



# Professional Ethics Executive Committee

Open meeting agenda

August 9-10, 2023

Virtual



## Open meeting agenda — August 9-10, 2023

Professional Ethics Division

Professional Ethics Executive Committee

Meeting link: <https://aicpa.zoom.us/j/97798193515>

Meeting ID: 977 9819 3515

Observers must register: [www.aicpa.org/peecmeeting](http://www.aicpa.org/peecmeeting)

### August 9

10:00–10:15 ET	<b>Welcome</b> Ms. Dourdourekas will welcome the committee members and discuss administrative matters.	
10:15–10:45	<b>Simultaneous employment or association with an attest client</b> The committee will receive an update on recent task force activities and seek input on direction.	<a href="#">Agenda items 1A-1B</a>
10:45–11:15	<b>Solicitation or disclosure of CPA examination questions and answers</b> Staff will request the committee's approval to adopt the proposed revised interpretations.	<a href="#">Agenda items 2A–2E</a>
11:15–12:00	<b>IESBA convergence: Fees</b> The task force will request the committee's approval to adopt the fees guidance.	<a href="#">Agenda items 3A–3D</a>
12:00–1:00	Break before afternoon session	
1:00–1:10	<b>Private equity investment in firms</b> The committee will receive an update on recent task force activities.	
1:10–1:30	<b>Engagements subject to SSAEs</b> The committee will receive an update on recent task force activities.	

1:30–1:40	<b>IESBA convergence: NAS — General</b> The committee will receive an update on the direction the task force is heading with the convergence project.	
1:40–1:50	<b>Reporting of an independence breach to an affiliate that is also an attest client</b> The committee will receive an update on recent task force activities.	
1:50–1:55	<b>IESBA convergence: NAS — Legal services</b> The committee will receive an update on the direction the task force is heading with the convergence project.	
1:55–2:55	<b>Case study in ethical use of AI today</b> The committee will receive a presentation on artificial intelligence.	
<b>August 10</b>		
10:00–10:10	<b>Beneficial ownership information reporting</b> The committee will receive a presentation on a new reporting requirement.	
10:10–10:20	<b>Digital assets</b> The committee will receive an update on recent task force activities.	
10:20–11:10	<b>IESBA update</b> The committee will receive an update on the sustainability and use of experts projects and staff will seek input direction.	<a href="#">Agenda items 4A–4D</a>
11:10–11:15	<b>Approval of May open meeting minutes</b>	<a href="#">Agenda item 5</a>

	<b>Future meeting dates</b> November 8–9, 2023 February 20–21, 2024 May 9–10, 2024 August 13–14, 2024	
--	---	--

## Simultaneous employment or association with an attest client

### Task force members

Cathy Allen (chair), Andy Bonner, Jason Evans, Jeff Lewis, Nancy Miller, Dan Vuckovich

### Observers

Jim Dalkin, Robin Donaldson, Nicole Anderson McLean, Brandon Mercer, Bella Rivshin

### AICPA staff

Jennifer Kappler

### Task force charge

To consider whether to add an exception to the “Simultaneous Employment or Association With an Attest Client” interpretation ([ET sec. 1.275.005](#)) for individuals employed by the armed services and whether other modifications to the subtopic “Current Employment or Association with an Attest Client” ([ET sec. 1.275](#)) are warranted.

### Reason for agenda item

To share the results of the recent survey and roundtables conducted by the task force, to seek input from the committee on whether all partners should be prohibited from simultaneous employment, and to seek approval for a revised approach to potential revisions to the Code of Professional Conduct.

The survey questions are presented in agenda item 1B.

### Task force activities

At the May 2023 PEEC meeting, the committee approved the task force’s exploration of an approach whereby

- a covered member would be prohibited from employment at an attest client and
- a partner or professional employee would be prohibited from being employed in a key position at the attest client.

All other situations would require application of the “Conceptual Framework for Independence” ([ET sec. 1.2710.010](#)). In addition to gaining insight regarding these prohibitions for simultaneous employment, the task force sought feedback on how to approach a member’s

- ability to affect the subject matter of the engagement.
- employment in a management role.
- participation in activities that would be considered management responsibilities under

the “Management Responsibilities” interpretation ([ET sec. 1.295.030](#)).

### Outreach and feedback

The task force conducted a survey and two roundtable sessions to obtain the views of members, clients, regulators, and other stakeholders on these matters.

#### Survey

On May 22, 2023, staff distributed the survey to more than 500 individuals identified by the task force as stakeholders in this project. The response rate was 15 percent (77 total responses) and some responders fell into more than one of the categories below:

- 50+ members in public practice
- 11 expert panel and advisory group members
- 3 peer reviewers
- 3 regulators
- 2 attest client representatives
- 2 state society ethics committee members

Approximately 10 percent of the respondents oppose *any* changes to the interpretation. However, the majority support a revision to restrict all covered members from having any employment with an attest client and any partner or professional employee from holding a key position. For those opposed to any simultaneous employment relationships, the appearance of such employment was the primary obstacle. This is one example of feedback:

For others not involved in the engagement, the threat of independence in appearance is too significant to the reputation of the profession, for what could amount to nominal value. Regardless of the third parties’ level of knowledge

Approximately 20 percent of the respondents believe all partners should be prohibited from any employment relationship with an attest client. The primary concern here is that all partners (just by having the title of partner) influence the engagement team. Another issue raised is that ownership in the firm creates a significant self-interest threat to independence which cannot be overcome. Given the concerns raised by the respondents, the task force identified this matter for further discussion at the roundtables.

[Scenario 5](#) in the first section of the survey focused on the respondent’s conclusion about whether independence should automatically be considered impaired if the employee is not a covered member and not in a key position but holds the title of “manager” or serves in a

management role at the attest client. Approximately 20 percent of the respondents indicated this situation automatically impairs independence. Responses were generally consistent with the thoughts expressed in these two responses:

- Professional member of the firm is making management decisions.
- While a shift manager may be technically a management position at the client, it is unlikely a lower level operational management role such as this would have any significant influence on the financial reporting or operations of the enterprise.

The task force identified this issue for further discussion at the roundtables.

[Question 21](#) addressed situations in which a member is not in a key position but may be required to perform activities that either allow the member to affect the subject matter of the engagement or would be prohibited if performed as a nonattest service. Examples included originating a sale, creating source documents, or having custody of assets.

The survey explored whether these activities should be explicitly prohibited, identified as significant threats requiring the application of safeguards, or whether the conceptual framework could be applied as long as the individual was not a covered member.

- 35 percent of respondents indicate these activities should be prohibited.
- 20 percent indicate they automatically create significant threats.
- 45 percent indicate that it's appropriate to apply the conceptual framework to the facts and circumstances

These examples represent the general sentiments of those three conclusions:

- These activities have direct impact on the financial activities of the client.
- We generally feel that the profession defaults to our professional judgment when relevant and appropriate. We feel this (defaulting to significant threat) is a happy medium; requiring the application of safeguards for activities that could have different impact on different organizations. Facts and circumstances will be important in assessing whether the threats can be overcome.
- There are many different scenarios dependent on individual facts and circumstances so I think the conceptual framework should be used to evaluate these.

This topic was added to the roundtable agenda to obtain a more in-depth understanding of why individuals reached certain conclusions.

## Roundtables

The task force held two 1-hour roundtables with volunteers from the survey pool and other sources (June 26 and June 28). Participants received a summary of the survey results prior to the roundtables. The pre-read material included questions and discussion topics identified as points of interest by the survey. Participants included members of state society ethics committees, attest clients, public firms, peer reviewers, and AICPA expert panel members (14 virtual participants; 2 written responses).

Participants came to the roundtables with concerns about how changes to the code related to simultaneous employment might affect the reputation and effectiveness of the profession.

However, participants' concerns were alleviated after an overview of how the code defines covered member and key position as well as an in-depth discussion of the conceptual framework and how to apply it in different scenarios.

Participants indicated that revised guidance should include potential factors that might contribute to the significance of a threat as well as situational examples to aid consistent application.

Participants conceded that situations likely exist where a partner's ability to affect the engagement is minimal, but a few stakeholders maintained that ownership in the firm and a partner's influence (even implied and indirect) creates a significant threat that is difficult to overcome. A partner serving as adjunct faculty and meeting the current exception was discussed. Participants found it difficult to rationalize why the threats created in other circumstances were more significant.

## Proposed revised framework

The task force and most respondents to the outreach efforts support revisions to the current "Simultaneous Employment or Association With an Attest Client" interpretation that would restrict all covered members from having any employment with an attest client, which is generally consistent with other restrictions in the code, for example, direct financial interests.

The task force also believes that no partner or professional employee should be employed in a key position. Given the feedback from the survey and roundtables, the task force is requesting input from the committee on whether this categorization for partners (and partner equivalents) is acceptable, or whether a strict prohibition from all employment with an attest client should exist.

The results of the survey and roundtables support the task force's position that all other situations could be effectively evaluated using the "Conceptual Framework for Independence" interpretation. Accordingly, the task force recommends that the framework not specifically prohibit serving in a management role or performing activities that would be prohibited if performed as a nonattest service, such as originating a sale, creating source documents, or



having custody of assets.

The task force previously proposed, and the committee agreed, that exceptions for adjunct faculty members and government audit organizations should remain and anticipates proposing an exception to allow for compliance with regulatory or statutory requirements such as the Uniformed Services Employment and Reemployment Rights Act.

Question for the committee

1. Does the committee approve the revised framework outlined above as a foundation for potential revisions to the interpretation?

# Simultaneous employment poll

This is an anonymous survey.

If you would like to participate in one of the upcoming round table discussions on simultaneous employment, email your contact information to [Jennifer.kappler@aicpa-cima.com](mailto:Jennifer.kappler@aicpa-cima.com). Your email address will not be connected to your responses in this survey.

Thank you for sharing your thoughts with us.

\* Required

1. The first 18 segments of the survey are really one question with 9 scenarios we'd like your input on.

There are 9 roles at an attest client, each of which is followed by a list of roles at a firm. Place a check next to each firm role where, in your opinion, independence should be considered impaired if simultaneously held with the role at the client.

Yoga instructor

\*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement
- ☐ Manager not involved with the attest engagement
- ☐ Staff not involved with the attest engagement
- ☐ I don't believe any of these roles should impair independence

2. Describe why you made your selection (or selections).

### 3. Ride-share driver \*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement
- ☐ Manager not involved with the attest engagement
- ☐ Staff not involved with the attest engagement
- ☐ I don't believe any of these roles should impair independence

### 4. Describe why you made your selection (or selections).

5. Shift manager at a coffee shop \*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the engagement
- ☐ Manager not involved with the engagement
- ☐ Staff not involved with the engagement
- ☐ I don't believe any of these roles should impair independence

6. Describe why you made your selection (or selections).

7. Subject matter expert (accounting/business/finance) on the company's podcast \*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement
- ☐ Manager not involved with the attest engagement
- ☐ Staff not involved with the attest engagement
- ☐ I don't believe any of these roles should impair independence

8. Describe why you made your selection (or selections).

9. Cashier at a fast-food restaurant \*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement
- ☐ Manager not involved with the attest engagement
- ☐ Staff not involved with the attest engagement
- ☐ I don't believe any of these roles should impair independence

10. Describe why you made your selection (or selections).

11. Controller \*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement
- ☐ Manager not involved with the attest engagement
- ☐ Staff not involved with the attest engagement
- ☐ I don't believe any of these roles should impair independence

12. Describe why you made your selection (or selections).



13. Social media product promoter \*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement
- ☐ Manager not involved with the attest engagement
- ☐ Staff not involved with the attest engagement
- ☐ I don't believe any of these roles should impair independence

14. Describe why you made your selection (or selections).

15. Security guard \*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement
- ☐ Manager not involved with the attest engagement
- ☐ Staff not involved with the attest engagement
- ☐ I don't believe any of these roles should impair independence

16. Describe why you made your selection (or selections).

17. IT help desk \*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement
- ☐ Manager not involved with the attest engagement
- ☐ Staff not involved with the attest engagement
- ☐ I don't believe any of these roles should impair independence

18. Describe why you made your selection (or selections).

19. Assume the following individual is employed at the attest client in a position that does not involve exercising judgment regarding significant accounting matters or being able to significantly affect material components of the financial statements or subject matter of the attest engagement.

Put a check next to the statement or statements that best describe simultaneous employment relationships that should be permitted.

\*

- ☐ Member of the attest engagement team
- ☐ An individual in a position to influence the attest engagement not on the engagement team
- ☐ Partner not involved with the attest engagement.
- ☐ Manager not involved with the attest engagement.
- ☐ Staff not involved with the attest engagement.
- ☐ I don't believe simultaneous employment should be allowed regardless of the individual's role at the firm.
- ☐ Other

20. Describe why you made your selection (or selections).

21. Under current guidance, if a member of a firm provides the following nonattest services for an attest client, independence will be impaired.

- Originating a point-of-sale transaction
- Creating source documents that evidence transactions
- Accepting or securing inventory or physical assets
- Supervising an employee

If simultaneous employment at a firm and an attest client were to be allowed, how should it affect independence if the person performs one of these activities as part of employment at the client?

Select the statement that best describes your opinion: \*

- ☐ The activities should be specifically prohibited.
- ☐ The activities should automatically be considered significant threats requiring application of safeguards.
- ☐ The activities should be evaluated to determine their significance.
- ☐ Other

22. Describe why you made your selection (or selections).

23. My role is that of \*

- ☐ Regulator
- ☐ State society staff
- ☐ Member of an AICPA expert panel or advisory group
- ☐ Peer reviewer
- ☐ Member of a public accounting firm
- ☐ Management or staff at an attest client
- ☐ Other

24. Provide any additional information you believe it's important for us to know.

25. Provide any additional information you would like the task force to address during upcoming round table discussions of simultaneous employment.

## Solicitation or disclosure of CPA examination questions and answers

### AICPA staff

Summer Young

### Reason for agenda item

To seek adoption of the proposal from the exposure draft on “[Uniform CPA Examination and Continuing Professional Education](#).”

### Staff activities

Eight comment letters were submitted in response to the request for comments on this exposure draft. The following links are to the letters in [agenda item 2D](#):

- [CL 1](#): New York State Society of CPAs
- [CL 2](#): U.S. Government Accountability Office
- [CL 3](#): CliftonLarsonAllen LLP
- [CL 4](#): Epstein + Nach LLC
- [CL 5](#): RSM US LLP
- [CL 6](#): National Association of State Boards of Accountancy (NASBA)
- [CL 7](#): Deloitte LLP
- [CL 8](#): Grant Thornton

After discussion with Cathy Allen, staff is recommending revisions. The following sections outline a summary of comments as well staff’s recommended revisions.

### General support

All commenters support the revisions to the interpretation. However, one commenter noted that even without an interpretation in the code explicitly prohibiting any form of cheating on continuing professional education (CPE), the Acts Discreditable Rule encompasses all behavior discreditable to the profession and the AICPA can engage in enforcement activities under that rule.

### Expansion of scope

Two commenters believe the revised interpretation should be expanded beyond CPE and include other credentials and college courses (CL1 and CL4). In response to these comments, staff revised the interpretation to include a blanket statement regarding false, misleading, or deceptive acts used to maintain a member’s CPA license or other credentials and then added examples of such acts. Staff also bracketed the term “continuing” in the revised interpretation for

PEEC to consider excluding this term from the interpretation as removing it would also broaden the revised interpretation.

### Suggestions for revisions

Three commenters offered revised interpretation language (CL2, CL4, and CL6). For full details of comments, see agenda item 2B.

- CL2 recommended the phrase “without the course administering entity’s written permission” be added to paragraph .02(a) to mirror paragraph .01. The additional language is not necessary because the newly redrafted interpretation now includes the phrase “false, misleading, or deceptive acts.”
- CL4 recommended an additional paragraph to include language that soliciting or knowingly disclosing examination questions or answers for college and university course exams would be a violation of the Acts Discreditable Rule. This commenter also recommended that language be added to all paragraphs in the interpretation regarding tampering with software platforms for examination administration and grading. Because student membership is limited and ultimately all of these examples fall under the Acts Discreditable Rule, staff updated the interpretation to include only the software tampering language.
- CL6 recommended the phrase “or misrepresents, in any manner, participating in” be added to paragraph .02b regarding attendance at CPE courses. Staff followed up with CL6 as to why the term “falsify” is not sufficient. CL6 responded that “it may not cover situations when someone signs in to participate in a CPE program but does not actually attend the CPE event. We believe ‘misrepresents’ has a broader connotation than ‘falsifies’.” PEEC discussed the scenario of merely signing in for an in-person CPE event at the February 2023 meeting, which is why the language regarding falsifying attendance was included in the revised interpretation. In the current revision of the interpretation (agenda items 2C and 2D) the term “misrepresents” in paragraph .02b is bracketed so that PEEC can consider whether to include it.

One commenter believes the phrase “collaboration is expected and permitted” is not clear and suggested clarifying language be added to note to whom and when this phrase would apply (CL6). The vast majority of CPE credit is awarded based on a self-exam or attendance only and therefore the phrase is not necessary and has been removed from the proposed interpretation, as shown in agenda item 2C.

One commenter suggested adding the AICPA ethics examination explicitly to paragraph .01 since this exam is required by most state licensing boards (CL8). This additional language is not considered necessary as paragraph .02 covers all manner of cheating on professional education exams.



Ms. Hnatt recommends changing all instances of “the member” to “a member” so that situations where a member assists another member in any form of cheating would be captured.

#### Questions for the committee

1. Does the committee agree with the more expansive approach and use of examples?
2. Does the committee agree the term “continuing” should be removed from paragraph .02a?
3. Does the committee agree the parenthetical phrase “other than one for which collaboration is expected and permitted” be removed from paragraph .02a?
4. Does the committee agree the term “misrepresents” should be added to paragraph .02b?
5. Does the committee agree “the member” should be changed to “a member” throughout the interpretations?

#### Action needed

The committee is asked to adopt the proposed revised interpretation as amended with an effective date as soon as notice appears in the *Journal of Accountancy*.

#### Materials presented

Agenda item 2B: Comment letter summary

Agenda item 2C: Proposed revised interpretation “Solicitation or Disclosure of CPA Examination Questions and Answers” (red line)

Agenda item 2D: Proposed revised interpretation “Solicitation or Disclosure of CPA Examination Questions and Answers”(clean)

Agenda item 2E: Comment letters

## Comment letter summary

### Proposed revised interpretation “Uniform CPA Examination and Continuing Professional Education”

Exposure draft dated March 15, 2023

Commenters that support, support with comments, or do not support the revised interpretation and provided general feedback.

Full comment letters are in [agenda item 2E](#).

Support: 8 (4 commenters do not think the revised interpretation goes far enough and 1 commenter agreed with the revision but noted all acts discreditable to the profession do not have to be explicitly detailed in the code in order to bring enforcement action)

Do not support: 0

CL 1	New York State Society of Certified Public Accountants (NYSSCPA)	<p><b>Supports</b></p> <p>We are concerned that PEEC has limited the interpretation to the Uniform CPA Exam and continuing professional education. We believe that there are other examinations often taken by CPAs that PEEC should also consider for inclusion in this interpretation. For example, the examinations for the various credentials offered by the AICPA and other organizations (e.g., the Association of Certified Fraud Examiners) should also be considered for inclusion in this standard. We, therefore, recommend the interpretation be expanded to include any examination to obtain or maintain a member’s professional credentials including those credentials not issued by the AICPA. Very simply, the Society believes that a member who cheats on an examination to either (a) obtain a professional credential or (b) maintain their standing under the requirements of that credential lacks integrity and has, therefore,</p>
------	--	---

		committed an act discreditable to the profession.
CL 2	U.S. Government Accountability Office (GAO)	<p><b>Supports</b></p> <p>The GAO recommended the following edit (noted in bold):</p> <p><i>.02 A member who (a) solicits or knowingly discloses questions or answers of any continuing professional education course examination (other than one for which collaboration is expected and permitted) <b>without the course administering entity's written permission</b> or (b) falsifies attendance at a continuing professional education course shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule".</i></p>
CL 3	CliftonLarsonAllen LLP (CLA)	<p><b>Supports</b></p>
CL 4	Epstein + Nach LLC	<p><b>Supports</b></p> <p>Our only reservation regarding the proposed revised interpretation is that, while it addresses the targeted misbehaviors, it may not be all-encompassing enough to cover other types of similar infractions that, by analogy, could be viewed to be of the same severity as those covered by the draft proposal. To that end, we recommend the following third paragraph be appended to the draft language of each of the successive interpretations with appropriate referencing to the Acts Discreditable Rule:</p> <p><i>.03 A member who, in connection with their enrollment in a college or university course or a program in pursuit of a professional credential of any kind, (a) solicits or knowingly discloses examination questions or answers (other than those examinations for which collaboration is expected and permitted) or (b) tampers with the platform used for</i></p>

		<p><b><i>administration and grading associated with measurement of successful completion of the course or awarding of the credential shall be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule” [1.400.001].</i></b></p> <p>In addition to the edits we recommend above, we also believe that paragraphs .01 and .02 be augmented to conform to our recommended language in .03(b) above to prohibit tampering with examination administration and grading.</p>
CL 5	RSM US LLP (RSM)	<b>Supports</b>
CL 6	National Association of State Boards of Accountancy (NASBA)	<p><b>Supports</b></p> <p>Additional language should be added to improve understandability and applicability of the interpretation. The language proposed in .02(b) is too narrow in scope and should be broadened to focus on the various types of cheating that may occur at a continuing professional education course. The interpretation should be modified as follows:</p> <p><i>.02 A member who (a) solicits or knowingly discloses questions or answers of any continuing professional education course examination (other than one for which collaboration is expected and permitted) (b) falsifies attendance <b>or misrepresents, in any manner, participation in</b> at a continuing professional education course shall be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule”.</i></p> <p>Additionally, the draft uses the language “collaboration is expected and permitted”. It is not clear as to whom and when that applies. NASBA suggests adding clarifying language to indicate to whom and when that would apply.</p>
CL 7	Deloitte LLP	<p><b>Supports</b></p> <p>While we agree with the proposed revisions to the Code, the lack of specific provisions in the extant Code does not currently preclude PEEC from taking</p>

		<p>enforcement action against members who are found to have shared CPA exam questions and answers or falsified CPE attendance. The Acts Discreditable Rule encompasses all behavior discreditable to the professional, including the behavior contemplated by the proposed revisions, even is not explicitly noted in the interpretations of the rule.</p>
CL8	Grant Thornton LLP	<p><b>Supports</b></p> <p>We suggest that PEEC update paragraph .01 to include the CPA Ethics Examination that is required to obtain a CPA license by most states. Consider updating .01 as:</p> <p>.01 A member who solicits or knowingly discloses questions or answers to the Uniform CPA examination <b>or the CPA Ethics Examination</b>, without the AICPA’s written authorization shall be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule”.</p>

## Proposed revised interpretation “Solicitation or Disclosure of CPA Examination Questions and Answers” (red line)

Additions appear in ***boldface italic***. Deletions appear in ~~strike through~~. Proposed revisions since the May PEEC meeting are highlighted in yellow.

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you’d like to see the definitions, you can find them in “Definitions” ([ET sec. 0.400](#))

### 1.400.020 ~~Solicitation or Disclosure of CPA Examination Questions and Answers~~ Professional Licenses and Credentials

.01 A member who solicits or knowingly discloses ~~the~~ Uniform CPA Examination question(s) or answer(s), ~~or both~~, without the AICPA’s written authorization shall be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule” [1.400.001]. [Prior reference: paragraph .07 of ET section 501]

***.02 A member shall be considered in violation of the “Acts Discreditable Rule” [1.400.010] if a member engages in false, misleading, or deceptive acts to maintain a member’s CPA license or other credentials. Such false, misleading, or deceptive acts include: who***

- (a) ***solicitings or knowingly disclosing*** questions or answers of any [continuing] professional education course examination ~~{other than one for which collaboration is expected and permitted} or~~
- (b) ***falsifinges [or misrepresenting]*** attendance at a [continuing] professional education course
- (c) ***tampering with the software platform for administration or examination grading for [continuing] professional education or credentials*** ~~shall be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule” [1.400.001].~~

## 2.400.020 Solicitation or Disclosure of CPA Examination Questions and Answers Professional Licenses and Credentials

.01 A member who solicits or knowingly discloses the Uniform CPA Examination question(s) or answer(s), or both, without the AICPA's written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [2.400.001]. [Prior reference: paragraph .07 of ET section 501]

**.02 A member shall be considered in violation of the "Acts Discreditable Rule" [2.400.010] if a member engages in false, misleading, or deceptive acts to maintain a member's CPA license or other credentials. Such false, misleading, or deceptive acts include: ~~who~~**

- (a) ~~soliciting~~ or knowingly disclosing questions or answers of any [continuing] professional education course examination (other than one for which collaboration is expected and permitted) or**
- (b) ~~falsifying~~ [or misrepresenting] attendance at a [continuing] professional education course**
- (c) ~~tampering with the software platform for administration or examination grading for [continuing] professional education or credentials shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [2.400.001].~~**

### 3.400.020 Solicitation or Disclosure of CPA Examination Questions and Answers Professional Licenses and Credentials

.01 A member who solicits or knowingly discloses the Uniform CPA Examination question(s) or answer(s), or both, without the AICPA's written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [3.400.001]. [Prior reference: paragraph .07 of ET section 501]

**.02 A member shall be considered in violation of the "Acts Discreditable Rule" [3.400.010] if a member engages in false, misleading, or deceptive acts to maintain a member's CPA license or other credentials. Such false, misleading, or deceptive acts include: who**

- (a) **soliciting or knowingly disclosing questions or answers of any [continuing] professional education course examination (other than one for which collaboration is expected and permitted) or**
- (b) **falsifying [or misrepresenting] attendance at a [continuing] professional education course**
- (c) **tampering with the software platform for administration or examination grading for [continuing] professional education or credentials shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [3.400.001].**



## Proposed revised interpretation “Solicitation or Disclosure of CPA Examination Questions and Answers” interpretations (clean)

### 1.400.020 Professional Licenses and Credentials

.01 A member who solicits or knowingly discloses Uniform CPA Examination questions or answers without the AICPA’s written authorization shall be considered to have committed an act discreditable to the profession, in violation of the “Acts Discreditable Rule” [1.400.001]. [Prior reference: paragraph .07 of ET section 501]

.02 A member shall be considered in violation of the “Acts Discreditable Rule” [1.400.010] if a member engages in false, misleading, or deceptive acts to maintain a member’s CPA license or other credentials. Such false, misleading, or deceptive acts include

- a. soliciting or knowingly disclosing questions or answers of any [continuing] professional education course examination.
- b. falsifying [or misrepresenting] attendance at a [continuing] professional education course.
- c. tampering with the software platform for administration or examination grading for [continuing] professional education or credentials.

