party tool that performs data translation services that is, it's not usually an API connector but rather a program for data translation purposes.

Comment Letter 22 (Rows 65 and 68) note that the P in API is "programming" not "program". Comment Letter 22 also believes that the subtitle "interface a COTS financial information system software solution" could imply an ongoing relationship and as such suggest removing the subsection on "Interface a COTS Financial Information System Software Solution" in paragraphs .13-.15, and incorporate paragraph .15 behind paragraph .04, as part of "Designs or Develops a Financial Information System" section.

The Task Force believes the following revisions to paragraphs .15 and .18 will address the above concerns and seeks feedback from the Committee on whether the bracketed text is helpful.

.15 If a *member* uses an **interface application program interface (API)** that is developed by a third party to interface legacy or third-party COTS **FIS financial information system** software solutions, **such as an application programming interface (API)**, *threats* to *independence* would be at an *acceptable level*, provided the *member* will not be designing or developing code [**thus altering how the COTS FIS functions, processes data or produce results**] for the **interface application API** to work and all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met.

.18 If a *member* uses an **API interface application** developed by a third party to perform data translation services for a COTS **FIS financial information system** software solution, **such as an API**, *threats* to *independence* would be at an *acceptable level*, provided the *member* will not be designing or developing code [**thus altering how the COTS FIS functions, processes data or produce results**] for the **interface application API** to work and all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met.

Question for the Committee

8. Does the Committee believe the bracketed text is helpful?

System and Network Maintenance, Support, and Monitoring

Comment Letter 8 (Row 87) asks if the reference to "new software" in item paragraph .20d critical to the determination about whether this is an acceptable service. The Task Force recommends the term be deleted.

Action Needed

The Committee is asked to provide the feedback requested as well as to raise any concerns with the recommendations included in this agenda item as well as the recommendations included in **Agenda Item 1C** that do not appear in red or yellow highlight.

Materials Presented

Agenda Item 1B – Hosting FAQs

Agenda Item 1C – IT Comment Letter Summary
Agenda Item 1D – IT (Revised Interpretation)

Hosting services

1. **A member uses a third-party subscription clearinghouse to issue attest reports. Is the subscription clearinghouse considered a member's portal under item e. in paragraph .04 of the "Hosting Services" interpretation (1.295.143)?**

No, the subscription clearinghouse would not be considered a member's portal if all the following criteria are met:

- a. The platform is a document repository designed to facilitate document exchange between users.
 - b. The platform is hosted, run, and controlled entirely by a third-party vendor that is not the member.
 - c. The member, attest client, and other subscription clearinghouse members have their own user agreements with the third-party vendor.
2. **To avoid being subject to the "Hosting Services" interpretation, must a member terminate a client's access to data or records in a portal related to an engagement that is completed prior to July 1, 2019?**

No.

3. **Item e. in paragraph .04 of the interpretation indicates that to avoid providing hosting services, *members* should terminate an *attest client's* access to the data or records in the portal within a reasonable period after the conclusion of the engagement. What is a reasonable period?**

Members should use professional judgment when determining what a reasonable period of time would be for the specific data or records. The period of time should be practical in that it provides the client sufficient time to retrieve the information from within the portal and not cause the member undue hardship. The period of time should also be limited in duration and should not be extensive. A period of time that is consistent with the member's documentation retention policy or a statute of limitations that continues for multiple years would likely be considered extensive and therefore not limited in duration. For some situations, the member may conclude that no undue hardship would occur within a relatively brief period of time, such as 60 days, and therefore this would be a reasonable period of time for the client to retrieve data or records before access is terminated. In other circumstances, a reasonable period of time may be closer to a year in order to avoid undue hardship for the member and the member's client.

4. **A member prepares and transmits an attest client's income tax return and related schedules (return) in accordance with the "Tax Services" interpretation (1.295.160) and sends the filed return to the client using the member's portal. Must the member terminate the attest client's access to that return within a reasonable period after preparing and transmitting the return to avoid providing hosting services?**

Yes. Item e. in paragraph .04 of the interpretation indicates that to avoid providing hosting services, *members* should terminate an *attest client's* access to the data or records in the portal within a reasonable period after the conclusion of the engagement.

- 5. When a member provides recurring bookkeeping services, could having a third party's general ledger software on the member's server (or server leased by the member) result in the member providing hosting services to the bookkeeping client when the bookkeeping client does not also have access to the general ledger software?**

Yes, having a third party's general ledger software on the member's server or server leased by the member could result in the provision of hosting services if the software was deemed to be the bookkeeping client's financial information system, or the member is using the software to store the bookkeeping client's data or records. If the client's books and records are not complete without the client having to contact the member or having access to the member's server, then the member would be considered to be performing a hosting activity. For example, the member would be considered to be performing a hosting activity if the **bookkeeping** client did not have financial records in its possession in sufficient detail in order for a third party to perform **financial statement** attest engagement without having to contact the member or having access to the member's server.

- 6. A member provides an attest client access to sales tax computation software on the member's server. The attest client inputs its original data, the software calculates the sales tax and generates a tax return, which the attest client downloads and files. What actions could the member take to avoid providing hosting services?**

To avoid performing hosting services, the member may wish to consider the following:

- a. In obtaining an understanding with the attest client about the scope of the service (1.295.050.01), specify that it is the attest client's responsibility to maintain its original data and records as well as the information produced by the system (information) and that the member has no responsibility to safeguard or maintain any of these data, records or information.
 - b. The client's access to the data, records, and information in the system, is terminated after a reasonable period.
- 7. A member returned an attest client's original data or records used to perform a nonattest service but retained a copy as documentation in support of the member's service. Would the member be providing hosting services if the member complied with the attest client's subsequent request for a copy of its data or records?**

No. Item *a.* in paragraph .04 of the interpretation clearly allows a member to retain copies of an attest client's original data or records as documentation that supports the member's professional service. An occasional request by the client for copies of original data or records would not, in and of itself, mean that the member was providing hosting services. However, the member should be alert to a situation in which the attest client repeatedly requests copies of data or records, which may signify that the member has begun providing hosting services as a de facto repository for the attest client's data or records. If such situation exists, the member should evaluate whether in fact a de facto repository relationship exists and weigh its future impact on independence.

Comments on Exposure Draft-Overview

As of February 6, 2019

Comments	Comment Letter	Recommendation	Open Item	Conclusion
Introduction (paragraph .01)				
<p>1. Clarify that the interpretation only applies when a member is performing a separate IT engagement and does not apply when procedures described in the interpretation are performed as part of an attest engagement (i.e., when engagements incorporate the installation of oversight software or programs, that would be used by auditors or auditor's API system to provide continuous monitoring and audit processing on a continuous basis.</p>	CL12	<p>To clarify that the software covered by this interpretation is not software that would be used to perform aspects of the audit, the term "nonattest" was added to paragraph .01 "... may exist when a member provides nonattest services related to an attest client's information systems."</p>	<p>Ask PEEC if there any broader issues that the Committee believes should be addressed related to the use of oversight technology on the audit engagement? If so, what are the issues that need to be addressed, and where would the Committee envision this guidance appear (e.g., to the "Activities Related to Attest Services" section of the Scope and Applicability of Nonattest Services interpretation)?</p>	
<p>2. Without a specific scope limitation, concerned the proposal will prohibit innovation in the assurance space and derail audit of the future. They are actively growing our service offerings and working on various ways to improve audit efficiency and effectiveness through innovation and technology and believes the standard would limit this ability.</p>	CL18	<p>Initially the Task Force proposed adding a statement to paragraph .03 that clarifies that when performing these nonattest services, for an attest client that is not a financial statement attest client, the information system shouldn't aggregate source data underlying the subject matter of the attest engagement or generates information that is significant to the subject matter of the attest engagement.</p> <p>However, during the November 2018 PEEC meeting, the</p>	<p>Ms. Miller to present this issue to the PEEC during the 2019 PEEC Strategy and Work Plan discussion that takes place during the February 2019 meeting.</p>	

		Committee did not recommend that this be added to the interpretation, rather, that the issue be presented to the Planning Committee to see if it believes it is a boarder project that should be addressed by PEEC, possibly in section 1.297.		
Terminology – General Comments (.02)				
3. Definitions of the terms, interface, application program interface (API) and data translation, not commonly known to CP As, should be added (i.e., relocated from .13, .15 and .16)	CL2	Task Force believes how the interpretation is drafted (i.e., keeping the definitions within the topic) is more user friendly and so does not recommend they be relocated to the terminology section.		
4. Recommends adding definition of financial process similar to the one found on page 6.	CL7	Page 6 indicates that a financial process “... include broad processes that affect financial reporting, such as information technology general controls.” The Task Force recommends not incorporating the information from page 6 as doing so would include examples and the Task Force is concerned that readers would focus on the examples as opposed to broadly thinking about what a “financial process is.		
5. Practitioner “should consider” the four factors when determining nonattest services vs. “may consider” given the critical distinction between financial and other information systems in the proposal.	CL4	The Task Force recommends replacing “may consider” with “should consider” as this would be more in line with the division’s drafting conventions.	Ask the Committee if it agrees with the Task Force’s recommendation.	

6. Suggest that PEEC incorporate as an additional defined term “implementing an information system.”	CL4	Task Force believes how the interpretation is drafted (i.e., keeping the definitions within the topic) is more user friendly and so does not recommend they be relocated to the terminology section.		
(Sub-Theme) Dashboard				
7. Term dashboard reporting should be defined	CL2	Instead of defining a dashboard, the Task Force recommends describing what is intended by adding the phrase “such as an analytical and reporting tool” to the end of iii. in item a. of paragraph .02.	Ask the Committee if it agrees with the Task Force’s recommendation.	
8. If the term dashboard is included in the standard, it should be replaced by a description that is less likely to fall out of use quickly. Such as “business visual analytic and reporting application tools”.	CL4	<p>A system that gathers data that <i>is used in</i> assist management’s <i>decision</i> in making <i>that could significantly</i> decisions that directly impacting financial reporting <i>matters, such as an analytical or reporting tool.</i></p>		
Terminology – Financial Information System (.02 a.)				
9. During the November 2018 meeting, the Committee asked the Task Force to discuss the placement of the term “significant” in paragraph .02 a. and whether it was clear whether it applies to a system that aggregates source data underling the financial statements or if the first sentence could be drafted more clearly.	PEEC – Nov 2018 Meeting	<p>The Task Force believes the sentence is drafted correctly and since this text was pulled from the SEC literature, is only recommending that the term “either” be added to the sentence to help with the clarification.</p> <p>Financial information system (<i>FIS</i>) is a system that aggregates source data underlying the <u>financial statements</u> or generates</p>	Ask the Committee if this addition addresses their concern.	

		information that is significant to either the <i>financial statements</i> or financial processes as a whole.		
(Sub-Theme) Definition is too broad	CL2, 9, 11, 12	The Task Force recommends adding the abbreviation “FIS” will help clarify that the system in question is a financial one. This was presented to the Committee at its November 2018 meeting. The Committee did not object to this addition.		
10. Financial information system definition is too broad, far reaching and imprecise to it would be interpreted to preclude members form assisting clients with the preparation of financial statements. Revise so that it is narrowed considerably to make clear that the practice of importing a client’s unadjusted GL data into a member’s practice aid software is not intended to be covered.	CL2	The Task Force believes that adding the term “nonattest” to paragraph .01 will help make it clear that the intent of the interpretation is not to pull in technology to assist with the attest engagement. This was presented to the Committee at its November 2018 meeting. The Committee did not object to this addition.		
11. Definition of what constitutes a financial information system is flawed and not in tune with the overall concerns of the AICPA in maintaining member relevance in the area of technology	CL9			
12. Criteria of “aggregating source data” to define a financial information system is too broad and should be removed		The Task Force recommends this phrase remain as it was taken from the SEC rules.		
13. Criteria for defining a financial information system of generating information that is significant to the financial statements or financial processes as a whole should be eliminated. Consider limiting it to a		The Task Force does not believe the “primary financial information system” is broad enough.		

<p>“primary” financial information system so that members may assist clients with information system services and ancillary products that do not effectuate journal entries in the primary financial information systems provided that there is documentation of mitigating factors</p>				
<p>14. PEEC reconsider the concept of using significance or materiality when determining a financial information system because it places an undue burden on the member due to variability of the impact to the f/s that the system can have in future periods (i.e., may not be significant in the year of design but rise to significance later or the volume of transaction processed through system could grow over time)</p>		<p>The Task Force does not agree and believes the language and terminology used is consistent with other standards that are out there already.</p>		
<p>15. Clarify whether the significance test applies to the “discrete” exception as the 2 examples given could have a significant impact on the financial statements.</p>		<p>The Task Force recommends the following edits to item iii. A system that gathers data that <i>is used in</i> assist management’s <i>decision</i> in making <i>that could significantly</i> decisions that directly impact <i>ing</i> financial reporting <i>matters, such as an analytical or reporting tool.</i></p>	<p>If a member will design a system that can be used two ways, one which would significantly impact financial reporting matters and the other which wouldn’t. Ask the Committee if the member has to consider both ways even if the attest client tells the member they are not going to use it in the way which would significantly impact financial reporting matters?</p>	
<p>16. Definition is overly broad “systems that gathers information” should be removed</p>	<p>CL11</p>	<p>The Task Force believes that significance should be tied to the impact the data gathered by the system could have on financial reporting matters. One Task Force member did not believe it was appropriate to use of the term</p>		

		“could” significantly impact financial reporting matters because then systems that have multiple uses might result in independence being impaired even when the system is not being used in that manner.		
17. Definition is so broad could include Big Data non-financial data as well	CL12	Task Force does not believe the definition is too broad.		
18. Providing information to management does not automatically mean this will be used to make financial decisions that would have a material impact.		All but one Task Force member does not believe revisions are necessary.		
19. Possible that a system once installed could provide new information to management that they were not previously aware of, or information that was not previously available, but provides significant insight into a company’s operations, results, or activities in a nonfinancial way.		The Task Force believes this concern is addressed by the recommended revisions found in rows 15 and 16 of this document.	Same request as rows 15 and 16 of this document	
20. During the November 2018 PEEC meeting, the Committee asked the Task Force to consider clarifying that a system that is part of the attest client’s internal controls over financial reporting would be a system that is used to ensure what is being produced for the financial statements is accurate.	PEEC – Nov 2018 Meeting	The Task Force added the following clarifications to address the Committee’s concerns. It should be noted that that what is being contemplated in this item is a <i>system</i> not a <i>tool</i> . A system that is part of the <u>attest client’s</u> internal controls over financial reporting, including information systems used in effecting internal controls over financial reporting. For example, a system that is used to ensure what is being	Ask the Committee if it agrees with the Task Force’s clarifications.	

