



# Professional Ethics Executive Committee

Open meeting agenda

**August 11, 2020**  
**Virtual**



**AICPA Professional Ethics Executive Committee  
Open Meeting Agenda  
August 11, 2020**

Open meeting: Phone access: +1 312 626 6799 (US Toll) or +1 646 876 9923 (US Toll)  
Meeting ID: 922 7396 0042 | Web access: <https://aicpa.zoom.us/j/92273960042>  
International numbers available: <https://aicpa.zoom.us/u/abVOaHOFb4>  
Observers must register: [Registration link](#)

<i>August 11<sup>th</sup></i>	<i>Open meeting begins</i>	
10:00 a.m. – 10:05 a.m.	<b>Welcome</b> Mr. Lynch will welcome the committee members and discuss administrative matters.	
10:05 a.m. – 10:35 a.m.	<b>NOCLAR</b> Mr. Denham and Ms. Craig will provide an update on task force activities.	<b>Agenda item 1</b>
10:35 a.m. – 11:20 a.m.	<b>Staff augmentation</b> Ms. Snyder and Mr. Wiley will request the committee’s approval for re-exposure of the revised proposal for comment.	<b>Agenda item 2A</b> <b>Agenda item 2B</b>
11:20 a.m. – 11:40 a.m.	<b>Inducements</b> Ms. Dourdourekas and Ms. Craig will update the committee on the draft practice aid.	
11:40 a.m. – 12:15 p.m.	<b>Strategy and work plan</b> Mr. Lynch and Ms. Klepcha will request the committee’s approval to issue the Strategy and Work Plan.	<b>Agenda item 3A</b> <b>Agenda item 3B</b> <b>Agenda item 3C</b> <b>Agenda Item 3D</b>
12:15 p.m. – 12:45 p.m.	<i>Break</i>	
12:45 p.m. – 1:15 p.m.	<b>Association update</b> Ms. Coffey will provide the committee with a professional issues update.	
1:15 p.m. – 1:45 p.m.	<b>IESBA update</b> Mr. Mintzer, Ms. Madden and Ms. Gorla will update the committee on the activities from the June meeting.	
1:45 p.m. – 1:55 p.m.	<b>Monitoring group recommendations</b> Ms. Gorla will provide the committee with an overview of the Monitoring Group’s recommendations to <i>Strengthen the International Audit and Ethics Standard-Setting System</i> . ❖ <b>External link:</b> <a href="#">Strengthening the International Audit and Ethics Standard Setting System</a>	

1:55 p.m. – 2:05 p.m.	<p><b>Statements on Standards for Tax Services</b> Ms. Saunders, Mr. Grzes and Mr. Wiley will provide the committee with a status report on this project.</p>	
2:05 p.m. – 2:10 p.m.	<p><b>Minutes of the PEEC open meeting</b> The committee is asked to approve the minutes from the May 2020 open meeting.</p>	<b>Agenda item 4</b>
	<p><b>Future meeting dates</b></p> <ul style="list-style-type: none"> <li>• November 17 - 18, 2020; Virtual</li> <li>• February 9 - 10, 2021*</li> <li>• May 4 - 5, 2021*</li> </ul> <p>* Meeting format not yet determined.</p>	



## Agenda item 1

### Non-Compliance with Laws and Regulations (NOCLAR) Task Force

#### Task force members

Bob Denham (Chair), Sam Burke, Brian Lynch, Bill Mann, Elizabeth Pittelkow, Stephanie Saunders, Lisa Snyder

Observers: Coalter Baker, Dan Dustin, Tom Neill

Staff: Toni Lee-Andrews, Jim Brackens, Ellen Gorla, Michele Craig, Skip Braziel

#### Task force charge

The task force's charge is to develop conforming guidance in response to standards entitled Responding to NOCLAR promulgated by the International Ethics Standards Board for Accountants (IESBA).

#### Reason for agenda item

To provide an update on the task force's activities on the proposed new interpretations 1.170.010 and 2.170.010, both entitled Responding to Non-Compliance with Laws and Regulations.

#### Task force activities

The task force has met four times since the May 2020 meeting to discuss pending issues and other matters related to the revisions of the extant proposed NOCLAR interpretations.

#### *Pending issues*

At the May PEEC meeting the task force reported several pending issues; use of the term "engaging entity," application of the guidance to all attest services, and additional guidance for members providing nonattest services. The task force met and decided on the following:

#### *Use of the term "engaging entity"*

The task force revisited when the use of the term "engaging entity" would be appropriate throughout the extant proposed interpretation and decided that the proposed language in the "Introduction" section, as presented at the May PEEC meeting, sufficiently explains that the member's responsibility applies to the engaging entity when the engaging entity and the subject entity are different. Accordingly, the task force determined that using the term "engaging entity client" throughout the proposed interpretation was not necessary.

#### *Application of guidance for members providing attest services*

For consistency within the proposed interpretation and IESBA's standards, the task force addressed whether the guidance for members providing attest services should apply to all attest services or financial statements audits and review services only. The task force agreed that the guidance should apply to all attest services and decided to use the term "financial statement

attest services” throughout the proposed interpretation except for the section related to group audits. If adopted, the AICPA’s proposed guidance for attest services other than audits would be more restrictive than IESBA’s standards.

#### *Additional guidance for members providing nonattest services*

For consistency with IESBA’s standards, the task force revised the extant proposed NOCLAR interpretation structure to clarify the separate guidance applicable for members performing attest services and members providing nonattest services. However, the task force’s revision to the extant proposed interpretation limited the guidance for members providing nonattest services to communicating matters to the client’s auditors. This proposed revision was not consistent with IESBA’s standards, as it provided less restrictive guidance for nonattest services than IESBA’s standards for nonaudit services.

The task force discussed this and agreed to include additional guidance for nonattest services that is consistent with IESBA’s guidance for professional accountants providing nonaudit services, but less restrictive than the AICPA’s proposed guidance for attest services. For example, members providing financial statement nonattest services would only be required to seek to obtain an understanding of the matter. Addressing the matter would be limited to communicating the matter to the appropriate level of management and those charged with governance, if the member has access to them, whereas members providing financial statement attest services are also required to advise management to take certain appropriate and timely actions when addressing a NOCLAR or suspected NOCLAR. Additionally, members providing nonattest services would be encouraged to document rather than required to document certain aspects of the NOCLAR or suspected NOCLAR.

#### **Exclusion of certain nonattest services from the proposed interpretation**

The task force is also addressing nonattest services that should be excluded from the guidance in the proposed interpretation. Specifically, the task force is reviewing services that were the subject of comment letters on the original exposure draft.

The task force identified forensic accounting services as the principal services where the interpretation should probably not apply, since a member may be specifically hired to address an identified NOCLAR. After reviewing the comment letters in response to the exposure draft, the task force agreed that forensic accounting services should be excluded from the guidance in the extant proposed interpretation. The task force decided that guidance addressing this exception would be included under the “Applicability” section of the extant proposed interpretation.

The task force is also considering other similarly situated nonattest services, such as engagements relating to tax controversies, where there may be applicable privileges that should be retained and would therefore be inconsistent with the NOCLAR requirements. The task force will be looking at language to cover these types of matters as well.

Question for the committee

1. Does the committee agree with the task force's direction of excluding certain nonattest services from the proposed interpretation?

**Other revisions to the extant proposed interpretation**

The task force removed the language throughout the interpretation specifically related to the member using his or her professional judgment to determine whether to withdraw from an engagement and documenting the member's course of action from a reasonable and informed third party perspective. The task force believes that this language is not necessary in this context and may create a loophole for litigation.

For members in business, the task force added factors, similar to IESBA's standards, that members would consider when determining whether to disclose a NOCLAR or suspected NOCLAR to an appropriate authority. Specifically, if protection exists, such as under whistle-blowing legislation or regulation.

**ASB and joint AICPA/NASBA UAA/PEEC task force update**

The ASB's NOCLAR task force (ASB task force) met in June and discussed the proposed language to be included in its revised standards. The ASB task force will present the proposed amendment to the ASB for feedback at their July 20-23 meeting. According to their proposed timeline, the ASB task force expects the ASB to vote on exposure of the revised standards in October 2020.

The joint task force will meet at the end of July and discuss the status of NOCLAR since their last meeting in July 2019.

### **Staff Augmentation Task Force**

#### **Task Force members**

Lisa Snyder (Chair), Coalter Baker, Jeff Lewis, Brian Lynch, Nancy Miller  
Staff: Ellen Gorla, John Wiley

#### **Task Force charge**

The Staff Augmentation Task Force's initial charge is to study the issue of staff augmentation and independence and determine whether additional guidance for members is warranted.

#### **Reason for agenda item**

The task force seeks the committee's approval to expose the proposed revised "Staff Augmentation Arrangements" interpretation (ET Section 1.275.040) found in **Agenda item 2B**.

#### **Summary of issues**

The general sense from the May meeting was that many committee members believed the current proposal was a step in the right direction to protecting the public interest while at the same time providing members with some ability to step in and serve their clients in extreme circumstances. While some members believed the interpretation could be too restrictive, they noted that overall it struck a good balance and addressed many of the concerns expressed by committee members in February. It was agreed that the task force's next steps would be to

- revise the proposed interpretation to remove the affiliates exception.
- develop questions for the exposure draft including questions about whether staff augmentation arrangements for attest clients should be permitted at all, and if they are, should an exception be made for certain affiliates.
- develop examples of the application of different affiliates scenarios for the exposure materials to highlight and educate those who may not be familiar with the complexities of affiliates in daily practice.
- develop potential exemptions for Agreed Upon Procedure (AUP) engagements and exposure draft questions for other engagements under the Statements on Standards for Attestation Engagements (SSAEs).
- bring a draft exposure draft to the next meeting so that the committee could see how all of the above components would read.

#### **Engagements performed under the SSAEs**

The application of the "Independence Rule" (1.200.001) in the code is modified with respect to engagements performed under the SSAEs. Specifically, when the only services that a member is providing that require independence are engagements under the SSAEs, members only need to be independent of the responsible party and not the engaging party when the two parties are different.

In addition, the nonattest services interpretations under the "Independence Rule" are modified for these clients based upon the type of SSAE engagement the member is performing. When the SSAE engagement is only an AUP engagement, the member may perform prohibited nonattest services (e.g., hosting services) and is not required to comply with the ["General](#)

[Requirements for Performing Nonattest Services](#)” interpretation (1.295.040), provided the nonattest services do not relate to the specific subject matter of the AUP engagement.

When the SSAE engagement is something other than an AUP engagement, the member may perform prohibited nonattest services provided the nonattest services do not relate to the specific subject matter of the SSAE engagement and provided the *member does comply* with the “[General Requirements for Performing Nonattest Services](#)” interpretation (1.295.040).

During the May meeting, it was agreed that the task force should develop an exemption for AUP engagements performed under the SSAEs and an exposure draft question for other engagements performed under the SSAEs. This exemption was considered necessary because by moving the proposed interpretation out of the Nonattest Services subtopic, services provided by augmented staff would not be eligible for application of the independence modifications related to nonattest services.

The task force recommends the exemption found on page 13 of **Agenda item 2B** be exposed so that members who are only providing AUP services to a client could provide the AUP client with augmented staff as long as the services the augmented staff are providing do not relate to the specific subject matter of the AUP engagement. The task force also recommends that the exposure draft ask commenters whether the exemption should extend to all SSAE engagements or should be limited to only AUP engagements performed under the SSAEs.

#### ***Draft exposure draft***

Since the committee requested a draft exposure draft be brought to the next meeting, a draft was sent to the committee prior to the meeting. Staff reviewed the feedback and made some revisions to the document. While most of the revisions were to the explanation section of the document, a few edits were made to the text of the interpretation and these appear in yellow highlight. The most significant change was to the safeguard that augmented staff does not participate on the attest engagement team. This safeguard was clarified that the prohibition extends during the period covered by the staff augmentation arrangement.

During this review, the following questions were posed that staff seeks input on:

- Could clarification be made to what is meant by the engagement is not reoccurring? For example, what happens if two years down the road the client ends up in a similar unexpected situation?
- Should the affiliate exception discussed in paragraph 19 of the explanation section of the exposure draft have the following statement added to the end of the paragraph:  
“If safeguards cannot be applied to eliminate or reduce the threats to an acceptable level, [independence will be impaired/the member should not enter into the staff augmentation arrangement].”
- Instead of asking a question, should the exposure draft include a proposed nonattest services exemption for engagements performed under the SSAEs other than AUPs when the services provided by the augmented staff do not relate to the specific subject matter of the SSAE engagement?
- Should the exposure draft include a question on whether commenters believe staff augmentation is viewed as simultaneous employment or as a nonattest service?

### Effective date

The task force continues to believe that the proposal should be effective six months after publication in *The Journal of Accountancy*.

### Action needed

The committee is asked to approve **Agenda item 2B** for exposure. The committee is also asked to discuss whether a 60-day comment period is sufficient given the current environment.

### Communications plan

Ms. Mullins would work with task force staff to develop an appropriate communications plan.

### Materials presented

**Agenda item 2B**      Draft exposure draft

# Exposure draft

## Proposed interpretation

### Staff Augmentation Arrangements

## **AICPA Professional Ethics Division X X, 2020**

### **Comments are requested by X X, 2020**

Prepared by the AICPA Professional Ethics Executive Committee for comments from those interested in independence, behavioral, and technical standards. Please address comments to Ethics-Exposedraft@aicpa.org

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XX, 2020

If you're an AICPA member or someone interested in the ethics of auditing and accounting, we want to hear your thoughts on this ethics exposure draft!

This proposal is part of the AICPA's Professional Ethics Executive Committee (PEEC) project to further its convergence efforts with the standards of the International Ethics Standards Board for Accountants (IESBA), specifically section 525 Temporary Personnel Assignments.

This exposure draft is an explanation of the proposed pronouncement and the full text of the guidance being considered.

After the exposure period concludes and PEEC has evaluated the comments, PEEC may decide to publish the new interpretation.

Your comments are an important part of the standard-setting process; please take this opportunity to comment. Responses must be received at the AICPA by XX, 2020. All written replies to this exposure draft will become part of the public record of the AICPA and will be available at [www.aicpa.org/peecprojects](http://www.aicpa.org/peecprojects). PEEC will consider comments at its subsequent meetings.

Please email comments to [Ethics-ExposureDraft@aicpa.com](mailto:Ethics-ExposureDraft@aicpa.com).

Sincerely,

Brian S. Lynch, Chair  
Professional Ethics Executive Committee

Toni Lee-Andrews, Director, CPA, PFS,  
CGMA  
Professional Ethics Division

## Professional Ethics Executive Committee (2020–2021)

Brian S. Lynch, *Chair*

Catherine Allen

Chris Cahill

Thomas Campbell

Robert E. Denham

Anna Dourdourekas

Anika Heard

Kelly Hunter

Sharon Jensen

Jennifer Kary

G. Alan Long

Jefferey Lewis

William McKeown

James Newhard

Stephanie Saunders

Lewis Sharpstone

Lisa Snyder

Peggy Ullmann

Douglas Warren

Larry Wojcik

### Staff Augmentation Task Force

Lisa Snyder, *Chair*

J. Coalter Baker

Jeffery Lewis

Brian Lynch

Nancy Miller

### Ethics division task force staff

Ellen T. Goria, CPA, Associate Director Global Professional Ethics

John Wiley, CPA, ABV, CGMA, Manager

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DRAFT

## Explanation of the revised proposal of the interpretation

The Professional Ethics Executive Committee (PEEC) is re-exposing for comment a new interpretation, “Staff Augmentation Arrangements.” If adopted as final, the new interpretation will be in ET sec. 1.275.007 of the AICPA Code of Professional Conduct.<sup>1</sup>

### I. Staff augmentation arrangements

1. A staff augmentation arrangement is when a firm provides human resource capital as a service to clients. These arrangements are sometimes referred to as *loaned staff arrangements*.
2. Typically, when a member or member’s firm (member) provides a nonattest service to an attest client, the member is directly responsible for the direction and supervision of the activities of the staff providing the service. However, in a staff augmentation arrangement, and as required under existing IESBA standards, the client is responsible for directing and supervising the activities of the staff being loaned to the client (hereinafter referred to as “augmented staff”).

### II. Background

#### *Original proposed interpretation*

3. As part of its international convergence efforts, on December 7, 2018, PEEC issued an exposure draft proposing a new interpretation, “Staff Augmentation Arrangements,” under the “Nonattest Services” subtopic (ET 1.295.157) (original proposal).
4. In the original proposal, PEEC proposed that if certain safeguards were met to address the threat of the appearance of a prohibited simultaneous employment relationship with the attest client, staff augmentation services would be permitted provided any such threats were reduced to an acceptable level.

#### *NASBA’s feedback to original exposure draft*

5. PEEC received 11 comment letters on the original proposal. All but 3 commenters were supportive of the proposal. Two of the 3 commenters<sup>2</sup> who did not support the proposal believed the code already addressed this guidance in the “Nonattest Services” subtopic (ET sec. 1.295) and the “Conceptual Framework Approach” subtopic (ET sec. 1.210).
6. The third commenter that was unsupportive of the proposal was [NASBA](#). NASBA’s comment letter noted that the appearance of prohibited employment cannot be overcome by the application of safeguards; the proposal weakens the code’s independence requirements

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<sup>1</sup> All ET sections can be found in AICPA *Professional Standards*.

<sup>2</sup> [CL 1 and CL 7](#)

thereby not serving the public or profession's interests; and, the proposal will be challenging to interpret, apply and enforce. NASBA's letter recommended PEEC not adopt the proposed interpretation because of its view that lending staff to perform staff augmentation services under the client's supervision is inconsistent with the existing and longstanding provision in the code that bars simultaneous employment with an attest client.

7. Given NASBA's opposing view, PEEC asked NASBA to solicit additional feedback from its member state boards of accountancy. After soliciting feedback from the state boards, NASBA communicated to PEEC in August 2019 that the NASBA board of directors voted unanimously to oppose PEEC's proposed interpretation on staff augmentation arrangements and continued to support the positions previously provided in the NASBA comment letter. NASBA further explained that based on the additional input it received from various presidents, chairs and executive directors of state boards, and NASBA board members, there was a strong belief that PEEC should not move forward with this exposure draft.

#### ***Discussions related to NASBA's concerns***

8. In light of NASBA's opposition to the proposed interpretation, PEEC held a number of discussions. These discussions resulted in a significant change in direction from the original proposal.
9. Draft revisions to the proposal included that staff augmentation arrangements would generally impair independence except under certain circumstances and moving the proposed interpretation from the Nonattest Services subtopic to the Current Employment or Association subtopic to be more consistent with IESBA's placement in its code. PEEC members who represented state boards were supportive of the draft position. On the other hand, certain PEEC members believed the draft revisions were too proscriptive, were more restrictive than IESBA's position and did not properly balance the actual and perceived threats created by these arrangements. To address the concerns that the draft revisions did not properly balance the actual and perceived threats and were more restrictive than IESBA's position, additional revisions were discussed including a possible exception for affiliates other than downstream affiliates (see "*Application of the proposed interpretation to affiliates*" section below).
10. At the February 2020 PEEC meeting, PEEC considered a January 17, 2020 resolution adopted by NASBA's board of directors that in effect stated that based upon overwhelming opposition expressed by state board representatives, the NASBA board of directors opposes any new interpretation of the AICPA Independence Rule that would allow a firm's staff to provide nonattest services to an attest client through a "staff augmentation" arrangement. Given this feedback, PEEC agreed to work with NASBA members to develop guidance that NASBA could support, as all agreed it was important that the final adopted standard be supported (and potentially adopted) by state boards of accountancy.

11. The task force solicited feedback from members of the NASBA Ethics Committee and agreed to recommend that PEEC expose a revised interpretation that would prohibit staff augmentation arrangements with

- a. attest clients (except in very limited situations)
- b. affiliates of financial statement attest clients but to solicit feedback on whether such arrangements should be permitted for certain affiliates (See “*Application of the proposed interpretation to Affiliates*” section below)

### III. Revised proposal

12. Given the input received, PEEC is issuing a revised proposal for the “Staff Augmentation Arrangement” interpretation that indicates such arrangements will impair independence except when certain safeguards are in place. These safeguards are as follows:

- a. The staff augmentation arrangement is being performed due to an unexpected situation that would create a significant hardship for the attest client to make other arrangements.<sup>3</sup>
- b. The augmented staff arrangement is not expected to reoccur.<sup>3</sup>
- c. The augmented staff arrangement is performed only for a short period of time. There is a rebuttable presumption that a short period of time would not exceed 30 days.<sup>4</sup>
- d. The augmented staff does not participate on the attest engagement team during the period covered by the staff augmentation arrangement.
- e. The augmented staff performs only activities that would not be prohibited by the “Nonattest Services” subtopic (ET sec. 1.295) of the “Independence Rule” (ET sec. 1.200.001).
- f. The member is satisfied that client management designates an individual or individuals who possess suitable skill, knowledge, and/or experience, preferably within senior management, to be responsible for
  - i. determining the nature and scope of the activities to be provided by the augmented staff;
  - ii. supervising and overseeing the activities performed by the augmented staff; and

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<sup>3</sup> The IESBA code does not include these safeguards so the proposal is more restrictive than the international standard.

<sup>4</sup> The IESBA code does not define a short period of time so the proposal goes beyond the international standard.

- iii. evaluating the adequacy of the activities performed by the augmented staff and the findings resulting from the activities.

13. Accordingly, staff augmentation arrangements would generally be prohibited for an attest client except in very limited circumstances where the client has an “unexpected situation that would create a significant hardship” to make other arrangements, the engagement does not exceed 30 days, and the engagement will not reoccur.

#### ***Application of the proposed interpretation to affiliates***

14. Some members of PEEC believe that it is appropriate to permit an exception that would *potentially* allow staff augmentation arrangements with certain affiliates of a financial statement attest client. This exception would help address the concerns that the proposal does not properly balance the actual and perceived threats and is more restrictive than international requirements. However, given the feedback from the NASBA Ethics Committee, the proposed exception is not included in the proposal beginning on page 11, but rather discussed here. PEEC requests commenters provide feedback regarding whether this exception would be an appropriate addition to the code.
15. The exception envisioned would be similar to that afforded to nonattest services in [ET sec. 1.224.010 paragraph .02b](#) which allows a member to perform prohibited nonattest services to certain affiliates of a financial statement attest client when (i) the services provided by the augmented staff would not be subject to financial statement attest procedures and (ii) any other threats to independence are at an acceptable level.
16. The exception contemplated for staff augmentation arrangements could only be applied to a financial statement attest client’s affiliates “other than downstream affiliates”<sup>5</sup>. For “downstream affiliates”<sup>6</sup>, staff augmentation arrangements would generally be prohibited. For “other than downstream affiliates”, such as parent or brother-sister affiliates, the member would be required to evaluate the potential staff augmentation arrangement to determine if threats to independence are at an acceptable level and if not, determine if safeguards could be applied to reduce threats to an acceptable level. It is therefore *not* a blanket exception that would allow staff augmentation services for these affiliates in all circumstances.
17. For example, in the private equity environment, it is not uncommon for a private equity fund to invest in numerous portfolio companies that are under common control by the private equity fund. Often, the portfolio companies are unrelated businesses and under separate management. In such situations, if the member is auditing a portfolio company that has a “brother-sister” portfolio company for which the member provides staff augmentation services, threats to independence of mind or in appearance are significantly reduced, as the

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<sup>5</sup> “Other than downstream affiliates” are affiliates c. through l. under the affiliate definition in ET sec. 0.400.02.

<sup>6</sup> “Downstream affiliates” are affiliate a. and b. under the affiliate definition in ET sec. 0.400.02 - those entities controlled by the financial statement attest client and entities where the financial statement attest client can exercise significant influence over the entity and such entity is material to the financial statement attest client.

services have no impact on the portfolio company being audited and there are no common employees or management. However, before agreeing to enter into a staff augmentation arrangement with one of these affiliates, PEEC believes the member should apply the “Conceptual Framework for Independence” interpretation to determine whether safeguards are necessary and, if so, apply them to reduce threats to an acceptable level.

18. If an exception were provided, the following additional sentence would be added to the proposed Staff Augmentation Arrangements interpretation:

Refer to paragraph .02 f. of the “[Client Affiliates](#)” interpretation [1.224.010] of the “[Independence Rule](#)” [1.200.001] for additional guidance.