## 2.400.020 Professional Licenses and Credentials

.01 A member who solicits or knowingly discloses Uniform CPA Examination questions or answers without the AICPA's written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [2.400.001]. [Prior reference: paragraph .07 of ET section 501]

.02 A member shall be considered in violation of the "Acts Discreditable Rule" [1.400.010] if a member engages in false, misleading, or deceptive acts to maintain a member's CPA license or other credentials. Such false, misleading, or deceptive acts include

- a. soliciting or knowingly disclosing questions or answers of any [continuing] professional education course examination.
- b. falsifying [or misrepresenting] attendance at a [continuing] professional education course.
- c. tampering with the software platform for administration or examination grading for [continuing] professional education or credentials.

### 3.400.020 Professional Licenses and Credentials

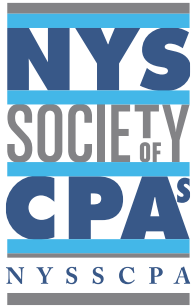
.01 A member who solicits or knowingly discloses Uniform CPA Examination questions or answers without the AICPA's written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [3.400.001]. [Prior reference: paragraph .07 of ET section 501]

.02 A member shall be considered in violation of the "Acts Discreditable Rule" [1.400.010] if a member engages in false, misleading, or deceptive acts to maintain a member's CPA license or other credentials. Such false, misleading, or deceptive acts include

- a. soliciting or knowingly disclosing questions or answers of any [continuing] professional education course examination.
- b. falsifying [or misrepresenting] attendance at a [continuing] professional education course.
- c. tampering with the software platform for administration or examination grading for [continuing] professional education or credentials.

Agenda item 2E

Comment letters



CL 1

May 2, 2023

American Institute of Certified Public Accountants  
Professional Ethics Division  
220 Leigh Farm Road  
Durham, North Carolina 27707-8110


By e-mail: [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

**Re: Invitation to Comment— Exposure Draft: Proposed Revised Interpretation Uniform CPA Examination and Continuing Professional Education**

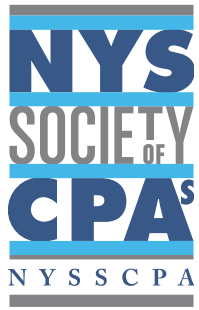
The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 20,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned invitation to comment (ITC).

The NYSSCPA's Professional Ethics Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Victoria Pitkin, Professional Ethics Committee Chair, at [vpitkincpa@gmail.com](mailto:vpitkincpa@gmail.com) or Keith Lazarus, NYSSCPA Staff, at 212-719-8378.

Sincerely,

  
Lynne M. Fuentes  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**EXPOSURE DRAFT: PROPOSED REVISED INTERPRETATION UNIFORM CPA  
EXAMINATION AND CONTINUING PROFESSIONAL EDUCATION**

**May 2, 2023**

**Principal Drafter**

**Victoria L. Pitkin**

### **NYSSCPA 2022–2023 Board of Directors**

Lynne M. Fuentes, <i>President</i>	Rumbidzai N. Bwerinofa-Petrozzello	Shmueli Milecki
Liren Wei, <i>President-Elect</i>	Ramona Cedeno	John A. Mourer
Timothy J. Hammond, <i>Secretary/Treasurer</i>	Timothy J. Doyle, Jr.	Lisa Mrkall
Orumé A. Hays, <i>Vice President</i>	William H. Dresnack	Ronald F. Ries
William C. Huether, <i>Vice President</i>	Michael R. Durant	William D. Ryan III
Alexander Resnick, <i>Vice President</i>	Mark L. Farber	Lenore Sanchez
Barbara A. Marino, <i>Vice President</i>	Stephanie Gigliotti	William F. Schwenk
Steven M. Morse, <i>Vice President</i>	Zachary Gordon	Sharon Sica-Costanzo
Calvin H. Harris Jr., <i>ex officio</i>	John B. Huttlinger, Jr.	John M. Spatola
	Michael R. Koeppel	Denise M. Stefano
	Katelyn N. Kogan	Jennifer Stone
	Edward N. Lee	A’Isha Torrence
	Philip J. London	Mark M. Ulrich
	Philip Marciano	Natalie Verbanac
	Kevin Matz	Craig A. Zellar

### **NYSSCPA 2022–2023 Professional Ethics Committee**

Victoria L. Pitkin, <i>Chair</i>	David C. Daly	Steven J. Leifer
Nicole A. Booth, <i>Vice Chair</i>	Peter J. DelVecchia	Santa J. Marletta
Eric A. Altstadter	Elliot L. Hendler	Andrew M. Mintzer
Gary E. Carpenter	Diane L. Jules	Brian K. Pearson
	Kelly Kennedy-Ryu	

### **NYSSCPA Staff**

Keith N. Lazarus

**New York State Society of Certified Public Accountants**  
**Comments on**

**Exposure Draft: Proposed Revised Interpretation Uniform CPA Examination and Continuing Professional Education**

The New York State Society of Certified Public Accountants (the “Society”) appreciates the opportunity to provide comments on the AICPA's Professional Ethics Executive Committee (“PEEC”) exposure draft, Proposed Revised Interpretation - *Uniform CPA Examination and Continuing Professional Education (ET sec. 1.400.020, 2.400.020, and 3.400.020)*.

The profession of public accounting fundamentally relies on the integrity of its members. In light of recent events where individuals of several firms cheated on continuing professional education (“CPE”) examinations, the Society wholeheartedly supports the PEEC’s proposal to specifically identify cheating on CPE examinations through the solicitation or disclosure of CPE examination questions or answers as an act discreditable to the profession. The Society is saddened by the fact the profession must take this extreme step but appreciates the necessity.

We are concerned that PEEC has limited the interpretation to the Uniform CPA Exam and continuing professional education. We believe that there are other examinations often taken by CPAs that PEEC should also consider for inclusion in this interpretation. For example, the examinations for the various credentials offered by the AICPA and other organizations (e.g., the Association of Certified Fraud Examiners) should also be considered for inclusion in this standard. We, therefore, recommend the interpretation be expanded to include any examination to obtain or maintain a member’s professional credentials including those credentials not issued by the AICPA. Very simply, the Society believes that a member who cheats on an examination to either (a) obtain a professional credential or (b) maintain their standing under the requirements of that credential lacks integrity and has, therefore, committed an act discreditable to the profession.

The Society concurs with PEEC that the interpretation should be implemented immediately upon publication in the *Journal of Accountancy* (“JOA”). Timely implementation of changes to the AICPA Code of Professional Conduct (“Code”) is critical to the growth and credibility of our profession. Members of the Society’s Professional Ethics Committee recently voiced concern that readership of the *JOA* has changed and possibly declined since the publication transitioned from a traditional magazine format to a solely online format. To quote a phrase, “Out of sight. Out of mind.” We believe that PEEC should re-examine how notification of changes to the Code are communicated to the membership. We appreciate that repetitive mass mailings (by traditional or electronic means) may annoy the recipient. However, for ethics revisions that have short implementation dates (i.e., 30 days after publication or immediately upon publication), an email notification to bolster the publication in the *JOA* would not be amiss.

As always, the Society appreciates PEEC’s consideration of our comments.





441 G St. N.W.  
Washington, DC 20548

May 4, 2023

Ms. Toni Lee-Andrews  
Director, Professional Ethics Division  
American Institute of Certified Public Accountants  
220 Leigh Farm Road Durham, NC 27707-8110

**GAO's Response to the American Institute of Certified Public Accountants' Professional Ethics Executive Committee's Exposure Draft, Proposed Revised Interpretation Uniform CPA Examination and Continuing Professional Education (ET Sec. 1.400.020, 2.400.020, and 3.400.020)**

This letter provides GAO's comments on the American Institute of Certified Public Accountants' (AICPA) Professional Ethics Executive Committee's (PEEC) exposure draft, Proposed Revised Interpretation CPA Examination and Continuing Professional Education (ET Sec. 1.400.020, 2.400.020, and 3.400.020). GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We support PEEC's efforts to update the AICPA Code of Professional Conduct to improve and clarify the code of conduct for auditors related to the certified public accountant (CPA) exam and certified professional education courses. We believe that in the current environment, an update to the code of conduct is necessary to address recent sanctions related to violations by firms. We believe that a change should be made to the proposed second paragraph to include an allowance similar to what is in the first paragraph. Specifically, we suggest the language in bold below be added to the second paragraph.

*.02 A member who (a) solicits or knowingly discloses questions or answers of any continuing professional education course examination (other than one for which collaboration is expected and permitted) **without the course administrating entity's written permission** or (b) falsifies attendance at a continuing professional education course shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule"*

Thank you for the opportunity to comment. If you have questions about this letter or would like to discuss any of our responses, please feel free to contact me at (202) 512-3133 or [dalkinj@gao.gov](mailto:dalkinj@gao.gov).

James R. Dalkin  
Director  
Financial Management and Assurance



CliftonLarsonAllen LLP  
220 South Sixth Street, Suite 300  
Minneapolis, MN 55402-1436

phone 612-376-4500 fax 612-376-4850  
CLAconnect.com

May 10, 2023

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

Via email: [Ethics-ExposureDraft@aicpa.org](mailto:Ethics-ExposureDraft@aicpa.org)

**Re: Comments on Exposure Draft, "Proposed revised interpretation Uniform CPA Examination and Continuing Professional Education" AICPA Professional Ethics Division, March 15, 2023**

Dear Committee Members:

CliftonLarsonAllen LLP (CLA) appreciates the opportunity to comment on the March 15, 2023, AICPA Professional Ethics Executive Committee (PEEC) Exposure Draft (ED), which revises the Ethics Interpretation (ET), "Uniform CPA Examination and Continuing Professional Education" (ET section 1.400.020). We understand that the purpose of the proposed revisions is to expand the interpretation to explicitly state that question and answer sharing on examinations taken in connection with CPE courses is an act discreditable to the profession unless collaboration is expected and permitted. The proposed revisions will also address falsifying attendance checks.

**General Comments**

CLA supports the proposal.

Respectfully submitted,

CliftonLarsonAllen LLP



May 11, 2023

Brian S. Lynch  
AICPA Professional Ethics Executive Committee  
220 Leigh Farm Road  
Durham, NC 27707-8110

Submitted via email: [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

RE: Proposed revised interpretation  
Uniform CPA Examination and Continuing Professional Education  
(ET sec. 1.400.020, 2.400.020, and 3.400.020)

Epstein + Nach LLC is pleased to offer our comments on the Exposure Draft referenced above.

We wholeheartedly support the objective of PEEC's proposed revisions. Our only reservation regarding the proposed revised interpretation is that, while it addresses the targeted misbehaviors, it may not be all-encompassing enough to cover other types of similar infractions that, by analogy, could be viewed to be of the same severity as those covered by the draft proposal. To that end, we recommend the following third paragraph be appended to the draft language of each of the successive interpretations with appropriate referencing to the Acts Discreditable Rule:

***.03 A member who, in connection with their enrollment in a college or university course or a program in pursuit of a professional credential of any kind, (a) solicits or knowingly discloses examination questions or answers (other than those examinations for which collaboration is expected and permitted) or (b) tampers with the platform used for administration and grading associated with measurement of successful completion of the course or awarding of the credential shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [1.400.001].***

In addition to the edits we recommend above, we also believe that paragraphs .01 and .02 be augmented to conform to our recommended language in .03 (b) above to prohibit tampering with examination administration and grading.

Thank you for the opportunity to comment on this exposure draft. We would be pleased to respond to any questions that PEEC may have about these comments.

Brian S. Lynch

Page 2

Please direct any questions to Ralph Nach via email at [RNach@EpsteinNach.com](mailto:RNach@EpsteinNach.com) or via phone at +1 (847) 372-6805.

Very truly yours,

Epstein + Nach LLC

A handwritten signature in blue ink that reads "Ralph Nach". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ralph Nach, CPA

Principal

May 15, 2023

Professional Ethics Division  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas, 19th Floor  
New York, NY 10036

Via email to [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

**Re: Exposure Draft, *Proposed revised interpretation Uniform CPA Examination and Continuing Professional Education*, AICPA Professional Ethics Division – March 15, 2023**

RSM US LLP (RSM) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division's March 15, 2023, Exposure Draft, *Proposed revised interpretation Uniform CPA Examination and Continuing Professional Education* (the Exposure Draft). RSM is a leading provider of audit, tax and consulting services focused on the middle market.

We support the Professional Ethics Division's efforts to clarify that soliciting or knowingly disclosing questions or answers to Continuing Professional Education ("CPE") examinations (unless expected and permitted) or falsifying CPE course attendance records would be considered an Act Discreditable to the Profession. We believe the proposed revised interpretations support the general standards of Integrity and Professional Competence and will help promote ethical conduct in relation to CPE. Specifically, we agree with the proposed changes in:

- Proposed revised interpretation, "Uniform CPA Examination and Continuing Professional Education" (Section 1.400.020)
- Proposed revised interpretation, "Uniform CPA Examination and Continuing Professional Education" (Section 2.400.020)
- Proposed revised interpretation, "Uniform CPA Examination and Continuing Professional Education" (Section 3.400.020)

We appreciate this opportunity to provide feedback on the Exposure Draft and would be pleased to respond to any questions you may have. Please direct any questions regarding this letter to Claire Blanton, National Director of Independence, Compliance and Ethics, at 704.206.7271.

Sincerely,

*RSM US LLP*

RSM US LLP



National Association of State Boards of Accountancy

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

May 11, 2023

Professional Ethics Executive Committee  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas  
New York, NY 10105

Via e-mail: [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

**Re: Exposure Draft: Proposed Revised Interpretation Uniform CPA Examination and Continuing Professional Education**

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

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

In furtherance of that objective, NASBA supports the PEEC in this initiative. We have reviewed the Exposure Draft and have the following suggestions for improving the understandability and applicability of the interpretation.

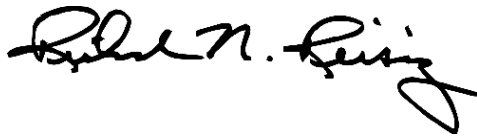
NASBA believes that the language proposed in .02(b) is too narrow in scope and should be broadened to focus on the various types of cheating that may occur at a continuing professional education course. We suggest the language in .02(b) be modified as follows: "(b) falsifies attendance ***or misrepresents, in any manner, participation in*** a continuing professional education course ..."

As proposed, the draft uses the language "collaboration is expected and permitted." It is not clear as to whom and when that applies. We suggest that PEEC add clarifying language to indicate to whom and when that would apply.

We agree with the recommendation that the interpretation be effective upon publication in the *Journal of Accountancy*.

We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

A handwritten signature in black ink, appearing to read "Richard N. Reisig". The signature is fluid and cursive, with the first name "Richard" and last name "Reisig" clearly distinguishable.

Richard N. Reisig, CPA  
NASBA Chair

A handwritten signature in black ink, appearing to read "Ken L. Bishop". The signature is fluid and cursive, with the first name "Ken" and last name "Bishop" clearly distinguishable.

Ken L. Bishop  
NASBA President and CEO

May 15, 2023

Mr. Brian S. Lynch, Chair - Professional Ethics Executive Committee  
Ms. Toni Lee-Andrews, Director - Professional Ethics Division  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas, 27th Floor  
New York, NY 10105

Mail to: [Ethics-ExposureDraft@aicpa-cima.com](mailto:Ethics-ExposureDraft@aicpa-cima.com)

**Re: Proposed Revised Interpretation: Uniform CPA Examination and Continuing Professional Education (CPE)**

Dear Mr. Lynch and Ms. Lee-Andrews:

Deloitte LLP (“Deloitte,” “our,” or “we”) is pleased to respond to the exposure draft issued by the Professional Ethics Executive Committee (“PEEC”) of the American Institute of Certified Public Accountants (“AICPA”) of *Proposed Revised Interpretation — Uniform CPA Examination and Continuing Professional Education* (the “proposed revisions”). We appreciate the opportunity to comment on the proposed revisions and commend the PEEC for its continued efforts to re-examine and improve professional standards and guidance. We have included comments below for consideration by the PEEC.

**General Comments**

We support PEEC’s efforts to strengthen the AICPA Code of Professional Conduct (the Code) and uphold the public trust in the profession. The Code’s Principles of Professional Conduct call for an unwavering commitment to honorable behavior foregoing personal advantage. The fundamental tenets of ethical and professional conduct, specifically, Responsibilities, Integrity, and Due Care, are foundational to Certified Public Accountants (CPAs) in public practice. Considering recent enforcement actions against firms and individuals who were found to have shared answers on Continuing Professional Education (“CPE”) credit exams or falsified CPE attendance records, we agree that it is imperative for the protection of the public trust and the foundational tenets on which the Code was developed that the AICPA take an explicit position against such behavior.

**Eligibility to Practice**



Passing the CPA exam, obtaining a CPA license and ongoing completion of CPE are minimum requirements for eligibility to hold out as a CPA and are foundations of the qualifications and competence to practice. When this foundation is impacted by dishonesty or misrepresentation, it undermines the integrity of services provided under the guise of being eligible or competent to provide the services, and erodes public trust in the profession. The proposed revisions make it clear to members and the public that the integrity of the eligibility to practice must be protected, and behavior inconsistent with that is considered discreditable to profession. Notwithstanding our comments regarding enforcement, we agree with the proposed revisions and the public interest purpose served by amending the Code to address these scenarios.

### **Enforcement Considerations**

While we agree with the proposed revisions to the Code, the lack of specific provisions in the extant Code does not currently preclude PEEC from taking enforcement action against members who are found to have shared CPA exam questions and answers or falsified CPE attendance. The Acts Discreditable Rule (ET 1.400; ET 2.400; ET 3.400) encompasses all behavior discreditable to the profession, including the behavior contemplated by the proposed revisions, even if not explicitly noted in the interpretations of the rule.

### **Effective Date**

We agree with the proposed effective date of upon publication in the *Journal of Accountancy*.

\*\*\*\*\*

We would be pleased to discuss our comments with you at your convenience. If you wish to do so, please contact Kathy Savage at [ksavage@deloitte.com](mailto:ksavage@deloitte.com) or +1.615.313.4371 or Brandon Mercer at [bmercer@deloitte.com](mailto:bmercer@deloitte.com) or +1.919.218.0610.

Sincerely,

DELOITTE + TOUCHE LLP

---

GRANT THORNTON LLP  
Grant Thornton Tower  
171 N. Clark Street, Suite 200  
Chicago, IL 60601-3370

D +1 312 856 0200  
S [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)  
[twitter.com/grantthorntonus](https://twitter.com/grantthorntonus)

May 15, 2023

Professional Ethics Executive Committee  
Professional Ethics Division  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas, 19th Floor

Via Email to [Ethics-ExposureDraft@aicpa.org](mailto:Ethics-ExposureDraft@aicpa.org)

Re: Comments on Exposure Draft, Proposed revised interpretation  
Uniform CPA Examination and Continuing Professional Education

Dear Committee Members:

Grant Thornton LLP appreciates the opportunity to comment on the American Institute of Certified Public Accountants ("AICPA") Professional Ethics Executive Committee's ("PEEC") March 2023 Exposure Draft "Exposure Draft" which proposes revised interpretation of the AICPA Code of Professional Conduct "Uniform CPA Examination and Continuing Professional Education" (ET sec. 1.400.020; 2.400.020; and 3.400.020).

Grant Thornton supports PEEC's proposal to revise these interpretations to include question and answer sharing on examinations taken in connection with Continued Professional Education (CPE) courses. We also support the addition of language to clarify that falsifying attendance checks is also considered an act discreditable to the profession.

While Grant Thornton supports PEEC's proposal for revised interpretations set forth in the Exposure Draft, we have provided the following comments for PEEC's consideration.

#### General Comments

We suggest that PEEC update paragraph .01 to include the CPA Ethics Examination that is required to obtain a CPA license by most states. Consider updating .01 as shown below (additions in **bolded red font**)

.01 A *member* who solicits or knowingly discloses questions or answers to the Uniform CPA Examination **or the CPA Ethics Examination**,

without the AICPA's written authorization shall be considered to have committed an act discreditable to the profession, in violation of the "Acts Discreditable Rule" [2.400.001].

\*\*\*\*\*

We would be pleased to discuss our comments with you. If you have any questions, please contact Anna Dourdourekas, National Partner in Charge, Ethical Standards, at [Anna.Dourdourekas@us.gt.com](mailto:Anna.Dourdourekas@us.gt.com) or (630) 873-2633.

Sincerely,

/s/ Grant Thornton LLP

## IESBA convergence: Fees

### Task force members

Alan Long (chair), Melanie Barthel, Anika Heard, Randy Milligan, Kathy Savage, Peggy Ullmann

### Observers

Sonia Araujo, Brandon Mercer, Jan Neal

### AICPA staff

Sarah Brack, Ellen Gorla

### Task force charge

To develop a principles-based framework for members to determine when the level of fees and fee dependency impair independence.

### Reason for agenda item

To seek adoption of the proposal from the exposure draft on the “[Proposed new and revised interpretations: Fees.](#)”

### Task force activities

Twelve comment letters were submitted in response to the request for comments on this exposure draft. The following links are to the letters in agenda item 3D:

- [CL 1](#): Deloitte LLP
- [CL 2](#): Pennsylvania Institute of Certified Public Accountants
- [CL 3](#): PWC
- [CL 4](#): Grant Thornton
- [CL 5](#): CliftonLarsonAllen LLP
- [CL 6](#): New York State Society of CPAs
- [CL 7](#): KPMG LLP
- [CL 8](#): Plante & Moran, PLLC
- [CL 9](#): Texas Society of Certified Public Accountants
- [CL 10](#): RSM US LLP
- [CL 11](#): National Association of State Boards of Accountancy (NASBA)
- [CL 12](#): Ernst & Young LLP

Overall, commenters were supportive of the proposals. The task force discussed all comments and recommends certain revisions as outlined in the following sections.

## Summary of general comments for proposed interpretations and revisions

Seven commenters support convergence and generally agree with a principles-based approach (CL1, CL2, CL3, CL4, CL5, CL7, and CL12).

Some commenters recommended changes that the task force does not agree with, as presented in the following sections.

### Percentage threshold

Two commenters support convergence and offered the following commentary (CL6 and CL11):

- The proposal's principles-based approach to consider threats to independence instead of a percentage threshold has certain drawbacks, potentially leaving members with no "yardsticks". The commenters suggest that PEEC consider alternative approaches such as these:
  - A minimum percentage, below which fee dependency ordinarily would not exist
  - A percentage above which there would be a rebuttable presumption that fee dependency does exist

### Task force response to percentage threshold

A specific percentage might allow covered members to "game the system" and the proportion of fees that might create a significant threat to independence can vary from firm to firm and even person to person. Also, set thresholds create a chance of running afoul of antitrust laws because it could create a situation where someone in a small market might not be able to provide a service if they hit that threshold.

### Qualitative factors

CL6 says that the exposure draft seems not to address the fact that a fee, even though not significant to a firm in percentage terms, may have an intangible effect on a firm's independence. This commenter believes guidance in this area would be appropriate, even if it takes the form of an alert to members to be cognizant of this issue.

### Task force response to qualitative factors

The guidance in paragraph.12 of the exposure draft that will be provided as nonauthoritative guidance is sufficient to address the concern related to qualitative factors.

### Impact on small firms

CL11 (from NASBA) posits that the proposed new and revised interpretations may have a disproportionate impact on small firms that focus on attest work and as such, PEEC should assess the proposed new and revised interpretations from the perspective of a small firm.