		<i>produced for the financial statements is accurate. However, information systems that are used only in connection with controlling the efficiency and effectiveness of operations are considered to be unrelated to the financial statements and accounting records.</i>		
(Sub-Theme) General Comments on FIS				
21. Appears to confuse the CPA's role in providing information (in the most general sense of the term, information, such as assurance is a type of information) with management decisions made from various sources of information.	CL18	The Task Force believes this concern is addressed by the recommended revisions found in rows 15 and 16 of this document.	Same request as rows 15 and 16 of this document	
22. Consider including some examples of systems that would not be considered "financial information systems." This would be valuable, as, many systems within an attest client may be integrated.	CL24	The Task Force does not recommend adding examples of information systems that would not be financial because (1) the conclusion would be very dependent upon how the system is designed and (2) could provide a false sense of security that these systems could never impair independence.		
23. Elaborate on the term "directly affect (or impact) financial reporting".	CL27	The Task Force believes this concern is addressed by the recommended revisions found in rows 15 and 16 of this document.	Same request as rows 15 and 16 of this document	
24. Provide specific examples of financial information systems that do not aggregate source data and if none can be developed,	CL27	The Task Force does not recommend adding examples of information systems that do not aggregate source data that		

<p>then eliminate this component from the definition.</p>		<p>underlies the financial statements because (1) the conclusion would be very dependent upon how the system is designed and (2) could provide a false sense of security that these systems (e.g., stand along document management system that catalogs information that is not integrated with anything) could never impair independence even if they were designed in such a way so that they would aggregate source data that underlies the financial statements.</p>		
<p>25. Term Significant Should Be Defined. Suggest the guidance included on page 6 that indicates information is significant if it is probable that it will be material to the financial statements.</p>	<p>CL25 (from Question 2)</p>	<p>The Task Force does not believe it is necessary to define significant.</p>		
<p>Terminology – Designing an Information System (.02 b.)</p>				
<p>26. Is the definition of “designing” intended to apply to all information systems as drafted or should the focus be on financial information systems?</p>	<p>CL12</p>	<p>The Task Force believes it should apply to all systems.</p>		
<p>27. Clarify if “designing” is intended to include determining the best COTS solution for a client that the client will set up. For example, does it extend to complying of open source information to build a software system for a client or if the client used the member as a subcontractor and oversaw the member’s work related to the design and development of the system.</p>	<p>CL12</p>	<p>The Task Force noted that members can always provide clients with advice and the term “determining” is not intended to mean giving the client recommendations.</p> <p>The Task Force’s preliminary thinking is that open source code is not COTs since developed usually</p>	<p>Ask the Committee if it agrees with the Task Force’s recommendation to draft a FAQ that will replace the extant FAQ 6 that would explain that members can provide clients with recommendations when the client is trying to determine a COTs system that it could use. Extant FAQ 6 is dated and reads as follows</p> <p>6. Would assisting an attest client with procuring and</p>	

		through a community effort and is too theoretical so would be best to address on a case by case basis using the overall guidelines provided in the interpretation.	securing Internet access impair independence? No, provided an individual designated by the <i>attest client</i> to oversee the service has the necessary skill, knowledge, and/or experience and makes all decisions concerning the Internet provider and services to be provided.	
Terminology – Developing an Information System (.02 c.)				
28. Is the definition of “developing” intended to apply to all information systems as drafted or should the focus be on financial information systems?	CL19 (from question 1)	The Task Force believes it should apply to all systems.		
Terminology – COTS (.02 d.)				
29. Clarify the term COTS in the interpretation or in a FAQ as many in public practice refer to systems as “packaged” or “off the shelf”.	CL14	Task Force does not believe this is necessary.		
30. The term COTS is overused, frequently misused and becoming less relevant, thus the concept should be retired, and more precise terms should be used	CL25	The Task Force does not agree.		
31. Could there be a situation where a software package or solution designed and developed by a 3rd party (not the member) would not be considered a COTS solution?	CL8 (from question 1)	The Task Force believes that there could be multiple vendors or there could be no vendor because it is free (open source). To clarify this, the Task Force made the following revisions to the definition of COTS	Ask the Committee if it agrees with the Task Force’s recommendations.	
32. Is the term “vendor” needed in the definition of COTS or could it be deleted? If deleted from the definition, would the term need to be replaced throughout the interpretation?	Danielle Cheek	<i>Commercial off-the-shelf</i> (COTS) refers to a software package developed, distributed, maintained and supported by an entity or		

		<p>entities that are not the member or member's firm (a third-party vendor), sometimes simply referred to as an "off the shelf" package or solution. COTS solutions have generally referred to traditional on-premise software that runs on a customer's own computers or on a third-party vendor's "cloud" infrastructure. COTS solutions range from software packages that require only installation on a computer and are ready to run to large scale, complex enterprise applications.</p>		
<p>Design, Development, or Implementation Services Not Related to a Financial Information System (.03)</p>				
<p>(Sub-Theme): Clarify that non-financial systems are permissible as opposed to saying that threats are at an acceptable level.</p>				
<p>33. Rather than characterizing such circumstances as threats that are acceptable, final version of the proposed interpretation should state clearly that they should not be deemed threats at all so that members do not need to perform the documentation required by the conceptual framework.</p>	CL2	<p>The Task Force disagrees because documentation is only required if safeguards need to be applied.</p>		
<p>34. Clarify paragraph .03 to permit a member to configure and customize a COTS non-financial information system as threats to independence would appear to be at an acceptable level, provided all of the requirements of a non-attest service are met.</p>	CL7	<p>The Task Force believes this concern is addressed by the recommended revision found in row 2 of this document.</p>	<p>Same request as row 2 of this document</p>	

<p>35. Should consider whether AICPA Staff FAQ no. 7 should be incorporated into the interpretation for clarification as to what would be considered unrelated to a financial information system or deleted from the Staff FAQs.</p>	<p>CL24</p>	<p>The Task Force recommends keeping extant FAQ 7 since it doesn't conflict with the guidance in the interpretation. The Task Force recommends adding clarification to the FAQ that such systems will have no significant impact on the financial statements, accounting records or internal controls over financial reporting. The revised FAQ would read as follows:</p> <p>7. What criteria should a <i>member</i> use to determine whether an <i>attest client's</i> information system is unrelated to its <i>financial statements</i> or accounting records?</p> <p>Information systems that produce information that is reflected in the amounts and disclosures in the <i>attest client's financial statements</i>, used in determining such amounts and disclosures, or used in effecting internal control over financial reporting are considered to be related to the <i>financial statements</i> and accounting records. However, information systems that are used only in connection with controlling the efficiency and</p>	<p>Ask the Committee if it agrees with the Task Force's clarifications to examples ii and iv. of paragraph .02 and extant FAQ 7.</p>	
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		<p>effectiveness of operations and will have no significant impact on the financial statements, accounting records or internal controls over financial reporting are considered to be unrelated to the <i>financial statements</i> and accounting records.</p> <p>The Task Force also recommends item ii. in paragraph .02 be clarified as follows.</p> <p>ii. A system that generates data that are is used as an input to the <i>financial statements, including data or information that is either reflected in or used in determining amounts and disclosures included in the financial statements</i></p> <p>The Task Force notes that the revisions made in Row 20 to example iv. of paragraph .02 should be read in conjunction with this revision.</p> <p>iv. A system that is part of the <u>attest client's</u> internal controls over financial reporting, including information systems used</p>		
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		<i>in effecting internal controls over financial reporting. For example, a system that is used to ensure what is being produced for the financial statements is accurate. However, information systems that are used only in connection with controlling the efficiency and effectiveness of operations are considered to be unrelated to the financial statements and accounting records.</i>		
Designs or Develops a Financial Information System (. 04)				
36. Term “template” used in paragraph .04 should be clarified...should refer to an Excel spreadsheet	CL7	Task Force recommends replacing “template” with the term “tool”.	Seek the Committee’s feedback on the change.	
37. Members should be able to design (create the blueprint) for a financial information system without impairing independence as long as management reviews and approves the design and performs all management responsibilities with respect to development and installation	CL11	The Task Force does not recommend making this change and believe designing is even a bigger concern that creating the code.		
38. Discrete calculation- should include reformatting of information, or calculating standard financial ratios or financial relationships from client provided data, and delivering to client a report that may be used for their financial decision-making process	CL12	The Task Force believes this concern is addressed by the recommended revision found in row 36 of this document.	Same request as row 36 of this document	
39. Inconsistency between paragraphs .04 and .16- allowing performance of discrete	CL12	The Task Force doesn’t believe that permitting (i.e., independence not		

<p>calculation vs. not allowing designing and development to convert system data that is compatible (i.e. excel).</p>		<p>impaired) a member to design and develop a tool that performs a discrete calculation (paragraph .04) conflicts with the conclusion that performing data translation services that involves designing and developing the rules or logic necessary to convert legacy system data to a format that is compatible with that of the new system would impair independence (paragraph .16). The Task Force believes the member can implement safeguards when designing or developing a tool that performs a discrete calculation.</p>		
<p>40. Disagree that a member designs or develops an attest client's financial information would impair independence, because only some types design work would impair independence (that is, not all types of design work would impair independence).</p>	<p>CL19</p>	<p>The Task Force does not recommend making this change and believes designing is even a bigger concern that creating the code.</p>		
<p>41. Suggest adding language that indicates that a spreadsheet is an example of a template to assist members in consistent application and offered up suggested edits.</p>	<p>CL22</p>	<p>The Task Force believes this concern is addressed by the recommended revision found in row 36 of this document.</p>	<p>Same request as row 36 of this document</p>	
<p>42. The two examples provided as exceptions in inherently different applications and including these two examples together may potentially mislead practitioners as to what constitutes a "discrete calculation" and the intention behind the template exception.</p>	<p>CL22</p>	<p>One Task Force member noted that some of the tax provision tools she has seen lately would cause her to conclude that the specific program would not fit the spirit of a discrete calculation because of its sophistication and if we include the example, members might always think that a tax provision software</p>	<p>Seek the Committee's feedback on the removal of the example and development of a FAQ using tax provision software as an example that demonstrates the range of possibilities to help determine if a tool is performing a discrete calculation.</p>	

		will always meet the exception. The Task Force agreed to remove tax provision tools as an example and instead develop a FAQ using tax provision software as an example that demonstrates the range of possibilities to help determine if a tool is performing a discrete calculation.		
43. Suggest providing additional clarification on the application of the term “discrete”, which generally means “individually separate and distinct”.	CL27	The Task Force does not believe we need to define and hopes that developing a FAQ using tax provision software as an example that demonstrates the range of possibility will help to clarify this.		
44. Suggest additional clarification on “the activity” the template would perform that would impair independence if performed directly by the member.	CL27	<p>The Task Force broke paragraph .04 into multiple thoughts to help clarify. The proposed revisions:</p> <p>When a <i>member</i> designs or develops an <i>attest client's FIS</i> financial information system, <i>threats</i> to compliance with the “Independence Rule” would not be at an <i>acceptable level</i> and could not be reduced to an <i>acceptable level</i> by the application of <i>safeguards</i> and <i>independence</i> would be <i>impaired</i>. Designing and developing a template <i>tool does not constitute designing or developing a FIS</i> that if all of the following <i>safeguards are met</i>:</p>	Seek the Committee’s feedback on the changes.	

		<p>a. the tool performs a discrete calculation such as a tax provision or a depreciation calculation; and</p> <p>b. does not constitute designing or developing a financial information system and will not impair independence, provided the template the tool does not perform an activity that, if performed directly by the <i>member</i>, would <i>impair independence</i>; and</p> <p>c. and the <i>member</i> complies with all the requirements of the "Nonattest Services" subtopic [1.295] of the "Independence Rule".</p>		
<p>45. Suggest that members may be able to implement safeguards to address the threats created when designing. The self-review threat could be mitigated by not relying on the software and performing their own review or testing to see if the information generated by the system is accurate. The management participation threat can be mitigated by ensuring that the individual who oversees the work performed by the member is competent and able to understand and accept</p>	<p>CL27</p>	<p>The Task Force does not recommend making this change and all Task Force members believe designing is even a bigger concern than creating the code.</p>		

responsibility for the it. Also, sometimes the product developed will include certain definitive actions that are required to be taken by management such as signoffs and approvals of transactions, calculations, reports or journal entities.				
(Sub-Theme): Question 1 Is the terminology used in the proposal consistent with industry practice and will it be readily understood by members who do and do not practice in this arena?				
46. Add a “spreadsheet” as an example of a template	CL8 (from question 1)	Task Force recommends replacing “template” with the term “tool” will help with this concern. Since it may or may not involve design, don’t include it as an example since threats and safeguards.	Seek the Committee’s feedback on the development of a FAQ that discusses how a member might use a tool to create a system such as when you use a tool such as Excel or a RPA to create a connection that results in designing a system.	
(Sub-Theme): Question 2b Is it appropriate to allow members to design and develop a financial information system that is not significant?				
47. Add language that would clarify that design and development services should be looked at from an aggregated perspective as well and if significant then prohibited.	CL4 (from question 2b)	Addressed by the cumulative effect interpretation.	Seek the Committee’s feedback on the development of a FAQ that explains that members may design or develop systems that do not generate information or aggregates source data that is significant to the <i>financial statements</i> or financial processes as a whole, and when determining significance, the services should be viewed from an aggregated perspective.	
48. Recommends documentation of conclusion that FIS is not significant.	CL1 (from question 2b)	Task Force does not believe including a recommendation that members document this conclusion is necessary.	Seek the Committee feedback. If the Committee doesn’t raise any objections communicate this to Peer Review.	
49. Recommends documentation of conclusion that FIS is not significant as well as provide examples in nonauthoritative guidance.	CL14 (from question 2b)			
50. Scope is consistent with the SEC and IESBA	CL 24 (from question 2b)	The Task Force noted that it was intentional for the proposal to be		

		less restrictive than the SEC's rules and the IESBA rules for public interest entities.		
Implementation of a COTS Financial Information System Software Solution (.05-.06)				
51. During the November 2018 PEEC meeting, the Committee recommended the Task Force add to the end of paragraph .06 clarification that implementation services that impair independence and those that do not impair independence will be discussed in the subsequent paragraphs.	PEEC – Nov 2018	The Task Force does not believe adding this is necessary but provided the following sentence for the Committee's consideration in the event it disagrees with the Task Force. This sentence would be added to the end of paragraph .06. <i>These situations are addressed in paragraphs .07 through .18 of this interpretation.</i>	Ask the Committee if it wants this addition to be made.	
Install a COTS Financial Information System Software Solution (.07-.08)				
(Sub-Theme) Need to incorporate current technology				
52. Paragraph .07 should also address systems installed in cloud environments.	CL7	Task Force recommends replacing the phrase "computer, normally onto a customer's server" with the phrase "designed hosting site".	Seek the Committee's feedback on the changes.	
53. Suggests expanding this definition to indicate customer's "designated hosting site" (i.e. install to cloud vs. server) to allow for more industry changes, including changes in terminology or technology that could happen in the future.	CL12			
54. Develop Q&A that address current technology vs. a standard that would apply to all networks.	CL12	The Task Force recommends that the interpretation be left board as currently drafted and then as questions arise related to how specific technologies might be impacted, develop non-authoritative white papers or thought documents that will provide insight on how specific technologies might be impacted by this interpretation. For example, what services members		

		may be asked to provide under the umbrella of Robotic Process Automation and what the independence challenges maybe associated with providing these services? The means of doing things has often changed and so you can often analogize it (e.g., aspects of blockchain can likely be analogized but could be aspects that can't).		
55. This paragraph should be revised to incorporate modern technology systems, as there are significant concerns that this paragraph does not consider current business practices.	CL19	The Task Force believes this concern is addressed by the recommended revisions found in rows 52 and 53 of this document.	Same request as rows 52 and 53.	
Configure a COTS Financial Information System Software Solution (.09-.10)				
(Sub-Theme) Not easily understood or clear that management makes the selection (2 comments)				
56. "...selecting the predefined format of certain data attributes and the inclusion or exclusion of such attributes." may not be easily understood, paragraphs .09 and .10 should be expanded and at least one example provided.	CL3	The Task Force made the following revisions to the first sentence of paragraph .09: To configure a COTS FIS financial information system software solution means selecting inputting the client selected the software features, functionality options, and settings within the software provided by the third-party vendor, that which will determine how the software will perform certain transactions and process data. Configuration options may also include selecting the predefined	Seek the Committee's feedback on the Task Force's proposed changes.	
57. Do not believe it is clear that management must determine the features and options for the system, and the member may only input management's selection by physically selecting those client-determined settings (rewording provided).	CL22			

		<p>format of certain data attributes and the inclusion or exclusion of such attributes. For purposes of this interpretation, configuring a COTS <u>FIS</u> financial information system software solution does not involve developing new software code or features to modify or alter the functionality of the COTS software solution in ways not pre-defined by the <i>third-party</i> vendor.</p> <p>The Task Force made the following revisions to paragraph .10</p> <p>When a <u>member</u> configures a COTS financial information system software solution <i>based on the client selected features, functionality options and settings within the software provided by the third-party vendor, <u>threats</u></i> to compliance with the "Independence Rule" would be at an <u>acceptable level</u>, provided all the requirements of the <u>"Nonattest Services"</u> subtopic of the</p>		
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		"Independence Rule" are met.		
Customize a COTS Financial Information System Software Solution (.11-.12)				
(Sub-Theme) Should add guidance related to non-financial reporting				
58. Should provide for a significance evaluation by the member of the nature and extent of a COTS customization service, should not preclude such judgment outright (para.12).	CL2		Open item. Task Force to discuss if prohibited customization should be limited to other than insignificant modification or enhancements (that is, allow for insignificant modification to a significant FIS). The Task Force initially took it out because it wasn't very helpful guidance since we couldn't define insignificant. As such, the Task Force was planning and delete related existing FAQ.	
59. Unclear whether paragraphs .11 and .12 should apply to customization that is unrelated to financial reporting; definition of "customize" in paragraph .11 should include similar language as paragraph .09's definition of "configuration".	CL7	Initially the Task Force believed the proposed revision discussed in item 2 would address this concern. However, during the November 2018 PEEC meeting, the Committee did not recommend that this be added to the interpretation, rather, that the issue be presented to the Planning Committee to see if it believes it is a boarder project that should be addressed by PEEC, possibly in section 1.297.	Open item. Task Force to discuss again since the PEEC did not accept the Task Force's initial recommendation.	
60. Revise the guidance to address the impact of non-financial modifications/customizations to COTS Financial Information Systems.	CL9		Open item. Task Force to discuss. Staff to solicit feedback on what types of customization firms are asked to provide to a FIS that don't affect financial information.	
61. Consider updating paragraph .12 to be consistent with the extant interpretation which allows for members to make	CL14		Open item. Same as item 58.	