19. Additionally, if an exception were provided, the following provision would be added as item f. to paragraph .03 of the Client Affiliates interpretation:

*A member or member’s firm may enter into a staff augmentation arrangement with entities described under items c–l of the definition of affiliate during the period of the professional engagement or during the period covered by the financial statements. The member should use the “Conceptual Framework for Independence” to evaluate whether any threats created by the staff augmentation arrangement are at an acceptable level. If the member concludes that threats are not at an acceptable level, the member should apply safeguards to eliminate the threats or reduce them to an acceptable level.*

#### **Application of the proposed interpretation to agreed-upon procedures engagements**

20. The application of the “Independence Rule” (1.200.001) in the code is modified with respect to agreed-upon procedure (AUP) engagements performed under the Statements on Standards for Attestation Engagements (SSAEs). One of the modifications relates to the performance of nonattest services for the AUP client. Specifically, the member may perform prohibited nonattest services and is not required to comply with the “[General Requirements for Performing Nonattest Services](#)” interpretation (1.295.040), provided the nonattest services do not relate to the specific subject matter of the AUP engagement.
21. Accordingly, if the nonattest services involve the performance of management responsibilities, the services would be permitted for an AUP client, provided they do not relate to the specific subject matter of the AUP engagement. Because management responsibilities are permitted and the general requirements are not required when the nonattest services do not relate to the specific subject matter of the AUP engagement, PEEC believes it would be appropriate for the proposal to provide a similar exception for staff augmentation arrangements. To achieve this, it is proposed that a new paragraph .04 be added to the “Agreed-Upon Procedure Engagements Performed in Accordance with SSAEs” interpretation (1.297.030) that concludes that threats would be at an acceptable level and independence would not be impaired provided the underlying services performed by the augmented staff do not relate to the specific subject matter of the AUP engagement.

### **Effective date**

22. PEEC recommends that the proposal be effective six months after notice is published by the *Journal of Accountancy*.

### **Request for comments**

23. PEEC welcomes comments on all aspects of the proposed revisions. In addition, PEEC is seeking feedback on the following specific aspects of the proposed interpretation.

- a. Should staff augmentation arrangements with attest clients be permitted under any circumstances? Why or why not?
- b. If you believe staff augmentation arrangements should be permitted, do you agree with the proposed interpretation, including the proposed safeguards, that would allow such arrangements in very limited situations? Why or why not?
- c. Do you believe that 30 days is an appropriate time period for the attest client to make other arrangements (see par. 02c of the interpretation)? If not, why?
- d. Should an exception for staff augmentation arrangements with certain affiliates of a financial statement attest client, as described in paragraphs 14. through 19. of this explanation, be permitted?
  - i. Why or why not?
  - ii. If it should be permitted, should the proposed additions discussed in paragraphs .18 and .19 of this explanation be added as drafted or do you have suggested revisions?
- e. Do you believe there should be an exemption for staff augmentation arrangements for all SSAE engagements when the services provided by the augmented staff do not relate to the specific subject matter of the SSAE engagement or should the exemption be limited to only AUPs under the SSAEs? Why or why not?
- f. Are there specific aspects of the proposal that you believe are too permissive or too restrictive? If so, please explain.
- g. Does a six-month delayed effective date allow firms enough time to implement the necessary policies and procedures and terminate any relationships that would no longer be permitted? Why or why not?

## Text of proposed interpretation “Staff Augmentation Arrangements”

### 1.275.007 Staff Augmentation Arrangements

#### Revisions since the May 2020 meeting are highlighted.

- .01 In this interpretation, staff augmentation arrangements involve lending *firm* personnel (augmented staff) to an *attest client* whereby the *attest client* is responsible for the direction and supervision of the activities performed by the augmented staff. Under such arrangements, the *firm* bills the *attest client* for the activities ~~rendered~~ **performed** by the augmented staff but does not direct or supervise the actual performance of the activities.
- .02 If a *partner* or professional employee of the *member’s firm* serves as augmented staff for an *attest client*, familiarity, management participation, advocacy, or self-review *threats* to the *member’s* compliance with the “[Independence Rule](#)” [1.200.001] may exist. *Threats* would *not* be at an acceptable level and *independence* would be *impaired* unless all the following *safeguards* are met:
- a. The staff augmentation arrangement is being performed due to an unexpected situation that would create a significant hardship for the *attest client* to make other arrangements.
  - b. The augmented staff arrangement is not expected to reoccur.
  - c. The augmented staff arrangement is performed only for a short period of time. There is a rebuttable presumption that a short period of time would not exceed 30 days.
  - d. **The augmented staff does not participate on the attest engagement team during the period covered by the staff augmentation arrangement. The firm does not use the augmented staff on the attest engagement team.**
  - e. The augmented staff perform(s) only activities that would not otherwise be prohibited by the “Nonattest Services” subtopic (ET sec. 1.295) of the “Independence Rule” (ET sec. 1.200.001).
  - f. The *member* is satisfied that ~~client~~ management **of the attest client** designates an individual or individuals who possess suitable skill, knowledge, and experience, preferably within senior management, to be responsible for
    - i. determining the nature and scope of the activities to be provided by the augmented staff;
    - ii. supervising and overseeing the activities performed by the augmented staff; and

- iii. evaluating the adequacy of the activities performed by the augmented staff and the findings resulting from the activities.

.03 Refer to the ~~“Client Affiliates”~~ **“Agreed-Upon Procedure Engagements Performed in Accordance with SSAEs”** interpretation [~~1.224.040~~ **297.020**] of the [“Independence Rule”](#) [1.200.001] for additional guidance.

**Effective Date**

.04 Effective six months after announcement is published in the *Journal of Accountancy*.

DRAFT

## Text of proposed revised interpretation “Agreed-Upon Procedure Engagements Performed in Accordance with SSAEs”

(Additions appear in ***boldface italic*** and deletions in ~~strikethrough~~.)

### ***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 ***When a member or member’s firm enters into a staff augmentation arrangement described in “Staff Augmentation Arrangements” interpretation (1.275.040), threats would be at an acceptable level and independence would not be impaired provided the underlying services performed by the augmented staff do not relate to the specific subject matter of the AUP engagement.***
- .05 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
- .06 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***

.07 The addition of *partner equivalents* to paragraph .054 is effective for engagements covering periods beginning on or after December 15, 2014.

DRAFT

**Strategy and Work Plan****Task Force Members**

Brian Lynch (Chair), Kelly Hunter, Stephanie Saunders, Robert Denham, Lisa Snyder. Staff: Iryna Klepcha, Ellen Gorla, and Toni Lee-Andrews.

**Task Force Charge**

The PEEC Planning Task Force is to develop PEEC's Strategy and Work Plan for 2021-2023.

**Reason for Agenda Item**

In November of 2019, PEEC approved exposure of a consultation paper, Strategy and Work Plan, so that AICPA members and other interested parties could review and comment. After the comment period concluded in March 2020, the task force considered the comment letters and seeks the Committee's approval to issue the AICPA Professional Ethics Division: Strategy and Work Plan for 2021-2023, found in **Agenda Item 3C**.

**Action Needed**

The task force seeks the Committee's approval to issue the AICPA Professional Ethics Division: Strategy and Work Plan for 2021-2023 found in **Agenda Item 3C**.

**Materials Presented**

- Agenda Item 3B** Analysis of comments and the task force's recommendations.
- Agenda Item 3C** The AICPA Professional Ethics Division: Strategy and Work Plan for 2021-2023.
- Agenda Item 3D** Comment letters summary.

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## SWP Comment Letter Analysis

### 529 college savings plans

#### Highlights:

- 6 out of 7 comment letters support.
- 1 out of 7 letters does not specify whether it supports the project.
- 2 letters recommend using an approach similar to the approach for mutual funds in section 1.240.030.
- 2 letters recommend treating certain 529 savings plans as indirect investments.
- 4 letters mention a challenge to monitor the underlying investments.

#### Planning Task Force Recommendation:

The majority of commenters support the project. Additionally, four commenters mention a challenge to monitor the underlying investments. The Planning Task Force believes that this challenge creates difficulty in maintaining compliance with the AICPA Code of Professional Conduct. As such, formation of a task force is recommended to determine the treatment of different types of 529 plans (e.g., indirect interest vs direct interest) and develop additional guidance accordingly to address ethical implications.

**Priority:** There is no high degree of urgency to address this matter; therefore, the Planning Task Force recommends initiating the project in Q1 2022.

#### Consider the approach in the “Mutual Funds” interpretation (1.240.030)

- |                                              |                                                                                                                                                                         |
|----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 06. Ernst & Young LLP                        | Consider treating the underlying investments of 529 plan target date portfolios as indirect investments, similar to the approach for mutual funds in section 1.240.030. |
| 11. AICPA Private Companies Practice Section | Consider tying any guidance related to college savings plans back to the existing mutual fund guidance already in the Code of Professional Conduct                      |

#### Consider treating as indirect investment

- |                       |                                                                                                                                                                                                           |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 06. Ernst & Young LLP | Consider treating the underlying investments of 529 plan target date portfolios as indirect investments, similar to the approach for mutual funds in section 1.240.030.                                   |
| 13. KPMG LLP          | Consider revising the guidance for 529 savings plans to remove the specification that a covered member who is an account owner has a direct financial interest in the underlying investments of the plan. |

#### Challenges to monitoring the underlying investments

- |              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 13. KPMG LLP | <p>It is challenging for account holders of a 529 savings plan to analyze changes in the underlying investments of their plan. Typically, the account holder selects a fund strategy rather than individual funds, which obstructs visibility into the underlying investments. Unlike publicly traded mutual funds, there are no common reference resources to learn of changes in the underlying investments of a given 529 plan. Additionally, automatic reallocation of funds in aged-based portfolios can be cumbersome to track. Finally, the scope and timing of communications from plan managers are inconsistent between fund administrators, and plan holders may not be notified of changes until after their investments have changed.</p> <p>All of these information gaps create challenges for firms to establish appropriate quality controls to prevent or detect breaches of independence requirements by covered members.</p> |
|--------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

06. Ernst & Young LLP Monitoring of the certain 529 plans (i.e., types of investment options in which the owner only chooses an established target-date portfolio for which the owner has no control or influence over the selection of the portfolio's underlying securities) and potential impact on covered members is challenging because the underlying investments may only be identified based on historical information obtained from the states on a quarterly basis.
01. Office of the Washington State Auditor Investing options in savings plans are not static and present challenges for monitoring underlying investments.
05. BDO USA, LLP In many situations the account holder does not have any insight into what investments have been made by the plan. This disconnect between plan operation and the rule creates significant issues in practice.

**Other challenges**

04. The Ohio Society of CPAs The committee did not find the challenges of 529 plans to be substantially different from determining significant holdings in any other type of indirect investment.
08. Deloitte LLP Certain operational and practical challenges may exist in demonstrating and maintaining compliance with the Code related to 529 college savings plans.

**Threats to objectivity and independence are limited due to nature of programs**

01. Office of the Washington State Auditor Both types of plans are government-controlled savings programs provided in accordance with legislatively established legal requirements not subject to negotiation or modification for benefit of individuals. Further, some, if not all, of these programs are backed by the full faith and credit of the state, limiting the exposure of the account holder and therefore, the threat to objectivity and independence.

**Other recommendations**

08. Deloitte LLP If the PEEC chooses to pursue potential new rule-making or other guidance in this area, close coordination with other rule-making bodies (e.g., IESBA, SEC) is necessary considering existing rules and requirements of such other bodies.
13. KPMG LLP This should a priority project on the SWP, as 529 savings plans seldom create significant threats to independence, while often resulting in a significant compliance burden.
06. Ernst & Young LLP The AICPA Code should be updated to differentiate between account owners who choose investment portfolio options that allow selection of securities and those that elect a target date portfolio in which the account owner does not have control over the underlying investment decisions.
05. BDO USA, LLP The college savings plan project and the digital assets project could be combined into one project.
01. Office of the Washington State Auditor Guidance should be harmonized with 1.255.010 Depository Accounts, 1.280.040 Member of a Credit Union and 1.255.020 Brokerage and Other Accounts, which all provide for threats to be at an acceptable level when services are provided under normal terms and assets at risk of loss are immaterial to the covered member's net worth.

## Artificial intelligence

### Highlights:

- 2 out of 9 comment letters do not support.
- 7 out of 9 letters support.
- 2 letters recommend revisiting in the future (low priority). These letters are included in the support category.
- 2 letters noted that the matter should be first addressed by the Auditing Standards Board or there is a need for further guidance in the form of auditing standards.
- 4 letters noted threats related to reliance on artificial intelligence.
- 2 letters believe that there is sufficient existing guidance.
- Two individuals (not PEEC members) volunteered to be on this task force.

### Planning Task Force Recommendation:

The Planning Task Force believes that it would be premature to develop additional authoritative guidance to address any ethics implications. Undertaking a member enrichment project is recommended to create awareness of the various threats related to the use of artificial intelligence.

**Priority:** The use of artificial intelligence is not a prevalent issue in the profession; therefore, the Planning Task Force recommends initiating the project in Q3 2022.

### Revisiting this topic in the future

- |                       |                                                                                                                                                                                                                                                                                                                 |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 06. Ernst & Young LLP | Although we do not believe there is an immediate need for guidance on ethics issues unique to the use of artificial intelligence while providing professional services, we believe this topic should be kept in the current Strategy and Work Plan and addressed in the latter half of the three-year period.   |
| 13. KPMG LLP          | As the use of AI becomes more prevalent, the ethical challenges surrounding this matter may become more pronounced. Accordingly, we believe the subject of AI should be revisited in the future as AI applications begin to permeate business processes, including more subjective and judgmental applications. |

### Audit standards are priority

- |                                            |                                                                                                                                                                                                                                                                        |
|--------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 05. BDO USA, LLP                           | AI related guidance should first be addressed by standard-setters such as the Auditing Standards Board. Until the profession understands how AI can be utilized when providing professional services, we believe the ethics implications cannot be properly addressed. |
| 01. Office of the Washington State Auditor | Interested in further guidance in the form of audit standards rather than ethics rules.                                                                                                                                                                                |

### Concerns related to reliance on the use of the tool

- |                                            |                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10. NYS Society of CPAs                    | The increasing reliance on the use of artificial intelligence (AI) presents an increased threat to member's compliance with the Code.<br>As CPAs rely more on AI, there is a risk that they will subordinate their professional judgment to the conclusions reached by the algorithms in the program, without having a sound comprehension of how those algorithms are created or on what they are based. |
| 01. Office of the Washington State Auditor | Expects the member to understand and monitor their reliance on the use of the tool in their professional activities and react accordingly, as they would with any other type of evidence, software tool or specialist.                                                                                                                                                                                    |
| 13. KPMG LLP                               | Over and uninformed reliance on sophisticated, judgmental AI could threaten a member's objectivity, as well as threaten compliance with the principle of due care and the confidential client information rule.                                                                                                                                                                                           |

06. Ernst & Young LLP Overreliance on artificial intelligence for decision making is a potential concern for both members in business and public practice.

### **Sufficient existing guidance**

05. BDO USA, LLP The existing conceptual framework should be sufficient for evaluating any current ethical issues that might arise at the present time such as due care and competence.

01. Office of the Washington State Auditor Does not see any ethical challenges beyond what is already covered by existing rules, since we would not expect a member's ultimate responsibility for their professional actions, judgments or conclusions to be transferred elsewhere based on the use of this tool.

### **Other challenges**

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

04. The Ohio Society of CPAs

- Data confidentiality, for example, when company information is shared on an outsourced network
- Identifying how information is aggregated
- Outsourcing conducting the analysis
- Who is doing the programming?
- Who is responsible for inaccuracies?
- Auditing standards addressing what assertions need to be obtained, and what reliance is being placed on the data.

All but the last item above are challenges for both members in business and members in public practice.

08. Deloitte LLP

As part of any AI platform or framework, there are several ethical and operational factors to be considered, including:

- Governance over AI applications.
- Data protection.
- Secondary data usage.
- Bias in existing data.

In addition, AI continues to challenge organizations in developing appropriate policy, governance, and monitoring over AI applications.

### **Other recommendations**

06. Ernst & Young LLP Consider the ability of artificial intelligence technologies to automate decision making and potential safeguards needed for client management to fulfill its responsibilities.

06. Ernst & Young LLP The ability of an artificial intelligence technology to make better and more complex considerations over time based on learning may raise ethical concerns as a result of both the potential error rate in the early period of use and potential overreliance on the tool as its capabilities evolve to more complex decision making. In establishing guidance, we encourage PEEC to consider the potential for unintended consequences from the use of artificial intelligence.

08. Deloitte LLP The task force should coordinate its efforts with other relevant standard-setting bodies within the AICPA (e.g., Auditing Standards Board) to ensure a consistent approach in addressing this area.

11. AICPA Private Companies Practice Section Use of this technology is constantly evolving and, therefore, PEEC should not address in the Code of Professional Conduct but, rather, consider issuing targeted Q&As or other non-authoritative guidance as specific issues arise.

## Business relationships

### Highlights:

- 3 out of 9 comment letters do not support.
- 5 out of 9 letters support.
- 1 out of 9 letters does not specify whether it supports the project.
- 2 letters believe that there is sufficient existing guidance.
- 2 letters recommend considering SEC guidance.
- Comment letters provided various recommendations to consider if a task force is created.

### Planning Task Force Recommendation:

There have been many changes in types of business relationships with attest clients since the current guidance was developed. The Planning Task Force believes it would be beneficial to expand the code to address various types of business relationships members have with their attest clients. Therefore, formation of a task force is recommended to determine the types of business relationships members have with attest clients, the nature of those relationships and additional safeguards that may be necessary to protect independence, integrity and objectivity.

**Priority:** There is no high degree of urgency to address this matter; therefore, the Planning Task Force recommends initiating the project in Q1 2022.

### Sufficient existing guidance

- |                  |                                                                                                                                                                                                                                                                                                                                  |
|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 13. KPMG LLP     | The Conceptual Framework for Independence, existing interpretations and the principles-based interpretation regarding business relationships are effective mechanisms to enable the identification and evaluation of threats to the auditor's independence, and thus we do not have any recommendations for additional guidance. |
| 08. Deloitte LLP | While the types of relationships may vary and change over time, we believe the extant Code includes the relevant principles and guidance necessary for members to analyze and evaluate the potential independence implications related to such relationships.                                                                    |

### Consistency with SEC

- |                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 06. Ernst & Young LLP | In the recent release by the Securities and Exchange Commission ("SEC") on proposed changes to Rule 2-01 (Release No. 33-10738), the SEC noted that audit firms may contribute to multi-company arrangements through intellectual property or access to data using common technology platforms. The SEC requested comment on whether such arrangements present instances where an auditor's objectivity and impartiality would not be impaired. Development of a framework to evaluate multi-company arrangements would be beneficial for assessing threats to independence and objectivity. These matters are increasingly impacting professional practice and additional guidance will be extremely valuable to foster consistency of assessment. |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

11. AICPA Private Companies Practice Section Regulation S-X 201 (17 § CFR 201.2-01) defines a business relationship as follows:  
 “Business relationships. An accountant is not independent if, at any point during the audit and professional engagement period, the accounting firm or any covered person in the firm has any direct or material indirect business relationship with an audit client, or with persons associated with the audit client in a decision-making capacity, such as an audit client’s officers, directors, or substantial stockholders. The relationships described in this paragraph do not include a relationship in which the accounting firm or covered person in the firm provides professional services to an audit client or is a consumer in the ordinary course of business. “  
 TIC prefers how the SEC specifically carves out relationships in which a firm or covered person is a consumer in the ordinary course of business and would prefer if the Code of Professional Conduct used similar terminology.

**No broad application to most CPA firms (i.e., applicable to larger firms)**

10. NYS Society of CPAs The recommended actions may be most applicable to larger firms that might enter into such cooperative arrangements with attest or non-attest clients, but we do not believe that this project has broader application to most CPA firms or members in public practice.

**Types of relationships**

04. The Ohio Society of CPAs Did not identify any additional specific types of relationships for consideration.
12. U.S. Government Accountability Office Bookkeeping; financial statement preparation; internal audit assistance; internal control evaluation; information technology services; appraisal, valuation, and actuarial services; and various management consulting services to their nonattest and attest clients.
13. KPMG LLP Firms may enter into contracting arrangements with clients to jointly provide services or products to third parties, to form alliances to capture new market opportunities, or to engage in supplier relationships for procurement of goods or services used internally or externally to deliver service or products.

**Other recommendations**

05. BDO USA, LLP Would be beneficial to determine the types of business relationships members have with attest clients, the nature of those relationships and additional safeguards that may be necessary to properly protect independence, integrity and objectivity. Consider referring to these relationships as “Business Relationships” in the Code rather than “Cooperative Arrangements with Clients” (this is consistent with the terminology used in the rules of both the International Ethics Standards Board for Accountants and the Securities and Exchange Commission) and possible exceptions for business relationships with affiliates of a financial statement attest client.
06. Ernst & Young LLP The AICPA Code should be updated to include a framework to assist members with determining whether specific interactions create a cooperative arrangement subject to paragraph 1.265.010.01. Such framework would be helpful in determining the potential impact to independence as the types of firm relationships continue to evolve.
06. Ernst & Young LLP Since 1.265.010 uses the term “member” rather than “covered member,” we believe clarification should be provided on whether the cooperative business arrangement interpretation applies to covered members or all professionals in a firm.

12. U.S. Government Accountability Office	<p>Consider expanding the code to identify common nonattest services that audit organizations provide would enhance and clarify the concept of “business relationships” to reflect current practice in the audit industry, which now includes an extensive array of vendor type or outsourced management services that audit organizations provide to their clients.</p> <p>In addition, we believe that more guidance would be helpful to address business relationships in which auditors are engaged to both provide a nonattest service, such as preparing an entity’s sustainability policy, and subsequently conduct a non-assertion-based attestation engagement on the same subject matter. We encourage PEEC to assess whether its existing guidance is sufficient in this area.</p>
06. Ernst & Young LLP	<p>Consider providing guidance on how materiality in the context of business relationships should be determined, including examples of material cooperative arrangements. In particular, we believe it would be beneficial to address the determination of materiality when working with small or newly formed entities that may not yet have, for example, a demonstrated revenue base.</p>
06. Ernst & Young LLP	<p>Consider further defining the term “cooperative arrangement” to address some of the more complicated types of relationships, and to provide examples of situations that would not be viewed as a cooperative arrangement. For example, we do not believe that two parties who are merely engaged directly by the same client to work together on the client’s project would be viewed as a cooperative arrangement.</p>
12. U.S. Government Accountability Office	<p>Additional guidance in the code would assist auditors in identifying potential threats to independence with respect to attest engagements that originate with the provision of nonattest services to the same client.</p>
09. Baker Tilly Virchow Krause, LLP	<p>Continually monitor the types of business relationships in which members are engaged, and where warranted, initiate projects to address any potential independence or other ethical concerns identified.</p>

## Client affiliates

### Highlights:

- 2 out of 7 comment letters do not support.
- 5 out of 7 letters support.
- 3 letters recommend clarifying the definition (the commenters have different views on whether the client affiliates definition extends to an individual).
- 2 letters recommend coordination with other standard setters (SEC and FASB).
- 2 letters recommend issuing non-authoritative guidance instead of updating the code. These letters are included in the support category above.
- 2 letters believe that there is sufficient existing guidance.

### Planning Task Force Recommendation:

The Planning Task Force recommends initiating the project since it appears that there is inconsistency in how current guidance is applied. Formation of a task force is recommended to determine if the guidance should also be applied to individuals and entities that they have control or significant influence over and if there are any other aspects of the client affiliate interpretation that need clarification.

**Priority:** Considering inconsistency in how the current guidance is applied, the Planning Task Force recommends initiating the project in Q3 2021.