### Task force response to impact on small firms

The task force chair spoke to two NASBA members who confirmed that they wanted to bring the

issue to PEEC's attention but that they do not have specific or significant items to note. They would like a bright line, which makes guidance easier to implement and enforce.

The task force includes several smaller-firm members and did evaluate the impact of the interpretations on small practitioners. As noted in the percentage threshold section above, a bright-line requirement for fee dependency is not preferable.

Question for the committee

1. Does the committee agree that these comments need not be addressed in the interpretation?

Summary of comments for question a: Do you agree with the use of covered member in the proposed new interpretations? If you disagree, please explain why.

All 12 commenters agree with the use of covered member. One commenter specifically supports the inclusion of the phrase “covered member responsible for determining the attest engagement fee” in the proposed 1.230.030 “Determining Fees for an Attest Engagement” interpretation (CL1).

Summary of comments for question b: Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.

Two commenters had answers that were not responsive to the question (CL6 and CL10).

Eight commenters agree with the engagement scope of all attest services (CL2, CL3, CL4, CL5, CL7, CL8, CL9, and CL11).

Two commenters disagree with the engagement scope and believe that the inclusion of all attest services is overly broad and beyond IESBA's engagement scope which only includes audits and reviews (CL1 and CL12).

- If the scope is not changed, CL1 suggests PEEC issue detailed application guidance in *Ethics Questions and Answers* or the *Plain English Guide to Independence* to ensure members understand how to apply the requirements of the proposal to non-FSAC engagements.

For example, the safeguards in the AICPA proposed interpretations are based on IESBA's safeguards, which were written for financial audits and reviews, not other types of attest engagements. Some attest engagements are not traditional financial statement attest engagements, potentially requiring members to customize the safeguards based on the nature and scope of the attest engagements.

- CL12 believes fee dependency analysis focused on quantitative considerations is not relevant for certain other attest services as the fee for the service may not be negotiated or paid by the responsible party of the attest service, such as for a review of the controls of a third-party service provider under Statement on Standards for Attestation Engagements 18 (SSAE 18). The qualitative considerations of paragraph 12 of the exposure draft's explanatory memo are also not relevant to many other attest services given their limited scope or purpose.

### Task force recommendations

The task force is not proposing revisions based on the high level of agreement from commenters; however, the task force will consider nonauthoritative guidance to assist in applying the provisions of the "Fee Dependency" interpretation to non-financial statement attest engagements.

#### Questions for the committee

2. Does the committee agree with the task force's recommendation not to change the scope of engagements covered by the interpretations?
3. Does the committee agree with the task force's intention to consider the need for nonauthoritative guidance regarding the application of the "Fee Dependency" interpretation to non-financial statement attest engagements?

### Summary of comments for question c: Is it clear that threats related to fee dependency should be considered each year not just at year five?

Three commenters believe that it is clear that threats should be considered each year and have no additional suggestions (CL2, CL6, and CL7).

One commenter (CL 5) believes that it is clear that threats should be considered each year but thinks that additional commentary is necessary. It is clear that consideration of threats would be annual if the client has been a client for several years at the time the interpretation becomes effective. For a new client obtained after the effective date of the interpretation, it is not clear that the firm is to take any action before the fifth year. The following edit to paragraph .01 may clarify that a threat exists even in the first year:

When the total fees generated ***in any year*** from an attest client by the firm represent a large portion of the total fees...

Eight commenters believe that it is not clear that threats should be considered each year and offer these suggestions:

- Two commenters suggest additional guidance in this area, such as adding a Q&A to *Ethics Questions and Answers* for members to use the conceptual framework approach each year that the fee dependency exists up to five consecutive years (CL1) or including guidance to assist members in understanding the requirement to evaluate potential independence threats each year, such as examples of action steps (or safeguards) the member can take before the fifth year (CL4).
- Six commenters recommend that language be added to explicitly state in the interpretation that threats should be evaluated at least annually (CL3, CL8, CL9, CL10, CL11, and CL12). Suggestions include the following:
  - Make this clearer in either the language of the proposed “Fee Dependency” interpretation or paragraph .16(c) of the “Conceptual Framework for Independence” interpretation of the Code of Professional Conduct (CL3).
  - Add clarifying language in paragraph .04 of the proposed interpretation that there is an expectation that threats related to fee dependency should be considered annually, not just at year five (CL4, CL8, CL9, and CL11).
  - The proposed “Fee Dependency” interpretation should be revised to require that fee dependency be evaluated under the Conceptual Framework for Independence each year in years 1–4, based on the considerations in paragraphs 12–14 of the ED’s explanatory memo (CL10).
  - Clarify the annual expectations within the interpretation or in nonauthoritative guidance and provide examples of factors that may be helpful in determining the level of the threat and potential safeguards, such as those included in paragraph 14 of the ED’s explanatory memo (CL12).

#### Task force recommendations

The task force added the clarifier “in any year” to paragraph .01 of the proposed “Fee Dependency” interpretation.

#### Question for the committee

4. Does the committee agree with the task force’s recommended edits to paragraph .01 of the proposed “Fee Dependency” interpretation?



Summary of comments for question d: Do you believe the considerations in paragraphs 12-14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance and why?

One commenter believes that either authoritative or nonauthoritative guidance is acceptable (CL4).

One commenter believes the guidance in these paragraphs should be included in the interpretations as authoritative guidance and has no additional suggestions (CL7).

Three commenters believe the guidance should be authoritative subject to the following revisions (CL 3, CL9, and CL10):

- CL3: Align the presentation of the factors in paragraph 12 of the ED explanatory memorandum with IESBA code paragraph 410.14 A3, Update paragraphs 13 and 14 of the explanatory memorandum consistent with IESBA code paragraph 410.14. Remove from paragraphs 12 and 14 those factors and examples of actions directly relevant to a partner, office, or practice unit and address them on a standalone basis in the AICPA Code of Professional Conduct, similar to the IESBA code.
- CL3: Recommend that the examples in paragraph 23 be consistent with IESBA code paragraph 410.11 A3, which addresses the independence considerations associated with the proportion of fees for services other than audit relative to the audit fee..
- CL9: Recommended revisions include, for example, section headings to provide additional clarity.
- CL10: Require that fee dependency be evaluated under the Conceptual Framework for Independence each year from years 1–4, based upon the considerations in paragraphs 12–14 of the ED’s explanatory memo.
- CL10: Incorporate the considerations in paragraphs 22–23 of the ED’s explanatory memo into the “Cumulative Effect on Independence When Providing Multiple Nonattest Services” interpretation (ET. Sec 1.295.020). If that cannot be accomplished at this time, nonauthoritative guidance would be helpful.

One commenter believes the content in paragraphs 12–14 should be nonauthoritative guidance because these paragraphs provide for firms to use judgement as other factors and considerations may be relevant. This commenter also believes that paragraphs 22 and 23 should be included in the interpretation as these paragraphs provide guidelines about the scope and application of the rule (CL8).

Six commenters believe all of the guidance in the ED memo paragraphs in question should be nonauthoritative.

### Task force recommendations

The task force recommends making the guidance nonauthoritative due to the judgmental nature of the standard so members do not construe these considerations as requirements. The task force will consider edits to nonauthoritative guidance that is in paragraphs 12 and 14 of the exposure draft to separate firm considerations from individual considerations. Safeguards noted in paragraph 23 will be changed as noted by CL3 in the forthcoming nonauthoritative guidance.

#### Questions for the committee

5. Does the committee agree with the task force's recommendation to provide the information in paragraphs 12-14, 22, and 23 of the exposure draft as nonauthoritative guidance?
6. Does the committee have any additional suggestions for nonauthoritative guidance?

### Summary of comments for question e: Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.

Nine commenters agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate and offer the following commentary (CL1, CL2, CL4, CL5, CL6, CL8, CL9, CL10, and CL11):

- CL1 notes that the proposal is slightly broader than IESBA's scope due to the inclusion of entities material to the client over which the client has significant influence (i.e., type b affiliates); however, the commenter agrees that it is not in the public interest to apply the proposals to other affiliates as it relates to entities that are not defined as public interest entities.
- CL8 believes that, as a practical matter, firms should be allowed, at their discretion, to consider fees received from entities described under items (c) through (l).
- CL11 believes that further clarification on how fees impact independence within the definition of affiliate would be helpful to the user.
- CL10 believes only entities included in categories (a) and (b) of the definition of affiliate should be included when applying proposed new "Determining Fees for an Attest Engagement" interpretation, as well as the proposed "Fee Dependency" interpretation. Also, for consistency, only those affiliates should be included when applying the "Cumulative Effect on Independence When Providing Multiple Nonattest Services" interpretation.

Three commenters disagree with the included affiliates and believe that only affiliates described under item (a) of the affiliates definition should be included for the following reasons (CL3, CL7, and CL12):

- CL3: The expanded scope of the fee calculation does not correspond to an increased level of threat to an auditor's independence that may be driven by fees for services provided to a downstream significant influence material investee (that is, the "investee").
- CL7: Services provided to entities described under item (b) of the definition of affiliate (e.g., material equity method investees) are not controlled by the attest client and in many instances are controlled by an entity that is unaffiliated with the attest client. Therefore, it is unlikely that there would be significant threats to independence arising from fees from entities described under item (b) of the definition of affiliate.
- CL12: Fees paid by downstream significant influence affiliates of the financial statement attest client should not be equally weighted with fees paid by controlled affiliates in the analysis of fee dependency. If an analysis was performed and a conclusion reached that the audit client did not control the downstream entity's daily operations, management decisions, etc., it also could not determine professional services fees. As such, fees for permissible services that are not under the control of the financial statement attest client would rarely threaten a firm's independence.

#### Task force recommendations

The task force does not recommend changing the affiliates that should be considered. Most of the commenters agreed with the scope and the task force believes that though a fee dependency with respect to an entity that the financial statement attest client can exert significant influence over can create a significant threat to independence, item (b) of the affiliates definition also requires that the entity be material to the financial statement attest client, so the task force does not see this as unworkable or burdensome.

The concept and point raised by CL10, that only those entities described under items (a) and (b) of the affiliates definition should be included when applying the "Cumulative Effect on Independence When Providing Multiple Nonattest Services" interpretation, is worth PEEC's consideration but is outside of the scope for this project.

#### Questions for the committee

7. Does the committee agree with the task force's recommendation not to change the scope of engagements covered by the interpretations?
8. Does the committee believe a separate task force should consider a change to the "Cumulative Effect on Independence When Providing Multiple Nonattest Services" interpretation? If so, input on the priority such project should be given would be helpful.

#### Summary of comments on question f: Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.

All 12 commenters agree that the effective date provides adequate time to implement the proposals with the following caveats:

- CL2: To the extent that firms do not have to go outside of their firms to hire qualified professionals to review their engagements, the committee believes that the effective date is reasonable. If firms need to hire an external professional to comply with the new guidance, additional time may be needed to ensure that firms are aware of the new guidance.
- CL10: Only if the interpretations are issued before December 31, 2023.

#### Task force recommendations

The task force recommends keeping the effective date of January 1, 2025, with early implementation allowed.

#### Additional comments on the proposal

Commenters offered additional comments and suggestions on other aspects of the proposed interpretations. The task force's responses to the following comments are outlined here.

#### "Determining Fees for an Attest Engagement" interpretation

CL5 recommends the issuance of nonauthoritative guidance about how to evaluate and monitor the existence of fees for other services provided to an attest client.

- The task force believes this is an internal process concern and should not be addressed in nonauthoritative guidance.

CL7 recommends providing examples through a Q&A or similar nonauthoritative guidance to provide examples of situations in which a member would or would not comply with the provisions in paragraph .03 regarding "cost savings achieved as a result of experience derived from the provision of other services." Although it may be difficult to provide specific parameters

as each client situation may be different, this type of guidance can help members understand what would and would not be acceptable or reasonable in the circumstances.

- The task force will provide examples of this in nonauthoritative guidance.

CL8 believes that the degree of influence and the reasons for charging a higher or lower attest fee should be considered in evaluating whether self-interest and undue influence threats exist. The influence of other services on the attest fees is a factor that should be considered and evaluated as a potential threat, but do not believe it would be a threat that would always impair independence. Also, there may be other reasons for setting the attest fee which likewise do not pose a threat to independence. Consider allowing the practitioner to evaluate the degree of and reason for influence in determining whether a threat exists. CL10 is concerned that demonstrating that attest engagement fees were not influenced by the firm's provision of other services to an attest client may be overly burdensome. Further, the self-interest and undue influence threats related to the influence of other services fees on the attest engagement fee can often be reduced to an acceptable level when evaluated based on the considerations discussed in paragraph 22 of the ED and the application of safeguards such as those set forth in the examples in paragraph 23 of the ED. Consequently, this proposed new interpretation is overly restrictive.

- The task force does not think that members should be allowed to evaluate the degree of and reason for the influence of fees for other services in determining whether a significant threat exists in this interpretation and does not recommend a change.

#### “Fee Dependency” interpretation

CL 2 believes the example in paragraph .02 of how a covered member might calculate the total fees of the firm is unnecessary and recommends paragraph .02 be revised to simply state, “In calculating the total fees of the firm, the covered member should include fees from attest and nonattest services, excluding fees to other network firms within the firm's network.”

- The task force believes this is vital information needed to understand and implement the standard and does not recommend a change.

CL2 does not support the requirement in proposed paragraph .04 to hire a reviewer that is external to the firm. The permitted safeguards should be more flexible, such as those outlined in paragraph 14 on pages 4 and 5. For example, for significant risks, it is sufficient that a reviewer who has not provided attest or nonattest services to the attest client review the attest work. Support the development of application guidance that could give examples of the evaluation of the threats to compliance and how the safeguards can be implemented to mitigate the threats.

- The task force discussed whether external review was a necessary part of the safeguards early in the project and believe that external review is necessary, both to

appropriately mitigate the threat and to be consistent with IESBA and does not recommend a change.

CL2 and CL10 believe that the reference in paragraph .04*b* in the proposed “Fee Dependency” interpretation to “a professional body” is unclear. Would this safeguard include having the engagement subject to peer review, or review by the PCAOB or other regulator (CL2)? Should there be a comma between “report” and “or” such that a review by a professional body satisfies the requirement (CL10)? If so, this could be clarified by stating whether this would be any professional body or whether this is intended to cover a situation where the engagement is subject to a peer review.

- The task force agrees that clarification is necessary. A comma has been added to paragraph .04 of the interpretation to help clarify that both types of third parties qualify. The task force also plans to add nonauthoritative questions and answers describing what constitutes a professional body.

CL9 believes that although a specified quantitative amount for determining fee dependency is not appropriate (e.g., the 30 percent threshold from the IESBA standard), a discussion of quantitative benchmarks may be helpful to firms, similar to extant professional guidance relating to materiality considerations in an audit of financial statements, such as included in SEC SAB 99.

- The task force does not recommend adding quantitative benchmarks in nonauthoritative guidance as considerations of magnitude will differ from firm to firm and member to member and would undermine the principles-based approach.

CL12 believes that clarification is needed for the phrase “an appropriate reviewer, who is not a member of the *firm* issuing the report” as used in the proposed “Fee Dependency” interpretation. Firm is defined in paragraph .20 of “Definitions” (ET sec. 0.400), to include “... a network firm when the engagement is either a financial statement audit or review engagement...”. It is not clear whether the proposed interpretation would allow for use of an appropriate reviewer from a network firm. Consistent with the IESBA code, an appropriate reviewer, as the term is used in AICPA ethics Q&A section 125 *Fees*, from a network firm should be allowed to perform the pre-/post-issuance review under .04*a-b* of the proposed interpretation. The IESBA code is clearer on this point because as stated in the IESBA ED “[i]n line with the Structure drafting guidelines for the [IESBA] Code, ‘firm’ does not include network firms; therefore, it is permitted that the professional accountant who performs the review be a member of a network firm.”

- The task force considered this question earlier in the project and, though the task force did not think it needed to specifically address this question in the exposure draft, does believe that network firms are not considered to be “a member of the firm” for the

purpose of paragraph .04a-b and could therefore be an appropriate reviewer.

#### “Conceptual Framework for Independence”

CL10 does not understand and believes it should be clarified regarding why the self-interest threat related to fee dependency applies to both the member and the member’s firm while the undue influence threat related to the proportion of fees generated by providing nonattest services only relates to the firm.

- The task force does not recommend any change to the threats included in the conceptual framework. The difference in how the threats are worded is based on where the threat originates. For the self-interest threat, it’s about how the fee impacts the member directly and the undue influence threat is about pressures outside of the individual member (the member may not have any responsibility or influence on the fees for nonattest services provided by the firm).

#### Questions for the committee

9. Does the committee agree with the task force’s recommended edit to paragraph .04b in the proposed “Fee Dependency” interpretation?
10. Does the committee agree with the task force that the reviews outlined in paragraphs .04a-b in the proposed “Fee Dependency” interpretation can be performed by a network firm? If so, does the committee think that this needs to be specified either in authoritative or nonauthoritative guidance?

#### Action needed

The committee is asked to adopt the proposed new and revised interpretations as amended with an effective date of January 1, 2025, and early implementation allowed.

#### Materials presented

Agenda item 3B: Comment letter summary

Agenda item 3C: Text of proposed new and revised interpretations related to fees

Agenda item 3D: Comment letters

## Comment letter summary

Proposed new interpretations “Determining Fees for an Attest Engagement” and “Fee Dependency” and revisions to “Conceptual Framework for Independence” and “Client Affiliates”

Exposure draft dated March 15, 2023

Commenters that support, support with comments, or do not support convergence with the fee-related provisions of IESBA’s code and provided general feedback.

Full comment letters are in [agenda item 3D](#):

Support: 9

Do not support: 0

No response: 3

CL 1	Deloitte LLP	<p><b>Supports</b></p> <p>We support PEEC’s efforts to converge with the International Ethics Standard Board of Accountants (IESBA) recent revisions regarding the level of fees and the impact on threats to independence, and we agree that threats to independence may be created when an attest engagement fee is determined based upon the provision of other services provided to the attest client, or when a large proportion of the member’s revenue is from a single attest client. We also agree with utilizing a principles-based approach in lieu of using the 30% threshold contained in IESBA’s standard to evaluate threats created by determination of fees or fee dependency. Thus, practitioners can use professional judgment to evaluate the level of fees and the impact of the fees on threats to independence.</p>
------	--------------	--



CL 2	Pennsylvania Institute of CPAs (PICPA)	<b>Supports</b>  The committee supports PEEC's decision to use a principles-based approach to standard setting, which allows members to use professional judgment to determine when specific facts and circumstances create threats rather than the 30% threshold used in the International Ethics Standards Board for Accountants standard.
CL 3	PricewaterhouseCoopers LLP (PWC)	<b>Supports</b>
CL 4	Grant Thornton LLP	<b>Supports</b>  We agree the proposed revisions and additions provide members with additional guidance to address fee-related matters, including associated potential threats to independence, and will assist in the consistent application by members in practice.
CL 5	CliftonLarsonAllen LLP (CLA)	<b>Supports</b>
CL 6	New York State Society of CPAs (NYSSCPA)	<b>Supports</b>  We support the efforts of PEEC to provide needed guidance with respect to the important issue of fee-related matters as they may affect auditor independence. PEEC's proposal uses a principles-based approach to consider threats to independence, instead of a percentage threshold. This has certain drawbacks, potentially leaving members with no guidance as to what yardsticks to use. We suggest that PEEC consider alternative approaches: <ul style="list-style-type: none"> <li>• Suggest a minimum percentage, below which fee dependency ordinarily would not exist</li> <li>• Suggest a percentage above which there would be a rebuttable presumption that fee dependency does exist</li> </ul> The exposure draft recognizes that qualitative and quantitative factors enter into the

		determination as to whether fees represent a substantial proportion of the total fees of a firm. However, the exposure draft seems not to address the fact that a fee, even though not significant to a firm in percentage terms, may have an intangible effect on a firm's independence. Guidance in this area would be appropriate, even if it takes the form of an alert to members to be cognizant of this issue.
CL 7	KPMG LLP	<b>Supports</b>
CL 8	Plante Moran	<b>No response</b>
CL 9	Texas Society of CPAs (TXCPA)	<b>No response</b>
CL 10	RSM US LLP	<b>No response</b>
CL 11	National Association of State Boards of Accountancy (NASBA)	<b>Supports (in general)</b>  We believe that the proposed new and revised interpretations may have a disproportionate impact on small firms that focus on attest work and as such, PEEC should assess the proposed new and revised interpretations from the perspective of a small firm.
CL 12	Ernst & Young LLP (EY)	<b>Supports</b>  We agree with the proposed new interpretation on determining fees for the attest engagement and believe that the proposed changes balance the importance of setting such fees as stand-alone fees reflective of the cost of resources to be utilized and commensurate to the scope, scale, and complexity of the attest engagement with a recognition that potential efficiencies may be attributable to the knowledge and understanding derived from the provision of other services. We also agree with the proposed changes to the examples in the Conceptual Framework for Independence to highlight factors to consider in evaluating the self-interest and

		<p>undue influence threats.</p> <p>Overall, we support the proposed changes related to fee dependency. However, as more fully explained in our comments attached, there are certain proposed changes that we believe warrant further consideration by PEEC, and we hope our comments will aid PEEC in its efforts.</p>
--	--	--

Question a: Do you agree with the use of covered member in the proposed new interpretations? If you disagree, please explain why.

Yes: 12    No: 0    No response: 0

CL 1	Deloitte LLP	<p><b>Yes</b></p> <p>PEEC's proposal differs from IESBA in that IESBA's requirements apply to firms while PEEC's proposal applies to covered members who are responsible for determining fees for the relevant attest engagement. We agree PEEC's proposal is consistent with the extant structure of the AICPA Code of Professional Conduct ("AICPA Code") and we support inclusion of the phrase "covered member responsible for determining the attest engagement fee" in the proposed 1.230.030 Determining Fees for an Attest Engagement interpretation.</p>
CL 2	PICPA	<b>Yes</b>
CL 3	PWC	<b>Yes</b>
CL 4	Grant Thornton LLP	<b>Yes</b>
CL 5	CLA	<b>Yes</b>
CL 6	NYSSCPA	<b>Yes</b>

CL 7	KPMG LLP	<b>Yes</b>
CL 8	Plante Moran	<b>Yes</b>
CL 9	TXCPA	<b>Yes</b>
CL 10	RSM US LLP	<b>Yes</b>
CL 11	NASBA	<b>Yes</b>
CL 12	EY	<b>Yes</b>

Question b: Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.