insignificant modifications to source code underlying an attest client's existing financial information system.				
62. Guidance in first sentence of paragraph is too broad-appears to allow configuration of revenue recognition rules.	CL19	Task force doesn't believe edits are necessary as the paragraphs say what we believe they should say.		
Interface a COTS Financial Information System Software Solution (.13-.15)				
(Sub-Theme) Should include more than API, as this may not be the right term as it is too narrow (6 comments for paragraphs .13-.18 on API)				
63. Suggest clarifying in that API (paragraph .15 and .18) means that the API must be unaltered and auditable in how it is used and how it processes data that is moved through that API protocol through the interpretation or in non-authoritative guidance.	CL7	Task Force believes the following revisions to paragraph .15 will address this concern and seeks feedback on whether the bracketed text is needed: If a <u>member</u> uses an interface application program interface (API) that is developed by a third party to interface legacy or third-party COTS FIS financial information system software solutions, such as an application programming interface (API) , <u>threats to independence</u> would be at an <u>acceptable level</u> , provided the <i>member</i> will not be designing or developing code [thus altering how the COTS FIS functions, processes data or produce results] for the interface application API to work and all the requirements of the	Seek the Committee's feedback on the Task Force's proposed changes and whether the Committee believes the bracketed text is needed.	
64. More than just APIs should be scoped out for purposes of paragraphs .13 through .15. Data is not being created when performing these services, rather, just moving data and so safeguards should be able to be put in place. For example, with advances in machine learning, some interfaces could be bot to bot that has machine learning on each side of the application. This would not be considered an API and safeguards should be able to be put in place to reduce threats to independence to an acceptable level.	CL12			
65. Concerned that specifically referencing application programming interfaces (APIs) may be inappropriately narrow and should be revised in the Proposal.	CL17			
66. Proposed interpretation defines "API" as "application program interface," but we understand the "P" is generally	CL22			

understood by practitioners to mean “programming” rather than “program.		<u>“Nonattest Services”</u> subtopic of the <u>“Independence Rule”</u> are met	
67. Believe that the subtitle “interface a COTS financial information system software solution” could imply an ongoing relationship suggest removing the subsection on “Interface a COTS Financial Information System Software Solution” in paragraphs .13-.15, and incorporate paragraph .15 behind paragraph .04, as part of “Designs or Develops a Financial Information System” section.	CL22		
68. Notes that the P in API is “programming” not “program”	CL22		
Data Translation Services Related to a COTS Financial Information System Software Solution (.16-.18)			
(Sub-Theme) Should include more than API, as this may be the right term as it is too narrow- (6 comments for paragraphs .13-.18 on API)			
69. Suggest clarifying in that API (paragraph .15 and .18) means that the API must be unaltered and auditable in how it is used and how it processes data that is moved through that API protocol via the interpretation or in non-authoritative guidance.	CL7	Task Force believes the following revisions to paragraph .18 will address this concern and seeks feedback on whether the bracketed text is needed: If a <u>member</u> uses an API interface application developed by a third party to perform data translation services for a COTS FIS financial information system software solution, such as an API, <u>threats</u> to <u>independence</u> would be at an <u>acceptable level</u>, provided the <i>member</i> will not be designing or developing code [thus	Seek the Committee’s feedback on the Task Force’s proposed changes and whether the Committee believes the bracketed text is needed.
70. API may not be the right term to use, as a program for data translation purposes is usually used for these services (could use a third party).	CL12		

		<p>altering how the COTS FIS functions, processes data or produce results] for the interface application API to work and all the requirements of the <u>"Nonattest Services"</u> subtopic of the <u>"Independence Rule"</u> are met.</p>		
<p>71. In certain cases, data transformation would be a normal threat that could be overcome with certain safeguards and should not result in an automatic threat to independence, and not considered an API (export to CSV) this situation should be clarified for purposes of this ED.</p>	CL12	<p>During the Task Force discussion, it was noted that when using an API the self-review threat does not exist because the member isn't performing any designing or developing activities. This is different than when a member is using a tool, like Excel, to such an extent that the tool becomes a system.</p>		
<p>72. Consider also referring to "data translation" services as "data conversion" services.</p>	CL14	<p>Task Force does not recommend this change be made.</p>		
<p>73. Concerned that specifically referencing application programming interfaces (APIs) may be inappropriately narrow and should be revised in the Proposal. Suggests revision such as "members may use any generally available technique or technology, including application programming interfaces (APIs), to interact or provide data translation services for a COTs provided the member's work does not alter how the COTS financial information system functions, processes data or produce results.</p>	CL17	<p>The majority of the Task Force does not believe it is necessary to provide further clarification to what is meant by design and development.</p>	<p>(Possible) Open Item. Task Force may discuss further if there is a level of manipulation that could be done to the data that would not be considered data translation.</p>	

74. API may not be used correctly in this paragraph. A member could use a third-party tool that performs data translation services (that is, it's not usually an API connector but rather a program for data translation purposes).	CL18	The Task Force believes this concern is addressed by the recommended revisions found in rows 69 and 70 of this document.	Same request as rows 69 and 70.	
System and Network Maintenance, Support, and Monitoring (.19-.20)-				
(Sub-Theme) Add examples of permissible services				
75. Clarify the examples of permissible services described in paragraph .20b and .20c that appear to be part of the precluded services in paragraphs .19f and .19c, respectively.	CL4	Task force doesn't believe clarification is necessary because the examples of services that impair independence make it clear that the member would be taking on much more responsibility		
76. Suggest that PEEC consider whether further guidance could better distinguish the examples in pars. .19 and .20 especially with respect to what a discrete, nonrecurring project is.	CL4			
77. Provide additional clarification and example scenarios in which permissible services are being provided over multiple periods as separate and distinct projects that would not be considered outsourcing an ongoing management responsibility.	CL14			
(Sub-Theme) Language as written is narrow and does not represent value added services				
78. Language as written is overly narrow and fails to recognize that the listed services delivered represent value added services	CL6, CL13, CL15, CL21, CL23	Just because a service adds value, doesn't mean independence isn't impaired. The Task Force does not believe an edit is necessary.		
(Sub-Theme) Key distinction in the examples should be management making key decisions				
79. The key distinction in the examples listed in section 19 should be management's decision-making status and involvement in the delivery process (CL6, CL13 and CL23 offer up proposed revised language).	CL6, CL13, CL15, CL21, CL23	The Task Force does not recommend any changes because no safeguards are available when a member performs monitoring activities for an attest client.		
(Sub-Theme) Should not depend on recurring or non-recurring services to assess independence				

<p>80. Recurring or ongoing services would not much more likely to impair independence (as long as management takes responsibility(CL13) -(should not depend on recurring or non-recurring CL25) (CL6 and CL13 offer up proposed revised language).</p>	<p>CL6, CL13, CL15, CL25</p>	<p>The Task Force disagrees.</p>		
<p>81. More guidance is necessary to assist members in differentiating between ongoing and discrete activities (.19e vs. 20c) For example, if the member applies updates and patches only at the direction of the client and under their supervision, would that be considered a discrete activity since the member is executing each update as a separate occurrence and is not taking responsibly for performing ongoing maintenance?</p>	<p>CL7</p>	<p>The Task Force believes this is a broader question and is not recommending any changes.</p>		
<p>82. Clarification with respect to “Monitoring” activities, appears to be a potential inconsistency between the extant Code and the Proposed Interpretation with respect to “monitoring activities.”</p>	<p>CL8</p>	<p>The Task Force does not believe revisions are needed to address this comment since the proposal is intentionally different than the extant.</p>		
<p>83. Forcing members to establish each instance of providing these services as “discrete” engagements places an unnecessary burden on the practitioner.</p>	<p>CL11</p>	<p>The Task Force does not believe the substance of the guidance hinges on establishing separate instances rather on whether the attest client has outsourced a management responsibly.</p>		
<p>84. Confused as to why discrete functions could be overcome but ongoing functions, processes, and activities could not, should include specific examples rather than implying that performance of such services would be an automatic threat to</p>	<p>CL12</p>	<p>The Task Force believes the substance of the guidance hinges on whether the attest client has outsourced a management responsibly.</p>		

independence that cannot be overcome. Believe there could be instances where ongoing maintenance, support and monitoring				
85. The restrictions outlined would NOT allow members to perform cybersecurity monitoring for attest clients, which is a service we have discussed providing.	CL14	The Task Force agrees that ongoing cybersecurity monitoring would impair independence. For more information regarding cybersecurity see the NAS FAQ Document in particular question 3 under Cyber Security Services.		
(Sub-Theme) General Paragraphs .19-.20				
86. A blanket independence impairment does not seem appropriate	CL6, CL15	The Task Force disagrees.		
87. Is the reference to “new software” (paragraph .20d) critical to the determination about whether this is an acceptable service?	CL8	The Task Force removed the term “new” because due to staffing changes, training maybe necessary.	Seek the Committee’s feedback on the Task Force’s proposed edit.	
88. Confirm that situations whereby a member licenses permissible software, as provided for under the Hosting Interpretation and under the proposed interpretation (when not related to a financial system) and such software requires certain bug fixes or other routine patches	CL8	The Task Force believes it is clear that it would be permissible and so is not recommending any edits.		
89. In paragraph .19, is there a concern if the firm is performing services at the client’s direction, but the firm bills the client according to a set monthly subscription service?	CL12	The Task Force doesn’t believe the way a member bills a client should be the determining factor regarding whether a service is ongoing or discrete so is not recommending any revisions.		
90. Consider defining “maintenance”, “support” and “monitoring”.	CL14	The Task Force does not believe this is necessary.		

Comments on Question 1				
(Question) Is the terminology used in the proposal consistent with industry practice and will it be readily understood by members who do and do not practice in this arena?				
91. Agrees with consistency and readily understood	CL16, CL24	Noted by Task Force.		
92. Agrees with consistency and readily understood/ recommends clarification.	CL 2	Noted by Task Force.		
93. Agrees with consistency/recommends clarification CL8 could there be a situation where a software package or solution designed and developed by a 3 rd party (not the member) would not be considered a COTS solution? CL19 recommends .02c be clarified as a <i>financial</i> information system. CL22 notes that the P in API is “programming” not “program” and to add a “spreadsheet” as an example of a template.	CL7, CL8, CL14, CL18, CL19, CL22	The specific comments made by CL8, CL19 and CL22 are addressed in rows 31, 65 and 68 respectively.	Same request as rows 31, 65 and 68.	
94. Agrees terminology will be readily understood	CL1, C16, CL21, CL26	Noted by Task Force.		
95. Agrees terminology will be readily understood/should avoid technology related terms (e.g., dashboard) that given the rapid evolution of technology, may fall out of use in a short period of time.	CL4	Believe these concerns are addressed in rows 7 and 8 by the proposed revisions to item iii. of paragraph .02.	Same request as rows 7 and 8.	
96. Agrees with consistency/not readily understood	CL10	Noted by Task Force.		
97. Disagrees/ Not Consistent <ul style="list-style-type: none"> o CL3 believes inconsistent with GAS o CL13 believes it is too broad and implies any information system could have a material impact on 	CL3, CL9, CL12, CL18, CL25		Open item. Task Force to discuss.	

<p>financial decisions made by management and provides a number of examples. Suggest clarification or at least limited to direct financial information systems.</p> <ul style="list-style-type: none"> ○ CL18 need to use more current technology and consider future technology (newer technology than API, there is bot-to-bot, virtual environments, various configurations on cloud systems and decentralized networks (blockchain)) 				
98. Disagrees/Not readily understandable	CL11, CL20	Noted by Task Force.		
99. No comment	CL5, CL6, CL13, CL15, CL17, CL23, CL27	Noted by Task Force.		
Comments on Question 2a				
(Question) Do you believe it is appropriate to allow members to use professional judgment to determine what is “significant”?				
100. Agrees with proposed interpretation (no specific guidance)	CL1, CL2, CL3, CL7, CL16, CL19, CL20, CL21, CL26, CL27	Noted by Task Force.		
101. Term Significant Should Be Defined. CL25 suggest the guidance included on page 6 that indicates information is significant if it is probable that it will be material to the financial statements.	CL10, CL25	This concern was addressed in row 25 of this document.	Same request as row 25.	
102. Agrees Professional Judgment Appropriate. Suggest linking term to	CL4, CL8, C11, CL14			

<p>materiality/ including materiality in proposed interpretation, including guidance from the ED Explanation/ consider providing specific general application guidance or provide such details in an illustrative example. CL14 provides some suggestions regarding general application guidance and that might be helpful. Also, recommend the interpretation include a documentation requirement related to the member's evaluation regarding significant.</p>				
<p>103. Appropriate to provide some guidance such as the guidance included on page 6 that indicates information is significant if it is probable that it will be material to the financial statements. The added guidance should also note consideration of the nature of the information and the likelihood that it could be material or become material. Also, helpful to include examples of systems that may generate significant financial information in FAQs so that any updates necessary as a result of the fast pace of change can easily be done</p>	CL24			
<p>104. Believe the PEEC should replace "significant" with "material"</p>	CL22		Open item. Task Force to discuss.	
<p>105. Consider replacing "significant" with "heavy" and clarify that independence should be considered for impairment if the member has heavy influence on the manner in which financial transactions are processed and recorded on the books and records of an entity.</p>	CL19		Open item. Task Force to discuss.	

106. No comment on definition- term can be interpreted to be more restrictive so clarify, add examples or issue FAQs	CL12		Open item. Task Force to discuss.	
107. No Comment	CL5, CL6, CL9, CL13, CL15, CL17, CL18, CL23	Noted by Task Force.		
Comments on Question 2b.				
(Question) By including the concept of “significant” it could be perceived as the proposal is less restrictive that extant. Is it appropriate to allow members to design and develop a financial information system that is not significant?				
108. Appropriate exception. CL1 recommends documentation of conclusion that FIS is not significant. CL14 recommends this as well as provide examples in nonauthoritative guidance. CL24 notes that this scope is consistent with the SEC and IESBA.	CL1, CL3, CL8, CL11, CL14, CL16, CL20, CL21, CL22, CL24, CL25	The specific comments from CL 1, CL14, and CL 24 are addressed in rows 48 through 50 respectively.	Same request as rows 48 through 50.	
109. Exception Appropriate/ add language that would clarify that design and development services should be looked at from an aggregated perspective as well and if significant then prohibited.	CL4	This comment was addressed in row 47.	Same request as row 47.	
110. Not Appropriate	CL9, CL10	Noted by Task Force.		
111. Does not believe interpretation would support such conclusion (less restrictive)	CL2, CL12	Noted by Task Force.		
112. Makes sense in theory, not in practice since the evaluation would require ongoing consideration	CL7	Noted by Task Force.		
113. No Comment	CL5, CL6, CL13, CL15, CL17, CL18, CL19,	Noted by Task Force.		