### Clarify the definition

- |                                              |                                                                                                                                                                                                                                                                                                         |
|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 08. Deloitte LLP                             | The current definition of affiliate in the extant Code does not explicitly include common ownership by individuals. Consider clarifying the definition of affiliate to provide for consistent application of the Code.                                                                                  |
| 09. Baker Tilly Virchow Krause, LLP          | Issue additional guidance (for example, in its FAQs) clarifying that the definition of “affiliate” extends to common ownership by entities, not to common ownership by individuals, we do not believe that the code needs to be updated to include guidance addressing common ownership by individuals. |
| 11. AICPA Private Companies Practice Section | Supports clarification of owners that are individuals rather than entities are not affiliates as that was a common question received during implementation of the hosting standard.                                                                                                                     |

### Coordinate with other standard-setters

- |                                              |                                                                                                                                                                                                                                                                                                               |
|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 11. AICPA Private Companies Practice Section | Consider linking to the FASB guidance on common control since they already have developed some extensive guidance on what to consider when determining whether entities are under common control since any member well versed in U.S. GAAP already is familiar with that guidance.                            |
| 08. Deloitte LLP                             | The SEC recently issued proposed amendments to its independence rules, including matters related to affiliates. If the PEEC chooses to pursue potential new rule-making or other guidance in this area, we suggest such activities be coordinated in connection with the SEC’s potential rule-making process. |

### Issue non-authoritative guidance

- |                                     |                                                                                                                                                                                                                                                                                                         |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 09. Baker Tilly Virchow Krause, LLP | Issue additional guidance (for example, in its FAQs) clarifying that the definition of “affiliate” extends to common ownership by entities, not to common ownership by individuals, we do not believe that the code needs to be updated to include guidance addressing common ownership by individuals. |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

06. Ernst & Young LLP To the extent common ownership through an individual is a subject of frequent inquiry, PEEC should consider issuing non-authoritative guidance in the form of a frequently asked question (“FAQ”) to address the more common fact patterns. For example, companies controlled by an individual that do business together or have other interrelations may pose greater threats to independence than similar entities that have no interactions.

### **Sufficient existing guidance**

13. KPMG LLP The Conceptual Framework for Independence is effective in identifying significant threats to independence when determining affiliates in a situation when entities are owned by the same individual.

06. Ernst & Young LLP The existing AICPA conceptual framework approach to assessing threats and safeguards is appropriate for addressing common ownership by individuals.

### **How the guidance is currently applied**

04. The Ohio Society of CPAs While we continue to apply the guidance as currently written within our firms, the matter is not increasingly affecting the professional practice of our members.

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

08. Deloitte LLP We understand the current definition of affiliate in the extant Code does not explicitly include common ownership by individuals. When we evaluate affiliates, we make no distinction between common ownership by an “entity” or by an “individual,” as we believe the relevant independence considerations and principles are applicable to both.

### **Other recommendations**

11. AICPA Private Companies Practice Section Hosting is now specifically noted as a prohibited nonattest service, hosting services provided to certain affiliates are prohibited. Identifying all of the affiliates of private entities that have complex organizational structures can be very challenging. TIC would recommend providing examples of how more complicated organizational structures would impact application of the hosting interpretation and independence. TIC recommends providing templates similar to those proposed for the recent SLG Affiliates Interpretation as TIC has found those to be helpful in adopting the Interpretation.

05. BDO USA, LLP Additional guidance related to application of the affiliate rule in situations where an individual, or a group of individuals, controls multiple entities that are otherwise unrelated to one another, would be beneficial.

## Conflicts of interest

### Highlights:

- 2 out of 7 comment letters do not support.
- 5 out of 7 letters support.
- 4 letters believe that there is sufficient existing guidance (2 out of 4 letters believe that sufficient guidance exists; however, the SWP indicated an increased number of inquiries related to this topic, therefore, they support this project).
- 2 letters recommend alignment with IESBA.
- 2 letters recommend analyzing the increased number of inquiries.

### Planning Task Force Recommendation:

Due to an increased number of inquiries related to this topic, the Planning Task Force recommends undertaking a member enrichment project to analyze the content of inquiries and determine what additional guidance, if any, is needed.

**Priority:** There is sufficient existing guidance and developing non-authoritative guidance is not a priority at this time. Therefore, the Planning Task Force recommends initiating the project in Q2 2022.

### Sufficient existing guidance

12. U.S. Government Accountability Office	Extant code section 1.110 provides a reasonably comprehensive discussion of conflict of interest matters.
08. Deloitte LLP	The Conflicts of Interest for Members in Public Practice subtopic (1.110) provides sufficient guidance for members to analyze and evaluate potential conflicts of interest.
05. BDO USA, LLP	The current guidance is sufficient and given the wide variety of situations where conflicts of interest could arise, creation of guidance that will reduce the inquiries on the topic will be difficult and not a good use of AICPA resources.
13. KPMG LLP	We do not believe additional guidance is needed.

### Alignment with IESBA

08. Deloitte LLP	<p>In the area of conflict consent and disclosure, we believe the PEEC should consider potential modifications to the Code to further align with existing IESBA standards and provide for consistency in application of the Code.</p> <p>The extant Code states, in part: Disclosure of a Conflict of Interest and Consent .12 When a conflict of interest exists, the member should disclose the nature of the conflict of interest to clients and other appropriate parties affected by the conflict and obtain their consent to perform the professional services. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.</p> <p>Application of this guidance requires members to disclose a conflict of interest and obtain consent under ALL circumstances.</p> <p>Conversely, the extant IESBA code states, in part: 310.9 A3 It is generally necessary [emphasis added]:</p> <p>a. To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and</p>
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b. To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat.  
In addition, the IESBA's Basis for Conclusion (issued March 2013) states, in part: 25. The IESBA took the view that consent is not a safeguard but did not wish to prevent a sophisticated client from providing consent if the professional accountant is able to conclude that the threat is already at an acceptable level and it would not, therefore, be necessary to obtain consent. Therefore, wording was introduced to clarify that consent is generally necessary "when safeguards are required to reduce the threat to an acceptable level."

27. The IESBA does not agree that disclosure is always necessary in a global Code because there are many diverse situations making it impractical to mandate disclosure and consent in all cases. However, the intention is that the professional accountant should not avoid disclosure and consent when it is appropriate. An additional provision has been inserted requiring the professional accountant to determine when specific disclosure and explicit consent are necessary and recognizing that it is a matter of professional judgment when specific disclosure and explicit consent are appropriate.

We recommend the PEEC establish a task force to further explore and consider modifications to the extant Code to further align with existing IESBA standards. Considering our comments above, the PEEC may consider in its deliberations the following modification to the extant Code (bold text represents additions, strikethrough deletions):

.12 When a conflict of interest exists, it is generally necessary for the member to should disclose the nature of the conflict of interest to clients and other appropriate parties affected by the conflict and, when safeguards are required to reduce the threat to an acceptable level, obtain their consent to perform the professional services. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

06. Ernst & Young LLP

The existing guidance in paragraph 1.110.010.08, which states, "If the firm is a member of a network, the member is not required to take specific steps to identify conflicts of interest of other network firms," is consistent with Section R310.7 of the IESBA Code, which states, "If the firm is a member of a network, a professional accountant shall consider conflicts of interest that the accountant has reason to believe might exist or arise due to interests and relationships of the network firm."

### **Analyze content of hotline inquiries to determine enhancements needed**

12. U.S. Government  
Accountability Office

Suggests that PEEC consider performing a content analysis of the inquiries received to determine whether specific subsections need enhancement. For example, if PEEC's analysis identifies an increase in inquiries related to potential safeguards that address conflicts of interest, then adding material to section 1.110.010 paragraph .10 could be of most value to members in understanding and applying the code.

08. Deloitte LLP

As indicated in the Consultation Paper, there has been an increase in the number of member inquiries related to conflicts of interest. It would be helpful to understand the nature of such inquiries to determine what, if any, enrichment materials may be needed.

### **Other recommendations**

10. NYS Society of CPAs

Any guidance concerning conflicts of interest should explain the risks that these conflicts present, such as loss of independence or threats to professional skepticism.

06. Ernst & Young LLP Further guidance may also be appropriate in paragraph 1.110.010.14 which states that “[t]he member should determine whether the nature and significance of the conflict of interest is such that specific disclosure and specific consent are necessary, as opposed to general disclosure and general consent.” We believe that specific consent is generally required for all cases except in competitive situations where it would violate confidentiality.
06. Ernst & Young LLP Consider enhancing the current conflicts of interest rules by providing more specificity around the definition of what constitutes “reasonable efforts” and “an effective conflict identification process” as used in paragraph 1.110.010.05 and .07.
07. National Association of State Boards of Accountancy Suggests the PEEC develop comprehensive guidance, including illustrative examples, to help members evaluate and address conflicts of interest that may arise when members provide tax services to a divorcing couple, including when spouses utilize a collaborative divorce.

## Data security and breaches

### Highlights:

- 4 out of 6 comment letters do not support.
- 2 out of 6 letters support.
- 3 letters believe that new guidance will be confusing and hard to monitor due to rapidly changing laws and regulations.

### Planning Task Force Recommendation:

Data security and breaches is a legal issue. The Planning Task Force does not recommend initiating the project due to rapid changes in related laws and regulations.

**Priority:** Not applicable

### New guidance will be confusing

09. Baker Tilly Virchow Krause, LLP Due to the rapid pace of change in these laws and regulations, any enrichment materials issued by the AICPA would likely be out-of-date shortly after their issuance.
05. BDO USA, LLP There are numerous state and federal laws in existence that proscribe the responsibilities of business as it relates to data security and data privacy. These laws are widely varied in their application and the requirements imposed on impacted businesses. Because of the varied requirements within the existing regulations it would be impossible for AICPA to create guidance that is consistent with all of them.
10. NYS Society of CPAs States are currently enacting laws and regulations governing data security and breaches at a sharply increasing pace. We are not convinced that PEEC should spend significant time and effort trying to refine guidance in this area, when (a) it may conflict with state or Federal laws and regulations when guidance is issued, or (b) it may come into conflict with state or Federal laws and regulations subsequent to issuance. While PEEC is an important part of the AICPA, we are not sure that PEEC has sufficient resources to monitor the shifting landscape of this area.

### Other recommendations

08. Deloitte LLP The task force should include subject matter experts familiar with current and/or proposed ethical guidelines being considered by various constituencies in order to effectively evaluate and develop potential member enrichment guidance in this area.
06. Ernst & Young LLP There is a lack of guidance on how to address breaches of client confidential information that do not involve personal information. We believe PEEC should consider issuing guidance in the form of a framework to help members determine how and under what circumstances the client should be informed of a confidentiality breach to foster consistency in approach.

## De minimis fees

### Highlights:

- 5 out of 10 comment letters do not support.
- 5 out of 10 letters support.
- 2 letters noted that there might be potential challenges in defining de minimis fees.
- 3 letters recommend alignment with IESBA.
- 3 letters noted that trivial unpaid fees do not automatically impair independence.

### Planning Task Force Recommendation:

Unpaid fees are currently seen as the equivalent of a loan, and therefore, any trivial unpaid fees automatically impair independence. Given the current situation related to COVID-19, formation of a task force is recommended to consider whether a bright line of one year is appropriate. The Planning Task Force believes that a framework should be developed to determine whether unpaid fees are in substance equivalent to a loan. While developing a framework, the formed task force will determine if there are concrete examples of potential legal implications and discuss them with the Office of General Counsel. The Planning Task Force also recommends the formed task force consider potential alignment with IESBA. Since the proposed project would not address only trivial fees, the Planning Task Force recommends changing the name of the project to “Unpaid Fees”.

**Priority:** Considering challenges related to the coronavirus pandemic, the Planning Task Force recommends initiating the project in Q2 2021.

### Potential challenges with the definition of de minimis fee

- |                                                         |                                                                                                                                                                                                                                                  |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 07. National Association of State Boards of Accountancy | Consider that changing existing guidance may raise regulatory enforcement issues as to where the de minimis borderline should be set for outstanding fees for services provided more than one year prior to the date of the current-year report. |
| 11. AICPA Private Companies Practice Section            | It could get into tricky definition of what defines de minimis and as a result make the guidance more complex than it is today.                                                                                                                  |

### Alignment with IESBA

- |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 13. KPMG LLP     | Consider aligning the AICPA Code with the IESBA Fees – Overdue guidance in IESBA Code R410.7 A1 to R410.8.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 08. Deloitte LLP | <p>Consider potential modifications to the Code regarding unpaid fees to further align with existing IESBA standards and provide for consistency in application of the Code.</p> <p>As discussed in the Consultation Paper, the extant Code does not include reference to or consideration of materiality. The Code states, in part:</p> <p>1.230.10.1 Unpaid Fees</p> <p>.02 Threats to the covered member’s 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 if a covered member has unpaid fees [emphasis added] from an attest client for any previously rendered professional service provided more than one year prior to the date of the current-year report. Accordingly, independence would be impaired. Unpaid fees include fees that are unbilled or a note receivable arising from such fees.</p> <p>Conversely, the extant IESBA Code states, in part: Fees – Overdue</p> <p>410.7 A1 A self-interest threat might be created if a significant part [emphasis added] of fees is not paid before the audit report for the following year is issued. It</p> |

is generally expected that the firm will require payment of such fees before such audit report is issued.

We recommend the PEEC establish a task force to explore and consider modifications to the extant Code to further align with existing IESBA standards. The task force may also consider existing SEC independence rules related to unpaid fees.

06. Ernst & Young LLP

Recommend that PEEC amend the provisions of section 1.230.010 to be consistent with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (“IESBA Code”), which considers the significance of the unpaid fees to be a factor in the evaluation of whether unpaid fees are in substance the equivalent of a loan to an attest client and an unacceptable threat to the covered member’s independence.

### **Trivial matters do not automatically impair independence**

03. Kentucky Society of Certified Public Accountants

We urge the committee to take into consideration that a de minimis outstanding balance should not by itself create an independence issue for firms. There could be many reasons as to why a balance may still be due 12 months later.

01. Office of the Washington State Auditor

It is always helpful to clarify that trivial matters do not create an independence impairment.

06. Ernst & Young LLP

There are commercial circumstances when fees for a professional service may be unpaid for more than one year, and when such unpaid fees are immaterial to both the attest client and the covered member’s firm, they do not affect the covered member’s objectivity, in fact or appearance.

### **Not a significant issue in practice**

09. Baker Tilly Virchow Krause, LLP We do not believe that this is a significant issue in practice

### **Inconsistency with the loan rule**

05. BDO USA, LLP

The basis for unpaid fees being considered an independence impairing situation is because the unpaid fees are deemed to become a loan from the member to the client. Permitting immaterial unpaid fees would be inconsistent with guidance in the loan rule and we do not believe a change would be appropriate.

### **Sufficient existing guidance**

11. AICPA Private Companies Practice Section

The existing guidance is adequate.

### **Other recommendations**

01. Office of the Washington State Auditor

Encourage the Committee to consider using the term “clearly trivial” rather than an antiquated Latin phrase.

04. The Ohio Society of CPAs

Encourages AICPA to retain the current guidance for protection of our member firms as support for terminating engagements as a good business practice.

13. KPMG LLP

Consider changing the bright line one year test to a consideration of amounts outstanding for an extended period of time may be a better criteria in evaluating the significance of self-interest threats.

13. KPMG LLP

Consider removing the bright line test with regard to Unpaid Fees (ET 1.230.010) where trivial and inconsequential amounts owed by the attest client to the firm impair independence. Such an approach would better align the interpretation to evaluating the significance of self-interest threats that may exist when considering unpaid fees.

## Definition of office

### Highlights:

- 3 out of 9 comment letters do not support.
- 6 out of 9 letters support.
- 7 letters refer to considering relevance of physical offices and virtual offices.
- 2 letters believe that there is sufficient existing guidance.
- 2 letters believe this is a high priority issue.

### Planning Task Force Recommendation:

The current definition of office highlights that substance should govern the office classification, and personnel interactions and assigned reporting channels are more important than physical location. Instead of forming a task force for a new standard-setting project, the Planning Task Force believes it would be beneficial to undertake a member enrichment project to clarify the definition of office considering the relevance of physical and virtual offices.

**Priority:** Some letters identified this project as a high priority. The additional guidance is highly relevant due to the pandemic; therefore, the Planning Task Force recommends initiating the project in Q4 2020.

### Relevance of physical office

- |                                                         |                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 13. KPMG LLP                                            | We request that PEEC consider whether the existing definition of “office” remains relevant to today’s workplace, where engagement team mobility and information technology have brought about the use of virtual workplaces as a replacement to traditional work environments.                                  |
| 09. Baker Tilly Virchow Krause, LLP                     | We believe that the relationships between individuals / teams within public accounting firms should be used to determine which partners or partner equivalents are considered covered members, not the physical offices in which they reside.                                                                   |
| 05. BDO USA, LLP                                        | Give consideration to the requirements in the audit standards for determining the appropriate engagement office to be included in the audit opinion signature and the impact that might have on the determination of the office for independence purposes.                                                      |
| 10. NYS Society of CPAs                                 | Basing independence decisions on proximity to another individual’s office should be reconsidered and the measuring standards revised to emphasize working relationships, career path influence, and reporting responsibilities rather than the concept of physical location.                                    |
| 07. National Association of State Boards of Accountancy | Consider how meaningful (or not) physical location is in the current environment and the disparate impact the current definition and rules impose on smaller, single office firms compared to larger, multi-office firms.                                                                                       |
| 11. AICPA Private Companies Practice Section            | A flowchart or some Q&As could be developed to address telecommuter or virtual employee arrangements to assist firms in understanding how these should be considered.                                                                                                                                           |
| 06. Ernst & Young LLP                                   | Consider the increasingly virtual nature of offices and how individuals work, particularly in medium and large firms, in defining covered members who reside in the same office in which the lead attest engagement partner or partner equivalent primarily practices in connection with the attest engagement. |

## **Sufficient existing guidance**

04. The Ohio Society of CPAs We agree that technology has made it more difficult to determine when the definition of “office” has been met for determination of covered members in an independence consideration. However, committee members find the current guidance sufficient, and continue to support a principles-based definition relying upon reporting structures and ability to influence the attest engagement, rather than introducing more specific rules.

08. Deloitte LLP While the workplace environment has and will continue to evolve, we believe the extant Code includes the relevant principles and guidance necessary for members to analyze and evaluate specific facts and circumstances, including those related to physical location and other workplace dynamics.

## **High priority**

13. KPMG LLP As the determination of “office” and covered members is critical to maintaining independence, we recommend that this be a priority project on the SWP.

05. BDO USA, LLP Consider this to be a high priority project

## **Low priority**

06. Ernst & Young LLP Does not believe the definition of “office” is a pressing issue.

## **Coordination with SEC and IESBA**

08. Deloitte LLP If the PEEC chooses to pursue potential new rule-making or other guidance in this area, close coordination with other rule-making bodies (e.g., International Ethics Standards Board for Accountants (“IESBA”), Securities and Exchange Commission (“SEC”) is necessary considering existing rules and requirements of such other bodies.

## Digital assets

### Highlights:

- 1 out of 7 comment letters do not support.
- 6 out of 7 letters support.
- 4 letters refer to the “Financial interests” subtopic (1.240) and its potential application for certain digital assets.
- 2 letters believe there are threats related to mining.

### Planning Task Force Recommendation:

There are various threats associated with digital assets and lack of direction may result in inconsistency in public practice. The Planning Task Force recommends forming a task force to develop guidance limited to how the ownership of digital assets should be treated under the financial interest rules.

**Priority:** Considering that no clear guidance currently exists, the Planning Task Force recommends initiating the project in Q3 2021.

### Potential application of “Financial interests” subtopic (1.240)

- |                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 06. Ernst & Young LLP | Consider issuing guidance to help practitioners understand whether digital assets (i.e., tokens and cryptocurrency) represent direct or indirect financial interests, for which existing guidance in section 1.240.010 can be applied.                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| 05. BDO USA, LLP      | Supports the inclusion of a project that would provide guidance limited to how the ownership of digital assets should be treated under the financial interest rules.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 08. Deloitte LLP      | The extant Code does not provide explicit guidance related to ownership interests in digital assets. We consider digital assets a type of financial interest, as defined in the Code, and therefore, apply the financial interest rules and guidance to such holdings.                                                                                                                                                                                                                                                                                                                                                                                                          |
| 13. KPMG LLP          | Ownership of a digital asset issued by the audit client may raise some of the same threats as those addressed in ET 1.240 Financial Interests. Additionally, when a covered member owns a digital asset that fluctuates in value, it creates increased threats to the member’s objectivity and impartiality.<br>It would be helpful if the Code included a framework for determining what characteristics of a digital asset trigger evaluation as a financial interest. Additionally, if the digital asset is not considered a financial interest, the framework should address any other considerations for evaluating independence associated with owning the digital asset. |

### Threats related to mining

- |              |                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 13. KPMG LLP | Believes that the following threat exists: <ul style="list-style-type: none"><li>• When a public accounting firm is involved in mining of digital assets, and/or operating a node within a blockchain environment, it raises the threat of management participation, and potentially creates a self-review and adverse interest threat where attest clients of the firm are parties to the blockchain.</li></ul> |
|--------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

06. Ernst & Young LLP While ownership of cryptocurrency as a personal investment is the area most frequently affecting professional practice, PEEC may wish to consider whether future guidance is needed to address potential concerns with professional services related to digital assets. For example, whether mining (i.e., the process of adding a transaction record to a public ledger) of digital assets by members participating in the consensus mechanism of a blockchain could create a potential self-review threat if elements of a blockchain are considered as audit evidence. As with artificial intelligence, this is a developing area that may warrant further consideration as the uses of digital assets by enterprises increase with the adoption of blockchain.

### **Use of blockchain potentially leads to violation of hosting interpretation**

11. AICPA Private Companies Practice Section Believes that firm's use of Blockchain could pose issues with regard to the hosting Interpretation. Some firms are starting to incorporate the use of Blockchain when performing services for their clients as a more secure way of storing and accessing information. TIC believes that these situations could result in a violation of independence under either the Hosting or IT Services Interpretations and, perhaps, PEEC should consider revisiting that guidance in light of this issue.

### **High priority**

13. KPMG LLP While the criticality of this topic fluctuates with the perceived value of digital assets in the marketplace, it is important that additional guidance is published, as the lack of direction may result in divergence of practice across members in public practice.

### **Other recommendations**

11. AICPA Private Companies Practice Section Could foresee situations where members are paid by their clients in cryptocurrency so, perhaps, some Q&As could be issued to address specific situations as they arise. The AICPA has an existing task force that has been addressing accounting and audit issues related to digital assets and perhaps PEEC can leverage some of those resources if they would like to embark on a similar project related to ethics implications.

04. The Ohio Society of CPAs Digital assets present several unique considerations, including custody, valuation, and determination of the market, that would benefit from a review of ethics implications from members with specialized expertise.

## Operational enhancement to the code

### Highlights:

- 5 out of 5 comment letters support.
- 1 letter recommends eliminating a user's session time-out.
- 3 letters specifically mention that the visibility of FAQs should be enhanced.
- 1 letter recommends education about the investigation process. 1 letter recommends reducing the "AICPA Online Professional Library" banner in the online code. 1 letter recommends providing an online tutorial walking members through how to find certain guidance.
- 1 letter recommends displaying the subject of Professional Ethics on the [www.aicpa.org](http://www.aicpa.org) homepage and maintaining a quick link path to the PEEC page.
- 1 letter recommends including links to Journal of Accountancy articles, podcasts, or ethical information when they apply to specific areas.
- 1 letter recommends providing the ability to customize user profiles that enable users to set and receive alerts.

**Planning Task Force Recommendations:** Since this is an internal project, staff developed the recommendations below which were discussed with the Planning Task Force.

#### *Completed*

As it relates to the use of the code, a user's session duration has been extended to eight hours.

#### *In progress*

As it relates to enhancement of visibility to member enrichment content, staff recommends moving FAQs and certain other appropriate member enrichment content into the online platform. Staff also recommends adding FAQs to the AICPA publication "Technical Questions and Answers" and creating a link from the online platform to the member enrichment content that is not in the online platform. All internal approvals are in place to add member enrichment content to the online interface and staff anticipates having this accomplished by the end of Q3 2020.

As it relates to enforcement education, staff is identifying common violations involving employee benefit plans and government/non-for-profit audits. Staff is also planning an *Ethically Speaking* podcast series to highlight these matters as well as possible sanctions/remediation. Episode 5 of *Ethically Speaking* covers the investigative process and respondents are directed to this episode in the opening letter. Staff also recommends revising and promoting enforcement web pages.