Yes: 8    No: 2    No response: 2

CL 1	Deloitte LLP	<p><b>No</b></p> <p>We believe this is overly broad and is beyond IESBA's scope, which limits its requirements to financial audits and reviews. Unless there is convincing rationale to the contrary, PEEC should consider aligning with IESBA and apply the Proposed Interpretations only to FSACs as defined by the AICPA. In our view, there is not a compelling argument to support the view that divergence from IESBA is in the public interest. Furthermore, IESBA did not extend the same robust requirements for determining fees and fee dependency to non-financial assurance engagements in Part 4B of their Code.</p> <p>To address our comment, we suggest changing "attest client" throughout the proposals to "financial statement attest client" or otherwise limit the scope of the Proposed Interpretations to only apply to FSAC. If PEEC chooses to diverge (i.e.,</p>
------	--------------	---

		retain a scope inclusive of all attest clients), we suggest PEEC issue detailed application guidance in the Ethics Questions & Answers("Q&A") document or the Plain English Guide to ensure members understand how to apply the requirements of the PEEC proposal to non-FSAC engagements. For example, the safeguards in the Proposed Interpretations are based upon IESBA's safeguards, which were written for financial audits and reviews, not other types of attest engagements. Some attest engagements are not traditional financial statement attest engagements, potentially requiring members to customize the safeguards based on the nature and scope of the attest engagements.
CL 2	PICPA	<b>Yes</b>
CL 3	PWC	<b>Yes</b>
CL 4	Grant Thornton LLP	<b>Yes</b>
CL 5	CLA	<b>Yes</b>
CL 6	NYSSCPA	<b>No response</b>
CL 7	KPMG LLP	<b>Yes</b>
CL 8	Plante Moran	<b>Yes</b>
CL 9	TXCPA	<b>Yes</b>
CL 10	RSM US LLP	<b>No response</b>
CL 11	NASBA	<b>Yes</b>
CL 12	EY	<b>No</b> We support the view expressed in the IESBA exposure draft for Proposed Revisions

		<p>to the Fee-related Provisions of the Code, dated January 2020, (“IESBA Exposure Draft”) that “by the nature of assurance engagements [other than audit and review engagements], many of which might be limited in scope, for a narrow purpose, and non-recurring, firms more likely will reach the conclusion that the threats created are at an acceptable level.” We recommend that, consistent with IESBA’s final revisions to the fee-related provisions, the safeguards in paragraph .04 a. and b. of the proposed Fee Dependency interpretation (“required safeguards”) not be mandated for attest engagements other than audit and review services (“other attest services”) if application of the conceptual framework concludes threats are at an acceptable level for the other attest services. A fee dependency analysis focused on quantitative considerations is not relevant for certain other attest services as the fee for the service may not be negotiated or paid by the responsible party of the attest service, such as for a review of the controls of a third-party service provider under Statement on Standards for Attestation Engagements 18 (SSAE 18). The qualitative considerations of paragraph 12 of the exposure draft’s explanatory memo are also not relevant to many other attest services given their limited scope or purpose.</p>
--	--	---

Question c: Is it clear that threats related to fee dependency should be considered each year not just at year 5?		
Yes: 4    No: 8    No response: 0		
CL 1	Deloitte	<p><b>No –</b></p> <p>The proposed interpretation does not provide guidance with respect to assessing such dependency on an ongoing basis leading up to year five. To assist Members in applying the proposed interpretation, the PEEC may wish to consider including additional guidance in this area such as adding a reminder in the Ethics Q&amp;A document for members to use the Conceptual Framework each year when the fee dependency exists up to five consecutive years.</p>

CL 2	PICPA	<b>Yes</b>
CL 3	PWC	<b>No</b> <p>Paragraph 14 of the exposure draft's explanatory memorandum lists examples of "helpful" actions "[w]hen fee dependency exists prior to the fifth year." This appears to be the only language in the PEEC's proposal which explicitly states that the independence threats related to fee dependency should be considered prior to year five, and suggests a more regular "periodic" review (at least annually) prior to that cut-off date for significant client relationships. Accordingly, if the PEEC expects that members will evaluate the level of the self-interest threat and/or undue influence threat each year that the member issues an attest report, we recommend that the Committee make this clearer in either the language of the proposed "Fee Dependency" interpretation or paragraph .16(c) of the "Conceptual Framework for Independence" interpretation of the Code of Conduct.</p>
CL 4	Grant Thornton LLP	<b>No</b> <p>We believe clarification is needed under paragraph .04 of the proposed "Fee Dependency" interpretation (ET sec. 1.230.040) as it focuses on the fifth year's attest work. PEEC should consider further explanation through nonauthoritative guidance in the format of a frequently asked questions (FAQs) document to assist members in understanding the requirement to evaluate potential independence threats each year, including examples of action steps (or safeguards) the member can take before the fifth year.</p>
CL 5	CLA	<b>Yes</b> <p>CLA believes that it is clear that consideration of threats would be annual if the client has been a client for several years already at the time the interpretation becomes effective. For a new client obtained after the effective date of the interpretation, it is not clear that the firm is to take any action before the fifth year. The following edit to paragraph .01 may clarify that a threat exists even in the first year: "When the total</p>

		fees generated <i><b>in any year</b></i> from an attest client by the firm represent a large portion of the total fees...”
CL 6	NYSSCPA	<p><b>Yes</b></p> <p>Threats to fee dependency should be considered each year. Waiting until year five permits possibly significant threats to go unchallenged far too long. By that time, four or five annual financial statements may have been issued and relied upon by users. The exposure draft posits that where fee dependency extends for more than five years, threats are significant. When independence is at issue, we believe that fee dependency for one year may be significant and should be addressed.</p>
CL 7	KPMG LLP	<p><b>Yes</b></p>
CL 8	Plante Moran	<p><b>No –</b></p> <p>While ET Sec. 1.230.040.04 states that “each of five consecutive years” are considered for determining an impairment of independence, it would add clarity to the interpretation to explicitly state that threats related to fee dependency should be considered each year.</p>
CL 9	TXCPA	<p><b>No</b></p> <p>See response to question d.</p>
CL 10	RSM US LLP	<p><b>No</b></p> <p>See response to question d.</p>
CL 11	NASBA	<p><b>No</b></p> <p>We recommend that the language in paragraph .04 be re-written to clarify explicitly that there is an expectation that threats related to fee dependency should be considered annually, not just at year five.</p>



CL 12	EY	<p><b>No</b></p> <p>We recommend clarifying the annual expectations within the interpretation or in nonauthoritative guidance and providing examples of factors that may be helpful in determining the level of the threat and potential safeguards, such as those included in paragraph 14 of the exposure draft's explanatory memo.</p>
-------	----	---

Question d: Do you believe the considerations in paragraphs 12-14, 22, and 23 of the explanation should be included either in the proposed interpretations or as non-authoritative guidance and why?

Authoritative: 4    Non-authoritative: 6    Either: 1    Split/both: 1

CL 1	Deloitte LLP	<p><b>Non-authoritative guidance</b></p> <p>We believe the material in paragraphs 12-14, 22, and 23 of the explanation should be included in the Ethics Q&amp;A. We also believe references to the specific Ethics Q&amp;A embedded in the Proposed Interpretation(s) would be helpful in making sure the Ethics Q&amp;A is highlighted as additional guidance for members.</p>
CL 2	PICPA	<p><b>Non-authoritative guidance</b></p> <ul style="list-style-type: none"> <li>Proposed ET1.230.040 Fee Dependency – The committee finds the guidance from paragraph 12, page 3, helpful and believes that it should be included in application guidance rather than directly in the Code.</li> <li>The considerations at paragraph 13 are fairly obvious and not really necessary.</li> <li>To the extent that this guidance [para. 14] is already included in the conceptual framework, the committee does not think that it needs to be replicated in the fee dependency interpretation. Application guidance with examples is always helpful.</li> </ul>

		<ul style="list-style-type: none"> <li>• The proposed considerations included at paragraph 22 are helpful in determining if threats exist and how significant the threats are to independence. The committee supports including this in application guidance rather than directly in the Code. The committee notes that, while it is helpful application guidance, similar guidance is not included in the Code for other undue influence threats.</li> <li>• The committee supports including the guidance in paragraph 23 in application guidance rather than in the Code.</li> </ul>
CL 3	PWC	<p><b>Authoritative guidance</b></p> <p>We recommend that paragraphs 12-14, 22, and 23 be included in the relevant interpretations subject to the Committee making the necessary revisions to address the comments below.</p> <ul style="list-style-type: none"> <li>• The context in which paragraphs 12 and 14 are presented in the exposure draft appears to inappropriately conflate two distinct issues: (a) evaluating whether an attest client is significant and addressing the impact of its significance on objectivity and independence, and (b) determining whether fees represent a large proportion of total fees of the firm. There is also a commingling of factors and actions related to fee dependency at the firm level with factors and actions that are only relevant to individual partners and offices despite the fact that the IESBA Code addresses considerations for the firm as a whole separately. We recommend that the Committee align the presentation of the factors in paragraph 12 with IESBA Code paragraph 410.14 A3 by clarifying that these are factors to consider when evaluating the level of the self-interest and undue influence threats to independence in general, rather than factors to be used when determining whether an attest client's fees represent a large proportion of the firm's total fees. Paragraphs 13 and 14 of the explanatory memorandum should be similarly updated consistent with IESBA Code paragraph 410.14 A4 to clarify that the examples set out in each paragraph are actions that might be safeguards to</li> </ul>

		<p>address the self-interest and undue influence threats, rather than actions to reduce the proportion of the fees. In addition, we recommend that the evaluation of threats and application of safeguards at the partner, office, and practice unit levels be addressed separately from the considerations applicable to the firm as a whole. This is the approach followed in IESBA Code paragraphs 410.14 A5—A7, which recognizes that “the threats created by fee dependency at the office and partner levels are not at a comparable order of magnitude compared to the threats created by fee dependency at the firm level.” Accordingly, we recommend that the PEEC remove from paragraphs 12 and 14 those factors and examples of actions directly relevant to a partner, office, or practice unit and address them on a standalone basis in the Code of Conduct, similar to the IESBA Code. This would allow the PEEC to separately address the self-interest or undue influence threats when the fees generated by a firm from an attest client represent a large proportion of the revenue of one partner, one office, or one practice unit of the firm (but do not represent a large proportion of the total fees of the firm).</p> <ul style="list-style-type: none"> <li>• Paragraph 23 provides examples of actions that might help reduce the level of threats to independence when a large proportion of fees charged by the firm to an attest client is generated by the provision of nonattest services. These examples appear to be aligned with IESBA Code paragraph 410.5 A3, which provides examples of actions that might be safeguards to address the self-interest and intimidation threats created by the level of the audit fee paid by the audit client. We recommend that the examples in paragraph 23 instead be made consistent with IESBA Code paragraph 410.11 A3, which addresses the independence considerations associated with the proportion of fees for services other than audit relative to the audit fee. Given that fee ratio is a separate issue from the level of the attest engagement fee, we believe that an appropriate model for paragraph 23 are the examples of actions in IESBA Code paragraph 410.11 A3 for addressing the self-interest</li> </ul>
--	--	--

		or intimidation threats when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client.
CL 4	Grant Thornton LLP	<b>Either</b>
CL 5	CLA	<b>Non-authoritative guidance</b>
CL 6	NYSSCPA	<p><b>Non-authoritative guidance</b></p> <p>Considerations such as those in the cited paragraphs we believe should be included in nonauthoritative guidance so as to provide some direction for considering and addressing these issues. However, some of the guidance is unrealistic. For example, the exposure draft suggests considering the stature of the client which may enhance the firm's eminence in the marketplace. This suggests that firms not accept prominent clients, or clients that are regarded as important. Another suggestion is that to reduce the proportion of a client's fees to the firm's total fees, the firm should increase the client base. Most firms would be happy to increase their client base, but this is not a simple matter and not always easy to achieve.</p>
CL 7	KPMG LLP	<p><b>Authoritative guidance</b></p> <p>We believe considerations in paragraphs 12–14, 22, and 23 of the explanation should be included in the proposed interpretations as factors that may be considered because it will help to provide a common understanding when evaluating fee dependency and consideration as to what may constitute undue influence.</p>
CL 8	Plante Moran	<p><b>Both/split</b></p> <p>We believe that paragraphs 12-14 should be included as nonauthoritative guidance, while paragraphs 22 and 23 should be included in the proposed interpretations. Paragraphs 12-14 provide consideration of different factors and considerations related to fee dependency. These paragraphs provide for firms to use judgement</p>

		and thus the paragraphs would be more appropriately considered as nonauthoritative guidance since other factors and considerations may be relevant. Paragraphs 22 and 23 provide examples of threats that would be beneficial to include in the proposed interpretations as these paragraphs provide guidelines about the scope and application of the rule.
CL 9	TXCPA	<p><b>Authoritative guidance</b></p> <p>The exposure draft is not sufficiently clear on the distinction between recommended safeguards in years prior to year 5, during year 5, and subsequent to year 5 (question c. above). Additional clarification would be helpful. The distinction between the discussions of firm fee dependency (self-interest threat) and non-audit services (undue influence threat) is not sufficiently clear. We recommend revisions to include, for example, section headings to provide additional clarity.</p>
CL 10	RSM US LLP	<p><b>Authoritative guidance</b></p> <p>We believe proposed new interpretation 1.230.040 should be revised to require that fee dependency be evaluated under the Conceptual Framework for Independence in each year one through four based upon the considerations in paragraphs 12–14 of the Exposure Draft.</p> <p>It would be helpful if the considerations in paragraphs 22–23 were incorporated into Section 1.295.020 Cumulative Effect on Independence When Providing Multiple Nonattest Services. If that cannot be accomplished at this time, nonauthoritative guidance would be helpful.</p>
CL 11	NASBA	<p><b>Non-authoritative guidance</b></p> <p>In addition, we believe that clarifying language should be added to paragraph 14 to indicate that annual assessments of threats will have already taken place in years one through five.</p>

CL 12	EY	<p><b>Non-authoritative guidance</b></p> <p>We believe that the required safeguards described in paragraph .04 of the proposed <i>Fee Dependency</i> interpretation are most relevant when the significant threat to independence is at the firm level. Paragraph .01 of the proposed <i>Fee Dependency</i> interpretation suggests that “large proportion” is a quantitative measure derived by comparing the total fees from the attest client to total fees of the firm. However, paragraph 12 a. of the exposure draft’s explanatory memo suggests that the calculation should also be performed at the levels of engagement partner, office, or practice unit. We believe that policies and procedures for identifying, monitoring, and mitigating threats to independence as described in the existing nonauthoritative guidance in Chapter 10: <i>Fee Issues</i> of the <i>Plain English Guide to Independence</i> would likely be sufficient to mitigate threats at the levels of engagement partner, office, or practice unit. Consideration should be given to clearly distinguish between i) threats at the firm level that may require application of safeguards involving parties external to the firm issuing the report and ii) threats at other levels, such as engagement partner, office, or practice unit, where internal safeguards may be sufficient.</p> <p>We recommend excluding the factors in paragraph 12 b. of the exposure draft’s explanatory memo from the proposed interpretation and related guidance. In addition to paragraph .01 as noted above, the principle as described in paragraph 11 of the explanatory memo as well as the proposed change to the <i>Client Affiliate</i> interpretation, which refers to “calculating the total fees generated from a financial statement attest client,” also support a view that a large proportion of total fees received by the firm is solely a quantitative determination. Many of the factors in paragraph 12 b. of the explanatory memo are not applicable to that quantitative determination. We note that most of the factors listed in paragraphs 12 and 14 of the exposure draft’s explanatory memo are included in Chapter 10: <i>Fee Issues</i> in the context of a “significant portion” of the firm’s fees and recommend revising that existing guidance for additional relevant factors included in paragraphs 12 h. and 14</p>
-------	----	---

		<p>b. of the explanatory memo and explaining the difference between a “significant portion” and “large proportion.”</p> <p>Although we would not object to inclusion of the considerations from paragraphs 22 and 23 of the explanatory memo in nonauthoritative guidance, we believe clarification is needed for the application of such guidance. We do not believe the proportion of fees charged to an attest client by the firm that are generated by non-attest services would be a consideration for the proposed <i>Fee Dependency</i> interpretation which, as currently drafted, focuses solely on total fees from an attest client.</p>
--	--	--

Question e: Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.

Yes: 9    No: 3    No response: 0

CL 1	Deloitte LLP	<p><b>Yes</b></p> <p>This most closely aligns with the scope of IESBA’s fee dependency provisions applicable to non-listed entities (i.e., related entities under client’s direct or indirect control). While the proposal is slightly broader than the IESBA scope by including entities material to the client over which the client has significant influence (i.e., type b affiliates), we agree with PEEC that it is not in the public interest to apply the proposals to other affiliates as it relates to non-PIE entities.</p>
CL 2	PICPA	<p><b>Yes</b></p>
CL 3	PWC	<p><b>No</b></p> <p>We agree that fees generated from the financial statement attest client and entities under item (a) of the Code of Conduct’s affiliate definition (i.e., entities under the</p>

		<p>financial statement attest client's direct or indirect control) should be considered for purposes of applying the proposed "Fee Dependency" interpretation as it is the fees for services provided to such entities that have the highest potential to create threats to independence in relation to a group financial statement attest engagement. This is consistent with the scope of affiliates that are subject to the IESBA Code's fee dependency provisions for financial statement audit and review clients that are not listed entities. We also agree with the PEEC that fees from entities under items (c) - (l) of the affiliate definition do not create significant threats to independence and should therefore not be included in the total fees calculation when calculating the total fees generated from a financial statement attest client. However, paragraph .03 of the proposed "Fee Dependency" interpretation expands upon the scope of the IESBA Code by requiring that the fee calculation also include fees from entities under item (b) of the Code of Conduct's affiliate definition (i.e., entities in which the financial statement attest client has significant influence and the entity is material to the financial statement attest client). In our view, the exposure draft does not put forth a compelling rationale for the PEEC expanding the scope of the fee dependency provisions in this manner. We believe that the expanded scope of the fee calculation does not correspond to an increased level of threat to an auditor's independence that may be driven by fees for services provided to a downstream significant influence material investee (i.e., the "investee"). This is because the financial statement attest client (i.e., the "investor") and the investee are operated separately without a control structure; therefore, the undue influence and self-interest threats do not rise to the same level as affiliates in a control structure. For example, the investee has its own governance structure and operations, with some level of influence from the investor, but not the ability to exercise control over the investee. Therefore, the investee may hire a member to provide non-attest services without consideration for that member's role as auditor of the investor. In addition, just as the investor would not be able to exercise undue influence over the investee's decisions, the nature of the relationship between such entities would also not provide the investee with the ability to influence an auditor in relation to the audit of the investor. Further, the ability of the investee to act independently of the</p>
--	--	---



		investor also minimizes the presence of the self-interest threat on the part of the auditor, since the investor may not be able to influence whom the investee hires for the provision of non-attest services. For the reasons described above, and consistent with the Committee's broader efforts towards convergence with the adoption of this interpretation, we recommend that the PEEC consider aligning paragraph .03 with the IESBA Code by only scoping in entities under item (a) of the Code of Conduct's affiliate definition.
CL 4	Grant Thornton LLP	<b>Yes</b>
CL 5	CLA	<b>Yes</b>
CL 6	NYSSCPA	<b>Yes</b>
CL 7	KPMG LLP	<b>No</b>  We believe that total fees from an attest client should not include fees received from entities described under item (b) of the definition of affiliate because services provided to entities described under item (b) of the definition of affiliate (e.g., material equity method investees) are not controlled by the attest client and in many instances are controlled by an entity that is unaffiliated with the attest client. Therefore, we believe it is unlikely that there would be significant threats to independence arising from fees from entities described under item (b) of the definition of affiliate.
CL 8	Plante Moran	<b>Yes</b>  However, as a practical matter firms should be allowed, at their discretion, to consider fees received from entities described under items (c) through (l).
CL 9	TXCPA	<b>Yes</b>
CL 10	RSM US LLP	<b>Yes</b>

CL 11	NASBA	<p><b>Yes</b></p> <p>Also, further clarification on how fees impact independence within the definition of affiliate would be helpful to the user.</p>
CL 12	EY	<p><b>No</b></p> <p>We do not believe fees paid by downstream significant influence affiliates of the financial statement attest client should be equally weighted with fees paid by controlled affiliates in the analysis of fee dependency. If an analysis was performed and a conclusion reached that the audit client did not control the downstream entity's daily operations, management decisions, etc., it also could not determine professional services fees. As such, fees for permissible services that are not under the control of the financial statement attest client would rarely threaten a firm's independence. This view is supported by the decision made by IESBA in R410.25(a) of the 2021 Final Pronouncement for <i>Revisions to the Fee-related Provisions of the Code</i> to limit the required disclosure of fees for other services to "only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion." We believe the same professional judgment for the IESBA fee disclosure should apply in identifying any impact on the level of threat to independence created by fees for permissible services provided to affiliates that the financial statement attest client does not directly or indirectly control. We recommend reducing the proposed scope to be consistent with IESBA.</p>

Question f: Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why

Yes: 12    No: 0    No response: 0

CL 1	Deloitte LLP	<b>Yes</b>
CL 2	PICPA	<b>Yes</b>  To the extent that firms do not have to go outside of their firms to hire qualified professionals to review their engagements, the committee believes that the effective date is reasonable. If firms need to hire an external professional to comply with the new guidance, additional time may be needed to ensure that firms are aware of the new guidance.
CL 3	PWC	<b>Yes</b>
CL 4	Grant Thornton LLP	<b>Yes</b>
CL 5	CLA	<b>Yes</b>
CL 6	NYSSCPA	<b>Yes</b>
CL 7	KPMG LLP	<b>Yes</b>
CL 8	Plante Moran	<b>Yes</b>
CL 9	TXCPA	<b>Yes</b>
CL 10	RSM US LLP	<b>Yes</b>  Only if the interpretations are issued before 12/31/23.
CL 11	NASBA	<b>Yes</b>
CL 12	EY	<b>Yes</b>

Other Comments		
CL 2	PICPA	<ul style="list-style-type: none"> <li>Proposed ET1.230.040 Fee Dependency – Proposed paragraph .04 requires the member to hire a reviewer that is external to the firm. The committee agrees that when fee dependency extends for more than five years, threats are significant. Accordingly, safeguards should be applied to reduce the threat to an acceptable level. However, the committee does not support the requirement in proposed paragraph .04 to hire a reviewer that is external to the firm. The committee believes that the permitted safeguards should be more flexible, such as those outlined in paragraph 14 on pages 4 and 5. For example, for significant risks, the committee believes that it is sufficient that a reviewer who has not provided attest or nonattest services to the attest client review the attest work. The committee supports the development of application guidance that could give examples of the evaluation of the threats to compliance and how the safeguards can be implemented to mitigate the threats.</li> <li>The reference in paragraph .04 b in proposed ET1.230.040 to “a professional body” is unclear. Would this safeguard include having the engagement subject to peer review, or review by the PCAOB or other regulator?</li> </ul>
CL 4	Grant Thornton LLP	<ul style="list-style-type: none"> <li>[Pointed out errors in what is italicized in the ED in 1.230.030.01 and .02 which is a clerical error in the ED not what was intended by PEEC.]</li> <li>Include “firm” in paragraph .01 of the proposed “Fee Dependency” interpretation (ET sec. 1.230.040) as follows, since the member is evaluating to the total fees of the firm: [We didn’t use firm because of how our enforcement works and our definition of covered member includes the firm.]</li> </ul> <p>.01 When the total fees generated from an attest client by the firm represent a large proportion of the total fees of that firm, the dependence</p>

		<p>on, and concern about the potential loss of, fees from attest and other services from that client affect the level of the self-interest threat and create an undue influence threat to a covered member's <b>or the firm's</b> independence.</p> <ul style="list-style-type: none"> <li>• Include hyperlink to client affiliate definition or reference 1.224.010 revised Client Affiliates interpretation in paragraph .03 of the proposed "Fee Dependency" interpretation (ET sec. 1.230.040) as follows: .03 When the attest client is a financial statement attest client, the covered member should include fees from entities described under items (a) and (b) of the definition of affiliate. Also refer to the revised client affiliates interpretation (ET sec. 1.224.010).</li> </ul>
CL 5	CLA	Regarding attest engagement fees that may be influenced by a firm's provision of other services to attest clients (as described in ET 1.230.030), we recommend the issuance of nonauthoritative guidance as to how to evaluate and monitor the existence of such fees.
CL 7	KPMG LLP	ET 1.230.030.03 permits a covered member responsible for determining the attest engagement fee to take cost savings achieved as a result of experience derived from the provision of other services to an attest client into consideration when determining the fees to be charged to an attest client. Although we agree with the proposal, we suggest PEEC consider providing examples through an FAQ or similar nonauthoritative guidance to provide examples of situations where a member would or would not comply with the provisions in paragraph .03 regarding "cost savings achieved as a result of experience derived from the provision of other services." Although it may be difficult to provide specific parameters since each client situation may be different, by providing such examples, PEEC can provide members guidance on what would and would not be acceptable or reasonable in the circumstances.