	CL23, CL26, CL27			
Comments on Question 2c				
(Question) Is it clear that “financial processes” is intended to be applied broadly and would include “IT General Controls”?				
114. Clear	CL2, CL3, CL4, CL10, CL21, CL22	Noted by Task Force.		
115. Clear/ stronger language should be used/may be appropriate if such objective was explicitly stated within the interpretation/would be useful if the final Interpretation provided more examples. CL14 suggests using the phrase “financial consolidation and reporting process”	CL1, CL14, CL16	Believe these concerns are addressed in row 35 by the proposed revisions to item iv. of paragraph .02.	Same request as row 35.	
116. Clear but add information technology controls as an example to the interpretation or issue a FAQ that provides this as an example.	CL24			
117. Unclear. CL7 recommends adding definition of page 6; CL8 should consider the scope of the attest service and whether the member is engaged to issue an option on internal control. CL9 members should be able to share expertise in financial processes and IT general controls when the client is implementing the system since they are likely to do so in connection with an audit when making recommendations on how to change or add controls. CL11 recommends an edit to definition of financial information system in its letter. CL12 says it would be clear if the definition from page 6 was carried forward. CL 25 believes the definition of a financial information system would be clearer if it was modified to state that the	CL7, CL8, CL9, CL11, CL12, CL20, CL25			

items included in i. through iv. of paragraph .02a would typically meet the definition of, or be part of, a financial information system				
118. No Comment	CL5, CL6, CL13, CL15, CL17, CL18, CL19, CL23, CL26, CL27	Noted by Task Force.		
Comments on Question 3				
(Question) Is it clear that management level dash board reporting would be included in “systems that gather data to assist management in making decisions that directly affect financial reporting”?				
119. No Decision- Multiple Dashboards; depends on dashboard reporting in question. CL7 does it only assist management with improving efficiency or effectiveness of operations?	CL1, CL7	Believe these concerns are addressed in rows 7 and 8 by the proposed revisions to item iii. of paragraph .02.	Same request as rows 7 and 8.	
120. Include. CL16 notes that members should stay away from implementation decisions that would have an effect on internal controls over financial reporting but assisting client to implement finance-related tools should be an acceptable service.	CL3, CL8, CL10, CL16, CL22, CL25			
121. Include w/ clarification (FAQ that uses example in explanation as well as others) CL24 notes it would be helpful to: (a) include a dashboard as an example in paragraph .11 and (b) issue a FAQ regarding possible ways a member could determine if the dashboard reports would have a significant impact on	CL4, CL14, CL24, CL27			

management's decision making. CL27 suggests "directly affect (or impact) financial reporting"				
122. Exclude. CL20 believes you should be able to perform dashboard services since they only gather information that already exists and presents it differently than a typical financial statement. CL23 believes it is premature to include dashboards given the inconsistent application of this practice in the middle market today.	CL2, CL11, C12, CL17, CL18, CL19, CL20, CL21, CL23			
123. No Comment	CL5, CL6, CL9, CL13, CL15, CL26	Noted by Task Force.		
Comments on Question 4				
(Question) If the proposal is adopted as proposed, will the extended period of time be needed for members to adopt the revised guidance?				
124. Proposed Implementation Sufficient. CL22 recommends early implementation be allowed.	CL1, CL2, CL4, CL7, CL8, CL9, CL10, CL11, CL14, CL16, CL22, CL24, CL27		Open item. Task Force to discuss.	
125. No Extended time needed because the guidance is generally less restrictive than the current guidance.	CL 25		Open item. Task Force to discuss.	
126. More Time needed past the proposed implementation.	CL12, CL18, CL20, CL21		Open item. Task Force to discuss.	
127. No Comment	CL3, CL5, CL6, CL13, CL15,	Noted by Task Force.		

	CL17, CL19, CL23, CL26			
General Comments				
(Sub-Theme) Guidance in interpretation should be principles based vs. rules based				
128. Final interpretation should expressly state that such use of a member's electronic practice aids software to aid in the preparation of a client's financial statements is permitted, as it has been heretofore pursuant to ET sec. 1.295 and does not constitute a threat to independence	CL2		Open item. Task Force to discuss.	
129. Does not address the impact these services have on other types of attestation engagements. Suggests that PEEC broaden the scope of the interpretation to go beyond financial reporting considerations. (e.g., should a member be able to install a non-financial system and issue a SOC 2 or 3 report on the same system?)	CL4	This concern is addressed in row 2.	Same request as row 2.	
130. Support the ED as drafted and happy to discuss the implications for education or additional feedback we require.	CL5		Open item. Task Force to discuss.	
131. Interpretation should specifically state that a member cannot provide implementation, installation, configuration or customization services for a system the member designed or developed since the definition of COTS refers to third party, and members could be designing systems that are COTS.	CL7		Open item. Task Force to discuss.	
132. Interpretation should address that design or development may include	CL7		Open item. Task Force to discuss.	

various methods such as custom solutions/products, modules/components for COTS systems; components for commercially available platform; or a framework solution such as SharePoint.				
133. The ED is too confusing and restrictive and doesn't take into consideration the vital role that members' play in providing value-added information system services and products to clients.	CL9		Open item. Task Force to discuss.	
134. PEEC should review this current proposal and the hosting FAQs to ensure they are consistent with the previously issued guidance because the substance of how the software is used and who performs the various functions should continue to be the relevant criteria, not who holds the license. Also, developing FAQs that address particular current fact patterns that are relevant to current technology and update these as new technologies evolve.	CL12		Open item. Task Force to discuss.	
135. Is there a concern that subscriptions and bundling of services regarding the appearance of impairing independence, suggest clarification here or perhaps Q&As that walk through particular fact patterns and whether they might impair independence?	CL12		Open item. Task Force to discuss.	
136. Concerned that the conclusions reached in the bookkeeping interpretation are not dependent upon who is the software licensee is yet paragraph .04c of the Hosting Services interpretation and discussions with Ethics Staff seems to	CL12	Comment appears to be related to the Hosting Services interpretation, not the current exposure draft. Staff notes that the Hosting FAQs being considered by the PEEC at its February meeting addresses this issue.		

imply it is dependent upon who the software licensee is				
137. Recommend that this interpretation be moved to a FAQ or put all technology examples in an FAQ leaving only a principles-based interpretation.	CL18		Open item. Task Force to discuss.	
138. Concerned that this theory (CPA's code a threat to independence that cannot be overcome) is conceptually flawed, especially if IT services in conjunction with assurance services are not specifically scoped out.	CL18	This concern is addressed in row 1.	Same request as row 1.	
139. Concerned that the interpretation does not take into consideration other sources and uses of code that could be then attributed to the CPA as they are not specifically addressed in the current rules-based interpretation.	CL18		Open item. Task Force to discuss.	
140. Believe this interpretation penalizes the use of technology.	CL18		Open item. Task Force to discuss.	
141. Proposing such rules-based interpretive guidance could lead to more confusion and additional questions, especially in an area of professional services that is continually changing as new technologies and business practices are developed.	CL19		Open item. Task Force to discuss.	
142. Commercial Off-The-Shelf (COTS) financial information systems-concept is used throughout the exposure draft and it seems to ignore what is happening more and more in practice.	CL19		Open item. Task Force to discuss.	
143. Increased clarity could be achieved for members who do and do not practice in this arena if examples were provided	CL20		Open item. Task Force to discuss.	

delineating between common activity causing and not causing concern.				
144. We request an exception for systems like UAN that are required by law, cannot be customized by the client, has broad use, and has substantial safeguards in place be immune from the 'design and development' criteria.	CL26		Open item. Task Force to discuss.	

Text of Proposed Interpretation “Information Systems Services”

(Formerly “Information Systems Design, Implementation, or Integration.”)

[Boldface italic or stricken text that is highlighted are new revisions that the Committee has not yet seen.]

1.295.145 Information Systems Services ~~Design, Implementation, or Integration~~

Introduction

.01 Self-review and management participation *threats* to the *member’s* compliance with the “[Independence Rule](#)” [1.200.001] may exist when a *member* provides **nonattest** services related to an *attest client’s* information systems.

Terminology

.02 The following terms are defined solely for the purpose of applying this interpretation:

- a. Financial information system (**FIS**) is a system that aggregates source data underlying the *financial statements* or generates information that is significant to **either** the *financial statements* or financial processes as a whole. To determine whether a nonattest service is related to an **FIS** financial information system, *members* **should** may consider **all relevant** factors, such as whether the nonattest service will affect the following:
 - i. System controls or system output that will be subject to attest procedures
 - ii. A system that generates data that **are is** used as an input to the *financial statements*, **including data or information that is either reflected in or used in determining amounts and disclosures included in the financial statements**
 - iii. A system that gathers data that **is used in** assist management’s **decision** in making **that could significantly** decisions that directly impacting financial reporting **matters, such as an analytical or reporting tool**
 - iv. A system that is part of the *attest client’s* internal controls over financial reporting, **including information systems used in effecting internal controls over financial reporting. For example, a system that is used to ensure what is being produced for the financial statements is accurate. However, information systems that are used only in connection with controlling the efficiency and effectiveness of operations are considered to be unrelated to the financial statements and accounting records.**
- b. Designing an information system means determining how a system or transaction will function, process data, and produce results (for example, reports, journal vouchers, and documents such as sales and purchase orders) to provide a blueprint or schematic for the development of software code (programs) and data structures.
- c. Developing an information system entails creating software code, for individual or multiple modules, and testing such code to confirm it is functioning as designed.
- d. *Commercial off-the-shelf* (COTS) refers to a software package developed, distributed, maintained and supported by **an entity or entities that are not the member or member’s firm** (a third-party vendor), sometimes simply referred to as an “off the shelf” package or solution. COTS solutions have generally referred to traditional on-premise software that runs on a customer’s own computers or on a **third-party** vendor’s “cloud” infrastructure. COTS solutions range from software packages that require only installation on a computer and are ready to run to large scale, complex enterprise applications.

Design, Development, or Implementation Services Not Related to a Financial Information System

.03 When performing design, development, or implementation services described in this interpretation for an attest client that are not related to a FIS financial information system, threats to compliance with the "Independence Rule" [1.200.001] would be at an acceptable level provided all the requirements of the "Nonattest Services" subtopic [1.295] of the "Independence Rule" are met, including that the attest client has not outsourced a function, process, or activity to the member, which in effect would result in the member assuming a management responsibility.

Designs or Develops a Financial Information System

.04 When a member designs or develops an attest client's FIS financial information system, threats to compliance with the "Independence Rule" would not be at an acceptable level and could not be reduced to an acceptable level by the application of safeguards and independence would be impaired. Designing and developing a template tool does not constitute designing or developing an FIS that if all of the following safeguards are met:

- a. the tool performs a discrete calculation such as a tax provision or a depreciation calculation; and
- b. does not constitute designing or developing a financial information system and will not impair independence, provided the template the tool does not perform an activity that, if performed directly by the member, would impair independence; and
- c. and the member complies with all the requirements of the "Nonattest Services" subtopic [1.295] of the "Independence Rule".

Implementation of a COTS Financial Information System Software Solution

.05 Implementation services involve activities related to an attest client's information systems after the design and development of the system. Implementation ceases when the system is available on a regular basis to the client for its intended use. For example, implementation services can include activities such as installing, configuring, interfacing, customizing, and data translation. Services that are performed post-implementation, such as the maintenance, support, and monitoring of the system, are not considered to be implementation services.

.06 Threats created by certain COTS implementation services related to the attest client's FIS financial information system may be reduced to an acceptable level by the application of safeguards; however, in other situations threats to compliance with the "Independence Rule" would be significant and could not be reduced to an acceptable level by the application of safeguards. These situations are addressed in paragraphs .07 through .18 of this interpretation.

Install a COTS Financial Information System Software Solution

.07 To install a COTS FIS financial information system software solution means the initial loading of software on a the client's designated hosting site computer, normally onto a customer's server. Software configuration, integration, and conversion activities may follow installation.

.08 When a member installs a COTS FIS financial information system software solution, threats to compliance with the "Independence Rule" would be at an acceptable level, provided all the requirements of the "Nonattest Services" subtopic of the "Independence Rule" are met.

Configure a COTS Financial Information System Software Solution

.09 To configure a COTS FIS financial information system software solution means selecting inputting the client selected the software features, functionality options, and settings within the software provided by the third-party vendor, that which will determine how the software will perform certain transactions and process data. Configuration options may also include selecting the predefined format of certain data attributes and the

inclusion or exclusion of such attributes. For purposes of this interpretation, configuring a COTS **FIS** financial information system software solution does not involve developing new software code or features to modify or alter the functionality of the COTS software solution in ways not pre-defined by the **third-party** vendor.

- .10 When a **member** configures a COTS financial information system software solution **based on the client selected features, functionality options and settings within the software provided by the third-party vendor**, **threats** to compliance with the “Independence Rule” would be at an **acceptable level**, provided all the requirements of the **“Nonattest Services”** subtopic of the **“Independence Rule”** are met.

Customize a COTS Financial Information System Software Solution

- .11 To customize a COTS **FIS** financial information system software solution means altering or adding to the features and functions provided for by the **third-party** vendor, that go beyond all options available when configuring the COTS software solution. For purposes of this interpretation, customizing can involve both modification and enhancements:
- Modification involves altering the COTS software solution code to change or add to the functionality provided by the **third-party** vendor.
 - Enhancements involve developing new code, external to the COTS software solution, that works in concert with the COTS software solution to provide altered or additional functionality.
- .12 If a **member** customizes an **attest client's** COTS **FIS** financial information system software solution, **threats** to compliance with the “Independence Rule” would not be at an **acceptable level** and could not be reduced to an **acceptable level** by the application of **safeguards**, and **independence** would be **impaired**.

Interface a COTS Financial Information System Software Solution

- .13 Providing interface services for a COTS **FIS** financial information system software solution means connecting two or more systems by designing and developing software code that passes data from one system to another. Interfaces may flow in one direction or be bidirectional. Interfaces may involve the performance of an end-to-end transaction or they may pass data from one system to another.
- .14 If a **member** provides interface services for a COTS **FIS** financial information system software solution, **threats** to compliance with the “Independence Rule” would not be at an **acceptable level** and could not be reduced to an **acceptable level** by the application of **safeguards**; **independence** would be **impaired** except as provided for in paragraph .15.
- .15 If a **member** uses an **interface application program interface (API)** that is developed by a third party to interface legacy or third-party COTS **FIS** financial information system software solutions, **such as an application programming interface (API)**, **threats** to **independence** would be at an **acceptable level**, provided the **member** will not be designing or developing code [**thus altering how the COTS FIS functions, processes data or produce results**] for the **interface** application API to work and all the requirements of the **“Nonattest Services”** subtopic of the **“Independence Rule”** are met.

Data Translation Services Related to a COTS Financial Information System Software Solution

- .16 Performing data translation services for a COTS **FIS** financial information system software solution involves designing and developing the rules or logic necessary to convert legacy system data to a format that is compatible with that of the new system.
- .17 If a **member** performs data translation services for a COTS **FIS** financial information system software solution, **threats** to compliance with the “Independence Rule” would not be at an **acceptable level** and could not be reduced to an **acceptable level** by the application of **safeguards** and **independence** would be **impaired** except as provided for in paragraph .18.
- .18 If a **member** uses an **API interface application** developed by a third party to perform data translation services for a COTS **FIS** financial information system software solution, **such as an API**, **threats** to **independence** would be at an **acceptable level**, provided the **member** will not be designing or developing code [**thus altering how the COTS FIS functions, processes data or produce results**] for the **interface**

application API to work and all the requirements of the "[Nonattest Services](#)" subtopic of the "[Independence Rule](#)" are met.

System and Network Maintenance, Support, and Monitoring

.19 Maintenance, support, and monitoring services are activities that are provided after a financial or nonfinancial system or network is implemented. If post-implementation services involve the [attest client](#) outsourcing an ongoing function, process, or activity to the [member](#) that in effect would result in the [member](#) assuming a management responsibility, compliance with the "Independence Rule" would not be at an [acceptable level](#) and could not be reduced to an [acceptable level](#) by the application of [safeguards](#), and [independence](#) would be [impaired](#). Examples of such services that involve an ongoing function, process, or activity that in effect would result in the [member](#) assuming a management responsibility would include a service whereby the [member](#) directly or indirectly does any of the following:

- a. Operates the [attest client's](#) network, such as managing the [attest client's](#) systems or software applications
- b. Supervises client personnel involved in the operation of the [attest client's](#) information systems
- c. Has responsibility for monitoring or maintaining the [attest client's](#) network performance
- d. Operates or manages the [attest client's](#) information technology help desk
- e. Has responsibility to perform ongoing network maintenance, such as updating virus protection solutions, applying routine updates and patches, or configuring user settings
- f. Has responsibility for maintaining the security of the [attest client's](#) networks and systems

.20 [Independence](#) will not be [impaired](#), provided all the requirements of the "[Nonattest Services](#)" subtopic of the "[Independence Rule](#)" are met and the maintenance, support, and monitoring services are discrete nonrecurring engagements for which the [attest client](#) has not outsourced a function, process, or activity to the [member](#) that in effect would result in the [member](#) assuming a management responsibility. Examples of such services that do not [impair independence](#) may include being engaged for a discrete project to do any of the following:

- a. Analyze a network and provide observations or recommendations
- b. Apply virus protection solutions or updates that the [member](#) did not design or develop
- c. Apply certain updates and patches that the [member](#) did not design or develop
- d. Provide training or instruction on a **new** software solution
- e. Assess the design or operating effectiveness of an [attest client's](#) security over information technology systems
- f. Assess the [attest client's](#) information technology security policies or practices

Effective Date

.21 This interpretation will be effective one year after it appears in the *Journal of Accountancy*. Early implementation is allowed.