#### *To be initiated*

Staff agrees that reduction of the "AICPA Online Professional Library" banner in the online code would help optimize space and recommends working with the development team to revise this.

A video tutorial currently exists on the [aicpa.org](http://aicpa.org) page where the code is housed. However, this introduction and tutorial for the online code was created at the time the code revision went live, therefore, it is dated. Staff recommends scripting and creating a new tutorial and linking to it from within the online interface.

#### *Does not recommend initiating*

The Association is currently in the midst of a website redesign that is part of the RAVE (redesign the Association's value and experience) initiative. The new website will allow users to identify topics that are of interest to them with content served accordingly. The home page as it currently exists will be sunsetted. As such, staff does not recommend maintaining a quick link path to the PEEC page or displaying the subject of Professional Ethics on the AICPA homepage.

It is not feasible to include links to the Journal of Accountancy and similar types of information in the code or to provide the ability to customize user profiles that enable users to set and receive alerts. As such, staff does not recommend moving forward with these recommendations.

## Enhancement of FAQs visibility

11. AICPA Private Companies Practice Section As it relates to improving navigation and access to the Ethics Codification (the Code), TIC believes that better linkages between Q&As and practice aids to the interpretations and standards would be helpful. A recent good example is it took TIC members quite a bit of time to find some old Q&As that were referenced related to a new project. Most practitioners can use all the help they can get when navigating the Code because, typically, smaller firm members are not looking in the Code everyday like many of the PEEC members or Ethics staff.
13. KPMG LLP Consider migrating the FAQs onto the dynamic online platform to allow bookmarking and searching, rather than maintaining them as a separate PDF document.
09. Baker Tilly Virchow Krause, LLP Supports PEEC's current Enhanced Visibility of Non-Authoritative Guidance member enrichment project. As a part of that project, we recommend that PEEC add its FAQs and as much of its other interpretative guidance as possible to the code as application guidance.

## Other recommendations

10. NYS Society of CPAs Believes most practicing members do not study in depth the intricacies of the Code – its rules and interpretations. We believe that members would benefit from clear, plain English guidance on the repercussions a member might face for violating various parts of the Code. PEEC's history of enforcement could be analyzed for trends on Code violations. A thorough description of the investigation process when an alleged violation of the Code is brought to PEEC's attention could be appended to the Code.
11. AICPA Private Companies Practice Section Providing an online tutorial walking members through how to find certain guidance online would be helpful.
11. AICPA Private Companies Practice Section PEEC should consider including links to Journal of Accountancy articles, podcasts, or ethical issues when they apply to specific areas. Practical, everyday information to assist and conserve the time of CPA's in locating articles or Q&A's would be very well received in the smaller firm arena.
13. KPMG LLP Eliminate a user's session time-out, or extend the session duration period before time-out.
13. KPMG LLP Consider displaying the subject of Professional Ethics on the [www.aicpa.org](http://www.aicpa.org) homepage, and maintain a quicklink path to the PEEC page, and/or the Code to emphasize the importance of ethics to our profession. Currently, users must navigate to the Code through the following path: [www.aicpa.org](http://www.aicpa.org) > Topics > Explore all topics > Professional Ethics > Code of Professional Conduct > Online Code of Professional Conduct.
13. KPMG LLP Reduce the size of the "AICPA Online Professional Library" banner at the top of the page in the online code.
13. KPMG LLP Provide the ability to customize user profiles that enable users to set and receive alerts. For example, it would be beneficial to members if they could set a preference within their profile to automatically receive an alert to their inbox when an update is made to the Code (i.e. a new FAQ added or an interpretation changed).

## Reporting of an independence breach to an affiliate that is also an attest client

### Highlights:

- 6 out of 8 comment letters do not support.
- 2 out of 8 letters support.
- 5 letters believe that there is sufficient existing guidance. Staff noted that there are different opinions regarding whether reporting is required.
- 2 letters recommend clarifying when or if reporting is required.

### Planning Task Force Recommendation:

Due to inconsistency in how existing guidance is interpreted, the Planning Task Force recommends forming a task force to clarify the code. The task force would determine whether this project should be undertaken as a member enrichment or standard-setting project.

**Priority:** There is no high degree of urgency to address this matter; therefore, the Planning Task Force recommends initiating the project in Q1 2022.

### Sufficient existing guidance

09. Baker Tilly Virchow Krause, LLP  
Firms are currently applying judgment to determine when or if independence breaches need to be communicated to sister and downstream affiliates that are also attest clients. We believe that the judgment currently being applied in practice is effective, therefore, we do not believe that PEEC should add this project to its standard-setting agenda.
08. Deloitte LLP  
The Breach of an Independence Interpretation (1.298.010) and QC section 10, A Firm's System of Quality Control provide sufficient guidance for members to analyze and evaluate breach reporting requirements to those charged with governance. If a breach identified at an attest client is determined to be a breach at an affiliate that is also an attest client, we believe the reporting requirements apply to such affiliate.
10. NYS Society of CPAs  
The project seems to suggest that those charged with governance would be expected to be different for the affiliate than it is for the principal entity. We are not convinced that this is the case in most instances. The Breach of an Independence interpretation is sufficient to cover the situation described in the project. If the two entities have common governance, then those charged with governance have been communicated with in accordance with the interpretation. If those charged with governance are not the same for each entity, the interpretation seems clear that a breach needs to be communicated to those charged with governance (in this case those charged with governance at each entity). It may be that those charged with governance agree to continue for one entity and not another. Each attest client needs to be considered separately regardless of the relationship between the entities.
11. AICPA Private Companies Practice Section  
The existing guidance on how to handle these transactions is already clear in the existing guidance and there is no need to issue any new guidance unless there are specific scenarios that PEEC decides to address in targeted Q&As.
05. BDO USA, LLP  
Believes that any reporting of such breaches would only be appropriate if the breach also impacts the affiliate. In such a situation, we believe current guidance is sufficient.

## Clarify the requirements regarding when or if reporting is required

13. KPMG LLP

Providing guidance on the following would be helpful:

- determining when a breach extends to affiliate entities that are also financial statement attest clients of the firm; and
- evaluating reporting requirements, if any, for communications to those charged with governance at financial statement attest client affiliates of the audit client directly impacted by the breach.

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

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

06. Ernst & Young LLP

Examples of any situations where communication would not be required, as well as guidance on any potential efficiencies in communicating breaches would be helpful.

## Simultaneous employment or association with an attest client

### Highlights:

- 1 out of 9 comment letters does not support.
- 8 out of 9 letters support.
- 2 letters noted that a principles-based approach (framework) should be developed.
- 4 letters agree with the exception for military services.
- 2 letters recommend limiting the interpretation to covered members.

### Planning Task Force Recommendation:

Considering that the majority of the commenters support the project and four commenters support the exception for military services, the Planning Task Force recommends formation of a task force to determine whether there should be an exception for military personnel and whether there should be other exceptions to the subtopic “Current Employment or Association With an Attest Client” (1.275).

**Priority:** There is no high degree of urgency to address this matter; therefore, the Planning Task Force recommends initiating the project in Q1 2022.

### Framework to evaluate if there is a threat and its significance

- |                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 06. Ernst & Young LLP                        | We believe that among the relevant factors to consider would be both the individual’s level at the firm as well as the individual’s role and responsibilities at the audit client. For example, an intern or lower level staff person who is not a covered member may be perceived to pose a lower threat to independence and objectivity. However, if such non-covered member performs a managerial or accounting role at the audit client, the threat to independence could be significant. We do not believe it is appropriate for any professional employee, regardless of level, to be employed by an audit client in a key position. We encourage PEEC to consider developing a framework to evaluate whether the facts and circumstances of a particular simultaneous employment situation create a significant threat to independence and whether such threat could be reduced to an acceptable level with adequate safeguards. |
| 11. AICPA Private Companies Practice Section | Consider providing exceptions to this rule as it relates to professors, military personnel (including the Army reserves as a more common example) and others using a principles-based approach.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

### Exception for military service or public safety employment

- |                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 01. Office of the Washington State Auditor | It is always helpful to clarify that trivial matters do not create an independence issue. For example, service as a reservist in the Armed Forces or as an adjunct professor at a community college or university (that is, in a non-management or leadership position that is uninvolved in the subject matter of the audit) by a professional employee of the firm that is not involved in the audit should not represent an independence impairment. |
| 04. The Ohio Society of CPAs               | Agrees with revisiting whether any additional exceptions should be appropriate and supports the exception for military service.                                                                                                                                                                                                                                                                                                                         |
| 12. U.S. Government Accountability Office  | Agrees with the example PEEC cites in this section of the Strategy and Work Plan that pertains to the potential independence threats affecting auditors who are simultaneously engaged to audit U.S. military service branches and also serve as active duty or reserve force military personnel.                                                                                                                                                       |

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

### **Limiting the interpretation to covered members**

09. Baker Tilly Virchow Krause, LLP Consider narrowing the scope of this interpretation so that it only applies to covered members.
06. Ernst & Young LLP Consider limiting this interpretation to covered members from its current application to all professionals and permit a conceptual framework approach for non-covered members, provided that the role is not a key position.

### **Other comments and recommendations**

04. The Ohio Society of CPAs Challenges we have faced include simultaneous employment in non-accounting and non-decision making roles with attest clients that have multiple work locations across a wide geographic area (such as in a retail store environment,) which is difficult to police and presents no opportunity to influence the attest engagement. Firms inquired about a transitional period for a covered member to break off all ties when changing employment
05. BDO USA, LLP The current guidance is appropriate and any necessary exceptions, such as the current adjunct professor exception, should be addressed on an as needed basis.
08. Deloitte LLP Close coordination with other rule-making bodies (e.g., IESBA, SEC) is necessary considering existing rules and requirements of such other bodies.
12. U.S. Government Accountability Office Some government auditors may encounter independence impairments to their attest engagements when, for example, there are statutory requirements to serve in an official role, such as providing a voting member to an entity's management committee or board of directors. Consider including exceptions in this section that pertain to (1) government auditors who are subject to statutory requirements related to serving as ex officio board members or directors of an audited entity.
09. Baker Tilly Virchow Krause, LLP Consider adding a specific exemption for "inconsequential" employment (e.g. clerical positions, etc.).

## Other matters

### Highlights:

- 2 comment letters do not recommend updating the code for infrequent situations
- 5 letters provide recommendations for projects related to other standard setter's rules (3 letters specifically refer to IESBA: 2 letters support convergence and 1 letter recommends that PEEC exercise caution when converging with IESBA)
- 2 letters provide recommendations for a current project "Enhanced visibility of non-authoritative guidance"
- 2 letters commented on the current project of PEEC "Responding to non-compliance with laws and regulations".
- 2 letters recommended developing additional guidance addressing potential ethical implications when members assist clients with implementing new accounting standards.

### Planning Task Force Recommendations:

*Convergence with IESBA:* Convergence with IESBA is an ongoing project. The Planning Task Force recommends that this information be shared with PEEC's IFAC Convergence task force for their consideration.

*Assisting clients with implementing accounting standards:* As accounting standards continue to increase in complexity, it is challenging for middle market companies to keep up with the implementation issues of new standards. Therefore, these entities engage practitioners for assistance with implementation. The Planning Task Force believes it would be beneficial to develop additional guidance related to threats and safeguards associated with new accounting standards and recommends forming a task force to undertake a standard-setting project.

### Priority:

*Convergence with IESBA:* Not applicable.

*Assisting clients with implementing accounting standards:* FASB proposes delaying the effective dates of its standards on revenue recognition and lease accounting for certain entities because of challenges related to the coronavirus pandemic. Assisting clients with implementing accounting standards is a high priority project because it would benefit practitioners assisting their clients with the new standards on revenue recognition and lease accounting. The Planning Task Force recommends initiating the project in Q1 2021.

### Infrequent situations

- |                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10. NYS Society of CPAs                      | In general, we would urge PEEC to address only those projects where broad reaching threats to members' compliance with the extant rules and interpretations of the Code of Professional Conduct (the Code) are prevalent due to a significant shift in business practices, technology or other circumstances. Issuing new interpretations for matters that happen rarely or infrequently should be avoided, as they cause confusion and are often forgotten because they address situations that rarely arise. We believe the Conceptual Framework in conjunction with the Principles of Professional Conduct are strong enough for a member to address "one-off" situations appropriately. |
| 11. AICPA Private Companies Practice Section | When narrow scope issues arise (for example, specific questions that come through the ethics hotline), TIC believes issuing Q&As rather than issuing an interpretation is a more efficient approach. Hosting is a prime example of how issuing an overall interpretation creates confusion and then results in the issuance of Q&As to address very targeted and specific questions that come from the language used in the interpretations.                                                                                                                                                                                                                                                |

## Comparison to other standard setter's rules (IESBA, SEC)

10. NYS Society of CPAs With respect to the plan to identify and document the areas where the Code differs from the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (IESBA Code), we believe that not only should the differences be identified, but also the effects of those differences on (a) members who provide attest and assurance services to entities that operate in multiple jurisdictions where some of the services are covered by the AICPA's Code and other services are covered by the IESBA Code; and (b) member firms that practice in multiple jurisdictions.
06. Ernst & Young LLP PEEC should continue to monitor and address changes made by regulators and other standard setters. In determining allocation of resources, we believe PEEC should consider the time commitment of resources needed for both influencing change and analyzing potential consequences of changes proposed by regulators and other standard setters. Providing input to IESBA on areas that PEEC is focused on, for example, can inform and enable future changes to the AICPA Code and development of non-authoritative guidance. Understanding the IESBA Strategy and Workplan and active involvement in IESBA task forces and standard setting process could support the advancement of PEEC's projects on related topics and facilitate convergence. Further, we believe the PEEC should be proactively considering the International Auditing and Assurance Standards Board ("IAASB") current projects that likely will be a focus at the US level over the next three years. The IAASB and IESBA have had increasing instances of projects that require input or feedback from the other board and have worked toward establishing more formalized coordination protocols. We recommend that PEEC work with US Auditing Standards Board to establish a similar arrangement. We support the PEEC's current project to compare the AICPA Code to the IESBA Code and believe a convergence matrix would assist members in understanding where the AICPA Code is less restrictive than the IESBA code and where IESBA topics are addressed in non-authoritative guidance.
07. National Association of State Boards of Accountancy One additional project the PEEC may wish to initiate would be to evaluate the final revisions to the Securities and Exchange Commission (SEC) independence rules to determine whether PEEC should amend certain rules, e.g. loan provision, so they align with the amended SEC rules.
11. AICPA Private Companies Practice Section Similar to a recent comment letter that TIC submitted to the Auditing Standards Board (ASB) related to their proposed strategy and work plan, TIC believes that PEEC should exercise caution when converging with international standards under IESBA. TIC believes that even more so than convergence of auditing standards, ethics is something where litigation and the environment in the U.S. would create issues they do not have in other jurisdictions. The recent NOCLAR project is a good example of how certain standards would not work well in the United States. TIC also believes there are times where PEEC should take the lead on projects rather than waiting for IESBA to add a project to their agenda. The use of new and emerging technologies and the impact on independence is one area where TIC believes that PEEC should take the lead and begin outreach sooner rather than later.
10. NYS Society of CPAs The Society believes that a project undertaken to compare the AICPA Code to the rules of other standard setters would be very beneficial to members. Such a project should highlight the differences in the rules between standard setters and provide members with guidance on how to address the identified differences.

## Recommendations for current project “Enhanced visibility of non-authoritative guidance”

11. AICPA Private Companies Practice Section Perhaps PEEC could consider working with PCPS on member surveys related to their understanding and application of the Code of Professional Conduct to further the development of additional tools and guidance in areas where there is confusion and diversity in practice.
- The topics that are addressed on the ethics Hotline are great topics for PEEC to follow and try to address in some manner. However, there are a large group of practitioners that do not even realize that there is an ethical dilemma based on the conceptual framework, because there has not been a “grassroots effort” to reach the CPAs in the small towns across America that make up most of the AICPA membership. Perhaps PEEC should explore new ways of communicating with members to ensure that as many members as possible are receiving pertinent information as it relates to appropriately implementing the Code of Professional Conduct.
- TIC also notes that there seems to be more of a root issue with some members not understanding some of “the basics” on independence and being able to apply the conceptual framework appropriately. This has recently arisen with regard to bookkeeping services and tax records and “making the client whole” as it relates to the hosting interpretation. Perhaps the ethics team can focus on doing more to get the word out by means of podcasts like the new ethically speaking podcast, sessions at various conferences, and by using the Center for Plain English Accounting (CPEA) as a means of distributing information to the members.
10. NYS Society of CPAs With respect to the plan to enhance the visibility of non-authoritative guidance, we strongly suggest PEEC resume issuance of the Ethically Speaking newsletter in addition to the podcasts of the same title. The podcasts are helpful, but they are not well advertised, and apparently most members are not opening the ethics page of the AICPA website on a regular basis to see if a new podcast is available. The newsletters were an effective way to get members actively thinking about ethics issues with more regularity.

## Responding to non-compliance with laws and regulations

02. Pennsylvania Institute of Certified Public Accountants The committee believes continued efforts are needed to monitor the disparate and evolving state board requirements for communicating suspected noncompliance with laws and regulations to external authorities in the absence of explicit client permission to disclose such information and the implication of those evolving laws on the existing standards in the AICPA Code of Professional Conduct.
10. NYS Society of CPAs The Society recognizes that the Noncompliance with Laws and Regulations (NOCLAR) interpretation remains an open issue at PEEC. We believe that if and when this interpretation is released, it should be accompanied by significant guidance to help practitioners deal with the practicalities of the interpretation. Issues involving materiality, keeping client matters confidential and the need for reliance on the opinion of legal counsel, among other issues, should all be addressed.
- With respect to the NOCLAR task force, the Society recognizes that there are significant issues related to NOCLAR when considered in light of the particularly litigious environment in the United States of America. The NOCLAR interpretation has hung in limbo for almost three years. It is not clear to us why the PEEC is only now charging the NOCLAR task force with reviewing IESBA’s standard as we presumed that would have been done prior to the issuance of the NOCLAR exposure draft. After three years, we suggest that PEEC commit to moving forward with NOCLAR, significantly rewrite and re-circulate a new, revised exposure draft to address issues raised in the comment letters, or drop the NOCLAR effort entirely.

## Assisting clients with implementation of new accounting standards

10. NYS Society of CPAs      The Society fully supports PEEC's efforts with the Enhancing Audit Quality initiative, the Center for Plain English Accounting and the Accounting Standards teams to develop a webcast to discuss potential independence issues that exist when assisting clients with implementing new accounting standards. However, we do not believe that a single webcast is sufficient outreach to members. As accounting standards continue their increase in complexity, it is nearly impossible for middle market companies to keep up with the implementation issues of new standards, which forces these entities to increasingly rely on their trusted advisor for assistance. Therefore, with no foreseeable end to the high volume of standards issued each year or the complexity of the issues raised by the Financial Accounting Standards Board, we think the AICPA groups noted above need more rigorous and more proactive communication regarding the independence threats that a member and a member's firm face by being an entity's trusted advisor.
14. James J. Newhard, CPA      While public companies are now in the ASC 842 reporting timeframe, the private company deferral of the lease standard suggests that the PEEC has time to create much more guidance related to ASC 842. For many private companies, ASC 842 will be an annual undertaking of new leases, extended leases, changes in related party leases, reassessment of leases, modified term/payments/conditions/etc. of leases, and the matter of enforceable rights remains a legal issue, outside the purview of CPA skill set (and legal authority). The commenter recommends forming a task force to develop resources, guides, FAQs, and other assistance to guide CPAs in performing the nonattest services of assisting attest client with ASC 842, especially in light of the tremendous number of related party involvements, and via the newly issued ASU 2018-17 which assures even less related party transactions will result in VIE consolidation.

### Other comments

01. Office of the Washington State Auditor      In addition to the projects described in the plan, we would encourage the Committee to consider clarifying independence guidance for situations when an auditor of a government has civic interactions with that government. For example:
- Having citizenship with a government or benefiting from government services or programs that are comparable to and offered to all citizens - such as social services, social insurance programs or fire protection - would not be considered a financial interest in the government or a self-interest threat.
  - Voting and participation in public discourse would not be considered management participation in the government.
  - Paying taxes, fines or charges for services to a government that are comparable to those paid by all citizens would not be considered a self-interest threat.
- Being the subject of or disputing a government enforcement action would not be considered an adverse interest threat so long as the matter is clearly trivial to the government and member. For example, receiving or disputing a traffic or parking ticket or property tax assessment on the member's home.
02. Pennsylvania Institute of Certified Public Accountants      Overall, the committee is supportive of the items included in the consultation paper, but noted the absence of any proposed activities related to peer review and audit quality other than a reference to enforcement in Appendix A. The committee notes the continuing practitioner difficulty with audit quality and supports efforts to identify and remediate firms found not to be complying with professional standards. The committee encourages greater peer reviewer outreach and education to ensure that reviewers are appropriately identifying nonconforming engagements. Furthermore, given the significant audit deficiency rate, the committee recommends that the AICPA undertake a project to ensure firms have access to the tools, training, and resources needed to successfully perform audits in a cost-effective manner.

09. Baker Tilly Virchow Krause, LLP We believe that there are still certain unresolved issues related to PEEC’s hosting services interpretation, therefore, we believe that PEEC should perform additional outreach to identify those unresolved issues and issue clarifying guidance where necessary.
11. AICPA Private Companies Practice Section TIC would like to see more smaller firm representation on PEEC. Over the past year, we have seen that PEEC’s primary voice is the larger firms, lawyers, and NASBA representatives and not many smaller firm representatives. From TIC’s perspective, it would be positive to see some more TIC member-sized firms on PEEC.
11. AICPA Private Companies Practice Section From the last PEEC meeting, it is TIC’s understanding that the planned approach with regard to staff augmentation has changed, whereby this could become a prohibited service, regardless of the duration or type of engagement. TIC believes that, if PEEC follows an approach whereby there are no exceptions to staff augmentation, this could negatively impact smaller firms that, on occasion, provide these services to their clients in special (or “emergency”) situations. TIC preferred the original direction of the project in that there could be situations where providing these services would not result in an independence violation. That included engagements that were very short in duration or where the client lost a resource very suddenly and quickly needed someone to step in and assist. While we acknowledge that these situations may not often occur at larger firms dealing with clients that have adequate accounting departments, the smaller firms work quite often with companies that may only have a few staff people in those roles and, therefore, losing even one staff person due to something like a sudden illness presents a real challenge. TIC would ask PEEC to strongly consider the views of smaller firms on this issue and, if major changes are made from the original proposal, that this guidance be re-exposed for public comment to ensure there are no unintended consequences.
11. AICPA Private Companies Practice Section With increased traffic to the Ethics Hotline, PEEC very closely should monitor the ethics hotline usage and ensure there is adequate staff coverage to answer questions in a timely manner as the volume of inquiries grows. As PEEC continues to develop new guidance, the volume of inquiries likely will increase. The ethics hotline is written in many of the quality control documents of firms as the primary source of consultation on independence and ethics issues. The ethics hotline is how many smaller firms satisfy the answers they need within their practices to ensure they are in compliance with the Code of Professional Conduct for peer review purposes. Therefore, responses to these inquiries is integral to a firm’s system of quality control.
11. AICPA Private Companies Practice Section TIC members were recently asked to fill out a survey related to the recent proposal titled “Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers.” TIC appreciates the opportunity to provide feedback, especially as it relates to the smaller firm perspective. Since TIC does not respond directly to IESBA proposals, we would ask that feedback from TIC be solicited in a more informal manner, such as the recent survey that was sent related to this proposal related to quality reviewers. TIC would also be happy to have a member serve on PEEC Task Forces, similar to how we work with the Auditing Standards Board (ASB). This ensures that TIC views are heard and understood early on, many times when a project is still being contemplated by IESBA.