CL 8	Plante Moran	<p>The proposed interpretation ["Determining Fees for an Attest Engagement"] acknowledges, in paragraph .01, that the determination of fees to be charged to an attest client is a business decision. We agree that, in some cases, charging substantially more or substantially less for an attest engagement based on the profitability of other services provided to the same client could result in a self-interest bias unduly influencing the objectivity of the practitioner. However, we think that the degree of influence and the reasons for charging a higher or lower attest fee should be considered in evaluating whether self-interest and undue influence threats exist.</p> <p>In the Basis for Conclusions prepared by the Staff of the IESBA in April 2021 related to Revisions to the Fee-related Provisions of the Code, it was noted that IESBA did not intend to approach the issue of the level of the audit fees from the perspective of determining what the appropriate level is but from the perspective of highlighting that unduly low, or unduly high fees can impact the level of the self-interest threat to independence. IESBA proposed in the ED and reaffirmed in the final provisions that determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards. In addition, IESBA notes that the level of the audit fees is a specific matter which the firm needs to evaluate further when determining whether the threats created by fees paid by the audit client are at an acceptable level and IESBA has retained the guidance on factors to consider along with example actions that might be safeguards. We agree that the influence of other services on the attest fees is a factor that should be considered and evaluated as a potential threat, but do not believe it would be a threat that would always impair independence.</p> <p>Furthermore, we agree with paragraph .03 of the proposed interpretation, which indicates that consideration of cost savings due to performing multiple services is not considered a threat, but also believe there may be other reasons for</p>
------	--------------	---

		<p>setting the attest fee which likewise do not pose a threat to independence.</p> <p>For example, consider a situation in which there is a proposal for audit and tax services for which the engagement team determined the audit fee on a standalone basis would be \$75,000 and the tax fee would be \$25,000; however, due to the client perceiving more value for the tax services the engagement team proposed an audit fee of \$70,000 with tax services of \$30,000. Based on PEEC's proposed revision, the firm would not be independent with respect to the audit because the audit fee was influenced by the provision of other services, without regard for the magnitude of or reason for the influence. It would seem more appropriate to allow firms the opportunity to evaluate the self-interest and undue influence threat to determine if their independence was impaired.</p> <p>We agree with paragraph .03 of proposed interpretation, which indicates that consideration of cost savings due to performing multiple services is not considered a threat, but also believe there may be other reasons for setting the attest fee which likewise do not pose a threat to independence.</p> <p>Based on these considerations, we request PEEC evaluate this provision to allow the practitioner to evaluate the degree of and reason for influence in determining whether a threat exists.</p>
CL 9	TXCPA	<p>[We] believe that although a specified quantitative amount for determining fee dependency is not appropriate (e.g., the 30% threshold from the IESBA standard), a discussion of quantitative benchmarks may be helpful to firms, similar to extant professional guidance relating to materiality considerations in an audit of financial statements, such as included in SEC SAB 99.</p>
CL 10	RSM US LLP	<ul style="list-style-type: none"> <li>• [In response to question b] We agree with including both entities that a financial statement attest client can control and over which it has significant influence that are material to the financial statement attest client in the proposed new "Fee Dependency" interpretation. For consistency of application, we believe this same scope should apply to a financial statement attest client in the proposed new</li> </ul>

		<p>“Determining Fees for an Attest Engagement” interpretation.</p> <ul style="list-style-type: none"> <li> <p>1.230.030 Determining Fees for an Attest Engagement</p> <p>We agree that determining fees to be charged to an attest client, whether for attest services or other services, is a business decision that is generally market driven. However, we are concerned that demonstrating that attest engagement fees were not influenced by the firm’s provision of other services to an attest client may be overly burdensome. Further, we believe that the self-interest and undue influence threats related to the influence of other services fees on the attest engagement fee can often be reduced to an acceptable level when evaluated based on the considerations discussed in paragraph 22 of the Exposure Draft and the application of safeguards such as those set forth in the examples in paragraph 23 of the Exposure Draft. Consequently, we believe this proposed new interpretation is overly restrictive.</p> </li> <li> <p>1.230.040 Fee Dependency</p> <p>We believe the example in paragraph .02 of how a covered member might calculate the total fees of the firm is unnecessary and recommend paragraph .02 be revised to simply state, “In calculating the total fees of the firm, the covered member should include fees from attest and nonattest services, excluding fees to other network firms within the firm’s network.”</p> <p>We are unsure of how to apply paragraph .04b., which states, “... an appropriate reviewer, who is not a member of the firm issuing the report or a professional body, reviews the fifth year’s attest work.” Should there be a comma between “report” and “or” such that a review by a professional body satisfies the requirement? If so, this could be clarified by stating whether this would be any professional body or whether this is intended to cover a situation where the engagement is subject to a peer review.</p> </li> <li> <p>1.210.010 Conceptual Framework for Independence</p> </li> </ul>
--	--	--



		<p>We do not understand and think it should be clarified regarding why the self-interest threat related to fee dependency applies to both the member and the member's firm while the undue influence threat related to the proportion of fees generated by providing nonattest services only relates to the firm.</p> <ul style="list-style-type: none"> <li>1.224.010 Client Affiliates</li> </ul> <p>As stated previously, we believe only entities included in categories (a) and (b) of the definition of affiliate should be included when applying proposed new interpretation 1.230.030, as well as 1.230.040. Also, for consistency, we believe only those affiliates should be included when applying Section 1.295.020 Cumulative Effect on Independence When Providing Multiple Nonattest Services.</p>
CL 12	EY	<ul style="list-style-type: none"> <li>We support a principles-based approach for annually evaluating whether there is a significant threat to independence created by reliance on fees from an attest client. However, we believe a specified threshold, as used by IESBA, should be included in the new interpretation to enable consistency in applying the required safeguards in paragraph .04. We do not take exception to the 30% threshold used by IESBA for non-PIEs.</li> <li>We believe that clarification is needed for the phrase "an appropriate reviewer, who is not a member of the <i>firm</i> issuing the report" as used in the proposed Fee Dependency Interpretation. Firm is defined in paragraph .20 of 0.400 Definitions of the Code, to include "... a network firm when the engagement is either a financial statement audit or review engagement...". It is not clear whether the proposed interpretation would allow for use of an appropriate reviewer from a network firm. Consistent with the IESBA Code, we believe an appropriate reviewer, as the term is used in AICPA Q&amp;A Section 125 <i>Fees</i>, from a network firm should be allowed to perform the pre-/post-issuance review under paragraph .04 a. and b. of the proposed interpretation. The IESBA Code is clearer on this point because as stated in the IEBSA Exposure Draft "[i]n line with the Structure drafting guidelines for the [IESBA] Code, 'firm' does not</li> </ul>

		include network firms; therefore, it is permitted that the professional accountant who performs the review be a member of a network firm.”
--	--	--

## Text of proposed new and revised interpretations related to fees

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you'd like to see the definitions, you can find them in "Definitions" ([ET sec. 0.400](#))

### 1.230.030 Determining Fees for an Attest Engagement

- .01 Determining the fees to be charged to an *attest client*, whether for attest or other services, is a business decision taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.
- .02 The provision of other services to an *attest client* is not an appropriate consideration in determining the *attest engagement* fee, except as provided for in paragraph .03. If a *covered member* responsible for determining the attest engagement fee allows the *attest engagement* fee to be influenced by the firm's provision of other services to an *attest client*, the self-interest and undue influence *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*. Accordingly, *independence* would be *impaired*.
- .03 When determining the *attest engagement* fee, the *covered member* responsible for determining the *attest engagement* fee may take into consideration the cost savings achieved as a result of experience derived from the provision of other services to an *attest client*.

Proposed revisions to the exposure draft appear in ***boldface italic***.

#### 1.230.040 Fee Dependency

- .01 When the total fees generated ***in any year*** from an *attest client* by the *firm* represent a large proportion of the total fees of that *firm*, the dependence on, and concern about the potential loss of, fees from attest and other services from that *client* impact the level of the self-interest *threat* and create an undue influence *threat* to a *covered member's independence*.
- .02 In calculating the total fees of the *firm*, the *covered member* should include fees from attest and nonattest services and might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate. For purposes of this calculation, the *covered member* is not required to include fees from attest and nonattest services of other *network firms* within the *firm's network*.
- .03 When the *attest client* is a *financial statement attest client*, the *covered member* should include fees from entities described under items (a) and (b) of the definition of *affiliate*.
- .04 When for each of five consecutive years total fees from an *attest client* represent, or are likely to represent, a large proportion of the total fees received by the *firm*, *threats* to the *covered member's* compliance with the "Independence Rule" [1.200.001] would not be at an *acceptable level* and *independence* would be *impaired* unless one of the following *safeguards* is applied:
- a. Prior to the attest report being issued for the fifth year, an appropriate reviewer who is not a member of the *firm* issuing the report, reviews the fifth year's attest work; or
  - b. After the attest report on the fifth year has been issued, and before the attest report is issued on the sixth year's *attest engagement*, an appropriate reviewer who is not a member of the *firm* issuing the report, or a professional body, reviews the fifth year's attest work.
- .05 If the total fees described in paragraph .04 continue to represent a large proportion, the *covered member* shall, each year, apply one of the *safeguards* .04a or .04b.
- .06 When two or more *firms* are engaged to conduct an *attest engagement*, the involvement of the other *firm* in the *attest engagement* may be regarded each year as an action equivalent to that in paragraph .04a, if:
- a. The circumstances addressed by paragraph .04 apply to only one of the *firms* performing the *attest engagement*; and
  - b. Each *firm* performs sufficient work to take full individual responsibility for the report.

## 1.210.010 Conceptual Framework for Independence

Proposed additions appear in ***boldface italic***. Deletions appear in ~~strike through~~.

[Paragraphs .01–.15, .17, and .19–.23 are unchanged.]

.16 *Self-interest threat*. The *threat* that a *member* could benefit, financially or otherwise, from an interest in, or relationship with, an *attest client* or persons associated with the *attest client*. Examples of self-interest *threats* include the following:

- a. A *member* has a *direct financial interest* or material *indirect financial interest* in the *attest client*. [1.240.010]
- b. A *member* has a *loan* from the *attest client*, an officer or a director of the *attest client* with the ability to affect decision-making, or any individual with a *beneficial ownership interest* (known through reasonable inquiry) that gives the individual *significant influence* over the *attest client*. [1.260.010]
- c. A *member* or his or her *firm* relies excessively on ~~revenue~~ ***fees from attest and nonattest services*** from a single *attest client*. **[1.230.040]**
- d. A *member* or *member's firm* has a material joint venture or other material joint business arrangement with the *attest client*. [1.265]

.18 *Undue influence threat*. The *threat* that a *member* will subordinate his or her judgment to that of an individual associated with an *attest client* or any relevant third party due to that individual's reputation or expertise, aggressive or dominant personality, or attempts to coerce or exercise excessive influence over the *member*. Examples of undue influence *threats* include the following:

- a. Management threatens to replace the *member* or *member's firm* over a disagreement on the application of an accounting principle.
- b. Management pressures the *member* to reduce necessary audit procedures in order to reduce audit fees.
- c. The *member* receives a gift from the *attest client*, its management, or its significant shareholders. [1.285.010]
- d. ***A large proportion of fees charged by the firm to an attest client is generated by providing nonattest services.***

## 1.224.010 Client Affiliates

Proposed additions appear in ***boldface italic***. Deletions appear in ~~strike through~~.

[Paragraph .01 is unchanged.]

.02 When a *client* is a *financial statement attest client*, *members* should apply the “Independence Rule” [1.200.001] and related *interpretations* applicable to the *financial statement attest client* to their *affiliates*, except in the following situations:

- a. During the *period of the professional engagement*, a *covered member* may have a *loan* to or from an
  - i. officer or director of an *affiliate* of a *financial statement attest client*, unless the officer or director has the ability to affect the decision-making at the *financial statement attest client*.
  - ii. individual with a *beneficial ownership interest* (known through reasonable inquiry) in an *affiliate* of a *financial statement attest client*, unless the ownership interest gives the individual *significant influence* over the *financial statement attest client*.
- b. A *member* or the *member’s firm* may provide prohibited nonattest services to 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*, provided that it is reasonable to conclude that the services do not create a self-review *threat* with respect to the *financial statement attest client* because the results of the nonattest services will not be subject to *financial statement attest* procedures. For any other *threats* that are created by the provision of the nonattest services that are not at an *acceptable level* (in particular, those relating to management participation), the *member* should apply *safeguards* to eliminate or reduce the *threats* to an *acceptable level*.
- c. A *firm* will only have to apply the “Subsequent Employment or Association With an Attest Client” interpretation [1.279.020] of the “Independence Rule” if the former employee, by virtue of his or her employment at an entity described under items *c–l* of the definition of *affiliate*, is in a *key position* with respect to the *financial statement attest client*. *Individuals in a position to influence the attest engagement* and on the *attest engagement team* who are considering employment with an *affiliate* of a *financial statement attest client* will still need to report consideration of employment

to an appropriate person in the *firm* and remove themselves from the *financial statement attest engagement*, even if the position with the *affiliate* is not a *key position*.

- d. A covered member's immediate family members and close relatives may be employed in a *key position* at an entity 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*, provided they are not in a *key position* with respect to the *financial statement attest client*.
- e. A covered member who is an individual on the *attest engagement team*, an individual in a position to influence the *attest engagement*, or the *firm* may have a lease that does not meet the requirements of the "Leases" interpretation [1.260.040] under the "Independence Rule" with an entity described under items c–l of the definition of *affiliate* during the period of the professional engagement. The covered member should use the "Conceptual Framework for Independence" to evaluate whether any *threats* created by the lease are at an *acceptable level*. If the covered member concludes that *threats* are not at an *acceptable level*, the covered member should apply *safeguards* to eliminate the *threats* or reduce them to an *acceptable level*.
- f. 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*. If *safeguards* are not available or cannot be applied to eliminate or reduce the *threats* to an *acceptable level*, the member should not enter into the staff augmentation arrangement.
- g. **For purposes of applying the "Fee Dependency" [1.230.040] interpretation, fees from entities described under items (c)-(l) of the definition of affiliate are not required to be included when calculating the total fees generated from a financial statement attest client.**

[Paragraphs .03–.14 are unchanged.]

## Comment letters



May 15, 2023

Mr. Brian S. Lynch, Chair - Professional Ethics Executive Committee  
Ms. Toni Lee-Andrews, Director - Professional Ethics Division  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas, 27th Floor  
New York, NY 10105

Mail to: [Ethics-ExposureDraft@aicpa-cima.com](mailto:Ethics-ExposureDraft@aicpa-cima.com)

**Re: Proposed New and Revised Interpretations: Fees Exposure Draft**

Dear Mr. Lynch and Ms. Lee-Andrews:

Deloitte LLP (“Deloitte,” “our,” or “we”) is pleased to respond to the exposure draft issued by the Professional Ethics Executive Committee (“PEEC”) of the American Institute of Certified Public Accountants (“AICPA”) of *Proposed New and Revised Interpretations — Fees* (the “Proposed Interpretations”). We appreciate the opportunity to comment on the Proposed Interpretations and commend the PEEC for its continued efforts to re-examine and improve professional standards and guidance. We have included comments and recommendations on specific requested matters for consideration by the PEEC.

**General Comments**

We support PEEC’s efforts to converge with the International Ethics Standard Board of Accountants (IESBA) recent revisions regarding the level of fees and the impact on threats to independence, and we agree that threats to independence may be created when an attest engagement fee is determined based upon the provision of other services provided to the attest client, or when a large proportion of the member’s revenue is from a single attest client. We also agree with utilizing a principles-based approach in lieu of using the 30% threshold contained in IESBA’s standard to evaluate threats created by determination of fees or fee dependency. Thus, practitioners can use professional judgment to evaluate the level of fees and the impact of the fees on threats to independence.

We appreciate PEEC’s consideration of our responses to the request for comments and our suggestions are noted below.

## Responses to Requests for Comments

### Application to “covered member responsible for determining fees”

As noted in paragraph 8 of the exposure draft explanation regarding proposed 1.230.030 *Determining Fees for an Attest Engagement* interpretation, PEEC’s proposal differs from IESBA in that IESBA’s requirements apply to firms while PEEC’s proposal applies to covered members who are responsible for determining fees for the relevant attest engagement. We agree PEEC’s proposal is consistent with the extant structure of the AICPA Code of Professional Conduct (“AICPA Code”) and we support inclusion of the phrase “covered member responsible for determining the attest engagement fee” in the proposed 1.230.030 *Determining Fees for an Attest Engagement* interpretation.

### Application of the Proposed Interpretations to “Attest Clients”

As discussed in paragraph 7 of the exposure draft explanation, the Proposed Interpretations apply to all attest clients, not just financial statement attest clients (“FSAC”). We believe this is overly broad and is beyond IESBA’s scope, which limits its requirements to financial audits and reviews. Unless there is convincing rationale to the contrary, PEEC should consider aligning with IESBA and apply the Proposed Interpretations only to FSACs as defined by the AICPA. In our view, there is not a compelling argument to support the view that divergence from IESBA is in the public interest. Furthermore, IESBA did not extend the same robust requirements for determining fees and fee dependency to non-financial assurance engagements in Part 4B of their Code.

To address our comment, we suggest changing “attest client” throughout the proposals to “financial statement attest client” or otherwise limit the scope of the Proposed Interpretations to only apply to FSAC. If PEEC chooses to diverge (i.e., retain a scope inclusive of all attest clients), we suggest PEEC issue detailed application guidance in the Ethics Questions & Answers (“Q&A”) document or the Plain English Guide to ensure members understand how to apply the requirements of the PEEC proposal to non-FSAC engagements. For example, the safeguards in the Proposed Interpretations are based upon IESBA’s safeguards, which were written for financial audits and reviews, not other types of attest engagements. Some attest engagements are not traditional financial statement attest engagements, potentially requiring members to customize the safeguards based on the nature and scope of the attest engagements.

### Consideration of fee dependency each year

The proposed Fee Dependency interpretation (ET 1.230.040) provides that when fee dependency extends for more than five years, threats are considered significant and require the application of safeguards to reduce threats to an acceptable level. However, the proposed interpretation does not provide guidance with respect to assessing such dependency on an ongoing basis leading up to year five. To assist Members in applying the proposed interpretation, the PEEC may wish to consider including additional guidance in this area such as adding a reminder in the Ethics Q&A document for members to use the Conceptual Framework each year when the fee dependency exists up to five consecutive years.

Inclusion of considerations noted in paragraphs 12-14, 22, and 23 of the explanation

We believe the material in paragraphs 12-14, 22, and 23 of the explanation should be included in the Ethics Q&A. We also believe references to the specific Ethics Q&A embedded in the Proposed Interpretation(s) would be helpful in making sure the Ethics Q&A is highlighted as additional guidance for members.

Application to Affiliates

We agree with the position contemplated in the proposal that the scope of fees to be evaluated for purposes of fee dependency should be limited to fees charged to entities described under items (a) and (b) of the affiliate definition, as this most closely aligns with the scope of IESBA's fee dependency provisions applicable to non-listed entities (i.e., related entities under client's direct or indirect control). While the proposal is slightly broader than the IESBA scope by including entities material to the client over which the client has significant influence (i.e., type b affiliates), we agree with PEEC that it is not in the public interest to apply the proposals to other affiliates as it relates to non-PIE entities.

Effective Date

We agree with the proposed effective date of January 1, 2025 with early adoption allowed.

\*\*\*\*\*

We would be pleased to discuss our comments with you at your convenience. If you wish to do so, please contact Kathy Savage at [ksavage@deloitte.com](mailto:ksavage@deloitte.com) or +1.615.313.4371 or Brandon Mercer at [bmercer@deloitte.com](mailto:bmercer@deloitte.com) or +1.919.218.0610.

Sincerely,

Deloitte + Touche LP

May 26, 2023

Brian S. Lynch, Chair  
Professional Ethics Executive Committee  
AICPA Professional Ethics Division  
220 Leigh Farm Road  
Durham, North Carolina 27707-8110  
[ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

Re: AICPA Professional Ethics Executive Committee Exposure Document - New and revised interpretations related to fees

Dear Mr. Lynch:

The Professional Ethics Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide comments to the AICPA Professional Ethics Executive Committee (PEEC) regarding the proposed interpretations and definition, *Responding to Noncompliance with Laws and Regulations* (NOCLAR). The PICPA is an association of more than 18,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is a cross-section of our membership, with practitioners from large, regional, and small public accounting firms, members serving in business and industry, and accounting educators.

The committee's specific comments are included below.

1. Principles-based approach – The committee supports PEEC's decision to use a principles-based approach to standard setting, which allows members to use professional judgment to determine when specific facts and circumstances create threats rather than the 30% threshold used in the International Ethics Standards Board for Accountants standard.
2. Proposed ET1.230.040 Fee Dependency – Proposed paragraph .04 requires the member to hire a reviewer that is external to the firm. The committee agrees that when fee dependency extends for more than five years, threats are significant. Accordingly, safeguards should be applied to reduce the threat to an acceptable level. However, the committee does not support the requirement in proposed paragraph .04 to hire a reviewer that is external to the firm. The committee believes that the permitted safeguards should be more flexible, such as those outlined in paragraph 14 on pages 4 and 5. For example, for significant risks, the committee

believes that it is sufficient that a reviewer who has not provided attest or nonattest services to the attest client review the attest work. The committee supports the development of application guidance that could give examples of the evaluation of the threats to compliance and how the safeguards can be implemented to mitigate the threats.

The reference in paragraph .04 b in proposed ET1.230.040 to “a professional body” is unclear. Would this safeguard include having the engagement subject to peer review, or review by the PCAOB or other regulator?

Specific requests for comments:

- a. Do you agree with the use of covered member in the proposed new interpretations? If you disagree, please explain why.

The committee supports the use of covered member in the proposed new interpretations.

- b. Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA’s? If you disagree, please explain why.

The committee supports the proposed scope of the new guidance.

- c. Is it clear that threats related to fee dependency should be considered each year, not just at year five?

The committee believes that the proposed guidance clearly requires annual evaluation of fee dependency with specific required safeguards to be applied in the event that the fee dependency lasts for five years.

- d. Do you believe the considerations in paragraphs 12–14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.

1. Proposed ET1.230.040 Fee Dependency – The committee finds the guidance from paragraph 12, page 3, helpful and believes that it should be included in application guidance rather than directly in the Code.
2. The considerations at paragraph 13 are fairly obvious and not really necessary.

3. To the extent that this guidance is already included in the conceptual framework, the committee does not think that it needs to be replicated in the fee dependency interpretation. Application guidance with examples is always helpful.
  4. The proposed considerations included at paragraph 22 are helpful in determining if threats exist and how significant the threats are to independence. The committee supports including this in application guidance rather than directly in the Code. The committee notes that, while it is helpful application guidance, similar guidance is not included in the Code for other undue influence threats.
  5. The committee supports including the guidance in paragraph 23 in application guidance rather than in the Code.
- e. Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.

The committee agrees with this proposal.

- f. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.

To the extent that firms do not have to go outside of their firms to hire qualified professionals to review their engagements, the committee believes that the effective date is reasonable. If firms need to hire an external professional to comply with the new guidance, additional time may be needed to ensure that firms are aware of the new guidance.

We appreciate your consideration of our comments. We are available to discuss them with you at your convenience.

Sincerely,



Nicole Hinkle  
Chair, PICPA Professional Ethics Committee

cc: Allison Henry, CPA, Vice President – Professional & Technical Standards, PICPA Staff Liaison



June 13, 2023

Ms. Toni Lee-Andrews  
 Director, Professional Ethics Division  
 AICPA Professional Ethics Executive Committee  
 1345 Avenue of the Americas, 27th Floor  
 New York, NY 10105

**Re: AICPA Professional Ethics Executive Committee, Proposed new and revised interpretations related to fees**

Dear Ms. Lee-Andrews:

PricewaterhouseCoopers LLP appreciates the opportunity to provide comments on the AICPA Professional Ethics Executive Committee's (the PEEC or the "Committee") proposed new and revised interpretations (the "proposed revisions") related to fees under ET sec. 1.200.001 (the "Independence Rule") of the AICPA *Code of Professional Conduct* (the "Code of Conduct").

We agree with the PEEC's proposal to adopt revisions to the Code of Conduct that provide members with a framework for (1) determining whether threats to independence are created by the level of the attest engagement fee, the total fees generated from a single attest client, and the ratio of fees for non-attest services to the attest engagement fee, and (2) addressing threats that are not at an acceptable level through the application of safeguards.

Appendix A includes our specific responses to the supplementary questions in the exposure draft and offers detailed comments and recommendations with respect to paragraphs 12-14, 22, and 23 of the explanatory memorandum in the exposure draft. We believe adoption of these recommendations would further converge the proposed revisions with the fee-related provisions of the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code").

\* \* \* \* \*

We would be pleased to discuss our comments and to answer any questions that you or the PEEC may have. If you have any questions regarding this submission, please contact Marc Panucci at [marc.panucci@pwc.com](mailto:marc.panucci@pwc.com) or Anika Heard at [anika.heard@pwc.com](mailto:anika.heard@pwc.com).

Sincerely,

PricewaterhouseCoopers LLP



## APPENDIX A

### Responses to the supplementary questions posed by the PEEC in the exposure draft

**A. Do you agree with the use of covered member in the proposed new interpretations? If you disagree, please explain why.**

We agree with the use of the term “covered member” in the proposed new interpretations.

**B. Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA’s? If you disagree, please explain why.**

We agree with the engagement scope of the proposed new interpretations.

**C. Is it clear that threats related to fee dependency should be considered each year, not just at year five?**

Paragraph 14 of the exposure draft’s explanatory memorandum lists examples of “helpful” actions “[w]hen fee dependency exists prior to the fifth year.” This appears to be the only language in the PEEC’s proposal which explicitly states that the independence threats related to fee dependency should be considered prior to year five, and suggests a more regular “periodic” review (at least annually) prior to that cut-off date for significant client relationships. Accordingly, if the PEEC expects that members will evaluate the level of the self-interest threat and/or undue influence threat each year that the member issues an attest report, we recommend that the Committee make this clearer in either the language of the proposed “Fee Dependency” interpretation or paragraph .16(c) of the “Conceptual Framework for Independence” interpretation of the Code of Conduct.

**D. Do you believe the considerations in paragraphs 12–14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.**

Our primary comments set forth below regarding paragraphs 12-14, 22, and 23 of the exposure draft’s explanatory memorandum do not relate to where the guidance ultimately resides, but rather to the nature of the guidance in those paragraphs and the context in which such guidance is used in the exposure draft. We recommend that paragraphs 12-14, 22, and 23 be included in the relevant interpretations subject to the Committee making the necessary revisions to address the comments below.

*Comments on paragraphs 12-14 regarding fee dependency*

Many of the examples of factors and actions set out in paragraphs 12 and 14 of the explanatory memorandum are derived from existing guidance in Chapter 10 of the AICPA’s *Plain English Guide to Independence* (the “Plain English Guide”) regarding determining the significance of an attest client to a member (or the member’s firm) and addressing the potential impact on the member’s ability to be objective and maintain independence when performing attest services for





that client. According to Chapter 10 of the Plain English Guide, the significance of an attest client is “measured in terms of fees, *status*, or *other factors*” [emphasis added]. This means that the assessment of an attest client’s significance is not limited to consideration of the total fees generated from the client; rather, the Plain English Guide provides other factors, unrelated to fees, that are also relevant in identifying significant attest clients (for example, the importance of the attest client to the firm’s growth strategies, the stature of the attest client, and the amount of time the firm, partner, office, or practice unit devotes to the attest client). However, in incorporating the Plain English Guide’s examples of factors and safeguards into paragraphs 12 and 14 of the explanatory memorandum, we believe that the Committee has taken that guidance out of the context in which it has historically been applied. Paragraph 12 presents the Plain English Guide’s qualitative and quantitative factors as being relevant for “evaluating whether [an attest client’s] fees represent a large proportion” of the total fees of the firm. Yet, the factors described in, for example, items (b), (c), and (d) of paragraph 12 address the significance of the attest client, including to the individual partner, office, or practice unit, which is unrelated to the actual fees generated from the attest client and whether they represent a large proportion of the firm’s total fees. For example, while the stature of an attest client may enhance the firm’s eminence in the marketplace and therefore have a bearing on the firm’s objectivity (due to concerns about the potential loss of such an important client), it is not necessarily indicative that the firm is relying excessively on the fees from that attest client. Similarly, an attest client would likely be significant under item (b) to a partner whose portfolio only includes that client; however, significance to an individual partner does not mean that the fees generated from that attest client represent a large proportion of the *firm’s* total fees.