Nonauthoritative questions and answers regarding information systems design, implementation, and integration services are available at www.aicpa.org/InterestAreas/ProfessionalEthics/Resources/Tools/DownloadableDocuments/NonattestServicesFAQs.pdf.

**Professional Ethics Executive Committee
External Directors Task Force
February 12, 2019**

Task Force Members

Bill McKeown (Chair), Bill Mann, Coalter Baker, David East, Brian Lynch, Chris Cahill
Staff: Brandon Mercer, CPA CGMA

Task Force Charge

The Task Force's charge is to evaluate the need to issue guidance for members in the application of the Independence Rule [1.200.001] to external members of a firm's board of directors or similar body that are not partners or professional employees of the firm.

Reason for Agenda Item

The purpose of this agenda item is to obtain the Committee's feedback on draft frequently asked questions (FAQ) prepared by the task force to address the topic of external directors. The draft FAQ's are presented at **Agenda Item 2B**.

Background

Large public accounting firms recruit external board members to improve corporate governance and the reliability of financial reporting as well as to enhance public trust. The primary question put to the Committee, and being considered by the Task Force, is the application of the "Independence Rule" [1.200.001] to these external board members with respect to attest clients of the firm, and whether guidance should be included in the form of a frequently asked question (FAQ) or other informal guidance.

Summary of Issues**Board Members' Covered Member Status**

In general, the Independence Rule and its interpretations apply to either covered members or all partners and professional employees of the firm, depending on the specific interpretation. Under the extant AICPA Code, a firm's external board member that is not a partner or professional employee of the firm may still be subject to the "Independence Rule" if he/she is otherwise considered to be a covered member with respect to an attest client. Specifically, if a firm's external board member is considered to be an individual in a position to influence the attest engagement, the board member would be a covered member and subject to the applicable interpretations of the "Independence Rule."

As defined in section 0.400 of the extant Code, an individual may be considered to be an *individual in a position to influence the attest engagement*, if the individual:

- a. evaluates the performance or recommends the compensation of the *attest engagement partner*;

- b. directly supervises or manages the *attest engagement partner*, including all successively senior levels above that individual through the *firm's* chief executive;
- c. consults with the *attest engagement team* regarding technical or industry-related issues specific to the *attest engagement*; or
- d. participates in or oversees, at all successively senior levels, quality control activities, including internal monitoring, with respect to the specific *attest engagement*.

It should also be noted that any “entity whose operating, financial, or accounting policies can be controlled” by a covered member or “two or more such individuals or entities if they act together” would also be considered a covered member, and would be subject to the “Independence Rule” [1.200.001]. For example, if a covered member owned a separate bookkeeping company that provided bookkeeping services to an attest client with respect to which he/she is a covered member, the separate bookkeeping business may be required to comply with the “Nonattest Services” interpretation [1.295] with respect to the bookkeeping activities. In addition, immediate family members of the covered member would be subject to the requirements unless specifically exempt by the “Immediate Family Members” interpretation [1.270.010] of the “Independence Rule” [1.200.001].

Questions for PEEC:

Does the Committee agree with the positions set forth in the FAQ at Agenda Item 2B?

Does the Committee continue to agree that safeguards, such as recusal from board matters related to the attest client, or from activities noted in a-d above, would mitigate any threats created with respect to the attest client?

Does the Committee continue to agree that it is not necessary to revise the AICPA Code, but that guidance should be provided as an FAQ or supplemental guidance in the [General Ethics Questions FAQ](#) documents on the Division’s website?

Effective Date

N/A

Action Needed

The Task Force requests PEEC discuss the draft FAQ and provide feedback. The Task Force will report on its progress at the May 2019 PEEC meeting as necessary.

Communication Plan

Updates to the FAQ will be communicated via an official release and news alerts, as well as to distribution lists of both external and internal stakeholders.

Materials Presented

Agenda Item 2B – Draft FAQ

**External Members of a Firm's Board of Directors
Draft FAQ**

- 1. If an individual who is not a partner or professional employee of the firm is elected or appointed to the firm's board of directors or similar body (i.e. external member of the firm's board of directors), is that individual subject to the "Independence Rule" [1.200.001] with respect to the firm's attest clients?**

The individual would be considered a covered member [0.400.12] as an individual in a position to influence the attest engagement, and would be subject to the "Independence Rule" [1.200.001] and the applicable interpretations therein with respect to the firm's attest clients, if the board membership gives the individual the ability to participate in any of the following functions [0.400.12-13]:

- a. evaluates the performance or recommends the compensation of the [attest engagement partner](#);
- b. directly supervises or manages the attest engagement partner, including all successively senior levels above that individual through the [firm's](#) chief executive;
- c. consults with the [attest engagement team](#) regarding technical or industry-related issues specific to the attest engagement; or
- d. participates in or oversees, at all successively senior levels, quality control activities, including internal monitoring, with respect to the specific attest engagement.

If the external board member is not considered a covered member, the member should evaluate the nature and significance of the individual's role in the overall governance of the firm. If the individual participates in decision making and other governance activities for the firm's board of directors or similar body, the individual should consider the interpretations¹ of the "Independence Rule" that are applicable to any partner or professional employee of the firm (i.e., persons in the firm who may not have a

¹ [Accounting Firms](#) (ET Sec. 1.220); [Financial Interests](#) (ET Sec. 1.240); [Loans, Leases, and Guarantees](#) (ET Sec. 1.260); [Current Employment or Association with an Attest Client](#) (ET Sec. 1.275); [Former Employment or Association with an Attest Client](#) (ET Sec. 1.277); [Considering or Subsequent Employment or Association with an Attest Client](#) (ET Sec. 1.279); [Memberships](#) (ET Sec. 1.280); [Independence Standards for Engagements Performed in Accordance with the SSAEs](#) (ET Sec. 1.297); [Breach of an Independence Interpretation](#) (ET Sec. 1.298).

governance role) including ET Sec. 1.275 Current Employment or Association with an Attest Client, which indicates that a member's independence is impaired when a partner or professional employee in the firm is employed by or associated with an attest client as an employee, employee equivalent or director.

2. When an external member of a firm's board of directors is subject to the "Independence Rule" [1.200.001], do the independence requirements extend to entities controlled by the individual, or immediate family members?

The independence requirements applicable to covered members (including individuals in a position to influence the attest engagement) also apply to any entities whose operating, financial, or accounting policies can be controlled by the individual covered member (or the individual combined with another covered member if they act together). Thus, if the individual is considered a covered member, the separate controlled entities would also be subject to the requirements. [Reference ET Section 0.400 paragraph .12] Immediate Family Members of a covered member must also comply with the "Independence Rule" and the applicable interpretations, except as provided in ET Section 1.270.010.

3. If an external member of a firm's board of directors or similar body is determined to be a covered member (i.e. an individual in a position to influence the attest engagement) with respect to a specific attest client, is it possible for the individual to prevent, or address the consequences of, a breach of the "Independence Rule," by recusing themselves from the role and/or responsibility that results in being able to influence a specific attest engagement(s)?

Yes. It may be possible for an individual who is a covered member in a position to influence an attest engagement to recuse him or herself from the activities that result in the individual being a covered member in order to prevent or remediate a breach of the "Independence Rule" or violation of an interpretation. The recusal safeguard should only be used for unusual situations or relationships which could not have reasonably been prevented, or which create other hardships that could not be reasonably anticipated at the time of the inception of the financial, employment or business relationship.

4. Are there any other independence considerations for an individual who is a member of a firm's board of directors or similar body but is not a partner or professional employee of the firm (i.e., an external member of a firm's board of directors)?

The individual should consider any material financial or business relationships with any audit client of the firm and should not provide any professional services which would otherwise impair a firm's independence with respect to an attest client. To the extent that the individual has material financial or business relationships with an audit client of the firm, or has provided prohibited services to an audit client of the firm during the

period of professional engagement or the period covered by the financial statements, appropriate individuals at the firm responsible for the firm's compliance with the "Independence Rule" should evaluate the significance of threats that may exist using the "Conceptual Framework" of the "Independence Rule" [1.200.001].

Professional Ethics Executive Committee
**FAQ related to Transfer of Files and Return of Client Records in Sale, Transfer,
Discontinuance or Acquisition of a Practice Interpretation**

Staff: April Sherman and Shannon Ziemba

Reason for Agenda Item

The Committee is being asked to approve a non-authoritative frequently asked question (FAQ) drafted by staff to assist members in the application of the ["Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice" interpretation \[ET Sec. 1.400.205\]](#).

Summary of Issues

Staff has received multiple calls on the ethics hotline requesting clarification regarding the application of the interpretation when an owner sells one's practice to another firm.

The extant interpretation addresses two primary scenarios:

- Member sells or transfers all or part of his/her practice to another without retaining any ownership (paragraph .01-.02 address the seller, paragraphs .05-.06 address the acquirer)
- Member discontinues his/her practice, but does not sell or transfer ownership (paragraphs .03-.04)

According to callers, in some instances where the member does not retain any ownership, the member will work for the purchasing firm (for example, as a non-equity partner). Staff has developed an FAQ to address application of the interpretation to such individuals at **Agenda Item 3B**.

The extant interpretation is below:

**1.400.205 Transfer of Files and Return of Client Records in Sale, Transfer,
Discontinuance or Acquisition of a Practice**

Sale or Transfer of Member's Practice

- .01 A *member* or *member's firm* (member) that sells or transfers all or part of the member's practice to another person, *firm*, or entity (successor firm) and will no longer retain any ownership in the practice should do all of the following:
- a. Submit a written request to each *client* subject to the sale or transfer, requesting the *client's* consent to transfer its files to the successor firm and, notify the *client* that its consent may be presumed if it does not respond to the member's request within a period of not less than 90 days, unless prohibited by law, including but not limited to the rules and regulations of the applicable state boards of

accountancy. The member should not transfer any *client* files to the successor firm until either the *client's* consent is obtained or the 90 days has lapsed, whichever is shorter. The member is encouraged to retain evidence of consent, whether obtained from the *client* or presumed after 90 days.

- b. With respect to files not subject to the sale or transfer, make arrangements to return any *client* records that the member is required to provide to the *client* as set forth in the "[Records Request](#)" interpretation [1.400.200] unless the member and *client* agree to some other arrangement.

.02 In cases in which the member is unable to contact the *client*, *client* files and records not transferred should be retained in a confidential manner and in accordance with the *firm's* record retention policy or as required by applicable legal or regulatory requirements, whichever is longer. When practicing before the IRS or other taxing authorities or regulatory bodies, members should ensure compliance with any requirements that are more restrictive.

Discontinuation of Member's Practice

.03 A member who discontinues his or her practice but does not sell or transfer the practice to a successor firm, should do all of the following:

- a. Notify each *client* in writing of the discontinuation of the practice. The member is encouraged to retain evidence of notification made to *clients*. The member is not required to provide notification to former *clients* of the *firm*.
- b. Make arrangements to return any *client* records that the member is required to provide to the *client* as set forth in the "[Records Request](#)" interpretation [1.400.200] unless the member and *client* agree to some other arrangement.

.04 In cases in which the member is unable to contact the *client*, *client* files should be retained in a confidential manner and in accordance with the *firm's* record retention policy or as required by applicable legal or regulatory requirements, whichever is longer. When practicing before the IRS or other taxing authorities or regulatory bodies, members should ensure compliance with any requirements that are more restrictive.

Acquisition of Practice by a Member

.05 A member who acquires all or part of a practice from another person, *firm*, or entity (predecessor firm) should be satisfied that all *clients* of the predecessor firm subject to the acquisition have, as required in [paragraph .01](#), consented to the member's continuation of *professional services* and retention of any *client* files or records the successor firm retains

.06 A member will be considered in violation of the "[Acts Discreditable Rule](#)" [1.400.001] if the member does not comply with any of the requirements of this interpretation.

Effective Date

.07 This interpretation is effective June 30, 2017. Early implementation is allowed.

Nonauthoritative questions and answers related to form of communication and transfer of client files to another partner in the firm are available in the FAQ document at www.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/ethics-general-faqs.pdf.

Action Needed

Ms. Sherman and Ms. Ziembra request the Committee's approval of the draft FAQ prepared by staff to address inquiries received on the *Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice* interpretation.

Materials Presented

Agenda Item 3B Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice FAQs

Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice Interpretation

Firm A is merging with Firm B (a sole proprietorship) to form Firm C. The sole owner of Firm B plans to join Firm C as a non-equity partner. Do the requirements of the *Transfer of Files and Return of Client Records in Sale, Transfer or Discontinuance of Member's Practice* interpretation apply to Firm B's owner?

Yes. As a non-equity partner, Firm B's owner would not have any ownership in Firm C, and would be responsible for requesting each client's consent to transfer client workpapers to Firm C. Alternatively, if Firm C decides to make Firm B's owner an equity partner in Firm C, regardless of the percentage of ownership, then the requirements of the *Transfer of Files and Return of Client Records in Sale, Transfer or Discontinuance of Member's Practice* interpretation would not apply to Firm B's owner.

**Professional Ethics Executive Committee
References to Prior Code Sections
February 12, 2019**

Staff

Brandon Mercer, CPA CGMA

Reason for Agenda Item

Staff requests that the Committee discuss whether to retain references to prior Code sections in the extant Code. The references were set to be removed in December 2018.

Summary of Issues

As shown in the Preface (0.200) of the extant Code (see below), references to the prior Code sections were included in the 2014 revised Code in order to facilitate implementation of the 2014 revised Code. In addition to the references within the text of the interpretations, the extant Code also contains a [mapping document](#) to assist users in cross referencing to the prior Code sections. Discussions with ethics hotline managers indicate that the references and mapping document still have utility for members, staff, and the public, and should be retained. In addition, there are still enforcement matters in process where behavior occurred under the prior Code provisions. Staff suggests retaining the references either permanently or beyond the initial four-year period. If references are retained permanently, the following revision would be necessary:

0.200.030 Citations

Prior ET Sections

- .01 The code has been revised by codifying the principles, rules, *interpretations*, and rulings. These revisions are effective December 15, 2014. To facilitate implementation of the revised code, the prior ET references from the professional standards of the AICPA ~~are will be included for a four-year period (until December 15, 2018)~~ in [appendix D](#), "Mapping Document," and in bracketed text at the end of standards, where applicable.

Effective Date

The recommended revision does not require exposure for comment, and will be effective upon revision.

Action Needed

Staff requests the Committee approve permanent or extended retention of the prior Code references, and approve the recommended revision to section 0.200.030 above.

Materials Presented

N/A

**Professional Ethics Executive Committee
Selected Procedures Engagements Task Force
February 12, 2019**

Task Force Members

Kelly Hunter (Chair), Brian Lynch, Nancy Miller, Sharon Jensen, Jim Smolinski, Anna Dourdourekas

Staff

Brandon Mercer, CPA CGMA
Mike Glynn, CPA CGMA

Task Force Charge

The original charge of the task force was to recommend to PEEC whether the independence modifications currently allowed for engagements performed under the SSAEs (including examinations of pro-forma or prospective financial information) could be extended to compilation engagements for either pro-forma financial information or prospective financial information since these engagements are performed under the SSARs and not the SSAEs. In addition, the task force was to provide preliminary feedback to the Audit and Attest Standards staff on whether a previously proposed service referred to as “Selected Procedures Engagements” would likely qualify for modified independence. The proposed “Selected Procedures Engagements” was exposed for comment by the Accounting and Review Services Committee (ARSC) in September 2017 but the project is currently not active as it has been subsumed within a subsequent exposure draft issued by the Auditing Standards Board (ASB).