### Exhibit A – Projects timeline

Project/Stream	Type of Project	Expected Start	Status
Staff augmentation arrangements	Standard Setting		in progress
Inducements	Member Enrichment PEEC <sup>1</sup>		in progress
Responding to non-compliance with laws and regulations (NOCLAR) (Phase 1)	Standard Setting		in progress
NOCLAR (Phase 2)	Standard Setting	TBD	not started
Affiliates of a single audit financial statement attest client	Standard Setting		in progress
Records requests	Standard Setting		in progress
Statements on standards for tax services	Member Enrichment PEEC		pending
Information system services	Member Enrichment PEEC	Q3 2020	in progress
IESBA comparison	Member Enrichment PEEC	Q3 2020	in progress
CGMA code updates	Member Enrichment Staff <sup>2</sup>	Q3 2020	not started
Statements on standards for attestation engagements	Standard Setting	Q4 2020	not started
Back to basics educational series	Member Enrichment Staff	Q4 2020	not started
Department of Labor reporting standard	Member Enrichment Staff	Q4 2020	not started
SEC exposure draft	Member Enrichment Staff	Q4 2020	pending
Hosting services (engagement letters)	Member Enrichment PEEC	Q4 2020	not started
Definition of office	Member Enrichment PEEC	Q4 2020	not started
Assisting clients with implementing accounting standards (other matters)	Standard Setting	Q1 2021	not started
Unpaid fees (de minimis fees)	Standard Setting	Q2 2021	not started

<sup>1</sup> Member enrichment PEEC projects entail significant PEEC member involvement.

<sup>2</sup> Member enrichment staff projects entail insignificant PEEC member involvement.

<b>Project/Stream</b>	<b>Type of Project</b>	<b>Expected Start</b>	<b>Status</b>
Digital assets	Standard Setting	Q3 2021	not started
Client affiliates	Standard Setting	Q3 2021	not started
529 college savings plans	Standard Setting	Q1 2022	not started
Simultaneous employment or association with an attest client	Standard Setting	Q1 2022	not started
Business relationships	Standard Setting	Q1 2022	not started
Reporting of an independence breach to an affiliate that is also an attest client	Other project	Q1 2022	not started
Conflicts of interest	Member Enrichment PEEC	Q2 2022	not started
Artificial intelligence	Member Enrichment PEEC	Q3 2022	not started
Operational enhancement to the code	Member Enrichment Staff	ongoing	in progress



# **AICPA Professional Ethics Division: Strategy and Work Plan for 2021-2023**

**TBD, 2020**

Prepared by the AICPA Professional Ethics Executive Committee.

For Discussion Purposes Only

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## Introduction

This document sets out the Professional Ethics Division's strategy and work plan (SWP) for the years 2021 through 2023. The SWP outlines the standard-setting projects the Professional Ethics Executive Committee (PEEC) plans to begin and the member enrichment projects the Professional Ethics Division (division) staff will undertake.

Potential projects were identified through member enrichment activities, such as the ethics hotline, and outreach to PEEC members and other stakeholders. PEEC issued a formal consultation paper seeking feedback from members and other interested parties on identified potential projects as well as other other projects for PEEC's consideration. After the comments were analyzed, PEEC developed the SWP that follows.

The SWP is an accumulation of the feedback received taking into consideration:

- Prevalent issues in the profession
- Benefit to the public interest
- Technological change
- Changes in auditing and accounting standards
- Education and tools to assist members
- Degree of urgency in addressing matters
- Social and economic trends due to the pandemic
- Feasibility of undertaking a project due to its nature.

### **Standard-setting projects**

Standard-setting projects involve promulgating new or revising existing interpretations. Since these projects can result in authoritative changes to the *Code of Professional Conduct (code)*, they follow a prescribed due process. This process includes, among other steps, discussion during PEEC's quarterly meeting sessions that are open to the public. Agenda materials and minutes related to these projects are available on the [division's website](#).

New or revised interpretations resulting from standard-setting projects must first be exposed for public comment in the form of an exposure draft. For an exposure draft to be issued, the proposal must be approved by a two-thirds majority of the voting PEEC members. Exposure drafts are available on the division's website and are publicized in AICPA publications such as *The Journal of Accountancy*. The typical comment period in which members and other interested parties may submit comments is 60 days.

After exposure, PEEC considers all comments received and a two-thirds majority of the voting PEEC members must agree to adopt the proposal.

### **Member enrichment projects**

Member enrichment projects do not follow the same strict due process since the guidance issued is not authoritative. While PEEC may be consulted on some member enrichment projects, the results of these projects are staff documents designed to assist members and other interested parties with understanding and applying the code. Member enrichment projects include, among other things, the development of articles, podcasts, toolkits and frequently asked questions and answers.

## New standard-setting projects

### 529 college savings plans

In 2005, PEEC developed guidance for 529 college savings plans. This guidance concluded that a covered member who is an account owner has a direct financial interest in the plan as well as in the underlying investments held by the plan because the account owner elects which sponsor's 529 college savings plan to invest in, and prior to making the investment decision, the covered member has access to information about the plan's investment options or funds.

The consultation paper indicated that PEEC was informed that the underlying securities are not always known by account owners when they invest in these plans and sought feedback related to challenges encountered by members and whether a project should be undertaken to re-evaluate the guidance.

Most of the commenters support this project due to the difficult nature of monitoring the underlying investments of these plans. A task force will be formed to understand the monitoring challenges and to determine how to address the independence concerns raised by investing/participating in 529 college savings plans.

#### ***Timing***

The project will begin in the first quarter of 2022.

### Simultaneous employment or association with an attest client

The "Simultaneous Employment or Association with an Attest Client" interpretation (1.275.005) prohibits all partners and professional employees of the firm from being employed by or associated with an attest client. The interpretation includes two very specific exceptions, one for adjunct faculty members of an educational institution and another for members in a government audit organization.

The consultation paper sought feedback on whether a project should be undertaken to determine if there are other exceptions. One such exception suggested in the consultation paper was whether a partner or professional employee could be simultaneously employed or associated with the U.S. Army if the firm audited the U.S. Army.

Most of the commenters support this project, recommending a principles-based approach, limiting the interpretation to covered members or making an exception for military services. A task force will be formed to determine whether there should be an exception for military personnel and whether there should be other exceptions to the subtopic "Current Employment or Association with an Attest Client" (1.275).

#### ***Timing***

The project will begin in the first quarter of 2022.

## Business relationships

Business relationships have changed since the “Cooperative Arrangements with Attest Clients” interpretation (1.265.010) under the “Independence Rule” (1.200.001) was first adopted in 1993. In addition, firms are engaging in business relationships with nonattest clients (e.g., finance and accounting outsourcing) that may create threats to compliance with the “Integrity and Objectivity Rule” (1.100.001).

The consultation paper sought feedback on what business relationships firms have with either nonattest or attest clients and whether the code should be updated to better reflect the types of business relationships in which members are currently involved.

Most of the commenters support this project and encourage PEEC to consider consistency with the U.S. Securities and Exchange Commission (SEC) when developing the guidance. A task force will be formed to determine the types of business relationships members have with attest clients, the nature of those relationships and additional safeguards that may be necessary to protect independence, integrity and objectivity.

### **Timing**

The project will begin in the first quarter of 2022.

## Client affiliates

The definition of an “affiliate” currently extends to common ownership by entities and not common ownership by individuals.

The consultation paper indicated that there are frequent inquiries regarding whether entities that are owned by the same individual should be considered affiliates. The consultation paper sought feedback on how firms currently apply guidance related to the affiliate definition in a situation when entities are owned by the same individual and what additional guidance related to client affiliates, if any, would be helpful.

Most of the commenters support this project, recommending clarifying the definition of “affiliate”. Based on the analysis of the feedback provided, there is inconsistency in how current guidance is applied. A task force will be formed to determine if the guidance should be applied to individuals and if there are any other aspects of the client affiliate interpretation that need clarification.

### **Timing**

The project will begin in the third quarter of 2021.

## Unpaid fees<sup>1</sup>

The “Unpaid Fees” interpretation (1.230.010) concludes that independence is impaired when a covered member has unpaid fees, regardless of the amount, from an attest client for any previously rendered professional service provided more than one year prior to the date of the current-year report.

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<sup>1</sup> PEEC changed the name of the project from “De minimis fees” to “Unpaid Fees”.

The consultation paper sought feedback on whether a project should be undertaken to determine whether there is a threshold where threats to independence from unpaid fees could be at an acceptable level.

The commenters are evenly split, recommending alignment with the International Ethics Standards Board for Accountants (IESBA) or highlighting potential challenges in defining trivial fees. A task force will be formed to develop a framework for members to determine whether unpaid fees are, in substance, equivalent to a loan. Further, given the current situation related to the COVID-19 pandemic, the task force will consider whether a bright line of one year is appropriate.

***Timing***

The project will begin in the second quarter of 2021.

## **Digital assets**

The code does not provide any guidance specific to independence threats or other ethics issues when members own or mine digital assets such as cryptocurrencies.

The consultation paper sought feedback on whether a project should be undertaken to understand independence and ethics issues unique to the digital asset ecosystem.

Most of the commenters support this project and recommend PEEC determine whether ownership of digital assets should be addressed under the “Financial Interests” subtopic (1.240). A task force will be formed to develop guidance regarding how the ownership of digital assets should be treated.

***Timing***

The project will begin in the third quarter of 2021.

## **Assisting clients with implementing accounting standards (other matters)**

When practitioners provide nonattest services to their attest clients, they should refer to the “Nonattest Services” subtopic (1.295). However, there is no interpretation that specifically addresses assisting clients with implementing accounting standards.

In addition to seeking feedback on specific projects, the consultation paper sought comments on other matters. Two commenters recommend considering whether enough guidance exists around the ethical implications when members assist their attest clients with the implementation of new accounting standards.

As accounting standards continue to increase in complexity, it is challenging for middle market companies to keep up with the implementation issues of new standards. Therefore, these entities engage practitioners for assistance with implementation. A task force will be formed to develop additional guidance related to threats and safeguards associated with assisting clients with implementing new accounting standards.

***Timing***

The project will begin in the first quarter of 2021.

## New member enrichment projects

### Definition of “office”

In 2001, PEEC revised the definition of “office”, which identifies which individuals need to remain independent of attest clients. The current definition of “office” highlights that substance should govern the office classification, and personnel interactions and assigned reporting channels are more important than physical location.

Since 2001, there have been many changes to how accounting firms practice, which may require changes in how offices are viewed. The consultation paper sought feedback on whether a project should be undertaken to update the definition of “office” to better reflect these changes in practice.

Most of the commenters support the project, recommending considering relevance of physical offices and virtual offices.

Since the office definition stipulates that substance over form should govern classification, a member enrichment project will be undertaken to provide some non-authoritative guidance given the relevance of physical and virtual offices.

#### **Timing**

The project will begin in the fourth quarter of 2020.

### Artificial intelligence

Artificial intelligence (AI) is technology that performs decision-based tasks previously performed by humans. AI presents a huge opportunity for CPAs, but reliance on new technology could create threats to compliance with the code. The code does not provide any guidance specific to independence threats or other ethics issues when members utilize artificial intelligence to provide professional services.

The consultation paper sought feedback on whether a project should be undertaken to understand ethics issues unique to the use of AI while providing professional services and whether guidance should be developed to address those unique challenges.

Most of the commenters support the project and provide examples of threats related to reliance on artificial intelligence. Some commenters believe it may be premature to develop authoritative guidance to address any ethics implications or that the matter should be first addressed by the Auditing Standards Board. A member enrichment project will be undertaken to create awareness of the various threats related to the use of AI.

#### **Timing**

The project will begin in the third quarter of 2022.

## Conflicts of interest

The “Conflicts of Interest” subtopic (1.110) indicates that a member should use professional judgement to determine whether a professional service, relationship or matter would result in a conflict of interest.

The consultation paper indicated that there is an increased number of inquiries regarding conflicts of interest and sought feedback on what additional guidance would be helpful to assist members with better understanding and applying the conflicts of interest interpretations.

Most of the commenters indicate that they believe there is enough existing guidance, but they support the project due to the increased number of inquiries.

The content of the inquiries will be analyzed and member enrichment materials will be developed to raise awareness of conflicts of interest.

### **Timing**

The project will begin in the second quarter of 2022.

## Operational enhancements to the code

The consultation paper sought feedback on what operational enhancements should be made to the code to make it more user-friendly.

All commenters support the project, making various recommendations such as enhanced visibility of member enrichment content, streamlining the landing page for the online code and providing updated on-demand training on how to use the online code.

Following is a summary of the member enrichment projects to address these recommendations:

*Enhanced Visibility of Member Enrichment Materials:* FAQs and certain other appropriate member enrichment content will be moved to the online platform. For member enrichment content that can't be moved to the online platform, a link will be created from the platform to the content. The FAQs will be added to the AICPA publication “Technical Questions and Answers”. Completion is estimated by the fourth quarter of 2020.

*Streamlining of Online Code Landing Page:* Division staff will work with the development team to reduce the “AICPA Online Professional Library” banner in the online code to optimize space. The timing of this project has not yet been finalized.

*Updated on-demand training on how to use the online code:* An updated video tutorial will be developed on how to use the code and the online interface will be linked to the video. The timing of this project has not yet been finalized.

## Other project

### Reporting of an independence breach to an affiliate that is also an attest client

The “Breach of an Independence Interpretation” interpretation (1.298.010) requires the responsible individual to inform those charged with governance as soon as practicable if the responsible individual determines that action cannot be taken to satisfactorily address the consequences of the breach.

The consultation paper sought feedback on whether a project should be undertaken to determine whether members can use judgement about when or if they need to communicate a breach to sister and downstream affiliates that are also attest clients.

Most of the commenters do not support the project, indicating that there is enough existing guidance. However, they express different opinions regarding whether reporting of an independence breach to an affiliate that is also an attest client is required.

Due to inconsistency in how existing guidance is applied, a task force will be formed to develop guidance to assist members in determining when a breach extends to affiliate entities that are also attest clients of the firm. The task force will determine whether this project should be undertaken as a member enrichment or standard-setting project.

#### ***Timing***

The project will begin in the first quarter of 2022.

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## Exhibit A — Current projects

### Standard-setting projects

#### *Records requests*

On May 1, 2020 an [exposure draft](#) was issued wherein PEEC proposed revisions to the “Records Requests” interpretation (1.400.200) regarding charging clients fees for copying, shipping, and retrieval information.

#### **Timing**

Comments are due September 30, 2020 and projected project completion is the first quarter of 2021.

#### *Staff augmentation arrangements*

PEEC’s staff augmentation arrangements task force is determining whether the code should address loaned staff arrangements.

#### **Timing**

This project is underway with estimated completion during the second quarter of 2021.

#### *Responding to non-compliance with laws and regulations (NOCLAR)*

PEEC’s NOCLAR task force is reviewing the IESBA’s standard *Responding to Non-Compliance with Laws and Regulations* and will be recommending revisions to the code for purposes of convergence.

#### **Timing**

This project is underway. The estimated completion date is undetermined.

#### *Affiliates of a single audit financial statement attest client*

This task force will determine whether and if so, how the “State and Local Government Client Affiliates” interpretation (1.224.020) adopted in 2019 should be extended to the single audit environment. The task force will consider situations where the auditor is only engaged to perform the single audit for a financial statement attest client (and not the financial statement audit), and also consider whether there are situations when an affiliate of a financial statement attest client would not require the auditor’s independence as part of the single audit, which may occur when the auditor only performs a portion of the single audit. The task force will consider whether its recommendations are best conveyed in the code or as member enrichment materials.

#### **Timing**

This project is underway with estimated completion during the fourth quarter of 2021.

#### *Statements on standards for attestation engagements (SSAE)*

This task force will determine whether the modifications to the independence rule should be applied when the SSAE report is not restricted in use. The task force will also identify what independence interpretations use financial statement factors and determine how that guidance should be applied when the attest engagement is not a financial statement attest engagement. The task force will coordinate with Auditing Standards Board staff regarding the adequacy of the code’s definition of “client” and “attest client” for members who are applying the SSAEs, since the SSAEs do not define “client”.

***Timing***

This project is scheduled to begin in 2020 with estimated completion during the fourth quarter of 2021.

For Discussion Purposes Only

## Member enrichment projects

### *Inducements*

The project team is developing a practice aid to assist members with understanding actions that could influence behavior that may compromise professional integrity and objectivity.

### **Timing**

This project is underway with estimated completion during the first quarter of 2021.

### *Information system services*

The project team is developing guidance to assist members with implementing the “Information System Services” interpretation (1.295.145).

### **Timing**

This project is underway and is scheduled to be completed by the second quarter of 2021.

### *“Back to Basics” educational podcast series*

This podcast series will focus on educating members about their ethical responsibilities. Episodes will include, among other topics, re-evaluating independence when accepting or continuing an engagement and raising awareness of resources available on engagement acceptance and continuance, internal control, including test of controls over compliance, and risk assessment and response.

### **Timing**

This project is scheduled to begin in 2020 with estimated completion during the second quarter of 2021.

### *IESBA comparison*

Given the restructure of the IESBA Code of Ethics for Professional Accountants (IESBA code), the project team will compare the AICPA code to the IESBA code and identify where the AICPA code is less restrictive than the IESBA code. Consideration will be given to including a convergence matrix within this document to assist members in understanding where the AICPA addresses the IESBA topics more robustly in non-authoritative guidance. The International Federation of Accountants (IFAC) Convergence and Monitoring Task Force will work closely with the project team to identify areas where it believes standard-setting may be necessary for convergence.

### **Timing**

This project is scheduled to begin in 2020 with estimated completion during the fourth quarter of 2021.

### *Hosting services*

Publications and teams that develop engagement letter templates will be identified and the project team will seek opportunities to incorporate additional information highlighting nonattest services requirements, including an acknowledgement that the firm is not responsible for hosting the clients’ data or records.

### **Timing**

This project is scheduled to begin in 2020 with estimated completion during the fourth quarter of 2021.

*Department of Labor reporting standard*

Content or communications will be developed to raise awareness of the change in reporting.

**Timing**

This project is scheduled to begin in 2020 and the completion date is undetermined.

*Chartered Global Management Accountant (CGMA) code updates*

The project team will determine what revisions need to be made to the CGMA code for alignment with the Chartered Institute of Management Accountants (CIMA) and AICPA codes.

**Timing**

This project is scheduled to begin in 2020 with estimated completion during the second quarter of 2021.

*SEC exposure draft*

In January 2020, the SEC published its proposal to update auditor independence rules (Rule 2-01) in the Federal Register. Division staff developed an impact analysis to assist PEEC with drafting a comment letter to the SEC proposal. Based upon the final revised SEC rules, the impact analysis will be updated and the project team will determine what, if any, changes should be made to the AICPA code, especially in areas that the AICPA code appears more restrictive.

**Timing**

The timing of this project is subject to the SEC's issuance of the final rules.

*Statements on standards for tax services (SSTS)*

The tax team's project to revise the SSTS is being monitored. Once the standards are revised, the project team will determine if any member enrichment materials would be helpful.

**Timing**

The timing of this project is subject to the issuance of the final revised SSTS.

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## SWP Comment Letters by Project

### 529 college savings plans

#### Support with recommendation

01. Office of the Washington State Auditor We believe this is a valuable project to pursue since the current provisions seem unreasonable and inconsistent with other provisions. Current guidance indicates there is no control of the plan's investments and, as noted in the Consultation Paper, investing options in savings plans are not static and present challenges for monitoring underlying investments. Both types of plans are government-controlled savings programs provided in accordance with legislatively established legal requirements not subject to negotiation or modification for benefit of individuals. Further, some, if not all, of these programs are backed by the full faith and credit of the state, limiting the exposure of the account holder and therefore, the threat to objectivity and independence. At the very least, guidance should be harmonized with 1.255.010 Depository Accounts, 1.280.040 Member of a Credit Union and 1.255.020 Brokerage and Other Accounts, which all provide for threats to be at an acceptable level when services are provided under normal terms and assets at risk of loss are immaterial to the covered member's net worth.
05. BDO USA, LLP We support the inclusion of a project to update the guidance related to the treatment of investments in 529 College Savings plans under the financial interest rules. Current guidance considers the investments made by the 529 College Savings Plan to be a direct financial interest of the account holder. However, in many situations the account holder does not have any insight into what investments have been made by the plan. This disconnect between plan operation and the rule creates significant issues in practice. The college savings plan project and the digital assets project could be combined into one project.
06. Ernst & Young LLP The AICPA Code does not currently distinguish between 529 plans in which the owner chooses the underlying securities, such as mutual funds or exchange traded funds, and those in which the owner only chooses an established target-date portfolio for which the owner has no control or influence over the selection of the portfolio's underlying securities. Monitoring of the latter type of investment option and potential impact on covered members is challenging because the underlying investments may only be identified based on historical information obtained from the states on a quarterly basis. We believe the AICPA Code should be updated to differentiate between account owners who choose investment portfolio options that allow selection of securities and those that elect a target date portfolio in which the account owner does not have control over the underlying investment decisions. Further, PEEC should consider treating the underlying investments of 529 plan target date portfolios as indirect investments, similar to the approach for mutual funds in section 1.240.030.
08. Deloitte LLP We recognize certain operational and practical challenges may exist in demonstrating and maintaining compliance with the Code related to 529 college savings plans. We would be supportive of the PEEC establishing a task force to further explore this area. If the PEEC chooses to pursue potential new rule-making or other guidance in this area, close coordination with other rule-making bodies (e.g., IESBA, SEC) is necessary considering existing rules and requirements of such other bodies.
11. AICPA Private Companies Practice Section TIC believes tying any guidance related to college savings plans back to the existing mutual fund guidance already in the Code of Professional Conduct would be a good approach.

13. KPMG LLP

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

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

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

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

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

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

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

**Recommendation**

04. The Ohio Society of CPAs of The committee did not find the challenges of 529 plans to be substantially different from determining significant holdings in any other type of indirect investment.

**Artificial intelligence**

**Does not support**

01. Office of the Washington State Auditor

We view artificial intelligence as a methodology or tool that could be used in audits or other services. Accordingly, we are interested in further guidance in the form of audit standards rather than ethics rules. We do not see any ethical challenges beyond what is already covered by existing rules, since we would not expect a member’s ultimate responsibility for their professional actions, judgments or conclusions to be transferred elsewhere based on the use of this tool. We would, however, expect the member to understand and monitor their reliance on the use of the tool in their professional activities and react accordingly, as they would with any other type of evidence, software tool or specialist.

05. BDO USA, LLP

We do not support the inclusion of a project related to AI in the current Work Plan. We believe the most pressing questions to be addressed with AI relate to how it can be utilized by engagement teams when providing professional services. Therefore, AI related guidance should first be addressed by standard-setters such as the Auditing Standards Board. Until the profession understands how AI can be utilized when providing professional services, we believe the ethics implications cannot be properly addressed. In addition, we believe the existing conceptual framework should be sufficient for evaluating any current ethical issues that might arise at the present time such as due care and competence.

## Support

09. Baker Tilly Virchow Krause, LLP We believe that PEEC should add this issue to its standard-setting agenda and commend PEEC for its proactive approach in addressing potential independence and other ethical concerns related to emerging technologies.

## Support with recommendation

13. KPMG LLP
- a) What unique ethical challenges does the use of artificial intelligence present to members beyond what is already covered by the “Integrity and Objectivity Rule”, “General Standards Rule” (1.100.001), and related interpretations?  
As artificial intelligence (“AI”) develops, becomes more sophisticated, and performs a higher volume of judgmental tasks, members in both business and public practice will need to understand the application of the AI to appropriately apply professional judgement in the analysis of the output. Over and uninformed reliance on sophisticated, judgmental AI could threaten a member’s objectivity, as well as threaten compliance with the principle of due care and the confidential client information rule.
- b) If there are unique challenges, how do they differ for members in business and members in public practice?  
The reliance on technology may be for different purposes, but ethical considerations and challenges are largely similar for both members in business and members in public practice.
- c) Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?  
Given the current state of AI, we do not see the ethical challenges associated with its use as having a direct impact on professional practice today. As the use of AI becomes more prevalent, the ethical challenges surrounding this matter may become more pronounced. Accordingly, we believe the subject of AI should be revisited in the future as AI applications begin to permeate business processes, including more subjective and judgmental applications.
11. AICPA Private Companies Practice Section TIC believes that use of this technology is constantly evolving and, therefore, PEEC should not address in the Code of Professional Conduct but, rather, consider issuing targeted Q&As or other non-authoritative guidance as specific issues arise.
10. NYS Society of CPAs The increasing reliance on the use of artificial intelligence (AI) presents an increased threat to member’s compliance with the Code. We believe that the potential threats are more basic than what is covered in the Integrity and Objectivity Rule (1.100.001) and the General Standards Rule (1.300.001). These threats potentially affect the Principles of Professional Conduct (0.300). As CPAs rely more on AI, there is a risk that they will subordinate their professional judgment to the conclusions reached by the algorithms in the program, without having a sound comprehension of how those algorithms are created or on what they are based. Accordingly, we strongly support the creation of this task force.
06. Ernst & Young LLP Artificial intelligence is a rapidly developing area and its potential uses for serving clients are largely undeveloped. Whether expansion into non-traditional service areas involving artificial intelligence may change the nature of professional services from traditional consulting services, and how firms will be viewed by the profession’s external stakeholders, is yet unknown. Although we do not believe there is an immediate need for guidance on ethics issues unique to the use of artificial intelligence while providing professional services, we believe this topic should be kept in the current Strategy and Work Plan and addressed in the latter half of the three-year period.