Similarly, paragraph 14 provides examples of actions that the PEEC notes may be helpful when fee dependency exists prior to the fifth year. However, like the factors listed in paragraph 12, the Plain English Guide presents many of these examples as actions to help mitigate possible threats to a member’s objectivity and independence when an attest client is significant to the member (or the member’s firm), rather than actions to address a situation in which total fees from an attest client represent, or are likely to represent, a large proportion of the total fees received by the firm.

The context in which paragraphs 12 and 14 are presented in the exposure draft appears to inappropriately conflate two distinct issues: (a) evaluating whether an attest client is significant and addressing the impact of its significance on objectivity and independence, and (b) determining whether fees represent a large proportion of total fees of the firm. There is also a commingling of factors and actions related to fee dependency at the firm level with factors and actions that are only relevant to individual partners and offices despite the fact that the IESBA Code addresses considerations for the firm as a whole separately.

We recommend that the Committee align the presentation of the factors in paragraph 12 with IESBA Code paragraph 410.14 A3 by clarifying that these are factors to consider when evaluating the level of the self-interest and undue influence threats to independence in general, rather than factors to be used when determining whether an attest client’s fees represent a large proportion of the firm’s total fees. Paragraphs 13 and 14 of the explanatory memorandum should be similarly updated consistent with IESBA Code paragraph 410.14 A4 to clarify that the examples set out in each paragraph are actions that might be safeguards to address the self-interest and undue influence threats, rather than actions to reduce the proportion of the fees. In addition, we



recommend that the evaluation of threats and application of safeguards at the partner, office, and practice unit levels be addressed separately from the considerations applicable to the firm as a whole. This is the approach followed in IESBA Code paragraphs 410.14 A5–A7, which recognizes that “the threats created by fee dependency at the office and partner levels are not at a comparable order of magnitude compared to the threats created by fee dependency at the firm level.”<sup>1</sup> Accordingly, we recommend that the PEEC remove from paragraphs 12 and 14 those factors and examples of actions directly relevant to a partner, office, or practice unit and address them on a standalone basis in the Code of Conduct, similar to the IESBA Code. This would allow the PEEC to separately address the self-interest or undue influence threats when the fees generated by a firm from an attest client represent a large proportion of the revenue of one partner, one office, or one practice unit of the firm (but do not represent a large proportion of the total fees of the firm).

*Comments on paragraph 23 regarding fee ratios*

Paragraph 23 provides examples of actions that might help reduce the level of threats to independence when a large proportion of fees charged by the firm to an attest client is generated by the provision of nonattest services. These examples appear to be aligned with IESBA Code paragraph 410.5 A3, which provides examples of actions that might be safeguards to address the self-interest and intimidation threats created by the level of the audit fee paid by the audit client. We recommend that the examples in paragraph 23 instead be made consistent with IESBA Code paragraph 410.11 A3, which addresses the independence considerations associated with the proportion of fees for services other than audit relative to the audit fee. Given that fee ratio is a separate issue from the level of the attest engagement fee, we believe that an appropriate model for paragraph 23 are the examples of actions in IESBA Code paragraph 410.11 A3 for addressing the self-interest or intimidation threats when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client.

**E. Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.**

We agree that fees generated from the financial statement attest client and entities under item(a) of the Code of Conduct’s affiliate definition (i.e., entities under the financial statement attest client’s direct or indirect control) should be considered for purposes of applying the proposed “Fee Dependency” interpretation as it is the fees for services provided to such entities that have the highest potential to create threats to independence in relation to a group financial statement attest engagement. This is consistent with the scope of affiliates that are subject to the IESBA Code’s fee dependency provisions for financial statement audit and review clients that are not listed entities. We also agree with the PEEC that fees from entities under items (c) - (l) of the affiliate definition do not create significant threats to independence and should therefore not be included in the total fees calculation when calculating the total fees generated from a financial statement attest client. However, paragraph .03 of the proposed “Fee Dependency” interpretation expands upon the scope of the IESBA Code by requiring that the fee calculation also include fees from entities under item (b) of the Code of Conduct’s affiliate definition (i.e., entities in which the financial statement attest client has significant influence and the entity is material to the financial statement attest client).

---

<sup>1</sup> IESBA Basis for Conclusions, Revisions to the Fee-related Provisions of the Code (April 2021), paragraph 56.



In our view, the exposure draft does not put forth a compelling rationale for the PEEC expanding the scope of the fee dependency provisions in this manner. We believe that the expanded scope of the fee calculation does not correspond to an increased level of threat to an auditor's independence that may be driven by fees for services provided to a downstream significant influence material investee (i.e., the "investee"). This is because the financial statement attest client (i.e., the "investor") and the investee are operated separately without a control structure; therefore, the undue influence and self-interest threats do not rise to the same level as affiliates in a control structure. For example, the investee has its own governance structure and operations, with some level of influence from the investor, but not the ability to exercise control over the investee. Therefore, the investee may hire a member to provide non-attest services without consideration for that member's role as auditor of the investor. In addition, just as the investor would not be able to exercise undue influence over the investee's decisions, the nature of the relationship between such entities would also not provide the investee with the ability to influence an auditor in relation to the audit of the investor. Further, the ability of the investee to act independently of the investor also minimizes the presence of the self-interest threat on the part of the auditor, since the investor may not be able to influence whom the investee hires for the provision of non-attest services.

For the reasons described above, and consistent with the Committee's broader efforts towards convergence with the adoption of this interpretation, we recommend that the PEEC consider aligning paragraph .03 with the IESBA Code by only scoping in entities under item (a) of the Code of Conduct's affiliate definition.

**F. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.**

We agree that the PEEC's proposed effective date of January 1, 2025 provides adequate time to implement the proposed revisions to the Code of Conduct.

---

**GRANT THORNTON LLP**

Grant Thornton Tower  
171 N. Clark Street, Suite 200  
Chicago, IL 60601-3370

**D** +1 312 856 0200

**S** [linkd.in/grantthorntonus](https://www.linkedin.com/company/grantthorntonus)  
[twitter.com/grantthorntonus](https://twitter.com/grantthorntonus)

June 13, 2023

Professional Ethics Executive Committee  
Professional Ethics Division  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas, 19<sup>th</sup> Floor  
New York, NY 10036

Via Email to [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

**Re: Comments on Exposure Draft, Proposed new and revised interpretations related to fees**

Dear Committee Members:

Grant Thornton LLP appreciates the opportunity to comment on the American Institute of Certified Public Accountants ("AICPA") Professional Ethics Executive Committee's ("PEEC") March 2023 Exposure Draft ("Exposure Draft") proposing new and revised interpretations of the "Independence Rule" (ET sec. 1.200.001) related to fees. The proposal is part of the AICPA's PEEC project to converge with ethics standards promulgated by the International Ethics Standards Board for Accountants ("IESBA"). PEEC is exposing for comment in the ED the following: new interpretations of "Determining Fees for an Attest Engagement" (ET sec. 1.230.030) and "Fee Dependency" (ET sec. 1.230.040) and revised interpretations of "Conceptual Framework for Independence" (ET sec. 1.210.010) and "Client Affiliates" (ET sec. 1.224.010) and will be applicable to members in public practice.

Grant Thornton supports PEEC's proposal for new and revised interpretations on fees, which substantially converge with the related IESBA revisions. We agree the proposed revisions and additions provide members with additional guidance to address fee-related matters, including associated potential threats to independence, and will assist in the consistent application by members in practice.

While Grant Thornton supports the new interpretations and related revisions set forth in the Exposure Draft, we have provided the following comments for PEEC's consideration.

### Specific comments on Exposure Draft

Below are Grant Thornton's specific comments as requested in the Exposure Draft.

Grant Thornton agrees with items a., b., e., and f. noted as specific request for comment in the Exposure Draft and does not have any other comments to share as a response to these questions.

In response to item c., we believe clarification is needed under paragraph .04 of the proposed "Fee Dependency" interpretation (ET sec. 1.230.040) as it focuses on the fifth year's attest work. PEEC should consider further explanation through nonauthoritative guidance in the format of a frequently asked questions (FAQs) document to assist members in understanding the requirement to evaluate potential independence threats each year, including examples of action steps (or safeguards) the member can take before the fifth year.

In response to item d., we believe the considerations in paragraphs 12-14, 22, and 23 should be included in the proposed interpretations or as nonauthoritative guidance to provide members with additional guidance on identifying, evaluating, and addressing threats to independence related to fees and would assist members in complying with the proposed additions and revisions.

### Other specific comments

Grant Thornton has the following other specific comments for PEEC's consideration. Suggested additions appear in **boldface**. Suggested deletions in ~~strikethrough~~.

- Remove italics from "whether for attest or other services, is a business decision taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards." in paragraph .01 of the proposed "Determining Fees for an Attest Engagement" interpretation (ET sec. 1.230.030) as follows:

.01 Determining the fees to be charged to an *attest client*, ~~whether for attest or other services, is a business decision taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards~~ **whether for attest or other services, is a business decision taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.**

- Italicize "attest engagement" in first sentence and "attest" in the second sentence of paragraph .02 of the proposed "Determining Fees for an Attest Engagement" interpretation (ET sec. 1.230.030) as follows:

.02 The provision of other services to an *attest client* is not an appropriate consideration in determining the ~~attest engagement~~ **attest engagement** fee, except as provided for in paragraph .03. If a *covered member* responsible for determining the ~~attest~~ **attest engagement** fee allows the *attest engagement* fee to be influenced by the *firm's* provision of other services to an *attest client*, the self-interest and undue influence *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*. Accordingly, *independence* would be *impaired*.

- Include "firm" in paragraph .01 of the proposed "Fee Dependency" interpretation (ET sec. 1.230.040) as follows, since the member is evaluating to the total fees of the firm:

.01 When the total fees generated from an *attest client* by the *firm* represent a large proportion of the total fees of that *firm*, the dependence on, and concern about the potential loss of, fees from attest and other services from that *client* affect the level of the self-interest *threat* and create an undue influence *threat* to a *covered member's* or the **firm's independence**.

- Include hyperlink to [client affiliate](#) definition or reference 1.224.010 revised Client Affiliates interpretation in paragraph .03 of the proposed "Fee Dependency" interpretation (ET sec. 1.230.040) as follows:

.03 When the attest client is a financial statement attest client, the covered member should include fees from entities described under items (a) and (b) of the definition of [affiliate](#). **Also refer to the revised [client affiliates](#) interpretation (ET sec. 1.224.010).**

\*\*\*\*\*

We would be pleased to discuss our comments with you. If you have any questions, please contact Anna Dourdourekas, National Partner in Charge, Ethical Standards, at [Anna.Dourdourekas@us.gt.com](mailto:Anna.Dourdourekas@us.gt.com) or (630) 873-2633.

Sincerely,

/s/ Grant Thornton LLP



CliftonLarsonAllen LLP  
220 South Sixth Street, Suite 300  
Minneapolis, MN 55402-1436

phone 612-376-4500 fax 612-376-4850  
CLAconnect.com

June 14, 2023

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

Via email: [Ethics-ExposureDraft@aicpa.org](mailto:Ethics-ExposureDraft@aicpa.org)

**Re: Comments on Exposure Draft, “Proposed new and revised interpretations related to fees,” AICPA Professional Ethics Division, March 15, 2023**

Dear Committee Members:

CliftonLarsonAllen LLP (CLA) appreciates the opportunity to comment on the March 15, 2023 AICPA Professional Ethics Executive Committee (PEEC) Exposure Draft (ED), which proposes the following new Ethics Interpretations (ET): “Determining Fees for an Attest Engagement” interpretation (ET section 1.230.030) and “Fee Dependency” interpretation (ET 1.230.040). The ED also revises the following interpretations: “Conceptual Framework for Independence” interpretation (ET section 1.210.010) and “Client Affiliates” interpretation (ET section 1.224.010). We understand that the new and revised interpretations are the result of International Ethics Standards Board for Accountants (IESBA) convergence and serve to address fee-related related matters, including those that affect or are perceived to affect auditor independence.

**General Comments**

CLA overall supports the proposal. However, regarding attest engagement fees that may be influenced by a firm’s provision of other services to attest clients (as described in ET 1.230.030), we recommend the issuance of nonauthoritative guidance as to how to evaluate and monitor the existence of such fees.

**Request for Specific Comments**

If the PEEC proceeds with the proposed new and revised interpretations, we offer the following responses to the request for specific comments requested in the ED:

**Request for Comment**

- a. Do you agree with the use of *covered member* in the proposed new interpretations? If you disagree, please explain why.

**Response:** CLA agrees with the use of *covered member*.

**Request for Comment**

- b. Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.

**Response:** CLA agrees with the engagement scope.

**Request for Comment**

- c. Is it clear that threats related to fee dependency should be considered each year, not just at year five?

**Response:** CLA believes that it is clear that consideration of threats would be annual if the client has been a client for several years already at the time the interpretation becomes effective. For a new client obtained after the effective date of the interpretation, it is not clear that the firm is to take any action before the fifth year. The following edit to paragraph .01 may clarify that a threat exists even in the first year:

"When the total fees generated *in any year* from an attest client by the firm represent a large portion of the total fees..."

**Request for Comment**

- d. Do you believe the considerations in paragraphs 12-14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.

**Response:** CLA believes that the considerations in paragraphs 12-14, 22 and 23 should be included as nonauthoritative guidance, as it seems as if the purpose of their inclusion in the explanation was to provide guidance in addition to the interpretation.

**Request for Comment**

- e. Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of *affiliate*? If you disagree, please explain why.

**Response:** CLA agrees that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of *affiliate*.



**Request for Comment**

- f. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.

**Response:** CLA believes that the effective date provides adequate time to implement the proposals.

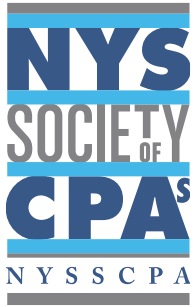
\* \* \*

CLA appreciates the opportunity to review and offer our comments on the proposed new and revised interpretations. We would be pleased to discuss any questions that you or your staff may have regarding our comments.

Respectfully submitted,



CliftonLarsonAllen LLP



June 14, 2023


American Institute of Certified Public Accountants  
Professional Ethics Division  
220 Leigh Farm Road  
Durham, North Carolina 27707-8110

By e-mail: [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

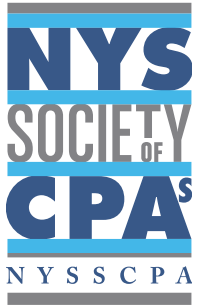
**Re: Invitation to Comment— AICPA Professional Ethics Division Exposure Draft:  
Proposed New And Revised Interpretations Related To Fees**

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 19,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above-captioned invitation to comment (ITC).

The NYSSCPA's Professional Ethics Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Nicole Booth, Professional Ethics Committee Chair, at 585-454-4161, or Keith Lazarus, NYSSCPA Staff, at 212-719-8378.

Sincerely,  
N Y S C P A  
  
N Y S S C P A  
Liren Wei  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**AICPA PROFESSIONAL ETHICS DIVISION EXPOSURE DRAFT: PROPOSED NEW  
AND REVISED INTERPRETATIONS RELATED TO FEES**

**June 14, 2023**

**Principal Drafters**

**Elliot L. Hendler  
Steven J. Leifer**

### **NYSSCPA 2023–2024 Board of Directors**

Liren Wei, <i>President</i>	Mathieu Aimlon	Kelly M. Mandell-Klumpp
Kevin P. O'Leary, <i>President-Elect</i>	Kurt Button	Philip Marciano
Timothy J. Hammond, <i>Secretary/Treasurer</i>	Frank J. DeCandido	Kevin Matz
Anthony S. Chan, <i>Vice President</i>	Timothy J. Doyle, Jr.	Shmueli Milecki
Edward N. Lee, <i>Vice President</i>	William H. Dresnack	Steven M. Morse
Philip J. London, <i>Vice President</i>	Michael R. Durant	Ronald F. Ries
John A. Mourer, <i>Vice President</i>	Nicholas Eells	William D. Ryan III
Lisa Mrkall, <i>Vice President</i>	Mark L. Farber	Lenore Sanchez
Calvin H. Harris Jr., <i>ex officio</i>	Lynne M. Fuentes	William F. Schwenk
	Stephanie Gigliotti	John M. Spatola
	Zachary Gordon	Jennifer Stone
	Orumé A. Hays	A'Isha Torrence
	Robert J. Huether	Mark M. Ulrich
	William C. Huether	Natalie Verbanac
	Michael R. Koeppel	Craig A. Zellar
	Katelyn N. Kogan	

### **NYSSCPA 2023–2024 Professional Ethics Committee**

Nicole A. Booth, <i>Chair</i>	Peter J. DelVecchia	Steven J. Leifer
Eric A. Altstdter	Elliot L. Hendler	Santa J. Marletta
Gary E. Carpenter	Diane L. Jules	Andrew M. Mintzer
David C. Daly	Kelly Kennedy-Ryu	Brian K. Pearson

### **NYSSCPA Staff**

Keith N. Lazarus

## **New York State Society of Certified Public Accountants**

### **Comments On AICPA Professional Ethics Division Exposure Draft: Proposed New and Revised Interpretations Related to Fees**

The New York State Society of Certified Public Accountants (NYSSCPA) appreciates the opportunity to provide comments on the AICPA's Professional Ethics Executive Committee (PEEC) Exposure Draft, Proposed New and Revised Interpretations Related to Fees. We offer our general comments and our responses to the specific questions of the Exposure Draft as follows:

#### **General Comments**

We support the efforts of PEEC to provide needed guidance with respect to the important issue of fee-related matters as they may affect auditor independence. PEEC's proposal uses a principles-based approach to consider threats to independence, instead of a percentage threshold. This has certain drawbacks, potentially leaving members with no guidance as to what yardsticks to use. We suggest that PEEC consider alternative approaches:

- Suggest a minimum percentage, below which fee dependency ordinarily would not exist
- Suggest a percentage above which there would be a rebuttable presumption that fee dependency does exist

The exposure draft recognizes that qualitative and quantitative factors enter into the determination as to whether fees represent a substantial proportion of the total fees of a firm. However, the exposure draft seems not to address the fact that a fee, even though not significant to a firm in percentage terms, may have an intangible effect on a firm's independence. Guidance in this area would be appropriate, even if it takes the form of an alert to members to be cognizant of this issue.

#### **Response to Requested Feedback in Specific Areas**

- a. Do you agree with the use of covered member in the proposed new interpretations? If you disagree, please explain why.

Yes, we agree that the use of covered member in the proposed interpretation is appropriate.

- b. Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.

The proposed scope extends to covered members, which we think is appropriate.

- c. Is it clear that threats related to fee dependency should be considered each year, not just at year five?

Threats to fee dependency should be considered each year. Waiting until year five permits possibly significant threats to go unchallenged far too long. By that time, four or five annual financial statements may have been issued and relied upon by users.

The exposure draft posits that where fee dependency extends for more than five years, threats are significant. When independence is at issue, we believe that fee dependency for one year may be significant and should be addressed.

- d. Do you believe the considerations in paragraphs 12–14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.

Considerations such as those in the cited paragraphs we believe should be included in nonauthoritative guidance so as to provide some direction for considering and addressing these issues. However, some of the guidance is unrealistic.

For example, the exposure draft suggests considering the stature of the client which may enhance the firm's eminence in the marketplace. This suggests that firms not accept prominent clients, or clients that are regarded as important.

Another suggestion is that to reduce the proportion of a client's fees to the firm's total fees, the firm should increase the client base. Most firms would be happy to increase their client base, but this is not a simple matter and not always easy to achieve.

- e. Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.

We agree that fees from an attest client should include fees from entities as described.

- f. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.

We agree that the proposed effective date of January 1, 2025 should give members sufficient time to implement the proposals.



KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

June 14, 2023

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

**RE: AICPA Professional Ethics Executive Committee Exposure Draft: Proposed New and Revised Interpretations Related to Fees**

Dear Ms. Lee-Andrews,

KPMG LLP ("KPMG," "our," or "we") is pleased to comment on the American Institute of Certified Public Accountants (AICPA) Professional Ethics Executive Committee's ("PEEC") Exposure Draft, *Proposed new and revised interpretations related to fees*. Overall, we are supportive of PEEC's proposal for both the new and revised interpretations as part of their convergence efforts with ethics standards promulgated by the International Ethics Standards Board for Accountants (IESBA). Unless otherwise noted in this letter, we concur with PEEC's position regarding the questions presented for specific comment, so we did not respond to each question individually.

**(c) Is it clear that threats related to fee dependency should be considered each year, not just at year five?**

We believe it is clear that threats related to fee dependency should be considered each year and not just at year five.

**(d) Do you believe the considerations in paragraphs 12–14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.**

We believe considerations in paragraphs 12–14, 22, and 23 of the explanation should be included in the proposed interpretations as factors that may be considered because it will help to provide a common understanding when evaluating fee dependency and consideration as to what may constitute undue influence.

**(e) Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.**

We believe that total fees from an attest client should not include fees received from entities described under item (b) of the definition of affiliate because services provided to entities described under item (b) of the definition of affiliate (e.g., material equity method investees) are not controlled by the attest client and in many instances are controlled by an entity that is unaffiliated with the attest client. Therefore, we believe it is unlikely that there would be significant threats to independence arising from fees from entities described under item (b) of the definition of affiliate.

We also included one suggestion for PEEC's consideration in the response below.



Ms. Toni Lee-Andrews  
Director of the AICPA Professional Ethics Division  
June 14, 2023  
Page 2 of 2

### **Determining Fees for an Attest Engagement**

ET 1.230.030.03 permits a covered member responsible for determining the attest engagement fee to take cost savings achieved as a result of experience derived from the provision of other services to an attest client into consideration when determining the fees to be charged to an attest client. Although we agree with the proposal, we suggest PEEC consider providing examples through an FAQ or similar nonauthoritative guidance to provide examples of situations where a member would or would not comply with the provisions in paragraph .03 regarding "cost savings achieved as a result of experience derived from the provision of other services." Although it may be difficult to provide specific parameters since each client situation may be different, by providing such examples, PEEC can provide members guidance on what would and would not be acceptable or reasonable in the circumstances.

\* \* \* \* \*

We appreciate PEEC's consideration of our feedback. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Nancy Miller at [nancymiller@kpmg.com](mailto:nancymiller@kpmg.com).

Very truly yours,

**KPMG LLP**

cc: Anna Dourdourekas, Chair  
Professional Ethics Executive Committee



June 15, 2023

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

Sent via e-mail: [Ethics-ExposureDraft@aicpa-cima.com](mailto:Ethics-ExposureDraft@aicpa-cima.com)

**RE: March 15, 2023, Exposure Draft: Proposed new and revised interpretations related to fees**

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

We appreciate the opportunity to comment on the proposed revisions to the AICPA Code of Professional Conduct proposed by the AICPA Professional Ethics Executive Committee (PEEC) as outlined above.

We have reviewed the March 15, 2023, *Exposure Draft – Proposed new and revised interpretations related to fees (ET Sec. 1.210.010, 1.224.020, 1.230.030, 1.230.040)* and understand the objectives that the Committee is attempting to achieve in bridging the gap between the International Ethics Standards Board for Accountants (IESBA) guidance and the AICPA's extant guidance regarding fees. We believe additional clarity and consideration, as discussed below, would better assist those interested parties in implementing these interpretations.

#### SPECIFIC RESPONSES REQUESTED BY EXPOSURE DRAFT

Question 1: Do you agree with the use of covered member in the proposed new interpretations? If you disagree, please explain why.

Yes, we agree with the use of covered member. It is clear that the covered member, for the purpose of these interpretations, is one who is responsible for determining fees.

Question 2: Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.

Yes, we agree that the engagement scope in the proposed new interpretations applies to all attest engagements.

Question 3: Is it clear that threats related to fee dependency should be considered each year, not just at year five?

While ET Sec. 1.230.040.04 states that "each of five consecutive years" are considered for determining an impairment of independence, it would add clarity to the interpretation to explicitly state that threats related to fee dependency should be considered each year.

Question 4: Do you believe the considerations in paragraphs 12–14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.

We believe that paragraphs 12-14 should be included as nonauthoritative guidance, while paragraphs 22 and 23 should be included in the proposed interpretations.

Paragraphs 12-14 provide consideration of different factors and considerations related to fee dependency. These paragraphs provide for firms to use judgement and thus the paragraphs would be more appropriately considered as nonauthoritative guidance since other factors and considerations may be relevant.