PEEC is now being asked whether any potential independence concerns exist as a result of proposed revisions under consideration by the ASB that would a) no longer require the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter and b) revise AT-C section 215, *Agreed-Upon Procedures Engagements* to no longer require that all parties to the engagement (the engaging party, the responsible party (where applicable), and users of the practitioner’s report) to agree to the procedures to be performed and take responsibility for their sufficiency and to allow the practitioner to issue a general use agreed-upon procedures report.

Reason for Agenda Item

The Audit and Attest Standards staff has previously submitted inquiries to the Committee regarding potential independence implications prior to exposure of the proposed revised attestation standards on July 11, 2018. The ASB is still in the process of making revisions to the exposed proposal pursuant to its comment letter review, which included reviewing comments submitted related to independence. The task force has previously provided feedback to the Audit & Attest Standards staff and certain ASB task force representatives (collectively the ASB representatives) in July 2017 and a written response to inquiries in May 2018. In addition, some task force members participated in a call with the ASB representatives in July 2018 and in December 2018 to further discuss the issues raised by the ASB representatives. After the December 2018 call, the consensus was that the position(s) of PEEC regarding the

independence questions raised by the ASB representatives should be public (i.e. minutes, FAQ, position paper, the proposed SSAE, etc.).

The purpose of this agenda item is to update the Committee on the discussions of the ASB and PEEC representatives to date, and to determine if there are any additional independence concerns that PEEC feels should be addressed pursuant to the proposed revised SSAE and the best vehicle to make these positions publicly available if determined appropriate.

Background / Summary of Issues

The AICPA “Independence Rule” addresses agreed-upon-procedures engagements (AUP) and other engagements under the SSAEs at the [“Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” interpretation \[ET Sec. 1.297\]](#). The interpretation is presented at **Agenda Item 5B**. The interpretation was considered by the task force in its previous responses to ASB inquiries related to the application of the interpretation to direct engagements. The following is a background and timeline of prior discussions of PEEC, ASB, and the task force related to the proposed revised SSAE:

July 2017 PEEC Meeting

The following is an excerpt from the July 2017 PEEC minutes:

The Committee was asked to discuss if they believed the performance of a direct engagement could result in independence impairment. It was explained that a direct engagement is an engagement where the responsible party does not measure or evaluate the subject matter against the criteria and therefore does not provide the practitioner with an assertion. In an assertion engagement, the responsible party does measure or evaluate and does provide an assertion. In both instances, the member examines or reviews the subject matter against suitable criteria and provides a conclusion (opinion in an examination or negative conclusion in a review).

The Committee did not believe that independence impairment occurs when management does not measure or evaluate the subject matter as long as management is still taking responsibility for the subject matter; just as they do in an assertion based engagement. While not specific to a direct engagement, the Committee wanted to reiterate that if the practitioner performs any type of nonattest service for the responsible party, the self-review threat would be present. This would be true for an assertion based engagement or a direct engagement.

The feedback noted in the minutes above was communicated to the Audit & Attest Standards staff for consideration in the process leading up to the September 1, 2017 exposure draft.

May 2018 Inquiry Response

In February 2018, Audit & Attest standards staff sent a written inquiry to PEEC for consideration. The task force considered the inquiry and provided a written response in May

2018, which is presented at **Agenda Item 5C**. The primary points highlighted in the response were:

- The proposed changes to the AT-C sections would not create additional threats to independence under the AICPA “Independence Rule” [1.200], provided that the client takes responsibility for the subject matter.
- There was no significant impact to threats when the engaging party acknowledges the “appropriateness” of the procedures rather than the “sufficiency” of the procedures.
- The “Independence Rule” does not prohibit members from being involved in the design of the procedures applied to the subject matter of an AUP engagement. The task force agreed that the member’s involvement in the design of procedures applied to the subject matter should not impact the significance of threats to independence.

December 2018 Call

Members of the task force and the ASB representatives held a conference call in December 2018. The objective of the call was to learn whether, after considering the dissents from ASB members to the exposure of the proposed SSAE (exposed in July 2018) and comments received on the exposure draft that relate to independence, there were any changes or additions to the previously expressed views of PEEC. The following is a short summary of the significant proposed changes to the attestation standards which were referenced in the call:

- The ED proposes that the attestation standards be revised to no longer require the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter. [*PEEC position: This would not impair independence provided the client takes responsibility for the subject matter.*]
- In response to comments received from respondents to the ED, the ASB’s Attestation Standards Task Force is proposing to converge with ISAE 3000 (Revised) *Assurance Engagements Other Than Audits and Reviews of Historical Financial Information*, as it relates to the incorporation of the terms “underlying subject matter” and “subject matter information.” ISAE 3000 (Revised) includes the following definitions of these terms:

Underlying subject matter— the phenomenon that is measured or evaluated by applying criteria. (This definition is the same as the definition of subject matter in the attestation standards.)

Subject matter information— The outcome of the measurement or evaluation of the underlying subject matter against the criteria, i.e., the information that results from applying the criteria to the underlying subject matter.

It is proposed that the responsible party would be required, in any case, to be responsible for the underlying subject matter and would be requested to provide a representation indicating that the responsible party is responsible for the underlying subject matter.

See relevant comment letter excerpts at **Agenda Item 5D**.

[NOTE: At the January 2019 ASB meeting, the ASB approved use of the term “subject matter information” as defined above.]

- AT-C section 215 (AUPs) is proposed to be revised to:
 - No longer require that all the parties to the engagement (the engaging party, the responsible party (where applicable), and users of the practitioner’s report) agree to the procedures to be performed and take responsibility for their sufficiency. Instead, the proposed revision would require that the engaging party acknowledge the appropriateness of the procedures for the intended purpose and would explicitly allow the practitioner to develop, or assist in developing, the procedures. [*PEEC position: This change would not impact threats to independence.*]
 - Allow the practitioner to issue a general use report, unless the procedures are prescribed and the practitioner is precluded from designing or performing additional procedures, the criteria are not available to users, or the criteria are suitable only for a limited number of users. [*No prior PEEC position*]

The PEEC members on the call did not believe that any previous positions in the prior responses to the ASB task force changed, but agreed that the full Committee should discuss the concerns and questions raised to facilitate the ASB’s consideration of the independence consequences, if any.

Effective Date

N/A

Action Needed

Staff requests that PEEC establish or re-establish its position on the following questions, as discussed above:

- 1. Does PEEC continue to agree that independence would not be impaired in an engagement where there is not a requirement for a written assertion from the responsible party when the practitioner is reporting directly on the subject matter, provided the client (or responsible party) takes responsibility for the subject matter (or underlying subject matter as the terms are synonymous)?**
- 2. Does the use of the ISAE terminology (subject matter information) to reference the outcome of the procedures or the assertion (if one exists) create any confusion or concerns in applying the “Independence Rule” to the engagement?**
- 3. Does PEEC continue to agree that there is no significant impact to threats when the engaging party acknowledges the “appropriateness” of the procedures rather than the “sufficiency” of the procedures in an agreed-upon procedures engagement?**

4. Does PEEC continue to agree that the “Independence Rule” does not prohibit members from being involved in the design of the procedures applied to the subject matter of an AUP engagement, and that the member’s involvement in the design of procedures applied to the subject matter should not impact the significance of threats to independence?
5. Does PEEC have any concerns with allowing the practitioner to issue a general use agreed-upon procedures report, unless the procedures are prescribed and the practitioner is precluded from designing or performing additional procedures, the criteria are not available to users, or the criteria are suitable only for a limited number of users?
6. Would PEEC agree to publishing answers to the above questions in some format that would be publicly available to practitioners?

Communications Plan

The positions established by PEEC will be communicated to the Audit & Attest Standards staff, which will communicate the PEEC positions to the ASB for consideration as it drafts revisions to the proposed revised SSAE.

Materials Presented

Agenda Item 5B: ET Section 1.297

Agenda Item 5C: May 2018 Response to Audit & Attest Standards staff

Agenda Item 5D: ASB Comment Letter Excerpts

**Professional Ethics Executive Committee
Selected Procedures Engagements Task Force**

1.297 Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements

1.297.010 Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements

.01 The “[Independence Rule](#)” [1.200.001] and its *interpretations* apply to all *attest engagements*. However, when performing engagements to issue reports in accordance with Statements on Standards for Attestation Engagements (SSAEs), when *independence* is required or when the *member’s* compilation report does not disclose a lack of *independence*, the *covered member* needs to be independent with respect to the responsible party(ies), as defined in the SSAEs.

.02 If the individual or entity that engages the *covered member* (engaging entity) is not the responsible party, the *covered member* need not be *independent* of that engaging entity. However, because *threats* to the *member’s* compliance with the “[Integrity and Objectivity Rule](#)” [1.100.001] and the “[Conflicts of Interest](#)” interpretation [1.110.010] may still exist with respect to the engaging entity, *members* should comply with this rule and interpretation.

.03 In addition, application of the “[Independence Rule](#)” [1.200.001] is further modified as set forth in the “[Agreed-Upon Procedures Engagements in Accordance With SSAEs](#)” interpretation [1.297.020] and the “[Engagements, Other Than AUPs, Performed in Accordance With SSAEs](#)” interpretation [1.297.030] of the “Independence Rule.” [Prior reference: paragraph .13 of ET section 101]

[See [Revision History Table](#).]

1.297.020 Agreed-Upon Procedure Engagements Performed in Accordance With SSAEs

.01 For purposes of this interpretation, subject matter is as defined in the SSAEs.

.02 When performing agreed-upon procedures (AUP) engagements in accordance with the SSAEs, the application of the “[Independence Rule](#)” [1.200.001] is modified, as described in the “[Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements](#)” interpretation [1.297.010] of the “Independence Rule” and this interpretation.

.03 When providing nonattest services that would otherwise *impair independence* under the *interpretations* of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” [1.200.001], *threats* would be at an *acceptable level* and *independence* would not be *impaired*, provided that the nonattest services do not relate to the specific subject matter of the SSAE engagement. *Threats* would be at an *acceptable level* and *independence* would also not be *impaired* if the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” were not applied when providing the nonattest services, provided that the nonattest services do not relate to the specific subject matter of the AUP engagement.

.04 In addition, when performing an AUP engagement under the SSAEs, *threats* would be at an *acceptable level* and *independence* would not be *impaired*, if the following *covered members* and their *immediate families* are independent of the responsible party(ies):

- a. Individuals participating on the AUP engagement team
- b. Individuals who directly supervise or manage the AUP engagement *partner* or *partner equivalent*
- c. Individuals who consult with the *attest engagement team* regarding technical or industry-related issues specific to the AUP engagement

.05 Furthermore, *threats* to compliance with the “Independence Rule” [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*, and *independence* would be *impaired*, if the *firm* had a material financial relationship with the responsible party(ies) that was covered by any of the following interpretations of the “Independence Rule”:

- a. Paragraphs .01–.02 of “Overview of Financial Interests” [1.240.010]
- b. “Trustee or Executor” [1.245.010]
- c. “Joint Closely Held Investments” [1.265.020]
- d. “Loans” [1.260.010] [Prior reference: paragraph .13 of ET section 101]

Effective Date

.06 The addition of *partner equivalents* to paragraph .04 is effective for engagements covering periods beginning on or after December 15, 2014.

1.297.030 Engagements, Other Than AUPs, Performed in Accordance With SSAEs

.01 For purposes of this interpretation, subject matter is as defined in the SSAEs.

.02 When performing an engagement, other than an AUP, in accordance with the SSAEs, the application of the “[Independence Rule](#)” [1.200.001] is modified, as described in the “[Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements](#)” interpretation [1.297.010] of the “Independence Rule” and this interpretation.

.03 When providing nonattest services that would otherwise *impair independence* under the *interpretations* of the “[Nonattest Services](#)” subtopic [1.295], *threats* would be at an *acceptable level* and *independence* would not be *impaired* if the following safeguards are met:

- a. Nonattest services do not relate to the specific subject matter of the SSAE engagement.
- b. The “[General Requirements for Performing Nonattest Services](#)” interpretation [1.295.040] of the “Independence Rule” [1.200.001] are met when providing the nonattest service. [Prior reference: paragraph .13 of ET section 101]

Agenda Item 6C

Date: May 1, 2018

Subject: Re: request for PEEC response with respect to perceived independence issues relating to the ARSC and ASB's Selected Procedures project and the ASB's Direct Engagements project

From: PEEC Selected Procedures Task Force
Staff Liaison: Brandon Mercer

To: ASB, ARSC (c/o Mike Glynn; Staff Liaison)

The ASB and ARSC recently submitted a written inquiry to PEEC requesting responses to questions regarding independence and possible changes to the attestation standards (AT-C sections) related to the exposure draft of the proposed SSAE, *Selected Procedures*, as well as ASB and ARSC discussions.

As a preface to the responses below, it should be noted that in July 2017, PEEC considered a related question of whether independence would be impaired if there was not a requirement for a written assertion (non-assertion based engagements), and determined that the client's assumption of responsibility for the subject matter was paramount to maintaining independence, regardless of whether the client measures or evaluates the subject matter. In addition, PEEC reiterated that the self-review threat would be present when performing any type of non-attest service for the responsible party. The Task Force has provided responses on behalf of PEEC to the specific inquiries below.

1. **ASB / ARSC Inquiry:** A proposed change would remove the requirement that the CPA request a written assertion from the responsible party for all attestation engagements (examinations, reviews, and agreed-upon procedures engagements). An assertion is defined as "any declaration or set of declarations about whether the subject matter is in accordance with (or based on) the criteria." The standard would still require the responsible party to take responsibility for the subject matter in accordance with (or based on) the criteria – and such responsibility would still be required to be confirmed in a representation letter. The removal of the assertion and the acknowledgement of responsibility would bring the attestation standards in line with the audit and review standards (which do not require an assertion) and would also bring our attestation standards in line with the international standards for assurance services. While this proposed change would not result in the CPA performing a non-attest service, it is understood that should the CPA perform any non-attest services for the responsible party, those services would create a threat to independence and safeguards would be needed, consistent with the performance of non-attest services for an audit or review client.

Does PEEC agree eliminating the requirement for a written assertion does not affect independence as long as the responsible party is able to take responsibility for the subject matter?

PEEC Response:

The proposed changes to the AT-C sections would not create additional threats to independence under the AICPA Independence Rule [1.200], provided that the client takes responsibility for the subject matter. The changes do not appear to transfer responsibility for the subject matter from the responsible party to the member, and do not remove the required confirmation in the representation letter.

2. **ASB / ARSC Inquiry:** Another proposed change would eliminate a requirement in the AUP Section that the CPA obtain the agreement of the *specified parties* (the client and intended report users) that the procedures to be performed by the CPA in an agreed-upon procedures engagement are *sufficient* for their purposes. This requirement would be replaced with a new

requirement that the CPA obtain a written acknowledgment from the engaging party that the procedures performed by the CPA are *appropriate* for the intended purpose of the engagement. As a result of this change, the CPA would not be required to communicate with specified parties other than the engaging party. Because specified parties would not be required to take responsibility for the sufficiency of the procedures, the CPA could issue a general-use report, although the CPA would still be permitted to restrict the use of the report. The ASB and ARSC continue to deliberate as to whether certain engagement types may still require acknowledgement of specified parties. This amendment would be consistent with the IAASB's AUP project.

Does the PEEC agree that requiring the engaging party to acknowledge responsibility for the appropriateness of the procedures as opposed to requiring specified parties to acknowledge responsibility for the sufficiency of the procedures will not create a threat to independence?

Would the CPAs involvement in the design of the procedures impact the above conclusion?

PEEC Response:

Requiring the engaging party to acknowledge responsibility for the appropriateness, rather than the sufficiency, of the agreed upon procedures does not create additional threats to independence. The fact that the engaging party is taking responsibility for the appropriateness of the procedures does not create additional self-review or management participation threats, as the member is not, for example, making client management decisions or creating source documents or data that are subject to the agreed upon procedures. Staff does not see a significant impact to threats when the engaging party acknowledges the "appropriateness" of the procedures rather than the sufficiency of the procedures.

Regarding the member's involvement in the design of the agreed upon procedures, the Independence Rule does not prohibit members from being involved in the design of the procedures applied to the subject matter of an AUP engagement. Staff emphasizes that the engaging party's acknowledgment of the appropriateness of the procedures does not transfer responsibility for the performance of the procedures to the engaging party; therefore the significance of threats to independence should not be impacted by the member's involvement in designing the procedures.