We encourage PEEC to consider the ability of artificial intelligence technologies to automate decision making and potential safeguards needed for client management to fulfill its responsibilities. Overreliance on artificial intelligence for decision making is a potential concern for both members in business and public practice. The ability of an artificial intelligence technology to make better and more complex considerations over time based on learning may raise ethical concerns as a result of both the potential error rate in the early period of use and potential overreliance on the tool as its capabilities evolve to more complex decision making. In establishing guidance, we encourage PEEC to consider the potential for unintended consequences from the use of artificial intelligence.

04. The Ohio Society of CPAs We agree that a task force would be valuable in this area due to new challenges being addressed by CPA firms. Challenges identified by the committee include: • Data confidentiality, for example, when company information is shared on an outsourced network • Identifying how information is aggregated • Outsourcing conducting the analysis • Who is doing the programming? • Who is responsible for inaccuracies? • Auditing standards addressing what assertions need to be obtained, and what reliance is being placed on the data. All but the last item above are challenges for both members in business and members in public practice.

08. Deloitte LLP We agree AI is an area that presents significant opportunities for CPAs. AI's influence on data collection, organization, and analysis continues to evolve and have a broad impact across many industries and markets. As part of any AI platform or framework, there are several ethical and operational factors to be considered, including: • Governance over AI applications. • Data protection. • Secondary data usage. • Bias in existing data. In addition, AI continues to challenge organizations in developing appropriate policy, governance, and monitoring over AI applications. Accordingly, we agree with the PEEC that a task force should be established to further explore and understand these and other potential AI considerations when providing professional services. The task force should coordinate its efforts with other relevant standard-setting bodies within the AICPA (e.g., Auditing Standards Board) to ensure a consistent approach in addressing this area.

## Business relationships

### Does not support

08. Deloitte LLP We agree business relationships continue to evolve in today's marketplace. The roles, responsibilities, contractual obligations, and other business terms inherent in any business relationship may vary widely based upon specific facts and circumstances. While the types of relationships may vary and change over time, we believe the extant Code includes the relevant principles and guidance necessary for members to analyze and evaluate the potential independence implications related to such relationships.

10. NYS Society of CPAs The recommended actions may be most applicable to larger firms that might enter into such cooperative arrangements with attest or non-attest clients, but we do not believe that this project has broader application to most CPA firms or members in public practice. Middle market and smaller firms, along with their clients, generally do not participate in the types of business relationships discussed in 1.265.010.03 Cooperative Arrangements with Attest Clients. Accordingly, we do not support this project being given priority over other projects the PEEC might want to pursue.

### 13. KPMG LLP

a) What business relationships do firms have with either nonattest or attest clients? Firms may enter into contracting arrangements with clients to jointly provide services or products to third parties, to form alliances to capture new market opportunities, or to engage in supplier relationships for procurement of goods or services used internally or externally to deliver service or products.

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

We do not believe additional guidance is needed.

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

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

### Support

09. Baker Tilly Virchow Krause, LLP We believe that PEEC should continually monitor the types of business relationships in which members are engaged, and where warranted, initiate projects to address any potential independence or other ethical concerns identified.

### Support with recommendation

#### 12. U.S. Government Accountability Office

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

We are aware that many audit organizations provide professional services, such as bookkeeping; financial statement preparation; internal audit assistance; internal control evaluation; information technology services; appraisal, valuation, and actuarial services; and various management consulting services to their nonattest and attest clients.

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

The existing code in section 1.265 focuses on business relationships between audit organizations and clients that pertain to cooperative arrangements and joint closely held investments. We believe that expanding the code to identify common nonattest services that audit organizations provide would enhance and clarify the concept of "business relationships" to reflect current practice in the audit industry, which now includes an extensive array of vendor type or outsourced management services that audit organizations provide to their clients.

In addition, we believe that more guidance would be helpful to address business relationships in which auditors are engaged to both provide a nonattest service, such as preparing an entity's sustainability policy, and subsequently conduct a non-assertion-based attestation engagement on the same subject matter. We encourage PEEC to assess whether its existing guidance is sufficient in this area.

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

We believe that audit organizations are increasingly engaged to perform a wide variety of nonattest services for clients, and these nonattest engagements may pose independence considerations for subsequent attest engagements. Additional guidance in the code would assist auditors in identifying potential threats to independence with respect to attest engagements that originate with the provision of nonattest services to the same client.

05. BDO USA, LLP We support the inclusion of a project to provide additional/updated guidance related to business relationships between members and their attest clients. We believe it would be beneficial to determine the types of business relationships members have with attest client's, the nature of those relationships and additional safeguards that may be necessary to properly protect independence, integrity and objectivity. Additional items for this project should include: referring to these relationships as "Business Relationships" in the Code rather than "Cooperative Arrangements with Clients" (this is consistent with the terminology used in the rules of both the International Ethics Standards Board for Accountants and the Securities and Exchange Commission) and possible exceptions for business relationships with affiliates of a financial statement attest client.
06. Ernst & Young LLP The types of goods and services offered by CPA firms, and the way in which they are offered, have evolved since the interpretation on cooperative arrangements in section 1.265.010 was first adopted. We believe the AICPA Code of Professional Conduct ("AICPA Code") should be updated to include a framework to assist members with determining whether specific interactions create a cooperative arrangement subject to paragraph 1.265.010.01. Such framework would be helpful in determining the potential impact to independence as the types of firm relationships continue to evolve. We encourage PEEC to consider further defining the term "cooperative arrangement" to address some of the more complicated types of relationships, and to provide examples of situations that would not be viewed as a cooperative arrangement. For example, we do not believe that two parties who are merely engaged directly by the same client to work together on the client's project would be viewed as a cooperative arrangement. We encourage PEEC to consider providing guidance on how materiality in the context of business relationships should be determined, including examples of material cooperative arrangements. In particular, we believe it would be beneficial to address the determination of materiality when working with small or newly formed entities that may not yet have, for example, a demonstrated revenue base. In the recent release by the Securities and Exchange Commission ("SEC") on proposed changes to Rule 2-01 (Release No. 33-10738), the SEC noted that audit firms may contribute to multi-company arrangements through intellectual property or access to data using common technology platforms. The SEC requested comment on whether such arrangements present instances where an auditor's objectivity and impartiality would not be impaired. Development of a framework to evaluate multi-company arrangements would be beneficial for assessing threats to independence and objectivity. These matters are increasingly impacting professional practice and additional guidance will be extremely valuable to foster consistency of assessment. Finally, since 1.265.010 uses the term "member" rather than "covered member," we believe clarification should be provided on whether the cooperative business arrangement interpretation applies to covered members or all professionals in a firm.
11. AICPA Private Companies Practice Section Regulation S-X 201 (17 § CFR 201.2-01) defines a business relationship as follows: "Business relationships. An accountant is not independent if, at any point during the audit and professional engagement period, the accounting firm or any covered person in the firm has any direct or material indirect business relationship with an audit client, or with persons associated with the audit client in a decision-making capacity, such as an audit client's officers, directors, or substantial stockholders. The relationships described in this paragraph do not include a relationship in which the accounting firm or covered person in the firm provides professional services to an audit client or is a consumer in the ordinary course of business. "
- TIC prefers how the SEC specifically carves out relationships in which a firm or covered person is a consumer in the ordinary course of business and would prefer if the Code of Professional Conduct used similar terminology.

## Recommendation

04. The Ohio Society of CPAs We did not identify any additional specific types of relationships for consideration.

### Client affiliates

#### Does not support

04. The Ohio Society of CPAs Committee members agreed that the current guidance is all-encompassing, so there is no need for additional guidance. While we continue to apply the guidance as currently written within our firms, the matter is not increasingly affecting the professional practice of our members.

13. KPMG LLP

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

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

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

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

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

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

#### Support with recommendation

05. BDO USA, LLP

We support the inclusion of a project related to providing additional guidance to members on the application of the independence rules to affiliates of the financial statement attest client. Specifically, we believe additional guidance related to application of the affiliate rule in situations where an individual, or a group of individuals, controls multiple entities that are otherwise unrelated to one another, would be beneficial.

08. Deloitte LLP

We understand the current definition of affiliate in the extant Code does not explicitly include common ownership by individuals. When we evaluate affiliates, we make no distinction between common ownership by an "entity" or by an "individual," as we believe the relevant independence considerations and principles are applicable to both. The PEEC may consider clarifying the definition of affiliate to provide for consistent application of the Code.

We note the SEC recently issued proposed amendments to its independence rules, including matters related to affiliates. If the PEEC chooses to pursue potential new rule-making or other guidance in this area, we suggest such activities be coordinated in connection with the SEC's potential rule-making process.

11. AICPA Private Companies Practice Section

TIC believes that the recently issued Interpretation related to state and local government affiliates has caused some confusion in practice, specifically regarding common control entities and how they fit into the definition of an affiliate. Because hosting is now specifically noted as a prohibited nonattest service, hosting services provided to certain affiliates are prohibited.

Identifying all of the affiliates of private entities that have complex organizational structures can be very challenging. TIC would recommend providing examples of how more complicated organizational structures would impact application of the hosting interpretation and independence. TIC recommends providing templates similar to those proposed for the recent SLG Affiliates Interpretation as TIC has found those to be helpful in adopting the Interpretation. In addition, TIC supports clarification of owners that are individuals rather than entities are not affiliates as that was a common question received during implementation of the hosting standard.

TIC also would suggest PEEC consider linking to the FASB guidance on common control since they already have developed some extensive guidance on what to consider when determining whether entities are under common control since any member well versed in U.S. GAAP already is familiar with that guidance.

## Recommendations

06. Ernst & Young LLP We believe the existing AICPA conceptual framework approach to assessing threats and safeguards is appropriate for addressing common ownership by individuals. To the extent common ownership through an individual is a subject of frequent inquiry, PEEC should consider issuing non-authoritative guidance in the form of a frequently asked question (“FAQ”) to address the more common fact patterns. For example, companies controlled by an individual that do business together or have other interrelations may pose greater threats to independence than similar entities that have no interactions.
09. Baker Tilly Virchow Krause, LLP While we believe that it would be helpful to members if PEEC would issue additional guidance (for example, in its FAQs) clarifying that the definition of “affiliate” extends to common ownership by entities, not to common ownership by individuals, we do not believe that the code needs to be updated to include guidance addressing common ownership by individuals.

## Conflicts of interest

### Does not support

05. BDO USA, LLP We do not support the proposal to create additional guidance on application of the conflict of interest rules. We believe the current guidance is sufficient and given the wide variety of situations where conflicts of interest could arise, creation of guidance that will reduce the inquiries on the topic will be difficult and not a good use of AICPA resources.
13. KPMG LLP We do not believe additional guidance is needed.

## Support with recommendation

06. Ernst & Young LLP We believe PEEC should consider enhancing the current conflicts of interest rules by providing more specificity around the definition of what constitutes “reasonable efforts” and “an effective conflict identification process” as used in paragraph 1.110.010.05 and .07. Specifically, we do not believe the existing guidance in paragraph 1.110.010.08, which states, “If the firm is a member of a network, the member is not required to take specific steps to identify conflicts of interest of other network firms,” is consistent with Section R310.7 of the IESBA Code, which states, “If the firm is a member of a network, a professional accountant shall consider conflicts of interest that the accountant has reason to believe might exist or arise due to interests and relationships of the network firm.” In addition, we believe further guidance may also be appropriate in paragraph 1.110.010.14 which states that “[t]he member should determine whether the nature and significance of the conflict of interest is such that specific disclosure and specific consent are necessary, as opposed to general disclosure and general consent.” We believe that specific consent is generally required for all cases except in competitive situations where it would violate confidentiality.

07. National Association of State Boards of Accountancy In particular, we suggest the PEEC develop comprehensive guidance, including illustrative examples, to help members evaluate and address conflicts of interest that may arise when members provide tax services to a divorcing couple, including when spouses utilize a collaborative divorce.

08. Deloitte LLP In our view, the Conflicts of Interest for Members in Public Practice subtopic (1.110) provides sufficient guidance for members to analyze and evaluate potential conflicts of interest. As indicated in the Consultation Paper, there has been an increase in the number of member inquiries related to conflicts of interest. It would be helpful to understand the nature of such inquiries to determine what, if any, enrichment materials may be needed. In addition, in the area of conflict consent and disclosure, we believe the PEEC should consider potential modifications to the Code to further align with existing IESBA standards and provide for consistency in application of the Code. The extant Code states, in part: Disclosure of a Conflict of Interest and Consent .12 When a conflict of interest exists, the member should disclose the nature of the conflict of interest to clients and other appropriate parties affected by the conflict and obtain their consent to perform the professional services. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level. Application of this guidance requires members to disclose a conflict of interest and obtain consent under ALL circumstances. Conversely, the extant IESBA code states, in part: 310.9 A3 It is generally necessary [emphasis added]: a. To disclose the nature of the conflict of interest and how any threats created were addressed to clients affected by a conflict of interest; and b. To obtain consent of the affected clients to perform the professional services when safeguards are applied to address the threat. In addition, the IESBA’s Basis for Conclusion (issued March 2013) states, in part: 25. The IESBA took the view that consent is not a safeguard but did not wish to prevent a sophisticated client from providing consent if the professional accountant is able to conclude that the threat is already at an acceptable level and it would not, therefore, be necessary to obtain consent. Therefore, wording was introduced to clarify that consent is

generally necessary “when safeguards are required to reduce the threat to an acceptable level.”

27. The IESBA does not agree that disclosure is always necessary in a global Code because there are many diverse situations making it impractical to mandate disclosure and consent in all cases. However, the intention is that the professional accountant should not avoid disclosure and consent when it is appropriate. An additional provision has been inserted requiring the professional accountant to determine when specific disclosure and explicit consent are necessary and recognizing that it is a matter of professional judgment when specific disclosure and explicit consent are appropriate.

We recommend the PEEC establish a task force to further explore and consider modifications to the extant Code to further align with existing IESBA standards.

Considering our comments above, the PEEC may consider in its deliberations the following modification to the extant Code (bold text represents additions, strikethrough deletions):

.12 When a conflict of interest exists, it is generally necessary for the member to should disclose the nature of the conflict of interest to clients and other appropriate parties affected by the conflict and, when safeguards are required to reduce the threat to an acceptable level, obtain their consent to perform the professional services. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

10. NYS Society of CPAs

The Society believes that any guidance concerning conflicts of interest should explain the risks that these conflicts present, such as loss of independence or threats to professional skepticism.

12. U.S. Government Accountability Office

We believe that extant code section 1.110 provides a reasonably comprehensive discussion of conflict of interest matters. However, because PEEC states in the Strategy and Work Plan that this proposed new member enrichment project stems from “an increased number of inquiries regarding conflicts of interest,” we suggest that PEEC consider performing a content analysis of the inquiries received to determine whether specific subsections need enhancement. For example, if PEEC’s analysis identifies an increase in inquiries related to potential safeguards that address conflicts of interest, then adding material to section 1.110.010 paragraph .10 could be of most value to members in understanding and applying the code.

## Data security and breaches

### Does not support

13. KPMG LLP

We do not believe additional guidance is needed.

10. NYS Society of CPAs

States are currently enacting laws and regulations governing data security and breaches at a sharply increasing pace. We are not convinced that PEEC should spend significant time and effort trying to refine guidance in this area, when (a) it may conflict with state or Federal laws and regulations when guidance is issued, or (b) may come into conflict with state or Federal laws and regulations subsequent to issuance. While PEEC is an important part of the AICPA, we are not sure that PEEC has sufficient resources to monitor the shifting landscape of this area.

05. BDO USA, LLP

We do not support the inclusion of a project related to proving guidance on the ethical responsibilities of members related to data security. There are numerous state and federal laws in existence that proscribe the responsibilities of business as it relates to data security and data privacy. These laws are widely varied in their application and the requirements imposed on impacted businesses. Because of the varied requirements within the existing regulations it would be impossible for AICPA to create guidance that is consistent with all of them. We believe it would create additional confusion for members if the AICPA were to create an additional set of requirements.

09. Baker Tilly Virchow Krause, LLP This is primarily a legal and regulatory issue which varies significantly from jurisdiction to jurisdiction. Due to the rapid pace of change in these laws and regulations, any enrichment materials issued by the AICPA would likely be out-of-date shortly after their issuance, therefore, we do not believe that PEEC should pursue this project.

### Support with recommendation

06. Ernst & Young LLP We agree that ethical guidance would be helpful to guide practitioners through the steps they need to take when they experience a data breach. Requirements for handling breaches of personal information are set by laws and regulations in the US and Europe. However, there is a lack of guidance on how to address breaches of client confidential information that do not involve personal information. We believe PEEC should consider issuing guidance in the form of a framework to help members determine how and under what circumstances the client should be informed of a confidentiality breach to foster consistency in approach.

08. Deloitte LLP We believe the PEEC should form a task force to explore and understand the professional and ethical considerations related to data security and breaches. This is a dynamic and continuously evolving area being addressed at various state, legislative, and international levels. The task force should include subject matter experts familiar with current and/or proposed ethical guidelines being considered by various constituencies in order to effectively evaluate and develop potential member enrichment guidance in this area.

### De minimis fees

#### Does not support

04. The Ohio Society of CPAs The committee encourages AICPA to retain the current guidance for protection of our member firms as support for terminating engagements as a good business practice.

05. BDO USA, LLP We do not support the inclusion of a project related to revisions of the guidance to include exceptions for immaterial unpaid fees. The basis for unpaid fees being considered an independence impairing situation is because the unpaid fees are deemed to become a loan from the member to the client. Permitting immaterial unpaid fees would be inconsistent with guidance in the loan rule and we do not believe a change would be appropriate.

07. National Association of State Boards of Accountancy In regards to de minimis fees, we would caution PEEC to consider that changing existing guidance may raise regulatory enforcement issues as to where the de minimis borderline should be set for outstanding fees for services provided more than one year prior to the date of the current-year report.

09. Baker Tilly Virchow Krause, LLP We do not believe that this is a significant issue in practice, therefore, we do not believe that PEEC should add this project to its standard-setting agenda.

11. AICPA Private Companies Practice Section TIC believes the existing guidance is adequate and, unless there are specific issues coming up in practice, TIC does not believe that additional guidance needs to be developed in this area. In addition, if PEEC attempts to further refine this guidance, it could get into tricky definition of what defines de minimis and as a result make the guidance more complex than it is today.

## Support with recommendation

08. Deloitte LLP We agree the PEEC should pursue a project to consider potential modifications to the Code regarding unpaid fees to further align with existing IESBA standards and provide for consistency in application of the Code.
- As discussed in the Consultation Paper, the extant Code does not include reference to or consideration of materiality. The Code states, in part:
- 1.230.10.1 Unpaid Fees
- .02 Threats to the covered member’s 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 if a covered member has unpaid fees [emphasis added] from an attest client for any previously rendered professional service provided more than one year prior to the date of the current-year report. Accordingly, independence would be impaired. Unpaid fees include fees that are unbilled or a note receivable arising from such fees. Conversely, the extant IESBA Code states, in part: Fees – Overdue
- 410.7 A1 A self-interest threat might be created if a significant part [emphasis added] of fees is not paid before the audit report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit report is issued. We recommend the PEEC establish a task force to explore and consider modifications to the extant Code to further align with existing IESBA standards. The task force may also consider existing SEC independence rules related to unpaid fees.
01. Office of the Washington State Auditor Similar to our views on the simultaneous employment or association project, we believe it is always helpful to clarify that trivial matters do not create an independence impairment. Furthermore, we would encourage the Committee to consider using the term “clearly trivial” rather than an antiquated Latin phrase.
03. Kentucky Society of Certified Public Accountants This proposal would establish that the existence of any de minimis amount of unpaid fees from an attest client for any previously rendered professional service provided more than one year prior to the date of the current-year report would automatically impair independence.
- We urge the committee to take into consideration that a de minimis outstanding balance should not by itself create an independence issue for firms. There could be many reasons as to why a balance may still be due 12 months later. To simply say the de minimis outstanding fee automatically creates a lack of independence is to not take into consideration the many different factors that could be contributing to the outstanding balance.
- The majority of the firms in Kentucky would be considered small firms. Most of their review and audit clients have been clients for a long time. We are concerned that this proposal, as it stands, would have a negative impact on those firms and their ability to serve their clients.
06. Ernst & Young LLP Unlike the approach by other regulators and standard setters, the AICPA Code does not provide for a materiality assessment with respect to unpaid fees. Rather, section 1.230.010 unambiguously states that independence is impaired, and no further evaluation is appropriate if there are any unpaid fees from an attest client for any professional service provided more than one year prior to the date of the current-year report. We believe that there are commercial circumstances when fees for a professional service may be unpaid for more than one year, and when such unpaid fees are immaterial to both the attest client and the covered member’s firm, they do not affect the covered member’s objectivity, in fact or appearance.
- The consultation paper notes that the materiality concept is used in topic 1.240, Financial Interests. It is unclear why the consultation paper makes this point, as past due fees are

not financial interests, but rather in some circumstances may be seen as the equivalent of a loan. In addition, even if materiality concepts in topic 1.240 are intended to be applied to section 1.230.010, topic 1.240 generally only permits materiality assessments for indirect financial interests (as defined), except for financial interests in mutual funds.

We recommend that PEEC amend the provisions of section 1.230.010 to be consistent with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (“IESBA Code”), which considers the significance of the unpaid fees to be a factor in the evaluation of whether unpaid fees are in substance the equivalent of a loan to an attest client and an unacceptable threat to the covered member’s independence.

13. KPMG LLP

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

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

### Definition of office

#### Does not support

04. The Ohio Society of CPAs We agree that technology has made it more difficult to determine when the definition of “office” has been met for determination of covered members in an independence consideration. However, committee members find the current guidance sufficient, and continue to support a principles-based definition relying upon reporting structures and ability to influence the attest engagement, rather than introducing more specific rules.

#### Does not support with recommendation

06. Ernst & Young LLP We do not believe the definition of “office” is a pressing issue. However, if a change is determined to be necessary, we encourage PEEC to consider the increasingly virtual nature of offices and how individuals work, particularly in medium and large firms, in defining covered members who reside in the same office in which the lead attest engagement partner or partner equivalent primarily practices in connection with the attest engagement.

08. Deloitte LLP

We agree there have been many changes to how accounting firms practice in today’s marketplace. The advanced technologies that have been developed and cultural shifts in today’s workplace environment have resulted in broad changes to how and where today’s workforce operates. In addition, the varying size and scale of firms providing services and their evolving real estate strategies and footprint have contributed to these changes.

While the workplace environment has and will continue to evolve, we believe the extant Code includes the relevant principles and guidance necessary for members to analyze and evaluate specific facts and circumstances, including those related to physical location and other workplace dynamics.

The extant Code states, in part:

.400.36 Office. A reasonably distinct subgroup within a firm, whether constituted by formal organization or informal practice, in which personnel who make up the subgroup generally serve the same group of clients or work on the same categories of matters. Substance

should govern the office classification. [Emphasis added.] For example, the expected regular personnel interactions and assigned reporting channels of an individual may well be more important than an individual's physical location.

We agree there may be certain challenges and judgments involved in application of the existing Code. However, if the PEEC chooses to pursue potential new rule-making or other guidance in this area, close coordination with other rule-making bodies (e.g., International Ethics Standards Board for Accountants ("IESBA"), Securities and Exchange Commission ("SEC") is necessary considering existing rules and requirements of such other bodies.