Paragraphs 22 and 23 provide examples of threats that would be beneficial to include in the proposed interpretations as these paragraphs provide guidelines about the scope and application of the rule.

Question 5: Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.

Yes, we agree that the application of this proposed interpretation to client affiliates is appropriate. However, as a practical matter firms should be allowed, at their discretion, to consider fees received from entities described under items (c) through (l).

Question 6: Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.

Yes, January 1, 2025, provides adequate time to implement these proposals.

#### ADDITIONAL COMMENTS FOR CONSIDERATION

The exposure draft addresses independence considerations for determining fees for an attest engagement. Specifically, the exposure draft states:

.02 The provision of other services to an *attest client* is not an appropriate consideration in determining the attest engagement fee, except as provided for in paragraph .03. If a *covered member* responsible for determining the attest *engagement* fee allows the *attest engagement* fee to be influenced by the *firm's* provision of other services to an *attest client*, the self-interest and undue influence *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*. Accordingly, *independence* would be *impaired*.

The proposed interpretation acknowledges, in paragraph .01, that the determination of fees to be charged to an attest client is a business decision. We agree that, in some cases, charging substantially more or substantially less for an attest engagement based on the profitability of other services provided to the same client could result in a self-interest bias unduly influencing the objectivity of the practitioner. However, we think that the degree of influence and the reasons for charging a higher or lower attest fee should be considered in evaluating whether self-interest and undue influence threats exist.

In the Basis for Conclusions prepared by the Staff of the IESBA in April 2021 related to Revisions to the Fee-related Provisions of the Code, it was noted that IESBA did not intend to approach the issue of the level of the audit fees from the perspective of determining what the appropriate level is but from the perspective of highlighting that unduly low, or unduly high fees can impact the level of the self-interest threat to independence. IESBA proposed in the ED and reaffirmed in the final provisions that determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards. In addition, IESBA notes that the level of the audit fees is a specific matter which the firm needs to evaluate further when determining whether the threats created by fees paid by the audit client are at an acceptable level and IESBA has retained the guidance on factors to consider along with example actions that might be safeguards. We agree that the influence of other services on the attest fees is a factor that should be considered and evaluated as a potential threat, but do not believe it would be a threat that would always impair independence.

Furthermore, we agree with paragraph .03 of the proposed interpretation, which indicates that consideration of cost savings due to performing multiple services is not considered a threat, but also believe there may be other reasons for setting the attest fee which likewise do not pose a threat to independence.

For example, consider a situation in which there is a proposal for audit and tax services for which the engagement team determined the audit fee on a standalone basis would be \$75,000 and the tax fee would be \$25,000; however, due to the client perceiving more value for the tax services the engagement team proposed an audit fee of \$70,000 with tax services of \$30,000. Based on PEEC's proposed revision, the firm would not be independent with respect to the audit because the audit fee was influenced by the provision of other services, without regard for the magnitude of or reason for the influence. It would seem more appropriate to allow firms the opportunity to evaluate the self-interest and undue influence threat to determine if their independence was impaired.

We agree with paragraph .03 of proposed interpretation, which indicates that consideration of cost savings due to performing multiple services is not considered a threat, but also believe there may be other reasons for setting the attest fee which likewise do not pose a threat to independence.

Based on these considerations, we request PEEC evaluate this provision to allow the practitioner to evaluate the degree of and reason for influence in determining whether a threat exists.

\* \_ \* \_ \*

Please contact Lindy Beldyga at [lindy.beldyga@plantemoran.com](mailto:lindy.beldyga@plantemoran.com) or Christina Moser at [christina.moser@plantemoran.com](mailto:christina.moser@plantemoran.com) with any questions.

Very truly yours,

*Plante & Moran, PLLC*

Plante & Moran, PLLC

June 8, 2023

Attn: AICPA Professional Ethics Executive Committee  
Ethics-Exposuredraft@aicpa.org.

Re: Exposure Draft – Proposed new and revised interpretations related to fees

Dear AICPA PEEC:

The views expressed herein are written on behalf of the Professional Standards Committee (PSC) of the Texas Society of CPAs. The committee has been authorized by the Texas Society of CPAs' Leadership Council to submit comments on matters of interest to the membership. The views expressed in this document have not been approved by the Texas Society of CPAs' Leadership Council or Board of Directors and, therefore, should not be construed as representing the views or policy of the Texas Society of CPAs. Please find our responses below to the requests for comment in the above-referenced exposure draft.

**a. Do you agree with the use of covered member in the proposed new interpretations?  
If you disagree, please explain why.**

**Response:** The PSC agrees with the use of covered member in the proposed new interpretations.

**b. Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.**

**Response:** The PSC agrees overall with the engagement scope in the proposed new interpretations, subject to the following concern:

- The PSC believes that although a specified quantitative amount for determining fee dependency is not appropriate (e.g., the 30% threshold from the IESBA standard), a discussion of quantitative benchmarks may be helpful to firms, similar to extant professional guidance relating to materiality considerations in an audit of financial statements, such as included in SEC SAB 99.

**c. Is it clear that threats related to fee dependency should be considered each year, not just at year five?**

**Response:** Please see our response to question d. below.



**d. Do you believe the considerations in paragraphs 12–14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.**

**Response:** The PSC believes the considerations in paragraphs 12-14, 22 and 23 are helpful and should be included in the proposed interpretations. However, we have the following comments and suggestions:

- The exposure draft is not sufficiently clear on the distinction between recommended safeguards in years prior to year 5, during year 5, and subsequent to year 5 (question c. above). Additional clarification would be helpful.
- The distinction between the discussions of firm fee dependency (self-interest threat) and non-audit services (undue influence threat) is not sufficiently clear. We recommend revisions to include, for example, section headings to provide additional clarity.

**e. Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.**

**Response:** The PSC agrees that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of an affiliate.

**f. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.**

**Response:** The PSC believes that an effective date of January 1, 2025 provides adequate time to implement the fee proposals.

We appreciate the opportunity to provide input on this exposure draft of proposed new and revised interpretations related to fees dated March 15, 2023.

Sincerely,



Jeffrey L. Johanns, CPA  
Chair, Professional Standards Committee  
Texas Society of Certified Public Accountants

June 15, 2023

Professional Ethics Division  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas, 19th Floor  
New York, NY 10036

Via email to [ethics-exposuredraft@aicpa.org](mailto:ethics-exposuredraft@aicpa.org)

**Re: Exposure Draft, *Proposed new and revised interpretations related to fees*, AICPA Professional Ethics Division – March 15, 2023**

RSM US LLP (RSM) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division's March 15, 2023, Exposure Draft, *Proposed new and revised interpretations related to fees* (the Exposure Draft). RSM is a leading provider of audit, tax and consulting services focused on the middle market.

As requested, we have the following comments on the specific aspects of the proposed interpretations and revisions upon which PEEC is seeking feedback:

***Use of Covered Member***

- a. *Do you agree with the use of "covered member" in the proposed new interpretations? If you disagree, please explain why.*

We agree with the use of *covered member* in the proposed new interpretations.

***Engagement Scope***

- b. *Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.*

We agree with including both entities that a *financial statement attest client* can control and over which it has *significant influence* that are material to the *financial statement attest client* in the proposed new "Fee Dependency" interpretation. For consistency of application, we believe this same scope should apply to a *financial statement attest client* in the proposed new "Determining Fees for an Attest Engagement" interpretation.

***Threats Related to Fee Dependency***

- c. *Is it clear that threats related to fee dependency should be considered each year, not just at year five?*

We do not believe it is clear in proposed new interpretation 1.230.040 that fee dependency should be considered (evaluated under the Conceptual Framework for Independence) each year prior to year five. See response to immediately following question.

### **Considerations in Paragraphs 12–14, 22 and 23**

- d. *Do you believe the considerations in paragraphs 12–14, 22 and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.*

We believe proposed new interpretation 1.230.040 should be revised to require that fee dependency be evaluated under the Conceptual Framework for Independence in each year one through four based upon the considerations in paragraphs 12–14 of the Exposure Draft.

It would be helpful if the considerations in paragraphs 22–23 were incorporated into Section 1.295.020 Cumulative Effect on Independence When Providing Multiple Nonattest Services. If that cannot be accomplished at this time, nonauthoritative guidance would be helpful.

### **Total Fees From an Attest Client**

- e. *Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of “affiliate”? If you disagree, please explain why.*

We agree that total fees received from a *financial statement attest client* should include fees received from entities described under items (a) and (b) of the definition of *affiliate*.

### **Proposed Effective Date**

- f. *Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.*

Unless the proposed new and revised interpretations are issued in final form before December 31, 2023, we do not believe the proposed effective date of January 1, 2025, provides sufficient time for firms to effectively implement these new requirements.

We also offer the following comments on each new and revised Interpretation:

### **1.230.030 Determining Fees for an Attest Engagement**

We agree that determining fees to be charged to an *attest client*, whether for attest services or other services, is a business decision that is generally market driven. However, we are concerned that demonstrating that *attest engagement* fees were not influenced by the *firm's* provision of other services to an *attest client* may be overly burdensome. Further, we believe that the self-interest and undue influence threats related to the influence of other services fees on the *attest engagement* fee can often be reduced to an acceptable level when evaluated based on the considerations discussed in paragraph 22 of the Exposure Draft and the application of safeguards such as those set forth in the examples in paragraph 23 of the Exposure Draft. Consequently, we believe this proposed new interpretation is overly restrictive.

### **1.230.040 Fee Dependency**

We believe the example in paragraph .02 of how a *covered member* might calculate the total fees of the *firm* is unnecessary and recommend paragraph .02 be revised to simply state, “In calculating the total fees of the *firm*, the *covered member* should include fees from attest and nonattest services, excluding fees to other *network firms* within the *firm's network*.”

We are unsure of how to apply paragraph .04b., which states, “... an appropriate reviewer, who is not a member of the *firm* issuing the report or a professional body, reviews the fifth year's attest work.” Should

there be a comma between “report” and “or” such that a review by a professional body satisfies the requirement? If so, this could be clarified by stating whether this would be any professional body or whether this is intended to cover a situation where the engagement is subject to a peer review.

#### **1.210.010 Conceptual Framework for Independence**

We do not understand and think it should be clarified regarding why the *self-interest threat* related to fee dependency applies to both the *member* and the member’s *firm* while the *undue influence threat* related to the proportion of fees generated by providing nonattest services only relates to the *firm*.

#### **1.224.010 Client Affiliates**

As stated previously, we believe only entities included in categories (a) and (b) of the definition of *affiliate* should be included when applying proposed new interpretation 1.230.030, as well as 1.230.040. Also, for consistency, we believe only those affiliates should be included when applying Section 1.295.020 Cumulative Effect on Independence When Providing Multiple Nonattest Services.

We appreciate this opportunity to provide feedback on the Exposure Draft and would be pleased to respond to any questions you may have. Please direct any questions regarding this letter to Claire Blanton, National Director of Independence, Compliance and Ethics, at 704.206.7271.

Sincerely,

*RSM US LLP*

RSM US LLP





National Association of State Boards of Accountancy

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

June 12, 2023

Professional Ethics Executive Committee  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas  
New York, NY 10105

Via e-mail: [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

**Re: Exposure Draft: Proposed New and Revised Interpretations Related to Fees**

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

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

In furtherance of that objective, NASBA supports the PEEC in this initiative. We have reviewed the Exposure Draft and have the following suggestions for improving the understandability and applicability of the interpretations.

### **General Comment**

We believe that the proposed new and revised interpretations may have a disproportionate impact on small firms that focus on attest work and as such, PEEC should assess the proposed new and revised interpretations from the perspective of a small firm.

### **Comments on Specific Questions**

*a. Do you agree with the use of **covered member** in the proposed new interpretations? If you disagree, please explain why.*

NASBA agrees with the use of *covered member* in the proposed interpretations.

*b. Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.*

NASBA agrees with the engagement scope in the proposed new interpretations.

*c. Is it clear that threats related to fee dependency should be considered each year, not just at year five?*

NASBA does not believe it is clear that, as written, the threats related to fee dependency should be considered each year, not just at year five. We recommend that the language in paragraph .04 be re-written to clarify explicitly that there is an expectation that threats related to fee dependency should be considered annually, not just at year five.

*d. Do you believe the considerations in paragraphs 12–14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.*

NASBA believes the interpretations provide sufficient information to the member and the considerations in paragraphs 12-14, 22, and 23 of the explanation should be included as nonauthoritative guidance. In addition, we believe that clarifying language should be added to paragraph 14 to indicate that annual assessments of threats will have already taken place in years one through five.

*e. Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of **affiliate**? If you disagree, please explain why.*

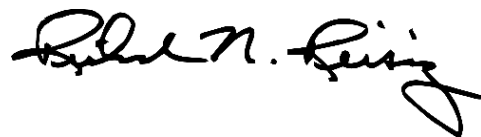
NASBA agrees that fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate; however, further clarification on how fees impact independence within the definition of affiliate would be helpful to the user.

*f. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.*

NASBA agrees that the effective date provides adequate time to implement the proposals.

We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,



Richard N. Reisig, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO



Ernst & Young LLP  
One Manhattan West  
New York, NY 10001-8604

Tel: +1 212 773 3000  
ey.com

Ms. Toni Lee-Andrews, Director - Professional Ethics Division  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas, 27th Floor  
New York, NY 10105

June 22, 2023

Mail to: [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

## Proposed new and revised interpretations related to fees

Dear Ms. Lee-Andrews:

Ernst & Young LLP ("EY US") is pleased to provide comments on the American Institute of Certified Public Accountants ("AICPA") Professional Ethics Executive Committee's ("PEEC") March 2023 Exposure Draft, *Proposed new and revised interpretations related to fees* (the "proposed changes" or "proposal").

We are supportive of PEEC's efforts to enhance the provisions of the AICPA's Code of Professional Conduct (the "Code") to converge with ethics standards promulgated by the International Ethics Standards Board for Accountants ("IESBA"). Overall, we support the proposed changes, and we believe inclusion of the fee-related provisions contribute to a more robust Code.

We agree with the proposed new interpretation on determining fees for the attest engagement and believe that the proposed changes balance the importance of setting such fees as stand-alone fees reflective of the cost of resources to be utilized and commensurate to the scope, scale, and complexity of the attest engagement with a recognition that potential efficiencies may be attributable to the knowledge and understanding derived from the provision of other services. We also agree with the proposed changes to the examples in the *Conceptual Framework for Independence* to highlight factors to consider in evaluating the self-interest and undue influence threats.

Overall, we support the proposed changes related to fee dependency. However, as more fully explained in our comments attached, there are certain proposed changes that we believe warrant further consideration by PEEC, and we hope our comments will aid PEEC in its efforts.

We would be pleased to discuss our comments with you. If you have any questions regarding this submission, please contact Karen Moncrieff at [karen.moncrieff@ey.com](mailto:karen.moncrieff@ey.com).

Yours sincerely,

A stylized, handwritten-style signature of 'Ernst &amp; Young LLP' in dark blue ink.

## Appendix – Detailed comments and recommendations

We are not including responses to questions a. and f. below because we agree with the proposed guidance and the reasoning as outlined in the exposure draft's explanatory memo.

*b. Do you agree with the engagement scope in the proposed new interpretations, especially where the proposed scope goes beyond IESBA's? If you disagree, please explain why.*

Response:

We believe that the conceptual framework evaluation requires an annual evaluation to determine whether threats are at an acceptable level. We support the view expressed in the IESBA exposure draft for *Proposed Revisions to the Fee-related Provisions of the Code*, dated January 2020, ("IESBA Exposure Draft") that "by the nature of assurance engagements [other than audit and review engagements], many of which might be limited in scope, for a narrow purpose, and non-recurring, firms more likely will reach the conclusion that the threats created are at an acceptable level." We recommend that, consistent with IESBA's final revisions to the fee-related provisions, the safeguards in paragraph .04 a. and b. of the proposed *Fee Dependency* interpretation ("required safeguards") not be mandated for attest engagements other than audit and review services ("other attest services") if application of the conceptual framework concludes threats are at an acceptable level for the other attest services. A fee dependency analysis focused on quantitative considerations is not relevant for certain other attest services as the fee for the service may not be negotiated or paid by the responsible party of the attest service, such as for a review of the controls of a third-party service provider under Statement on Standards for Attestation Engagements 18 (SSAE 18). The qualitative considerations of paragraph 12 of the exposure draft's explanatory memo are also not relevant to many other attest services given their limited scope or purpose.

We support a principles-based approach for annually evaluating whether there is a significant threat to independence created by reliance on fees from an attest client. However, we believe a specified threshold, as used by IESBA, should be included in the new interpretation to enable consistency in applying the required safeguards in paragraph .04. We do not take exception to the 30% threshold used by IESBA for non-PIEs.

*c. Is it clear that threats related to fee dependency should be considered each year, not just at year five?*

Response:

As drafted, we do not believe the proposed interpretation is clear that threats related to fee dependency should be considered annually prior to year five or that safeguards other than the required safeguards included in paragraph .04 a. and b. of the proposed *Fee Dependency* interpretation may be needed to reduce the threat to an acceptable level. We recommend clarifying the annual expectations within the interpretation or in nonauthoritative guidance and providing

examples of factors that may be helpful in determining the level of the threat and potential safeguards, such as those included in paragraph 14 of the exposure draft's explanatory memo.

Additionally, we believe that clarification is needed for the phrase "an appropriate reviewer, who is not a member of the *firm* issuing the report" as used in the proposed Fee Dependency Interpretation. Firm is defined in paragraph .20 of 0.400 Definitions of the Code, to include "... a network firm when the engagement is either a financial statement audit or review engagement...". It is not clear whether the proposed interpretation would allow for use of an appropriate reviewer from a network firm. Consistent with the IESBA Code, we believe an appropriate reviewer, as the term is used in AICPA Q&A Section 125 Fees, from a network firm should be allowed to perform the pre-/post-issuance review under paragraph .04 a. and b. of the proposed interpretation. The IESBA Code is clearer on this point because as stated in the IESBA Exposure Draft "[i]n line with the Structure drafting guidelines for the [IESBA] Code, 'firm' does not include network firms; therefore, it is permitted that the professional accountant who performs the review be a member of a network firm."

*d. Do you believe the considerations in paragraphs 12-14, 22, and 23 of the explanation should be included either in the proposed interpretations or as nonauthoritative guidance? If so, please explain why.*

Response:

We are generally supportive of considering certain of the above-mentioned paragraphs for nonauthoritative guidance once certain clarifications have been made, including those described below.

We believe that the required safeguards described in paragraph .04 of the proposed *Fee Dependency* interpretation are most relevant when the significant threat to independence is at the firm level. Paragraph .01 of the proposed *Fee Dependency* interpretation suggests that "large proportion" is a quantitative measure derived by comparing the total fees from the attest client to total fees of the firm. However, paragraph 12 a. of the exposure draft's explanatory memo suggests that that the calculation should also be performed at the levels of engagement partner, office, or practice unit. We believe that policies and procedures for identifying, monitoring, and mitigating threats to independence as described in the existing nonauthoritative guidance in Chapter 10: *Fee Issues* of the *Plain English Guide to Independence* would likely be sufficient to mitigate threats at the levels of engagement partner, office, or practice unit. Consideration should be given to clearly distinguish between i) threats at the firm level that may require application of safeguards involving parties external to the firm issuing the report and ii) threats at other levels, such as engagement partner, office, or practice unit, where internal safeguards may be sufficient.

We recommend excluding the factors in paragraph 12 b. of the exposure draft's explanatory memo from the proposed interpretation and related guidance. In addition to paragraph .01 as noted above, the principle as described in paragraph 11 of the explanatory memo as well as the proposed change to

the *Client Affiliate* interpretation, which refers to “calculating the total fees generated from a financial statement attest client,” also support a view that a large proportion of total fees received by the firm is solely a quantitative determination. Many of the factors in paragraph 12 b. of the explanatory memo are not applicable to that quantitative determination. We note that most of the factors listed in paragraphs 12 and 14 of the exposure draft’s explanatory memo are included in Chapter 10: *Fee Issues* in the context of a “significant portion” of the firm’s fees and recommend revising that existing guidance for additional relevant factors included in paragraphs 12 h. and 14 b. of the explanatory memo and explaining the difference between a “significant portion” and “large proportion.”

Although we would not object to inclusion of the considerations from paragraphs 22 and 23 of the explanatory memo in nonauthoritative guidance, we believe clarification is needed for the application of such guidance. We do not believe the proportion of fees charged to an attest client by the firm that are generated by non-attest services would be a consideration for the proposed *Fee Dependency* interpretation which, as currently drafted, focuses solely on total fees from an attest client.

*e. Do you agree that total fees from an attest client should include fees received from entities described under items (a) and (b) of the definition of affiliate? If you disagree, please explain why.*

Response:

We do not believe fees paid by downstream significant influence affiliates of the financial statement attest client should be equally weighted with fees paid by controlled affiliates in the analysis of fee dependency. If an analysis was performed and a conclusion reached that the audit client did not control the downstream entity’s daily operations, management decisions, etc., it also could not determine professional services fees. As such, fees for permissible services that are not under the control of the financial statement attest client would rarely threaten a firm’s independence. This view is supported by the decision made by IESBA in R410.25(a) of the 2021 Final Pronouncement for *Revisions to the Fee-related Provisions of the Code* to limit the required disclosure of fees for other services to “only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion.” We believe the same professional judgment for the IESBA fee disclosure should apply in identifying any impact on the level of threat to independence created by fees for permissible services provided to affiliates that the financial statement attest client does not directly or indirectly control. We recommend reducing the proposed scope to be consistent with IESBA.

As such, we recommend paragraph .02 g. of *Client Affiliates* be revised as follows:

“For purpose of applying the *Fee Dependency* interpretation [1.230.040], fees from entities described under items ~~(c)~~(b)-(l) of the definition...”.

## IESBA update

### Reason for agenda item

To provide project summaries for IESBA's key projects and task forces.

Division staff welcomes input on any of the projects.

### Materials presented

- Agenda item 4B: Sustainability
- Agenda item 4C: Use of experts
- Agenda item 4D: Tax planning and related services

## Sustainability

### Project description

The project has two goals:

- To develop ethics and independence standards for use by all sustainability assurance practitioners, which includes professional accountants and non-professional accountants (that is, assurance practitioners who are not professional accountants)
- To revise the IESBA code to address ethics issues related to sustainability reporting

Work will be performed in two workstreams, which are outlined in sub-sections under the “Project update” section of this agenda item:

- Workstream 1: Independence in sustainability assurance engagements
- Workstream 2: Ethics in sustainability reporting and assurance

### IESBA coordination

In addition to coordinating its work internally with the Use of Experts Task Force, IESBA is coordinating development of these standards with the International Auditing and Assurance Standards Board (IAASB) and the International Sustainability Standards Board (ISSB). The International Organization of Securities Commissions (IOSCO) March 2023 [Report on International Work to Develop a Global Assurance Framework for Sustainability-related Corporate Reporting](#) acknowledges being actively engaged with IESBA and the IAASB.

At its March 2023 meeting, IESBA also supported establishing a reference group of stakeholders outside the accounting profession to be a sounding board for informing development of “profession-agnostic” ethics and independence standards for sustainability assurance engagements. The importance of using this reference group was expressed during the June 2023 meeting as work on proposed revisions continues.

### Status

IESBA approved the project’s proposal in December 2022. Through roundtables held in March and April 2023, the board has gathered input from a broad range of stakeholders on ethics and independence requirements in sustainability assurance and reporting. Other practitioners who are not accountants were included in the roundtables. IESBA’s June 2023 meeting included a summary of the feedback from the roundtables and a preliminary draft of exposure draft revisions. This discussion of this topic occurred over approximately two and half days and meeting materials can be found [here](#).



Another draft of the revisions is expected to be sent to IESBA for review by the end of July 2023. During the June 2023 meeting, IESBA stressed that it still plans to approve the exposure draft in December 2023.

Given the pace in which the AICPA Professional Ethics Division expects these revisions to happen, two groups will assist PEEC and AICPA staff in monitoring this project:

- PEEC members or those designated by PEEC members
- Other stakeholders, internal and external to the Association, that have experience or interest in sustainability reporting and assurance

### Project update

#### Workstream 1: Independence in sustainability assurance engagements

IESBA's proposed standard will provide independence requirements for professional accountants and other practitioners who are not professional accountants. Workstream 1 will consider the following:

- Which independence standards are applicable based on specific scenarios such as the following:
  - When the assurance on sustainability information is with the financial information
  - When assurance on the information is prepared in accordance with a general-purpose framework, such as International Sustainability Standards Board (ISSB) standards and
  - When assurance is on information not prepared in accordance with a general-purpose framework
- What constitutes management responsibility and whether there is a need for examples of management responsibilities for sustainability-related activities
- Whether certain activities or services should be permissible rather than prohibited in a sustainability assurance engagement
- New terminology and revisions to existing terminology to ensure sustainability engagements are addressed appropriately
- How the revised International Standard on Quality Management (ISQM) standards are dealt with in International Standard on Sustainability Assurance (ISSA) 5000 when considering extending the code to other practitioners who are not accountants

- New examples of factors for evaluating the extent of public interest in the sustainability aspect of an entity
- The appropriate independence period for sustainability-related information
- How ISSA 5000 addresses group sustainability engagements

At its June meeting, IESBA discussed the roundtable feedback and provided feedback on the first draft of the proposed revisions presented by the workstream.