If you have any questions regarding the responses provided above, please contact the Task Force staff liaison, Brandon Mercer, at (919)402-4922 or bmercer@aicpa.org. PEEC and the Task Force appreciate the opportunity to respond to the inquiries presented by ASB and ARSC.

Sincerely,



Brandon Mercer, CPA CGMA
Staff Liaison – Selected Procedures Task Force
Professional Ethics Executive Committee

Comments on the July 11, 2018 Exposure Draft *Revisions to SSAE No 18, Attestation Standards: Clarification and Recodification Related to Independence*

Practitioner performance of initial measurement/evaluation			
<p>Clarification needed re independence when practitioner performs the attestation engagement and is also the initial measurer or evaluator (a nonattest engagement)</p>	<p>D&T</p>	<p>When considering the amendments proposed in the ED, it is our perspective that there is insufficient clarity with respect to certain independence matters and how independence is to be considered in connection with performing engagements in accordance with the proposed SSAE. Independence is an underlying tenet of the AICPA Code of Professional Conduct (the “Code”), the cornerstone of being a trusted professional, and an unconditional requirement of the proposed SSAE (see paragraph 24 of AT-C 105 in the ED). We request the ASB to consider the following areas:</p> <p><i>Threats and Safeguards</i></p> <p>By eliminating the requirement in the proposed SSAE for the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter, the proposed attestation standards may create a level of misunderstanding and insufficient clarity for the practitioner in situations in which, in addition to performing a “traditional” attestation engagement (i.e., an attestation engagement under the extant standards), the practitioner also performs the initial measurement or evaluation of the subject matter in accordance with (or based on) the criteria (which is a nonattest engagement). As noted, the responsible party is no longer required to make an assertion (whether unwilling or unable) as to the outcome of that measurement or evaluation. However, in accordance with the Code, when the practitioner performs a nonattest service for an attest client, the attest client and its management are required by subtopic 1.295.040 of the Code to accept responsibility for the results of the nonattest service.</p> <p>We concur that under the Code, the practitioner has always had the ability to perform nonattest services, and the Code provides examples of safeguards that may be applied by the practitioner to reduce threats to independence to an acceptable level. These safeguards include, among others, management agreeing to “assume all management responsibilities” and “accept responsibility for the results of the services.”² It is our perspective that because the nonattest service of measuring or evaluating the subject matter may now be comingled with a “traditional” attestation engagement, specifically removing the request for the responsible party to provide a written assertion may allow for the responsible party to not accept responsibility for the results of such nonattest service. The practitioner may therefore be unable to conclude that the requirements of the Code have been met (i.e., that the threat to independence has been reduced to an acceptably low level).</p> <p>We understand there is a view that the removal of the requirement for the practitioner to</p>	

		<p>request a written assertion from the responsible party would not create additional threats to independence under the Code, provided that the client and its management still take responsibility for the subject matter. Our understanding is that this view is grounded on the underlying premise that such responsibility be included in some form of “representation” to the practitioner. However, D&T³ would like to raise the following observations in relation to the client’s assumption of responsibility:</p> <ul style="list-style-type: none"> • The requirements included in the ED relating to the written representation letter are in the context of a “request” by the practitioner, as the attestation standards cannot impose a requirement on the engaging party (or responsible party). Therefore, it is possible that a representation letter, confirming the responsibilities of the client and its management, is not obtained by the practitioner. • In an examination engagement performed in accordance with extant AT-C 205, when the engaging party is the responsible party and a written representation relating to the assertion is not provided, the practitioner is required to withdraw (when withdrawal is possible under applicable law or regulation). Further, when the engaging party is not the responsible party, and the responsible party refuses to provide a written representation relating to the assertion, the practitioner is not required to withdraw, instead the practitioner is required to disclose the refusal in the practitioner’s report and restrict the use of the report to the engaging party (see extant paragraphs 10 and A7 of AT-C 205). <p>In the proposed SSAE, the practitioner is required to request a representation of acknowledgment from the appropriate party stating that the “responsible party is responsible for the subject matter in accordance with (or based on) the criteria” (see paragraph 50ai of AT-C 205 in the ED). However, the practitioner is no longer required to withdraw when the written acknowledgment is not provided, nor (in situations where the engaging party is not the responsible party) disclose such fact in the practitioner’s report and restrict use of the practitioner’s report to the engaging party. Instead paragraphs 47, A68, and A69 of AT-C 205 in the ED provide requirements and guidance that the refusal to furnish written representations constitutes a limitation on the scope of the engagement. In this situation, the practitioner may express a qualified opinion, a disclaimer, or withdraw depending on the circumstances of the engagement.</p> <p>It is D&T’s perspective that, based on the requirements and related guidance in AT-C 205 in the ED, there is potential for situations in which a written representation is not provided relating to the outcome of the measurement or evaluation of the subject matter in accordance with (or based on) the criteria (i.e., no representation received by the practitioner regarding the responsibilities of the client and its management for the results of the nonattest services performed to provide evidence of management having taken responsibility as would be</p>	
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		<p>required by the Code), yet the practitioner may still have the ability to issue an attestation report (see additional commentary in the Appendix, <i>Request for Comment 3. Proposed Changes That Affect Only Examination Engagements</i>).</p> <p>1 Paragraph 10 of AT-C 105 in the ED defines an assertion as “any declaration or set of declarations about whether the subject matter is in accordance with (or based on) the criteria.” 2 AICPA Code of Professional Conduct subtopic 1.295.040, paragraph .01.</p>	
	D&T	<p>It is our perspective that the Code, when written, could not have envisioned the evolution of attest services in such a manner as proposed in the ED and therefore, the Code may not have contemplated all the potential independence-related considerations that could arise. D&T acknowledges that the ASB cannot develop and issue guidance relating to how to apply the provisions of the Code, nor can it determine whether the provisions require modification to more explicitly address new engagements that may be performed in accordance with the proposed SSAE, if finalized as exposed. These would be matters for the PEEC to address; as such we recommend that the ASB formally requests the PEEC to add this matter to its agenda, thereby providing the PEEC the opportunity to identify and comprehensively address potential concerns pertaining to the application of the ED relative to the provisions of the Code. We believe, at a minimum, specific and detailed guidance related to the application of the ED is warranted. We suggest one area of focus for such guidance be nonattest and attestation engagements for which the practitioner both performs the measurement or evaluation of the subject matter in accordance with (or based on) the criteria (nonattest service), and issues an attestation report on the outcome of such measurement or evaluation (attest service). A simple reference in the ED application guidance to a subtopic in the Code alone does not seem to provide adequate guidance as to how the practitioner is to consider the provisions of the Code when assessing the practitioner’s independence.</p>	
	Baker Tilly	<p>We believe that the AICPA’s Professional Ethics Executive Committee (PEEC) should consider issuing guidance on the effect on independence of any changes to the attestation standards prior to their effective date. This guidance should include the effect of the changes, if any, on ET 1.297.020, <i>Agreed-upon procedure engagements performed in accordance with SSAEs</i> and what effect, if any, the removal of the requirement to request a written assertion from the responsible party (when the practitioner reports directly on the subject matter) should have on a practitioner’s independence considerations.</p>	
Determine whether proposed changes to attestation standards are aligned with AICPA Code of	BDO	<p>We also believe that the ASB should further explore whether the proposed changes to the attestation standards are aligned with the AICPA Code of Professional Conduct given the nature of the changes to the performance of attestation engagements</p>	
	GAO	<p>Finally, we believe that the ASB should work with the Professional Ethics Executive Committee to determine whether the current independence standards are sufficient in cases where there</p>	

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<p>Conduct independence re</p>	<p>A-LIGN</p>	<p>is no assertion and the practitioner has prepared the subject information or whether there should be further restrictions.</p> <p>A-LIGN conceptually agrees with bringing the attestation standards in alignment with ISAE 3000. However, A-LIGN agrees with the following concerns noted in the dissenting opinions within the exposure draft. There are concerns related to independence that have not been fully resolved, including concerns that changes to the attestation standards challenge certain standards in the AICPA Code of Professional Conduct ('the code'), and whether the code fully contemplates the types of services being envisioned by the proposed standard and the independence required of the practitioner to perform such services (for example, new services may pose threats to the independence of the practitioner).</p>	
<p>Issues related to practitioner being the only measurer or evaluator</p>			
<p>62e A89 Independence concerns</p>	<p>Beth Schneider</p>	<p>Paragraph .A89 states that the practitioner may include a statement in the report that the responsible party did not measure or evaluate the subject matter in accordance with the criteria but fails to provide any guidance as to what other party performed such measurement or evaluation. As discussed earlier, the practitioner should not assume such responsibility because of potential independence issues that such initial measurement or evaluation could create under existing independence standards.</p>	
<p>Preconditions</p>			
<p>25b Preconditions Independence RP party should take responsibility for subject matter itself,</p>	<p>D&T</p>	<p>Subtopic 1.297.010 of the Code stipulates that the “covered member needs to be independent with respect to the responsible party(ies), as defined in the SSAEs.” In turn, paragraph 10 of AT-C 105 in the ED defines a responsible party as “[t]he party responsible for the subject matter, which is a party other than the practitioner.” This concept is fundamental to accepting an attestation engagement and is critical in the determination of independence by the practitioner. In extant paragraph 25a of AT-C 105 when establishing that the preconditions for an attestation engagement are present, the practitioner determines that “[t]he responsible party is a party other than the practitioner and takes responsibility for the subject matter.” D&T agrees with the precondition requirement of extant AT-C 105 as it is aligned with the concepts in the Code, as well as the definition of responsible party in AT-C 105 in the ED.</p> <p>In the ED one of the preconditions for an attestation engagement was amended as follows (amendments shown in bold text and strikethrough): “Whether the the responsible party is a party other than the practitioner and takes responsibility for the subject matter in accordance with (or based on) the criteria.” The addition of the phrase “in accordance with (or based on) the criteria” is contrary to the defined term and goes to the measurement or evaluation of the subject matter in accordance with (or based on) the criteria (and the resulting outcome). It does not address the foundational requirement that the responsible party should take responsibility</p>	

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		for the subject matter itself. As drafted, it is conceivable that the responsible party may not take responsibility for the subject matter, but rather would take responsibility only for the measurement or evaluation of the subject matter based on the criteria. We do not believe this was the ASB's intent in proposing to amend the wording of the precondition, and instead we recommend that the ED revert to the extant requirement.	
	Piercy Bowler Taylor & Kern	<p>We fully support views expressed by four of the five dissenting Board members (<i>i.e.</i>, Brodish, Burzenski, Cascio, and Kassman) principally in relation to proposed changes in AT-C section 215, as set forth on pages 16–21 of the ED and summarized in the following bulleted paragraphs:</p> <ul style="list-style-type: none"> • Ms. Burzenski: (3) “the types of services being envisioned by the proposed standard and the independence required of the practitioner necessary to perform such ... may pose threats to the appearance of independence,” • Mr. Cascio: (3) “questions raised ... about independence considerations related to direct engagements, are matters that should have been more thoroughly vetted prior to approving the proposed amendments for exposure,” and • Ms. Kassman: (2) “for the responsible party to not provide a written representation ... fundamentally seems to contradict the importance of identifying a “responsible party,” even more so as it is a fundamental principle of independence 	
Independence and Review Engagements			
Developing the criteria in a review engagement	Singer Lewak	The proposed application guidance (AT-C 210.A8) permits the practitioner to recommend, develop or assist in developing the criteria for the engagement. This guidance may create an independence concern if the practitioner is both developing the criteria and testing the criteria through procedures selected by the practitioner, even when the engaging party agrees to the criteria.	
	Ohio Society of CPAs	The proposed application guidance (AT-C 210.A8) permits the practitioner to recommend, develop or assist in developing the criteria for the engagement. This guidance may create an independence concern if the practitioner is both developing the criteria and testing the criteria through procedures selected by the practitioner, even when the engaging party agrees to the criteria.	
	Crowe LLP	The proposed application guidance (AT-C 210.A8) provides that the engaging party may request that the practitioner recommend, develop or assist in developing the criteria for the engagement. We believe that this guidance may create an independence concern if a practitioner is both developing the criteria and testing the criteria through procedures selected by the practitioner.	
Independence and AUPs			

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AUPs	Texas Society of CPAs	We do not support this proposed revision to AT-C section 215. The concern is that if no party is responsible for sufficiency, then you are auditing and accepting your own work, which could result in an independence issue. If no one is responsible for the sufficiency of the procedures, the courts will ultimately decide what is sufficient	
AUPs	Illinois CPA Society	ii. Independence – the proposed standard does not address what changes would be needed to ET 1.297.020 to align both standards and to protect practitioners’ reputation and appearance of independence.	
AUPs	CliftonLarson Allen	<p>In practice, it is very common for the practitioner to work closely with their smaller less sophisticated clients in developing appropriate procedures to be performed. However, we have concerns about how those changes align with the current SSAE framework included in Interpretation 1.297.010, <i>Application of the Independence Rule to Engagements Performed in Accordance with Statements on Standards for Attestation Engagements of the AICPA Code of Professional Conduct</i> (the “Code”).</p> <p>Also, we have concerns about the ability of the practitioner to maintain independence if the practitioner is able to develop the selected procedures without another party assuming responsibility for the sufficiency of the selected procedures to ensure they meet the intended purpose of the engagement.</p>	
AUPs	E&Y	However, because a practitioner could assume responsibility for the sufficiency of the procedures performed for the intended purpose of the engagement, users of the reports may interpret that to mean the practitioner is providing assurance, which is inconsistent with the nature of AUP engagements. This would also be inconsistent with the existing independence requirements for these engagements. We recommend that the proposed standard include language that prohibits the practitioner from assuming responsibility for the sufficiency of the procedures.	
AUPs	Ohio Society of CPAs	This change increases the risk to the practitioner, and the committee felt management of the engaging party should accept responsibility for the sufficiency of the procedures in order to preserve the independence of the practitioner. The committee understands and supports the intent to align the proposed standard with the assistance a practitioner may provide in current practice. The committee believes however, that the engaging party has the ability and knowledge to take responsibility for the sufficiency of the procedures even if the practitioner helped develop the procedures. The committee discussed whether this was similar to an audit, in that a client does not take responsibility for the procedures in an audit, however discarded this argument since the client does take responsibility for the financial statements in a representation letter. The committee understands procedures may change over the course of an engagement, however felt that the acceptance of these modifications through the engaging party’s approval of a draft report was appropriate and did not create an administrative burden of obtaining a revised engagement letter each time a procedure changed	

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AUPs	North Carolina Association of CPAs	However, the Committees believe that in situations where the engaging party will be relying on the results of the agreed-upon-procedures engagement to make management decisions, the independence of the practitioner could potentially be impaired if the practitioner develops the procedures and assumes responsibility for the sufficiency of those procedures. If the independence of practitioners is impaired, it decreases the amount of confidence that third party users can place on the results, which is not in the best interest of the public.	
AUPs	Florida Institute of CPAs	However, even though we agree on those changes mentioned above, we disagree with the proposed revision to AT-C 215 whereby no party would be required to accept responsibility for the sufficiency of the procedures. We believe that change to the attestation standard would jeopardize the practitioner's independence and may even open door to unnecessary liability risks.	

**Professional Ethics Executive Committee
Planning Subgroup
2019 Project Strategy and Work Plan**

Planning Subgroup Members

Sam Burke, Bob Denham, Carlos Barrera, Lisa Snyder, TBD

Staff

Toni Lee-Andrews, Ellen Gorla, Brandon Mercer

Reason for Agenda Item

The objective of this agenda item is to obtain the Committee's feedback on the highlights of the 2019 Project Strategy and Work Plan (SWP), and to facilitate discussion of issues and topics that the Committee wishes to address in the near future. The feedback obtained will be utilized in preparing a SWP Consultation Paper that will serve to obtain additional feedback on items to include in the Committee's [Three-Year Project Agenda](#).

The purpose of the PEEC 2019 SWP is to establish strategic priorities for PEEC that continue to be in alignment with the strategic initiatives of the Association and its mission, and to create a framework for PEEC standard setting and member enrichment activities going forward.