## Support with recommendation

05. BDO USA, LLP We support the inclusion of a project to provide additional/updated guidance related to the definition of office and consider this to be a high priority project for inclusion in the Work Plan. Proper application of the current definition of office is a frequent challenge in practice, particularly when dealing with situations such as business lines that operate as one national group and offices in geographic clusters that are managed by the same partner or have combined financial reporting. When reviewing the current definition of office, we encourage the PEEC to give consideration to the requirements in the audit standards for determining the appropriate engagement office to be included in the audit opinion signature and the impact that might have on the determination of the office for independence purposes.
07. National Association of State Boards of Accountancy Concerning the definition of "office," we suggest that the Professional Ethics Executive Committee (PEEC) consider how meaningful (or not) physical location is in the current environment and the disparate impact the current definition and rules impose on smaller, single office firms compared to larger, multi-office firms.
09. Baker Tilly Virchow Krause, LLP We believe that PEEC should add this project to its standard-setting agenda. Due to advances in technology, many teams within public accounting firms are connected virtually, not by physical office. We believe that the relationships between individuals / teams within public accounting firms should be used to determine which partners or partner equivalents are considered covered members, not the physical offices in which they reside.
10. NYS Society of CPAs In today's work environment, many individuals do not have an "office" as that term has traditionally been used. Often, members work from home, a common work location or even a local coffee shop. Basing independence decisions on proximity to another individual's office should be reconsidered and the measuring standards revised to emphasize working relationships, career path influence, and reporting responsibilities rather than the concept of physical location. Some employees, though nominally assigned to a specific office, may only be in the office a handful of times throughout the year. It is hard then to say that those individuals are likely to be influenced by others within that office. The Society believes that additional guidance in this area would be very helpful in light of the changes technology has brought to the ways in which and locations from which people work.
11. AICPA Private Companies Practice Section TIC would not suggest making any changes to the Code of Professional Conduct on this issue. However, TIC is curious whether a flowchart or some Q&As could be developed to address telecommuter or virtual employee arrangements to assist firms in understanding how these should be considered.

13. KPMG LLP

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

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

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

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

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

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

**Digital assets**

**Does not support with recommendation**

11. AICPA Private Companies Practice Section

This is another area where practice is evolving, and trading of these currencies is growing. However, at this time, TIC does not see a need to address any specific practice issues related to cryptocurrency. TIC could foresee situations where members are paid by their clients in cryptocurrency so, perhaps, some Q&As could be issued to address specific situations as they arise. The AICPA has an existing task force that has been addressing accounting and audit issues related to digital assets and perhaps PEEC can leverage some of those resources if they would like to embark on a similar project related to ethics implications.

TIC does believe that firm’s use of Blockchain could pose issues with regard to the hosting Interpretation. Some firms are starting to incorporate the use of Blockchain when performing services for their clients as a more secure way of storing and accessing information. TIC believes that these situations could result in a violation of independence under either the Hosting or IT Services Interpretations and, perhaps, PEEC should consider revisiting that guidance in light of this issue.

**Support**

09. Baker Tilly Virchow Krause, LLP

We believe that PEEC should add this issue to its standard-setting agenda and commend PEEC for its proactive approach in addressing potential independence and other ethical concerns related to emerging technologies.

**Support with recommendation**

13. KPMG LLP

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

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

- When a public accounting firm is involved in mining of digital assets, and/or operating a node within a blockchain environment, it raises the threat of management participation, and potentially creates a self-review and adverse interest threat where attest clients of the firm are parties to the blockchain.

- When a covered member owns a digital asset that fluctuates in value, it creates increased threats to the member's objectivity and impartiality.

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

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

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

Yes, we believe this matter is increasingly affecting professional practice. While the criticality of this topic fluctuates with the perceived value of digital assets in the marketplace, it is important that additional guidance is published, as the lack of direction may result in divergence of practice across members in public practice.

06. Ernst & Young LLP We believe PEEC should consider issuing guidance to help practitioners understand whether digital assets (i.e., tokens and cryptocurrency) represent direct or indirect financial interests, for which existing guidance in section 1.240.010 can be applied. While ownership of cryptocurrency as a personal investment is the area most frequently affecting professional practice, PEEC may wish to consider whether future guidance is needed to address potential concerns with professional services related to digital assets. For example, whether mining (i.e., the process of adding a transaction record to a public ledger) of digital assets by members participating in the consensus mechanism of a blockchain could create a potential self-review threat if elements of a blockchain are considered as audit evidence. As with artificial intelligence, this is a developing area that may warrant further consideration as the uses of digital assets by enterprises increase with the adoption of blockchain.

08. Deloitte LLP We recognize the extant Code does not provide explicit guidance related to ownership interests in digital assets. We consider digital assets a type of financial interest, as defined in the Code, and therefore, apply the financial interest rules and guidance to such holdings. We recognize this is an area that continues to evolve. We agree with the PEEC to establish a task force to monitor developments and further explore potential independence considerations in this area.

04. The Ohio Society of CPAs Digital assets present several unique considerations, including custody, valuation, and determination of the market, that would benefit from a review of ethics implications from members with specialized expertise.

05. BDO USA, LLP We support the inclusion of a project that would provide guidance limited to how the ownership of digital assets should be treated under the financial interest rules. This is an emerging area of practice and guidance would be beneficial to members.

### Operational enhancement to the code

#### Support

06. Ernst & Young LLP We support PEEC's efforts to keep the AICPA's tools and resources up to date and to make materials more user friendly for members.

## Support with recommendation

09. Baker Tilly Virchow Krause, LLP We strongly support PEEC's current Enhanced Visibility of Non-Authoritative Guidance member enrichment project. As a part of that project, we recommend that PEEC add its FAQs and as much of its other interpretative guidance as possible to the code as application guidance.
10. NYS Society of CPAs The Society recognizes the importance of the Code in detailing the member's professional responsibilities and expressing the basic tenets of ethical and professional conduct which allow the profession to remain self-governing. However, we also recognize that most practicing members do not study in depth the intricacies of the Code – its rules and interpretations. We believe that members would benefit from clear, plain English guidance on the repercussions a member might face for violating various parts of the Code. PEEC's history of enforcement could be analyzed for trends on Code violations. In addition, a thorough description of the investigation process when an alleged violation of the Code is brought to PEEC's attention could be appended to the Code.
11. AICPA Private Companies Practice Section As it relates to improving navigation and access to the Ethics Codification (the Code), TIC believes that better linkages between Q&As and practice aids to the interpretations and standards would be helpful. A recent good example is it took TIC members quite a bit of time to find some old Q&As that were referenced related to a new project. Most practitioners can use all the help they can get when navigating the Code because, typically, smaller firm members are not looking in the Code everyday like many of the PEEC members or Ethics staff. Perhaps even providing an online tutorial walking members through how to find certain guidance online would be helpful. PEEC should consider including links to Journal of Accountancy articles, podcasts, or ethical issues when they apply to specific areas. Practical, everyday information to assist and conserve the time of CPA's in locating articles or Q&A's would be very well received in the smaller firm arena
13. KPMG LLP We appreciate the ease of navigation within the Code; however, we have suggested a few operational enhancements below:
- Reduce the size of the "AICPA Online Professional Library" banner at the top of the page in the online code.
  - Migrate the FAQs onto the dynamic online platform to allow bookmarking and searching, rather than maintaining them as a separate PDF document.
  - Provide the ability to customize user profiles that enable users to set and receive alerts. For example, it would be beneficial to members if they could set a preference within their profile to automatically receive an alert to their inbox when an update is made to the Code (i.e. a new FAQ added or an interpretation changed).
  - Eliminate a user's session time-out, or extend the session duration period before time-out.
  - Display the subject of Professional Ethics on the [www.aicpa.org](http://www.aicpa.org) homepage, and maintain a quick link path to the PEEC page, and/or the Code to emphasize the importance of ethics to our profession. Currently, users must navigate to the Code through the following path: [www.aicpa.org](http://www.aicpa.org) > Topics > Explore all topics > Professional Ethics > Code of Professional Conduct > Online Code of Professional Conduct.

## Reporting of an independence breach to an affiliate that is also an attest client

### Does not support

11. AICPA Private Companies Practice Section TIC believes that the existing guidance on how to handle these transactions is already clear in the existing guidance and there is no need to issue any new guidance unless there are specific scenarios that PEEC decides to address in targeted Q&As.

10. NYS Society of CPAs We are not sure how prevalent the situation described in this project is. The project seems to suggest that those charged with governance would be expected to be different for the affiliate than it is for the principal entity. We are not convinced that this is the case in most instances. However, the Society believes that the Breach of an Independence interpretation is sufficient to cover the situation described in the project. If the two entities have common governance, then those charged with governance have been communicated with in accordance with the interpretation. If those charged with governance are not the same for each entity, the interpretation seems clear that a breach needs to be communicated to those charged with governance (in this case those charged with governance at each entity). It may be that those charged with governance agree to continue for one entity and not another. Each attest client needs to be considered separately regardless of the relationship between the entities.
09. Baker Tilly Virchow Krause, LLP We believe that firms are currently applying judgment to determine when or if independence breaches need to be communicated to sister and downstream affiliates that are also attest clients. We believe that the judgment currently being applied in practice is effective, therefore, we do not believe that PEEC should add this project to its standard-setting agenda.
05. BDO USA, LLP We do not support the inclusion of a project related to reporting breaches to sister or downstream affiliates that are also attest clients. We believe that any reporting of such breaches would only be appropriate if the breach also impacts the affiliate. In such a situation, we believe current guidance is sufficient.
04. The Ohio Society of CPAs This has not been an issue for our group.
08. Deloitte LLP In our view, the Breach of an Independence Interpretation (1.298.010) and QC section 10, A Firm's System of Quality Control provide sufficient guidance for members to analyze and evaluate breach reporting requirements to those charged with governance. If a breach identified at an attest client is determined to be a breach at an affiliate that is also an attest client, we believe the reporting requirements apply to such affiliate.

### Support with recommendation

06. Ernst & Young LLP We believe that guidance for members in this situation could be beneficial. Examples of any situations where communication would not be required, as well as guidance on any potential efficiencies in communicating breaches would be helpful.
13. KPMG LLP a) Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?  
Reporting an independence breach to an affiliate that is also a financial statement attest client is increasingly affecting professional practice. Providing guidance on the following would be helpful:
- determining when a breach extends to affiliate entities that are also financial statement attest clients of the firm; and
  - evaluating reporting requirements, if any, for communications to those charged with governance at financial statement attest client affiliates of the audit client directly impacted by the breach.
- It is particularly challenging to determine reporting requirements for large conglomerate structures or investment company complexes.  
PEEC could clarify the requirements of the interpretation to allow a member to apply judgment in determining the need to communicate to sister and downstream affiliates. If a

member determines that the breach has been communicated to those charged with governance for the directly impacted attest client and there is no impact on the independence for the audits at those other affiliates that are also financial statement attest clients, then the communication may not be necessary, unless specifically requested by the affiliate that is also a financial statement attest client.

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

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

## Simultaneous employment or association with an attest client

### Does not support

05. BDO USA, LLP We do not support the addition of a project related to simultaneous employment. We believe the current guidance is appropriate and any necessary exceptions, such as the current adjunct professor exception, should be addressed on an as needed basis. At the present time, we are unaware of any other employment relationships with an audit client that should qualify for an exception.

### Support with recommendation

09. Baker Tilly Virchow Krause, LLP We recommend that PEEC consider narrowing the scope of this interpretation so that it only applies to covered members. We also recommend that PEEC consider adding a specific exemption for “inconsequential” employment (e.g. clerical positions, etc.).

11. AICPA Private Companies Practice Section TIC believes that PEEC should consider providing exceptions to this rule as it relates to professors, military personnel (including the Army reserves as a more common example) and others using a principles-based approach.

08. Deloitte LLP We agree with the PEEC that a project related to the Simultaneous Employment or Association with an Attest Client interpretation (1.275.005) should be considered. When applying the interpretation, there may be certain circumstances in which limited or no threats to independence exist. The project’s scope should include focus on the core principles and underlying objectives of the extant Code, and the varying degrees of threats to independence observed in its application. If the PEEC chooses to pursue potential new rule-making or other guidance in this area, close coordination with other rule-making bodies (e.g., IESBA, SEC) is necessary considering existing rules and requirements of such other bodies.

12. U.S. Government Accountability Office a) What challenges are members encountering when complying with the “Simultaneous Employment or Association With an Attest Client” interpretation (1.275.005)? Some government auditors may encounter independence impairments to their attest engagements when, for example, there are statutory requirements to serve in an official role, such as providing a voting member to an entity’s management committee or board of directors. In addition, we agree with the example PEEC cites in this section of the Strategy and Work Plan that pertains to the potential independence threats affecting auditors who are simultaneously engaged to audit U.S. military service branches and also serve as active duty or reserve force military personnel.

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

We suggest PEEC consider including exceptions in this section that pertain to (1) government auditors who are subject to statutory requirements related to serving as ex officio board members or directors of an audited entity and (2) auditors who are simultaneously engaged to audit U.S. military service branches and also serve as active duty or reserve force military personnel.

04. The Ohio Society of CPAs The committee agrees with revisiting whether any additional exceptions should be appropriate, and supports the exception for military service. Additional challenges we have faced include simultaneous employment in non-accounting and non-decision making roles with attest clients that have multiple work locations across a wide geographic area (such as in a retail store environment,) which is difficult to police and presents no opportunity to influence the attest engagement. Firms have also inquired about a transitional period for a covered member to break off all ties when changing employment.
01. Office of the Washington State Auditor It is always helpful to clarify that trivial matters do not create an independence issue. For example, service as a reservist in the Armed Forces or as an adjunct professor at a community college or university (that is, in a non-management or leadership position that is uninvolved in the subject matter of the audit) by a professional employee of the firm that is not involved in the audit should not represent an independence impairment.
06. Ernst & Young LLP We support PEEC's proposed project to determine whether there should be additional exceptions to paragraph 1.275.005.02 and agree with the example provided in the consultation paper. We believe that among the relevant factors to consider would be both the individual's level at the firm as well as the individual's role and responsibilities at the audit client. For example, an intern or lower level staff person who is not a covered member may be perceived to pose a lower threat to independence and objectivity. However, if such non-covered member performs a managerial or accounting role at the audit client, the threat to independence could be significant. We do not believe it is appropriate for any professional employee, regardless of level, to be employed by an audit client in a key position. We encourage PEEC to consider developing a framework to evaluate whether the facts and circumstances of a particular simultaneous employment situation create a significant threat to independence and whether such threat could be reduced to an acceptable level with adequate safeguards.
13. KPMG LLP
- a) What challenges are members encountering when complying with the "Simultaneous Employment or Association With an Attest Client" interpretation (1.275.005)?  
There are circumstances where professionals uninvolved in the audit engagement have employment relationships with audit clients or affiliates of audit clients that do not create significant threats to independence. In these circumstances, the interpretation might be unnecessarily restrictive by scoping in all professional employees for the audit client and all affiliates. For instance, a non-audit associate who wants to participate in an armed forces reserve is generally not in a position to influence the audit engagement of the entity because this employment does not place the individual in a key position at the audit client, or in a position to influence the accounting records or financial reporting. The extant Code is overly restrictive considering the benign nature of the relationship and the virtual absence of a threat the employment relationship creates to the audit.
- b) What relief or exceptions should PEEC explore and why?  
PEEC could consider circumstances, such as military service or public safety employment that could be exceptions to this interpretation to encourage such public service.

## Other matters

### Addressing infrequent situations

10. NYS Society of CPAs In general, we would urge PEEC to address only those projects where broad reaching threats to members' compliance with the extant rules and interpretations of the Code of Professional Conduct (the Code) are prevalent due to a significant shift in business practices, technology or other circumstances. Issuing new interpretations for matters that happen rarely or infrequently should be avoided, as they cause confusion and are often forgotten because they address situations that rarely arise. We believe the Conceptual Framework in conjunction with the Principles of Professional Conduct are strong enough for a member to address "one-off" situations appropriately.

11. AICPA Private Companies Practice Section When narrow scope issues arise (for example, specific questions that come through the ethics hotline), TIC believes issuing Q&As rather than issuing an interpretation is a more efficient approach. Hosting is a prime example of how issuing an overall interpretation creates confusion and then results in the issuance of Q&As to address very targeted and specific questions that come from the language used in the interpretations.

### **Staff coverage on the Ethics Hotline**

11. AICPA Private Companies Practice Section With increased traffic to the Ethics Hotline, PEEC very closely should monitor the ethics hotline usage and ensure there is adequate staff coverage to answer questions in a timely manner as the volume of inquiries grows. As PEEC continues to develop new guidance, the volume of inquiries likely will increase. The ethics hotline is written in many of the quality control documents of firms as the primary source of consultation on independence and ethics issues. The ethics hotline is how many smaller firms satisfy the answers they need within their practices to ensure they are in compliance with the Code of Professional Conduct for peer review purposes. Therefore, responses to these inquiries is integral to a firm's system of quality control.

### **Assisting clients with implementing accounting standards**

10. NYS Society of CPAs The Society fully supports PEEC's efforts with the Enhancing Audit Quality initiative, the Center for Plain English Accounting and the Accounting Standards teams to develop a webcast to discuss potential independence issues that exist when assisting clients with implementing new accounting standards. However, we do not believe that a single webcast is sufficient outreach to members. As accounting standards continue their increase in complexity, it is nearly impossible for middle market companies to keep up with the implementation issues of new standards, which forces these entities to increasingly rely on their trusted advisor for assistance. Therefore, with no foreseeable end to the high volume of standards issued each year or the complexity of the issues raised by the Financial Accounting Standards Board, we think the AICPA groups noted above need more rigorous and more proactive communication regarding the independence threats that a member and a member's firm face by being an entity's trusted advisor.

### **Civic interactions of an auditor of a government with that government**

01. Office of the Washington State Auditor In addition to the projects described in the plan, we would encourage the Committee to consider clarifying independence guidance for situations when an auditor of a government has civic interactions with that government. For example:  
Having citizenship with a government or benefiting from government services or programs that are comparable to and offered to all citizens - such as social services, social insurance programs or fire protection - would not be considered a financial interest in the government or a self-interest threat.  
Voting and participation in public discourse would not be considered management participation in the government.  
Paying taxes, fines or charges for services to a government that are comparable to those paid by all citizens would not be considered a self-interest threat.  
Being the subject of or disputing a government enforcement action would not be considered an adverse interest threat so long as the matter is clearly trivial to the government and member. For example, receiving or disputing a traffic or parking ticket or property tax assessment on the member's home.

## Comparison to other standard setter's rules (IESBA, SEC)

11. AICPA Private Companies Practice Section Similar to a recent comment letter that TIC submitted to the Auditing Standards Board (ASB) related to their proposed strategy and work plan, TIC believes that PEEC should exercise caution when converging with international standards under IESBA. TIC believes that even more so than convergence of auditing standards, ethics is something where litigation and the environment in the U.S. would create issues they do not have in other jurisdictions. The recent NOCLAR project is a good example of how certain standards would not work well in the United States. TIC also believes there are times where PEEC should take the lead on projects rather than waiting for IESBA to add a project to their agenda. The use of new and emerging technologies and the impact on independence is one area where TIC believes that PEEC should take the lead and begin outreach sooner rather than later.
10. NYS Society of CPAs The Society believes that a project undertaken to compare the AICPA Code to the rules of other standard setters would be very beneficial to members. Such a project should highlight the differences in the rules between standard setters and provide members with guidance on how to address the identified differences.
10. NYS Society of CPAs With respect to the plan to identify and document the areas where the Code differs from the International Ethics Standards Board for Accountants (IESBA) Code of Ethics for Professional Accountants (IESBA Code), we believe that not only should the differences be identified, but also the effects of those differences on (a) members who provide attest and assurance services to entities that operate in multiple jurisdictions where some of the services are covered by the AICPA's Code and other services are covered by the IESBA Code; and (b) member firms that practice in multiple jurisdictions.
06. Ernst & Young LLP We believe PEEC should continue to monitor and address changes made by regulators and other standard setters. In determining allocation of resources, we believe PEEC should consider the time commitment of resources needed for both influencing change and analyzing potential consequences of changes proposed by regulators and other standard setters. Providing input to IESBA on areas that PEEC is focused on, for example, can inform and enable future changes to the AICPA Code and development of non-authoritative guidance. Understanding the IESBA Strategy and Workplan and active involvement in IESBA task forces and standard setting process could support the advancement of PEEC's projects on related topics and facilitate convergence. Further, we believe the PEEC should be proactively considering the International Auditing and Assurance Standards Board ("IAASB") current projects that likely will be a focus at the US level over the next three years. The IAASB and IESBA have had increasing instances of projects that require input or feedback from the other board and have worked toward establishing more formalized coordination protocols. We recommend that PEEC work with US Auditing Standards Board to establish a similar arrangement.
- We support the PEEC's current project to compare the AICPA Code to the IESBA Code and believe a convergence matrix would assist members in understanding where the AICPA Code is less restrictive than the IESBA code and where IESBA topics are addressed in non-authoritative guidance.
07. National Association of State Boards of Accountancy One additional project the PEEC may wish to initiate would be to evaluate the final revisions to the Securities and Exchange Commission (SEC) independence rules to determine whether PEEC should amend certain rules, e.g. loan provision, so they align with the amended SEC rules.

## Visibility of non-authoritative guidance

10. NYS Society of CPAs With respect to the plan to enhance the visibility of non-authoritative guidance, we strongly suggest PEEC resume issuance of the Ethically Speaking newsletter in addition to the podcasts of the same title. The podcasts are helpful, but they are not well advertised, and apparently most members are not opening the ethics page of the AICPA website on a regular basis to see if a new podcast is available. The newsletters were an effective way to get members actively thinking about ethics issues with more regularity.
11. AICPA Private Companies Practice Section Perhaps PEEC could consider working with PCPS on member surveys related to their understanding and application of the Code of Professional Conduct to further the development of additional tools and guidance in areas where there is confusion and diversity in practice. The topics that are addressed on the ethics Hotline are great topics for PEEC to follow and try to address in some manner. However, there are a large group of practitioners that do not even realize that there is an ethical dilemma based on the conceptual framework, because there has not been a “grassroots effort” to reach the CPAs in the small towns across America that make up most of the AICPA membership. Perhaps PEEC should explore new ways of communicating with members to ensure that as many members as possible are receiving pertinent information as it relates to appropriately implementing the Code of Professional Conduct.
11. AICPA Private Companies Practice Section TIC also notes that there seems to be more of a root issue with some members not understanding some of “the basics” on independence and being able to apply the conceptual framework appropriately. This has recently arisen with regard to bookkeeping services and tax records and “making the client whole” as it relates to the hosting interpretation. Perhaps the ethics team can focus on doing more to get the word out by means of podcasts like the new ethically speaking podcast, sessions at various conferences, and by using the Center for Plain English Accounting (CPEA) as a means of distributing information to the members.

## Hosting services

09. Baker Tilly Virchow Krause, LLP We believe that there are still certain unresolved issues related to PEEC’s hosting services interpretation, therefore, we believe that PEEC should perform additional outreach to identify those unresolved issues and issue clarifying guidance where necessary.

## Informal feedback from PCPS TIC

11. AICPA Private Companies Practice Section TIC members were recently asked to fill out a survey related to the recent proposal titled “Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers.” TIC appreciates the opportunity to provide feedback, especially as it relates to the smaller firm perspective. Since TIC does not respond directly to IESBA proposals, we would ask that feedback from TIC be solicited in a more informal manner, such as the recent survey that was sent related to this proposal related to quality reviewers. TIC would also be happy to have a member serve on PEEC Task Forces, similar to how we work with the Auditing Standards Board (ASB). This ensures that TIC views are heard and understood early on, many times when a project is still being contemplated by IESBA.

## Activities related to peer review and audit quality

02. Pennsylvania Institute of Certified Public Accountants

Overall, the committee is supportive of the items included in the consultation paper, but noted the absence of any proposed activities related to peer review and audit quality other than a reference to enforcement in Appendix A. The committee notes the continuing practitioner difficulty with audit quality and supports efforts to identify and remediate firms found not to be complying with professional standards. The committee encourages greater peer reviewer outreach and education to ensure that reviewers are appropriately identifying nonconforming engagements. Furthermore, given the significant audit deficiency rate, the committee recommends that the AICPA undertake a project to ensure firms have access to the tools, training, and resources needed to successfully perform audits in a cost-effective manner.

## Responding to non-compliance with laws and regulations

02. Pennsylvania Institute of Certified Public Accountants

the committee believes continued efforts are needed to monitor the disparate and evolving state board requirements for communicating suspected noncompliance with laws and regulations to external authorities in the absence of explicit client permission to disclose such information and the implication of those evolving laws on the existing standards in the AICPA Code of Professional Conduct.

10. NYS Society of CPAs

The Society recognizes that the Noncompliance with Laws and Regulations (NOCLAR) interpretation remains an open issue at PEEC. We believe that if and when this interpretation is released, it should be accompanied by significant guidance to help practitioners deal with the practicalities of the interpretation. Issues involving materiality, keeping client matters confidential and the need for reliance on the opinion of legal counsel, among other issues, should all be addressed.

10. NYS Society of CPAs

With respect to the NOCLAR task force, the Society recognizes that there are significant issues related to NOCLAR when considered in light of the particularly litigious environment in the United States of America. The NOCLAR interpretation has hung in limbo for almost three years. It is not clear to us why the PEEC is only now charging the NOCLAR task force with reviewing IESBA's standard as we presumed that would have been done prior to the issuance of the NOCLAR exposure draft. After three years, we suggest that PEEC commit to moving forward with NOCLAR, significantly rewrite and re-circulate a new, revised exposure draft to address issues raised in the comment letters, or drop the NOCLAR effort entirely.

## Small firm representation on PEEC

11. AICPA Private Companies Practice Section

TIC would like to see more smaller firm representation on PEEC. Over the past year, we have seen that PEEC's primary voice is the larger firms, lawyers, and NASBA representatives and not many smaller firm representatives. From TIC's perspective, it would be positive to see some more TIC member-sized firms on PEEC.

## Staff augmentation

### 11. AICPA Private Companies Practice Section

From the last PEEC meeting, it is TIC's understanding that the planned approach with regard to staff augmentation has changed, whereby this could become a prohibited service, regardless of the duration or type of engagement. TIC believes that, if PEEC follows an approach whereby there are no exceptions to staff augmentation, this could negatively impact smaller firms that, on occasion, provide these services to their clients in special (or "emergency") situations.

TIC preferred the original direction of the project in that there could be situations where providing these services would not result in an independence violation. That included engagements that were very short in duration or where the client lost a resource very suddenly and quickly needed someone to step in and assist. While we acknowledge that these situations may not often occur at larger firms dealing with clients that have adequate accounting departments, the smaller firms work quite often with companies that may only have a few staff people in those roles and, therefore, losing even one staff person due to something like a sudden illness presents a real challenge.

TIC would ask PEEC to strongly consider the views of smaller firms on this issue and, if major changes are made from the original proposal, that this guidance be re-exposed for public comment to ensure there are no unintended consequences.

**American Institute of Certified Public Accountants**  
**Professional Ethics Division**  
**Professional Ethics Executive Committee**  
**Open meeting minutes**  
**May 5, 2020**

The Professional Ethics Executive Committee (committee) held a duly called meeting on May 5, 2020. The virtual meeting convened at 10:00 a.m. and adjourned at 2:05 p.m.

**Attendance**

<p><b>Members:</b></p> <p>Brian Lynch, Chair          Coalter Baker          Chris Cahill          Tom Campbell          Robert Denham          Anna Dourdourekas          Anika Heard          Kelly Hunter          Sharon Jensen          Jennifer Kary</p>	<p>Jeff Lewis          William McKeown          James Newhard          Stephanie Saunders          Lewis Sharpstone          Lisa Snyder          Peggy Ullmann          Douglas Warren          Lawrence Wojcik</p>
<p><b>Staff:</b></p> <p>James Brackens, VP–Ethics &amp; Practice Quality          Toni Lee-Andrews, Director          Ellen Gorla, Associate Director          Jennifer Clayton, Senior Manager          Michele Craig, Lead Manager          Summer Young, Lead Manager          Aradhana Aggarwal, Manager          Sarah, Brack, Manager          Liese Faircloth, Manager          Jennifer Kappler, Manager          Iryna Klepcha, Manager          Michael Schertzinger, Manager          April Sherman, Manager          John Wiley, Manager          Shannon Ziemba, Manager</p>	<p>Carl Peterson, VP–Small Firms–PA          Henry Grzes, Lead Manager–Tax Practice &amp; Ethics          Kristy Illuzzi, Technical Issues Committee (TIC) Staff Liaison          Megan Kueck, Lead Manager–State Regulation &amp; Legislation          Elena Redko, Manager–Content Development &amp; Management – MA          James Cox, Associate Director–State Regulation &amp; Legislation          Kelly Mullins, Manager–Support Services and Communications          Elaine Bagley, Specialist–Support Services          Hanna Mayle, Job Coordinator          Karen Puntch, Case Investigator</p>

**Guests:**

Catherine Allen, Audit Conduct  
Sonia Araujo, PwC  
Kent Absec, Idaho State Board of Accountancy  
Ellen Adkins, Enforcement Subcommittee  
Rita Barnard, Kansas Society of CPAs  
Ian Benjamin, Chair, Enforcement Subcommittee  
Laura Billingsley, Thomson Reuters  
Jeannine Birmingham, Alabama Society of CPAs  
Timothy Twofoot Boulette, New York State Society of CPAs  
Lisa Brown, Ohio Society of CPAs  
D. Boyd Busby, Alabama State Board of Public Accountancy  
Gilbert Codrington, Thomson Reuters  
Allan Cohen, RSM US LLP  
Karen Cookson, U. S. Dept of Housing and Urban Development  
Debbie Cutler, Debra A. Cutler CPA PC  
James Dalkin, Government Accountability Office  
Megan Donnellon, Deloitte  
Karen Drescher, Karen C. Drescher, CPA, PC  
Anna Durst, Nevada Society of CPAs  
Dan Dustin, NASBA  
Jason Evans, BDO  
Jeremy Farrah, Runyon Kersteen Ouellette, P.A.  
Tracey Fielman, Deloitte  
Jo Ann Golden, New York State Society of CPAs  
Rodney Harano, CW Associates, CPAs  
Ayokah Harrison-Roberts, Georgia State Board of Accountancy  
Allison Henry, Pennsylvania Institute of CPAs  
Pamela Ives Hill, Missouri Society of CPAs  
Kelly Hnatt, External Counsel

Dave Holets, Chair, SSTS Revision Task Force  
Claire Horneffer, Thomson Reuters  
Becca Huber, New York State Society of CPAs  
Diane Jules, International Ethics Standards Board for Accountants  
Vassilios Karapano, Securities and Exchange Commission  
Elizabeth Pittelkow Kittner, International Legal Technology Association  
Kimberly Kuhl, KPMG  
Elliot Lesser, Enforcement Subcommittee  
Stacey Lockwood, Society of Louisiana CPAs  
Alan Long, Baldwin CPAs, PLLC  
Nancy Miller, KPMG  
Angela Miratsky, BKD, LLP  
Karen Moncrieff, EY  
Sharon Romere-Nix, Thomson Reuters  
Christine Piche', CLA  
Steve Pukish, Thomson Reuters  
Jacqueline M. Reardon, TPRC  
Michael Reese, The Hanover Insurance Group  
John Robinson  
Joseph Sanford, Enforcement Subcommittee  
Anna Seto, TPRC  
Rachel Sinks, Enforcement Subcommittee  
Ivona Szady, Deloitte  
John Szczomak, New Jersey Society of CPAs  
Joseph Tapajna, TPRC  
Jessica Tomc, EY  
Paula Tookey, Deloitte  
Chantell Walters, Thomson Reuters  
J. Warganz, KPMG  
Dan Wise, CohnReznick  
Paula Young, EisnerAmper, LLP  
Darlene Zibart, Kentucky Society of CPAs  
Paul Ziga, Georgia State Board of Accountancy

## 1. **Welcome**

Mr. Lynch welcomed the committee and discussed administrative matters.

## 2. **NOCLAR**

Mr. Denham provided an update on the NOCLAR task force activities since the February meeting. Mr. Denham reminded the committee of the background associated with task force activities including NASBA's comment letter and the joint task force formed with representatives from PEEC, UAA and NASBA to discuss certain issues.

Mr. Denham informed the committee that initially the ASB elected to defer exposure because the standards may not be implementable due to various laws and regulations in over 40 jurisdictions. However, after subsequent research by NASBA their analysis indicated that 52 of 55 jurisdictions provide for a form of exemption through law, rule, or reference to the code. The discrepancy in the results was a concern to the ASB. However, the discrepancy was satisfactorily explained and the ASB can move forward with their efforts. The ASB will likely consider a vote to expose the proposed standard with respect to a communication requirement between predecessor and successor auditors at its July meeting.

Mr. Denham explained the revisions to the proposed NOCLAR interpretations exposed in March 2017. The task force agreed to (1) change the language in the proposed interpretation to include the member's requirement to comply with standards, (2) revise the structure of the interpretation to include separate guidance for members performing attest services and members performing non attest services, (3) add language clarifying the use of the term "client" as it relates to the level of responsibility members would have to report a NOCLAR if a third party entity is not the entity that engaged the member (4) add language clarifying the use of the term "client" throughout the interpretation if the engaging entity and subject entity are not the same, and (5) edit the language under the members in business guidance to allow both senior and non-senior professionals to report a NOCLAR to a regulatory body.

Mr. Denham stated that the task force is scheduled to meet in May to discuss (1) whether the guidance for members providing attest services should apply to all attest services or to audit and review services only, (2) other guidance that should be provided for members performing a service that is not an audit or review, and (3) clarification of the terms subject entity and engaging entity throughout the interpretation.

Mr. Campbell raised concerns regarding the rationale for the proposed separate guidance for financial statement audit or reviews and other services. Mr. Campbell commented that convergence with IESBA would not prevent the AICPA from being more restrictive. Mr. Denham explained that it is in the audit context that we can use conformance with standards

as a basis for reporting out. However, outside of the audit context, for which there is no current guidance, the client confidentiality rule would prohibit communicating to others. Mr. Denham stated that the ASB is assisting by revising the technical standards and going beyond the auditing standards would be challenging. Mr. Baker added that it was most important to get the ASB involved with the discussions between the predecessor and successor auditor first and then later address nonattest services and how NOCLAR might be applied.

Ms. Dourdourekas asked if the task force discussed members included language in their engagement letters giving the member general consent to disclose NOCLAR. Mr. Brackens agreed that this was a good suggestion and explained that this could be discussed between PEEC and the ASB.

Mr. Cahill asked if the broader plan would be to update the interpretations and then re-expose. Ms. Snyder explained that because there are significant changes to the proposed interpretations in addition to the time since the initial exposure draft, the task force will need PEEC's agreement to re-expose the interpretations. The task force plans to make this recommendation after addressing any remaining pending issues.

### **3. Staff augmentation**

Ms. Snyder indicated that at the February PEEC meeting, NASBA had concerns that the position proposed at that time was too permissive, so the task force met in March to consider feedback received at that meeting and to discuss further revisions to the proposed interpretation. The task force decided to take a more prohibitive approach to staff augmentation by changing the interpretation to state that providing staff augmentation arrangements would impair independence for attest clients unless specific conditions were met and safeguards in place. The task force also decided the proposed interpretation would provide an exception for affiliates other than downstream affiliates similar to the exceptions afforded for nonattest services and leases when the services provided by the augmented staff would not be subject to attest procedures.

Ms. Snyder explained that the task force then provided the revised interpretation to the NASBA ethics committee for their consideration and feedback. Representatives of the NASBA ethics committee advised Ms. Snyder and staff that the committee met to discuss the revised interpretation and decided that it still supported NASBA's January board resolution opposing any interpretation allowing staff augmentation arrangements for attest clients, and that they would support the proposed interpretation brought to the November 2019 PEEC meeting as long as the interpretation also prohibited staff augmentation arrangements for affiliates, and that the exposure draft asked the question "Should staff augmentation arrangements be allowed at all?"

The task force met again in April to discuss the feedback received from NASBA and the task force concluded that the affiliates exception should remain in the proposed interpretation with a question to be included about whether such an exception was appropriate.

Ms. Snyder then discussed the revisions to the proposed interpretation, specifically that threats to independence would not be at an acceptable level for staff augmentation arrangements unless the following conditions and safeguards are met:

- The staff augmentation arrangement is being performed due to an unexpected situation that would create a significant hardship for the attest client.
- The arrangement is not expected to reoccur.
- The arrangement is performed only for a short period of time, and there would be a rebuttable presumption that a short period of time would not exceed 30 days.
- The augmented staff performs only activities that would not be prohibited by the “Nonattest Services” interpretation.
- The member must be satisfied that the client designates an individual to oversee the services, and
- The firm does not use the augmented staff on the attest engagement team.

Regarding the exception for affiliates, she said that a member would be required to use the conceptual framework approach in evaluating the threats to independence, emphasizing that the exception was not meant to be an outright permission to do staff augmentation services.

Ms. Dourdourekas commented that she wasn't clear what the position was regarding agreed upon procedure (AUP) engagements and other engagements performed under the SSAEs. Ms. Miller said that she questioned the application for AUPs. In particular, she noted that for nonaudit services for an AUP, a member is allowed to perform a management function and so conceptually, if you can perform a management function for an AUP client, it would seem that an exception for staff augmentation for an AUP client would be consistent. Ms. Snyder asked for feedback regarding the question of allowing staff augmentation arrangements for an AUP client and most committee members thought this would be appropriate. Ms. Snyder said that a specific question could be asked when the proposed interpretation is exposed.

As discussion ensued on the overall interpretation, many committee members believed the current proposal was a step in the right direction and protects the public interest while at the same time gives practitioners the ability to step in and serve their clients in extreme circumstances. Some members thought that the interpretation could be too restrictive, but overall struck a good balance and addressed many of the concerns expressed by committee members in February. There was some discussion regarding the short period of time that

was reduced from 60 to 30 days being too restrictive or what was called a “bright line” and thus possibly being inconsistent with IESBA, but the use of the term “rebuttable presumption” gave comfort to some committee members regarding flexibility. Ms. Snyder noted that a question regarding defining the short period of time could be asked upon exposure.

Mr. Baker reminded the committee of NASBA’s ongoing opposition to allowing staff augmentation for attest clients. He noted that NASBA agreed that the proposal brought to PEEC in November would be acceptable for exposure with the qualifiers that there would be no exceptions for affiliates and the short period of time being 30 days. He noted that in November many members of the committee thought that 30 days was too restrictive, and that in January the NASBA board reaffirmed that they believed staff augmentation should not be allowed for attest clients at all, and that the NASBA ethics committee confirmed their opposition again in March. He asked PEEC to consider the ramifications of the proposal with respect to getting all states on board with adoption of the AICPA code, and was concerned about possibly having some states carve out another section of their law due to the proposed interpretation. Mr. Baker stated that NASBA’s position was not to expose the current proposal, give direction to the task force to develop language to specifically indicate that staff augmentation for attest clients is not acceptable, and determine for those firms that are already doing it, what is the most efficient way for those relationships to be terminated. Ms. Snyder asked him if this meant NASBA would no longer accept the proposal brought to the committee in November, and he said that he believed the NASBA ethics committee would accept exposing that version (which did not have an exception for affiliates) as long as the broad question of whether these arrangements should be allowed at all was included in the exposure draft.

The committee discussed the ramifications of NASBA’s position and specifically their opposition to the exception for affiliates. Committee members asked about NASBA’s specific position regarding affiliates and Ms. Snyder responded that she believed NASBA’s concern was based on the appearance of the augmented staff being an employee of the affiliate. Discussion continued regarding the differences between the SEC and the IESBA rules, as well as the complexities of private equity firms and how the affiliate rules could have significant implications for attest clients within private equity firms, especially brother/sister affiliates.

When asked if the private equity firm environment came up in discussions with NASBA’s ethics committee, Ms. Allen, NASBA ethics committee chair, said that they had discussed brother/sister affiliates, but they did not specifically talk about them in the private equity context. Mr. Lynch said the rationale was appearance, and that appearance is significant at the audit client, but for a brother/sister affiliate, appearance may be a lesser threat, and that it seems NASBA didn’t consider that or just didn’t believe there was any lesser of an

appearance threat. Ms. Snyder reminded the committee that the affiliate exception is not a “free pass,” but rather members would still have to use the threats and safeguards approach to evaluate the circumstances.

The committee discussed that exposing the proposal without the exception for affiliates could have the support of the committee while leaving it in might not. Either way, all agreed that the question regarding affiliates would be asked in the exposure documents. The committee also had lengthy discussions about how many practitioners simply are not aware or do not deal with some of the complex affiliate relationships that other firms do on a daily basis, and that providing examples of these in the exposure documents would be beneficial for all stakeholders in understanding why the affiliates question is so important.

Ms. Snyder confirmed that the task force would do the following:

- Revise the proposed interpretation to remove the affiliates exception.
- Develop questions for the exposure draft including, “Should staff augmentation arrangements be permitted at all?” and “Should an exception be made for certain affiliates?”
- Develop examples of the application of different affiliates scenarios for the exposure materials to highlight and educate those who may not be familiar with the complexities of affiliates in daily practice.
- Develop potential exemptions for AUP engagements and exposure draft questions for other engagements under the SSAEs.

#### **4. Strategy and work plan consultation paper**

Mr. Lynch updated PEEC that staff received 14 comment letters with the last letter received on March 6, 2020. The task force met twice in April and developed recommendations based on the comment letters received.

Mr. Lynch reported that the planning task force will be recommending forming a task force for the following projects: 529 college savings plans, Business relationships, Client affiliates, Digital assets, Reporting of an independence breach to an affiliate that is also an attest client, and Simultaneous employment or association with an attest client.

The planning task force will be recommending initiating the following member enrichment projects: Conflicts of interest, Artificial intelligence, and Definition of Office. Artificial intelligence and Definition of Office were included in the consultation paper as proposed new standard-setting projects. However, after the comment letters were reviewed, the planning task force recommends initiating member-enrichment projects instead. The planning task force does not recommend initiating the Data Security and Breaches project due to rapid changes in related laws and regulations.

The planning task force did not finalize the recommendation for the following projects:  
Operational enhancements to the code and de minimis fees.

Mr. Lynch reminded PEEC that the consultation paper sought input regarding other matters. Several letters provided recommendations related to IESBA and other standard setter's rules. Because convergence with IESBA is an ongoing project, the planning task force recommends that this information be shared with the PEEC's IFAC Convergence Task Force for their consideration.

Two comment letters noted that additional guidance related to implementation of new accounting standards would be beneficial. The planning task force agreed with the comment letters and will be recommending developing additional guidance related to threats and safeguards associated with new accounting standards.

The planning task force plans to present a three-year plan to PEEC at the next meeting in August.

## 5. Inducements

Ms. Dourdourekas provided the committee with an update on the task force's activities and the key changes the task force made to the practice aid based on the committee's feedback from the November 2019 PEEC meeting. These changes include removing definitive answers, changing the title, clarifying that independence matters are not addressed and integrating the conceptual framework worksheet from the conceptual framework toolkit into the practice aid.

The committee provided staff with the following feedback:

- The section on "reasonable in the circumstances" could use a lead in sentence to describe the reason for this guidance to be included in the interpretation.
- The analysis of the case studies, although mentioned elsewhere, should include what a reasonable third party may conclude and the appearance of the matter.
- Under the guidance for providing political or charitable contributions, the last two bullet points should be combined, as they are addressing the same issue.

Ms. Snyder recommended that there be a section at the beginning of the practice aid that briefly explains the concept of "intent," because this was IESBA's focus in their guidance. Specifically, whether you know the evaluation or consideration of whether the intent is to improperly influence behavior. The concept of "intent" is included in an example, but it should be given more prominence as a consideration when evaluating inducements. Ms. Snyder asked if this concept was considered or intentionally not included in the practice aid.

Mr. Campbell explained that the task force discussed this topic, but it might be impossible to know the intent. Ms. Dourdourekas added that you would not always know the intent upfront. Therefore, the task force decided on using the appearance of the action (inducement).

The committee addressed the task force's decision not to open the gifts and entertainment interpretation and instead use nonauthoritative guidance to converge with IESBA's guidance on inducements. Ms. Craig explained that based on the results of the comparison performed, the AICPA's independence guidance was more restrictive than IESBA's guidance, and the differences between IESBA and AICPA's integrity and objectivity guidance were not substantive enough to open the interpretation. Ms. Gorla explained that the task force asked this question to the committee to confirm that the practice aid is the right direction for convergence.

Ms. Dourdourekas asked committee members associated with smaller firms if the practice aid would be useful or if there would be a need for explicit guidance in the code as it relates to this topic. Several committee members provided feedback that they agreed with the direction of the practice aid and found it to be useful and easy to read. A small firm practitioner would more likely use the practice aid instead of going through the code.

## **6. IESBA updates**

Ms. Gorla reported that the February IESBA meeting was virtual, and that the June meeting would also take place virtually over six days.

During the February meeting, the Role and Mindset Task Force reported that overall respondents were generally supportive of the objectives of the exposure draft. The most significant clarifications requested were around the meaning of the term "public interest" in relation to the professional accountant's responsibility to act in the public interest and the concept of an "inquiring mind." Ms. Gorla reported that the task force's plan is for the final standard to be adopted at the June meeting.

Also, during the February meeting, a project proposal was approved to address the ethics and independence implications of major trends and developments in technology on assurance, accounting and finance functions. The board also heard a report from the listed entity/public interest entity task force. This task force noted that their focus so far was ensuring the objective was clear as to why the more stringent independence requirements (and quality control measures in the IAASB's standards) were necessary for these entities. The objective brought to the board was that the additional requirements and application material that would be applied to these entities are only applicable to the audit of financial statements in which there is a significant public interest. The purpose of these additional

requirements and application material is to enhance confidence in such financial statements through enhancing confidence in the audit of those financial statements.

Ms. Gorla also reported that PEEC's IFAC Convergence and Monitoring task force met to discuss the fees exposure draft and identified some preliminary comments.

## **7. Effective date deferral**

Following the declaration of a national emergency related to the COVID-19 pandemic, the AICPA has consistently heard from firms that regardless of when the COVID-19 pandemic is declared over or when social distancing restrictions are lifted, smaller and mid-size firms will be struggling to recover like so many other small businesses and will not have the time or other resources to effectively implement interpretations. The AICPA believes that in this environment it would be in the public interest and welcome relief to many firms if the committee extended the effective dates for an additional year as highlighted below. The committee voted to extend the following by one year:

- “[Information Systems Services](#)” [1.295.145] Now effective January 1, 2022 with early implementation permitted.
- “[State and Local Government Client Affiliates](#)” [1.224.020] Now effective for years beginning after December 15, 2021.
- “[Leases](#)” [1.260.040] Now effective for fiscal years beginning after December 15, 2020 with early implementation permitted.

## **8. Statements on Standards for Tax Services**

Ms. Saunders gave an update on the status of the Statements on Standards for Tax Services (SSTS) revision project. As the committee year was ending and with new committee members joining officially in August being present as observers, she gave a brief history of the project and indicated that the SSTS revision task force has met regularly since its formation and provides updates to both PEEC and the Tax Executive Committee (TEC) on their progress. In their January 2020 meeting, the task force agreed to share an initial draft of the revised standards with the TEC at their February 2020 meeting. The TEC has elected to do a detailed review of this initial draft of the revised SSTSs at their upcoming meeting scheduled on June 3, 2020.

Ms. Saunders noted that PEEC will be meeting with members of the task force during the May closed meeting to provide their feedback and comments on the initial draft of the revised standards. The task force will consider the comments from PEEC when evaluating further revisions to the current draft. The task force plans to finalize the draft revised standards in 2020 so the expectation is that the TEC will vote to expose the standards to the AICPA membership for comments in 2021.

**9. Minutes of the PEEC open meetings**

With new members, Anika Heard and Lewis Sharpstone, abstaining it was moved, seconded and agreed to approve the minutes from the October 2019 open meeting with no dissent.

It was moved, seconded and agreed to approve the minutes from the February 2020 open meeting with no dissent.