Strategic Priorities

In order to properly allocate resources and prioritize the most significant items of public interest, the SWP will note broad strategic priorities of the Committee and will include specific objectives and project initiatives that align with the Association's strategic priorities. The strategic priorities will guide the Committee and staff in specific objectives and projects that will be included in the Committee's ongoing [Three-Year Project Agenda](#). The strategic priorities will be formulated based upon feedback obtained from both internal and external stakeholders, as well as from members of PEEC.

Feedback Gathered to Date*Internal and External Stakeholders*

Ethics Division staff previously consulted with both internal and external stakeholders to obtain feedback on what issues and topics are becoming more prevalent in the profession and may need to be addressed by the Committee. The following list is not all inclusive, but presents highlights of the topics noted in the consultations:

- Confusion regarding documentation required for non-attest services
- Code interpretations related to previous employment/association with an attest client – potential inconsistencies between two interpretations
- Ethics hotlines at the state society level – should PEEC provide guidance regarding whether state societies should have ethics hotlines and the logistics surrounding the management of an ethics hotline?

- Conceptual Framework – clarity needed surrounding what is a “threat” and what is an “acceptable level” – do interpretations of the terms vary?
- Members’ obligations to report wrongdoing of others to legal authorities, state boards, etc.; particularly in cases where there is a break in employment and it is not clear what information can be disclosed to a subsequent prospective employer.
- Cybersecurity – Should there be minimum safeguards for CPA firms to maintain to protect client data (i.e., encryption, written policy)? What are members’ obligations in securing data collected from clients? What are members’ obligations if there is a data breach?

Feedback from Other Sources

Other sources of information, including feedback from Committee members and data from the Ethics Hotline will be utilized in identifying topics or matters that may need to be addressed by member enrichment activities or by revisions to the Code. For example, high volume of questions on a specific topic or interpretation may necessitate an FAQ or other supplemental guidance. The Division is in the process of migrating to an improved hotline database system that will generate more useful reports for the Committee’s review in this regard, and to provide more information about what questions need to be addressed.

Committee members have also noted the following topics or initiatives that could be addressed:

- Explore ways to clarify the application of the Conceptual Framework approach in the form of tools and resources for members.
- Consider what updates may be needed to the Code for current technology and workplace environment. For example, the concept of an “office” has changed due to the development of cloud systems and the increase in telecommuting arrangements, but the Code does not consider remote work arrangements in determining whether an individual is part of the same “office” as the attest engagement partner.

Action Needed

Staff requests that the Committee brainstorm and discuss any additional topics that should be addressed by the Committee which are in the public interest and in alignment with the strategic initiatives of the Association.

Additionally, staff requests that if any Committee members are willing to participate on the PEEC Planning Subgroup, which will collaborate with staff in preparing the 2019 SWP, please send an email Brandon Mercer at brandon.mercer@aicpa-cima.com.

Expected Timeline

Gather Feedback from Stakeholders (via email, phone, observation of committee meetings, joint meetings with internal committees)	January – April 2019
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External: CAQ, NASBA, DOL, SEC, GAO, PCAOB, AAA, NSAA, state society ethics committees, and other external stakeholders. Internal: EBPAQC, GAQC, CPEA, ASB, PRB, TIC, PCPS, ARSC, TEC, ASEC, ARAP, PEEC	
PEEC Consideration of Feedback and draft Consultation Paper	May 2019
Approval and Issuance of Consultation Paper for comments	August 2019
Deadline for Comments	October 2019
Approval of Final 2019 SWP	November 2019

Materials Presented

N/A

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL ETHICS DIVISION
PROFESSIONAL ETHICS EXECUTIVE COMMITTEE
OPEN MEETING MINUTES
November 6, 2018

The Professional Ethics Executive Committee (Committee) held a duly called meeting on November 6-7, 2018 at the AICPA offices in Durham, NC. The meeting convened at 9:00 a.m. and adjourned at 4:00 p.m. on November 6, 2018. The meeting reconvened at 9:00 a.m. on November 7, 2018 and concluded at 9:45 a.m. on November 7, 2018.

<p><u>Attendance:</u> *Samuel L. Burke, Chair *Coalter Baker Carlos Barrera Stanley Berman Chris Cahill *Tom Campbell Robert E. Denham Anna Dourdourekas Brian S. Lynch</p> <p>*Participated by phone</p>	<p>William Darrol Mann William McKeown Steven Reed James Smolinski Lisa Snyder Kelly Hunter Stephanie Saunders Martin Levin</p> <p><u>Not in attendance:</u> Shelly Van Dyne Sharon Jensen Greg Guin</p>
<p><u>Staff:</u> James Brackens, VP - Ethics & Practice Quality Toni Lee-Andrews, Director Ellen Gorja, Associate Director Brandon Mercer, Senior Manager</p> <p>*Participated by phone</p>	<p>April Sherman, Manager Shannon Ziemba, Manager James West, Manager Michele Craig, Manager *Jennifer Kappler, Manager Jennifer Clayton, Senior Manager John Wiley, Manager *Melissa Powell, Manager Summer Young, Manager Henry Grzes, Lead Manager – Tax Practice & Ethics Kristy Illuzzi, TIC Staff Liaison Kelly Mullins – Manager, Support Services Jackie Breeze – Administrative Assistant Elaine Bagley – Administrative Assistant Dee Talley – Administrative Assistant Karen Puntch – Case Investigator</p>
<p><u>Guests:</u> Jeff Lewis, Chair, Independence/Behavioral Standards Subcommittee</p>	

Ian Benjamin, Chair, Technical Standards Subcommittee
Dan Dustin, NASBA
Catherine Allen, Audit Conduct
Nancy Miller, KPMG
Jason Evans, BDO
Kelly Hnatt, External Counsel
Sonia Araujo, PwC
Paula Tookey, Deloitte
Jennifer Kary, Crowe Horwath
Liese Faircloth
James Dalkin, GAO
Robert Cherry
*Barbara Romer, PwC
*Joe Scutellaro, Chair – AICPA Tax Practice & Ethics Committee
*Elliott Hendler, AICPA Independence/Behavioral Standards Subcommittee
*George Dietz, PwC
*Donna Oklok
*Gregory Arnott
*James Mytrohovich
*Flo Ostrum
*Farrell Steiner
*Heather Acker

*Participated via phone

1. **Welcome and Introductions**

Mr. Burke welcomed the Committee.

2. **Leases**

Ms. Snyder presented the task force's agenda materials to the Committee, which included revisions to the exposed revisions to the Leases interpretation. Ms. Snyder noted that a specific subset of covered members (members of the engagement team, members in a position to influence the engagement, and the firm) are addressed in paragraph .02 and are subject to specific safeguards or requirements, including the requirement that the lease is not material to the covered member or the attest client. Since leases with other types of covered members are not specifically addressed in the revised interpretation, members would be required to use the Conceptual Framework to evaluate threats to independence created by a lease with the attest client. The Committee was in agreement with remaining silent, because the Code requires members to use the Conceptual Framework for scenarios that are not specifically address in the interpretations. In addition, if there is a change in circumstances after the lease us entered in compliance with paragraph .02, and the lease becomes non-compliant (for example, the lease becomes material to the covered member or the attest client), the member would be required to use the Conceptual Framework approach to evaluated the threats created by the circumstances. If the lease was not entered into during the period of professional engagement (i.e., entered into prior to independence being required), the member would apply the Conceptual Framework and

apply safeguards as necessary. The Committee made some minor edits and was in support of the proposed revisions.

Ms. Snyder presented the task force's proposed revisions to the Client Affiliates interpretation. The revisions provided that the Conceptual Framework approach would apply to leases between the subset of covered members named in paragraph .02 of the Leases interpretation and certain affiliates (type c – l) of the attest client. The Committee was in support of the suggested revisions.

Ms. Snyder noted that the task force suggested a final effective date of fiscal years beginning after December 15, 2019, with early implementation allowed.

It was moved, seconded, and unanimously passed to adopt the revised Leases interpretation and the revised Client Affiliates interpretation.

3. Staff Augmentation

Ms. Snyder presented the task force's proposed standard to the Committee, and requested that the Committee approve exposure of the proposal for comments. The primary area of question was the notion of duration of an arrangement and related characteristics, such as frequency, exclusivity, and continuity. The task force's proposal included the term "limited period of time" to describe the concept as a safeguard in the proposal. However, some members questioned the clarity and suggested other terms such as short period of time. Some members noted that interpretation of short period of time can vary based upon the engagement. After discussion, the Committee determined that a question should be included in the exposure draft specifically requesting comment regarding the concept of duration and related terminology.

The Committee re-established its position that such arrangements are a non-attest service and that the proposed interpretation should be included within the Nonattest Services interpretation in the AICPA Code. In addition, the Committee agreed that it did not appear necessary to apply limitations for affiliates of an attest client at this time, although some noted that parent affiliates could create independence issues. The Committee agreed to include a specific request for comment regarding the limitations that should apply to affiliates and to revisit the issue in the comment period.

It was noted by several Committee members that some state board representatives are not in favor of the proposal in general, due to the potential impact on small firms that may perform services under such arrangements. There would be difficulty in knowing when a threshold is crossed from a duration view, more so with small firms. However, state board representatives will consider comments that come in through the comment letter review process and will update their position if necessary at a later date.

The Committee agreed that a proposed effective date with six months delay was appropriate, and a comment letter period of ninety days.

It was moved, seconded, and unanimously passed to expose the proposed interpretation for comment.

4. Disclosing Information in Connection with a Quality Review

Mr. Mercer and Mr. Grzes presented a summary of comment letters received in response to the exposure draft. Mr. Mercer noted that the primary suggested revision by staff is that the member should be satisfied that the reviewer is in compliance with the IRC requirements applicable to such reviews, rather than only aware of the requirements. After discussion, the Committee agreed that the member should be satisfied that the reviewer is aware and subject to the IRC requirements, rather than require the member to determine another's full compliance with the IRC.

After edits, it was moved, seconded, and unanimously passed to adopt the interpretation as revised, to be effective on the last day of the month in which notice appears in the Journal of Accountancy.

5. Information Technology Services – Hosting Services

Ms. Miller noted that the task force has begun clarifying the March 2018 proposed interpretation for better understandability and to help guard against obsolescence in a short period of time due to the rapid changes in technology.

In par. 01, the task force clarified that the interpretation applies to nonattest services, that is, does not address audit services, which resolved some of the comments.

The interpretation is financial statement audit-centric; the task force did not address other assurance engagements although they are considering a statement that would require members to analogize the interpretation to other nonaudit attest engagements, such as SOC engagements. Staff asked whether it would be preferable to revise the modified independence interpretation in the Code (1.297), which is applicable to nonaudit attestation engagements (e.g., SSAEs). One member thought adding a statement about other attest engagements would “muddy up” the interpretation. Ms. Miller noted that the Code does not include such independence guidance for other nonattest services and asked PEEC to consider other approaches. Some thought if the issue would not be discussed in detail in the interpretation, the task force should remove it completely as it adds confusion.

Jim Dalkin of the Government Accountability Office (GAO) thought this was an important issue – both in the US government and internationally. Another attendee noted that the issue of independence for nonaudit assurance engagements is currently on the IESBA's standard-setting agenda.

Ms. Miller noted that the task force's biggest challenge identified so far has been defining a financial information system (FIS). Defining certain prohibited activities is also a challenge. One member asked whether the task force would consider giving examples of a system that is not a FIS, e.g., e-mail, network systems, or SharePoint sites that (apparently) don't touch the financial statements.

The task force believes members will need implementation guidance, e.g., illustrations, etc. AICPA staff is keeping a running list. Guidance would be nonauthoritative; since technology changes so rapidly, using nonauthoritative guidance, e.g., a thought paper, and keeping the

Code's interpretation to concepts rather than detailed guidance, which may improve ongoing relevance.

6. IESBA Update

Ms. Gorla gave provided an update on the IESBA's recent activities. Ms. Gorla indicated that the professional skepticism project (renamed), which would apply to all professional accountants (not solely auditors), is moving forward, as are projects to examine nonaudit services and fees. Ms. Gorla noted that IESBA issued its Inducements standard and the AICPA staff has performed a gap analysis, concluding (at this point) that the AICPA Code appears to be more restrictive from an independence standpoint, but possibly less restrictive with respect to the Code overall (e.g., AICPA does not address the involvement of immediate family members). She will confirm whether IESBA considers inducements and independence an open issue, and if not, the PEEC can proceed with a convergence project on the subject.

7. Monitoring Group

Ms. Gorla provided an overview of the paper entitled "Perspectives on the Way Forward for Strengthening the Oversight and Operations of the International Audit & Assurance and Ethics Standards Boards" with the Committee. Ms. Gorla also noted that that the Public Interest Oversight Board and the MG have drafted a public interest framework. It was noted that the SEC Chief Accountant has been named chair of the MG. More information is expected in the coming months.

8. NOCLAR

Mr. Denham reported on task force activity since the August PEEC meeting. Mr. Denham, Ms. Hnatt, Mr. Brackens, and Ms. Lee-Andrews attended a combined UAA meeting to discuss NOCLAR on September 12-13th. At this meeting, Stavros Thomadakis, IESBA Chairman presented the evolution of NOCLAR at the international level and Mr. Denham presented PEEC's convergence efforts to date. In addition, breakout sessions were held with UAA committee members discussing their thoughts as to the direction of NOCLAR and included discussions regarding disclosure allowed or required when NOCLAR is discovered in attest engagements (after other measures are followed), disclosure of NOCLAR in non-attest engagements and if this determination should be deferred until a future date, and disclosure only allowed/required when corresponding whistleblower protection exists. There has been agreement that the PEEC NOCLAR task force should be expanded to include four additional UAA members (two AICPA UAA members and two NASBA UAA members) as well as the co-chairs. This approach will allow for more efficient progress moving forward. Though members of the UAA volunteered at the meeting to join the NOCLAR task force, NASBA wanted to wait until after their annual meeting to name their members as NASBA appoints their committee members after their annual meeting. Once those are determined, the next task force meeting will be scheduled. In addition, as previously reported, reach out has been made to several jurisdictions who reported on NOCLAR at the National Standard Setters meeting in May. Conversations with Canada and New Zealand have taken place thus far.

9. External Directors

Mr. McKeown presented the task force's agenda materials to the Committee. Mr. McKeown noted that the task force and staff have drafted a set of FAQ to address the applicability of

the Independence Rule to firms' external directors and will have a conference call in the near future to continue work on the FAQ. The general concept is that external directors may be covered members if they are in a position to influence the attest engagement (due to activities performed as a board member), and if they are not, they may be considered to be a professional employee of the firm. In either case, the task force is considering whether recusal would be an appropriate safeguard and whether other safeguards are appropriate in such situations. It was noted that not all directors would be involved in activities that would render the individual a covered member. One member suggested that the FAQ approach the question as what the director should avoid doing in his/her position. After discussion, Mr. McKeown noted that the task force would continue its discussions and report back to the Committee at the February meeting.

10. Minutes of August 2018 PEEC Open Meeting

It was moved, seconded and unanimously agreed to adopt the minutes from the August 2018 open meeting.

11. State and Local Government

Ms. Miller discussed the latest revisions to the July 2017 ED that defines the affiliates of a SLG for purposes of independence.

“Upstream” Entities

Task Force Chair Nancy Miller said the task force believes there could be significant threats when an upstream entity (i.e., an entity that is “above” the financial statement attest client in its organizational structure) is affiliated with an audit client. However, the feedback received on the ED was that the operational cost of mandating the conceptual framework could outweigh the benefits. The task force offered the following compromise regarding when to apply the conceptual framework:

- Eliminate the mandate to consider upstream entities but say there could be situations where you would apply the framework; give several examples that are specific to the government environment.
- Create implementation guidance to assist members.

This results in an upstream entity not being treated as an affiliate, but members would consider situation when the application of the conceptual framework may be appropriate. Members expressed agreement with this approach.

Re-exposure

Ms. Miller stated that the task force believes there could be benefits gained from re-exposing the revised proposal, which they believe is responsive to the comments. However, they did not think re-exposure was necessary and asked the PEEC for their preference. PEEC members agreed it would be best to make final edits to the revised interpretation and vote on whether to re-expose to the membership for comment.

It was moved, seconded, and unanimously passed to re-expose the revised, proposed interpretation for a 60-day period.

The open meeting concluded at 9:45 a.m. on November 7, 2018.