As a reminder, the IESBA code has two sets of independence provisions:

- 4A provisions apply to financial statement audits and reviews and have significantly more requirements than 4B. The provisions are more consistent with the AICPA Code of Professional Conduct for these engagements.
- 4B provisions apply to other assurance engagements. Sustainability engagements currently fall under part 4B.

Due to the public interest nature of sustainability reports, IESBA believes that the requirements in part 4A should apply to certain sustainability assurance engagements that are of heightened public interest. These requirements are being drafted for all sustainability assurance practitioners regardless of whether the practitioner is a professional accountant.

At IESBA's June meeting and after feedback from IESBA during that meeting, the task force presented the scope of the revisions as being applicable to sustainability assurance engagements where the sustainability information on which the firm expresses opinion is

- a. reported in accordance with a general-purpose framework; and
- b. i. required to be provided in accordance with law or regulation, or
- ii. publicly disclosed to support decision-making by investors or other stakeholders.

For any sustainability assurance engagements not meeting these criteria, part 4B will apply.

The workstream members also clarified that the revisions for part 5 will not apply to direct engagements, or sustainability assurance provided on sustainability information developed in accordance with a special-purpose framework or entity-developed criteria.

In drafting the independence revisions that were presented to IESBA, workstream members started with part 4A and tailored sections 400 through 600 to include in the new part 5 of the code (see more on the approach to the revisions under the "Project output" section below).

Many of the revisions proposed to tailor part 4A requirements to requirements for sustainability assurance engagements under part 5 include replacing terminology with proposed new definitions. There were also further proposed revisions to tailor requirements or application guidance that was applicable to audit and review engagements to sustainability assurance engagements. The following includes examples of the revisions being proposed in part 5 as it relates to the changes in terminology:

- Replace “professional accountant” with “sustainability assurance practitioner” or “practitioner.”
- Replace “audit or review engagement” with “sustainability assurance engagement.”
- Replace “audit or review client” with “sustainability assurance client.”
- Replace “audit team” with “sustainability assurance team.”
- Replace “engagement partner” with “engagement leader.”

IESBA provided feedback on each section of the proposed revisions within part 5, but more substantial discussion was related to following topics:

- *How the revisions will apply to entities that are considered PIEs.* If the entity meets the definition of PIE or if the specific jurisdiction determines that the entity is a PIE in the context of the sustainability assurance engagement, the proposed requirements for PIEs in part 5, which are consistent with part 4A, will be applicable.

Note that in this proposal, independence requirements are applicable to related entities. AICPA independence requirements applicable to sustainability engagements performed under the SSAEs apply with respect to the responsible parties only.

- *Revisions related to fees.* Workstream members proposed that when a professional accountant performs the financial statement audit and the sustainability assurance engagement the professional accountant should consider the fees from the sustainability assurance engagement as an “other fee.”

IESBA believes that if a large portion of fees come from “other fees” compared to the audit fees, there are threats to independence that should be considered. Some IESBA members believe that all assurance services should be compared to nonassurance fees rather comparing audit fees to all other fees as proposed.

- *Group assurance revisions.* IAASB has not included group assurance requirements in the proposed ISSA 5000 requirements yet but plans to in future revisions. Workstream members proposed new terminology and requirements for group assurance in

sustainability assurance engagements. Workstream members agreed to use the reference group to continue to better understand current practice and the challenges faced when carrying out assurance in a complex group reporting situation. They will also coordinate with the Use of Experts Task Force.

## Workstream 2: Ethics in sustainability reporting and assurance

IESBA's proposed standard under this workstream will provide ethics requirements related to sustainability reporting and assurance. Because sustainability information tends to involve less quantitative factors (for example, human rights and other social factors), this may require different skills and mindsets from professional accountants and IESBA will consider whether the fundamental principles, the conceptual framework, and mindset requirements in the IESBA code are still appropriate for the various services that could be provided related to sustainability.

As outlined in the project proposal, this consideration will involve providing guidance to address threats that may arise when undertaking sustainability-related tasks and activities, and appropriate safeguards. Such guidance may include addressing

- the potential for misleading sustainability information (that is, greenwashing).
- risks that a professional accountant will accept information without performing appropriate procedures when the information is prepared by a sustainability expert or using sustainability-related technology.
- pressures to act unethically when faced with unrealistic goals or targets.
- identification and mitigation of conflicts of interest issues.
- guidance to assist preparers of sustainability information in exercising discretion and professional judgement, especially when a general-purpose framework is not available.

Workstream 2 will also include review of requirements in part 2 of the IESBA code that are not in part 3, and whether they apply to sustainability reporting. This consideration will include

- whether ethics responsibilities should vary based on the role and seniority of a professional accountant in business.
- whether a new section should be added to part 3 to provide guidance for professional accountants that are engaged to assist their clients in sustainability-related tasks and activities.
- how to address situations when the preparation of sustainability information is carried out by other practitioners who are not professional accountants.

During IESBA's March 2023 meeting, workstream members recommended that the scope of its work focus on ethics requirements for sustainability assurance practitioners (professional accountants and other practitioners who are not professional accountants), and ethics requirements for sustainability reporting for professional accountants only (that is, professional accountants in business). Workstream members reaffirmed this recommendation during the June 2023 meeting.

During the June 2023 meeting, IESBA heard the approach to the revisions for part 5 (which is applicable to sustainability assurance engagements meeting certain criteria) as it relates to ethical requirements other than independence. Extant requirements for professional accountants are focused on the profession, which includes all services provided by the profession; however, the scope of the revisions in this project focuses on a particular service (sustainability assurance engagements).

The recommendation is that proposed revisions address sustainability assurance engagements and other engagements performed by sustainability assurance practitioners for the same client because unethical behavior in other engagements for a sustainability assurance client may have a direct effect on credibility and public trust underpinning sustainability assurance. Revisions that address all engagements performed by sustainability assurance practitioners would be too broad and outside the scope of the project; however, workstream members plan to include language encouraging compliance with the ethical requirements in all engagements performed by sustainability assurance practitioners who are not professional accountants.

Similar to the drafting approach for the proposed revisions in workstream 1, the workstream 2 approach started with the requirements in parts 1 and 3 and tailored those requirements to sustainability assurance engagements and other engagement performed for the same client. After IESBA's deliberation, workstream members plan to also propose requirements that are similar to section 270 of part 2 (related to breaches) be included in part 5.

As it relates to revisions to part 2 (Professional Accountants in Business), IESBA supported the recommendation to develop ethics standards for preparers of sustainability information for professional accountants only and will encourage compliance with the requirements by those preparers who are not professional accountants.

IESBA also considered several new key definitions being proposed as part of workstream 2.

### Project output


At its March 2023 meeting, IESBA considered a few possible approaches to making the revisions being developed in workstreams 1 and 2. At its June 2023 meeting, IESBA agreed with the proposal to develop a new part 5 of the IESBA code that will include requirements applicable to all sustainability assurance practitioners (professional accountants and those that are not professional accountants) who perform sustainability assurance engagements that meet

the criteria being proposed in the revisions (see discussion of that criteria in the workstream 1 section above).

To recap the proposals for part 5, the proposed revisions will include the following:

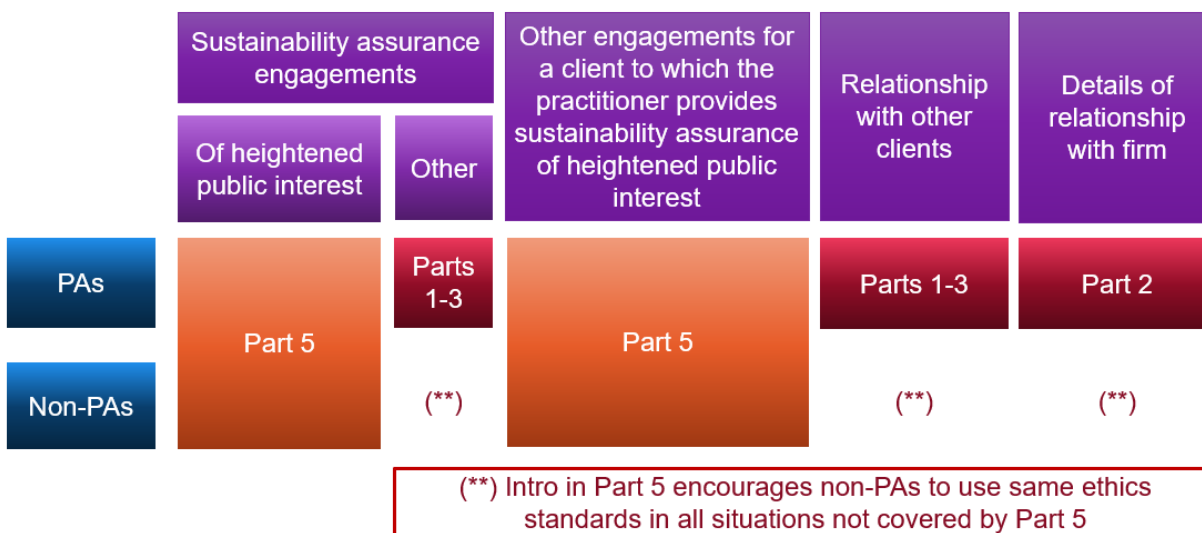
- Equivalent requirements from parts 1 and 3 of the extant code
- Equivalent requirements from section 270 (breaches) of part 2 of the extant code
- Equivalent requirements from part 4A of the extant code

The engagements that meet the specific criteria proposed in workstream 1 are referred to as “Part 5 engagements” in the table below. This table demonstrates which independence requirements will apply to whom, depending on what type of engagement is being performed.

<b>Provider</b> 	Sustainability Assurance Engagements		Certification Type of Non-Assurance Engagements
	“Part 5 Engagements”	Other	
PA	Part 5	Part 4B	Parts 1-3
Non-PA	Part 5	Voluntary application of Code, or other standards as demanding as the Code	Other <u>ethics</u> frameworks

Professional accountants who perform both the sustainability assurance engagement and the financial statement audit for the same client will need to apply part 5 and part 4A to determine whether they are independent with respect to each engagement.

This table demonstrates which ethical requirements other than independence will apply to whom depending on which services are being performed.



For “Part 2 – Professional Accountants in Business” of the code, members of workstream 2 plan to propose revisions to address ethical issues related to preparing sustainability information. At this time, these revisions will be applicable only to professional accountants.

In addition to the revisions to the code, the following guidance is planned:

- Nonauthoritative guidance to assist practitioners who are not professional accountants implement part 5 requirements
- Nonauthoritative guidance that companies can use to adopt internal policies or codes of conduct that will apply to practitioners who are preparing sustainability information and who are not professional accountants

## Timeline

The workstreams are moving at an accelerated pace so the project outputs will be available at the same time as the new sustainability-related standards the IAASB and the ISSB are developing.

The current project timeline is as follows:

July 2023	Provide IESBA with an updated version of revisions to review ahead of the September meeting.
September 2023	Discuss proposals with IESBA and IESBA Consultative Advisory Group (CAG).
December 2023	IESBA considers approval of exposure draft.
January 2024	IESBA releases exposure draft, including explanatory memorandum.
April 2024	Comment period for exposure draft ends (assuming a 90-day comment period).

June 2024	Update IESBA on comments for the project, including an overview of key comments from exposure draft respondents.
September 2024	IESBA reviews exposure draft responses and does first read of revisions.
December 2024	IESBA approves final revisions.



## Use of experts

### Project description

IESBA initiated this project to develop revisions to the IESBA code that will address the ethics and independence issues that can arise when experts work alongside professional accountants in business (PAIBs) and professional accountants in public practice (PAPPs). The following ethics and independence considerations are included:

- Use of an external expert in audit and assurance engagements (ethics and independence)
- Involvement of an expert (both internal or external to the employing organization or firm) in the preparation and presentation of financial and nonfinancial information, including sustainability information, and other activities (ethics)
- Involvement of an expert in the provision of other services, such as tax planning and technology-related activities (ethics)

### Project update

IESBA held four global roundtables in March and April 2023 to gather information about how involved parties are using experts for sustainability engagements, including the nature of external experts' work and contribution to audit and assurance reports.

At the June 2023 IESBA meeting, the task force presented findings from the roundtable sessions and proposed revisions to the code. Roundtable participants had mixed views on the need to develop guidance about the use of experts by professional accountants (PAs). Some felt that code revisions may not be necessary because the use of experts by PAs is well established in the profession and there is already sufficient guidance in the International Standards on Auditing. Others thought that additional guidance in the IESBA code would be beneficial, given the growing use of experts in reporting and assurance.

### Independence

At the March 2023 IESBA meeting, the board discussed independence considerations when using an external expert. Some stakeholders at the March and April roundtables believed that requiring external experts to be independent would not be practical and noted that

- the code is not enforceable on experts;
- there may be a limited pool of experts in emerging fields and geographies; and
- the PA still must ensure that the external expert's work constitutes sufficient appropriate evidence.

Overall, stakeholders support a principles-based approach in determining whether the external

expert is objective because each engagement will have different facts and circumstances.

The task force determined that the proposed guidance will not require external experts to be independent. External experts are not part of the audit team (AT) or engagement team (ET) and cannot directly influence the outcome of the engagement. The engagement team must always evaluate the expert's work and determine if it is adequate to use in providing the professional service. The task force acknowledged that external experts cannot be monitored and supervised by the PA's firm. They proposed incorporating the application of relevant considerations to evaluate the objectivity of an external expert in part 3 of the code, based on part 4 independence considerations.

Internal experts, those who are employed by or otherwise part of the firm, are considered part of the engagement team, and therefore are required to be independent. They are under the direction, supervision, and review of the engagement partner and perform procedures to assist in gathering sufficient appropriate evidence.

## Definitions

The task force considered the board's comments from the March 2023 IESBA meeting and proposed several new definitions, along with edits to the current definition of *external expert*.

**Expert.** An individual or organization that possesses expertise outside the professional accountant's competence.

**Expertise.** Skills, knowledge and experience in a particular field or area.

**External expert.** An **expert engaged by a professional accountant's employing organization or firm** ~~individual (who is not a partner or a member of the professional staff, including temporary staff, of the firm or a network firm) or organization possessing skills, knowledge and experience in a field other than accounting or auditing, whose work in that field is used to assist the professional accountant in~~ **performing a professional activity or service** ~~obtaining sufficient appropriate evidence. In the context of a firm providing a professional service, an external expert excludes a partner or a member of the professional staff, including temporary staff, of a network firm.~~

**Management's expert.** An expert employed or engaged by a client.

## Multiple experts

The proposed revisions to the code require a PA, when using the work of more than one expert in the performance of a professional service, to consider whether, in addition to the threats created by using each expert individually, the combined effect of using the work of the experts creates or affects threats. Board members generally did not support this revision and

recommended removing this section because PAs already are required to assess each expert individually.

## Documentation

The task force proposed revisions to the code that encourage PAs to document

- their evaluation of the expert's competence, capabilities and objectivity, and the resulting conclusions;
- any threats to the fundamental principles that are identified and evaluated to be at an unacceptable level;
- the actions taken to eliminate or reduce the level of threats identified to an acceptable level; and
- the results of the discussion with those charged with governance (part 2 only).

The board discussed whether the code should require documentation or simply encourage it. It was recommended that the code require documentation for assurance engagements and encourage documentation for nonassurance engagements.

## Next steps

The task force is in the drafting phase this summer. They will further consider, among other matters,

- development of a section for PAIBs;
- development of an equivalent, profession-agnostic section for the new part 5 for sustainability assurance engagements; and
- addressing the use of other practitioners in sustainability assurance engagements who are not external experts and are not members of the ET or AT, as contemplated under draft ISSA 5000.

## Timeline

IESBA is prioritizing this project and the current timeline is as follows:

September 2023	IESBA and IESBA Consultative Advisory Group (CAG) do their first read.
December 2023	IESBA considers approval of exposure draft.
January 2024	IESBA releases exposure draft, including explanatory memorandum.
April 2024	Comment period for exposure draft ends (assuming a 90-day comment period).

June 2024	Update IESBA on comments for the project, including an overview of key comments from exposure draft respondents.
September 2024	IESBA reviews exposure draft responses and does first read of revisions.
December 2024	IESBA approves final revisions.

## Tax planning and related services

### Project description

The objective of the project is to develop a principles-based framework, leveraging the fundamental principles and the conceptual framework, to guide professional accountants' ethical conduct when providing tax planning and related services to employing organizations and clients, thereby maintaining the International Ethics Standards Board for Accountants (IESBA) code's robustness and relevance as a cornerstone of public trust in the global accountancy profession.

### Status

The [Tax Planning and Related Services exposure draft](#) (ED) was issued in February 2023. PEEC and the Tax Executive Committee (TEC) sent a [joint comment letter](#) on the ED on May 22, 2023.

### Project update

IESBA has received [48 comment letters](#) to date. The task force had a meeting in late May to consider comments received on the ED and presented preliminary significant matters raised on the ED to the board at its June 2023 meeting.

The task force discussed the following main themes and concern areas raised in the comment letters:

- Description of tax planning
- Role of the PA in acting in the public interest
- Credible basis
- Stand-back test
- Disagreements
- Documentation

The task force's [presentation](#) included many of the points raised in the joint comment letter submitted by PEEC and TEC in the areas above. Task force members have attended outreach meetings where it was noted that the language relating to guidance on referrals to third parties was discussed and that clarifications would be coming that appeared consistent with PEEC's and TEC's recommendations.

### Timeline

The current timeline for this project is as follows:

September 2023	IESBA reviews exposure draft responses and does first read of revisions.
October-November 2023	Task force reviews board comments and conducts outreach activities to key stakeholders.
December 2023	IESBA reviews 2 <sup>nd</sup> draft with a goal of approving final standard.

## Open meeting minutes — May 9–10, 2023

### Professional Ethics Division

### Professional Ethics Executive Committee

The Professional Ethics Executive Committee (PEEC or committee) held a duly called meeting May 9–10, 2023. Day 1 of the virtual meeting convened at 10 a.m. EST on May 9 and adjourned at 3:07 p.m. Day 2 reconvened at 10 a.m. on May 10 and adjourned at 11:11 a.m.

Agenda materials for this meeting were sent to PEEC members and observers on April 21, 2023.

#### Contents

Attendance

Key vote in this meeting

Interim business

Welcome

IESBA convergence: Public interest entities

Simultaneous employment or association with an attest client

Private equity investment in firms

IESBA strategy and work plan

IESBA update

Engagements subject to Statements on Standards for Attestation Engagements

Project update

IESBA tax planning and related services

Overview of digital assets

Future meeting dates

Appendix

## Attendance

<p>Members</p> <p>Brian Lynch, Chair</p> <p>Catherine Allen</p> <p>Claire Blanton</p> <p>Jack A. Bonner, Jr.</p> <p>Thomas Campbell</p> <p>Robert Denham</p> <p>Anna Dourdourekas</p> <p>Anika Heard</p> <p>Clare Levison</p> <p>G. Alan Long</p> <p>Nancy Miller</p> <p>Randy Milligan</p> <p>Donald Murphy</p> <p>Kenneth Omoruyi</p> <p>Katherine Savage</p> <p>Lisa Snyder</p> <p>Daniel Vuckovich</p> <p>Jimmy Williams</p> <p>Guests</p> <p>See exhibit 1 in the appendix of this document.</p>	<p>AICPA Professional Ethics Division staff</p> <p>James Brackens, Vice President – Ethics &amp; Firm Quality</p> <p>Toni Lee-Andrews, Director</p> <p>Ellen Gorla, Associate Director</p> <p>Jennifer Clayton, Associate Director</p> <p>Elaine Bagley</p> <p>Sarah Brack</p> <p>Emily Daly</p> <p>Liese Faircloth</p> <p>Joan Farris</p> <p>Amy Franklin</p> <p>Jennifer Kappler</p> <p>Kelly Mullins</p> <p>Melissa Powell</p> <p>Karen Puntch</p> <p>Michael Schertzinger</p> <p>John Wiley</p> <p>Summer Young</p>
---	---

## Key vote in this meeting

### Motion approved

Release of proposed changes to the Code of Professional Conduct related to public interest entities with a 3-month exposure period.



## Interim business

Between the February and May meetings, PEEC approved the February minutes by email.

## Welcome

Mr. Lynch welcomed the committee and discussed administrative matters.

## IESBA convergence: Public interest entities

Ms. Snyder presented an overview of the exposure draft with the following updates since the February PEEC meeting ([agenda items 1A–1B](#)):

- Adjustments to categories under the definition of public interest entity (PIE)
  - *Insurance*. This category was further refined to incorporate a \$500M threshold where the NAIC has recognized a heightened risk and imposes additional requirements on the insurer. The inclusion of this threshold covers approximately 45 percent of all insurers and 95 percent of total gross premiums while scoping out small individual insurers.

The possibility of raising the threshold to apply to a group of insurers with premiums greater than \$1B was discussed. However, at that threshold small insurers within those groups could be captured that should not be subject to the more restrictive requirements because of their size.
  - *Investment companies*. This category was further refined to exclude insurance products covered by the insurance category and to exclude entities that are only registered with the SEC but not available to the public, such as REITs.
  - *Benefit plans*. Originally, the proposal captured benefit plans that file Form 11-K because they are subject to SEC issuer independence requirements. However, ultimately, the public interest factor here is related to the plan sponsor, which is already captured under category (a) in the PIE definition. To avoid this redundancy, all benefit plans have been removed from the PIE definition.
  - *General*. The general category was removed from the ED due to uncertainties about possible scope. PEEC will be able to consider future developments and determine whether to rescope the PIE definition if and when necessary.
  - *Entities who take deposits from the public*. The threshold was raised to \$1B in total assets since this is the threshold where the FDIC has recognized a heightened risk and imposes additional requirements on the financial institution. The change in the threshold from \$500 million to \$1billion means a 2 percent decrease in the coverage of the assets captured.

- The rationale for the exclusion of credit unions from category (b) in the PIE definition was revised and a question for commenters was modified to specifically highlight credit unions to determine whether commenters believe they should be included in the PIE definition.
- PEEC discussed whether the compliance requirement belongs within the definition or whether a new interpretation should be added to the code for enforceability purposes. Ultimately, the committee decided that the “Governmental Bodies, Commissions, or Other Regulatory Agencies” interpretation (ET sec. 1.400.500) covers the enforceability issue and the compliance requirement will remain in the definition.

Andrew Prather, Auditing Standards Board (ASB) member and PEEC PIE task force member saluted the important collaboration that is occurring between the ASB and PEEC on this topic. PEEC’s progress will require action by the ASB and the ASB PIE task force will review feedback received during the comment period of PEEC’s ED related to the scope, transparency, and voluntary treatment of entities as a PIE.

#### Vote

PEEC unanimously voted to approve exposure of the proposed changes to the code as presented in agenda item 1B, with revisions related to discussions in the meeting. PEEC also approved a 3-month exposure period from June 15 until September 15, 2023.

#### Simultaneous employment or association with an attest client

Ms. Allen updated the committee as follows on the task force’s activities since the February PEEC meeting ([agenda item 2](#) and [exhibit 2](#) in the appendix of this document):

- At the February meeting, PEEC approved the task force’s direction to explore a covered member approach to potential revisions of the “Simultaneous Employment or Association with an Attest Client” interpretation. Since then, the task force concluded that limiting the prohibition to only covered members would not sufficiently address potential significant threats.
- The task force is exploring a framework whereby a covered member would be prohibited from employment at the attest client, and a partner or professional employee would be prohibited from being employed in a key position. With this approach, members can use the conceptual framework to effectively evaluate other simultaneous employment relationships.
- It is likely that the current exceptions for adjunct faculty and government audit organizations will remain with an added exception for conflicts created by statutory or regulatory requirements, such as the Uniformed Services Employment and Reemployment Rights Act (USERRA).

- With PEEC’s approval, the task force will send out a survey to gather stakeholders’ and members’ input on significant threats created by different simultaneous employment relationships.
- PEEC also approved roundtable discussions for the task force to gather more in-depth background on the participants’ concerns. Staff conducted outreach to AICPA expert panels, advisory groups, state society ethics committees, and other parties to encourage participation in the survey and roundtables.

### Private equity investment in firms

Ms. Farris updated the committee on the task force’s activities and requested approval of the task force charge ([agenda item 3](#) and [exhibit 3](#) in the appendix of this document).

### Task force activities

The task force presented PEEC with a comparison of the model in the current “Alternative Practice Structures” interpretation (ET sec. [1.220.020](#)) and a model of a private equity structure incorporating a public accounting firm. The task force

- has discussed whether the current model is viable for the private equity structure.
- is considering relationships within the private equity structure and whether any of those relationships create threats to a covered member’s independence. The task force has met with independence leadership at firms who have gone through a private equity transaction and with an attorney who specializes in these transactions.

### Task force charge

The committee considered and approved the following charge and scopes:

Determine if the increase in private equity investments in public accounting firms creates a need to revise the code or issue nonauthoritative guidance. The task force will evaluate the current provisions in the code including the “Alternative Practice Structures” interpretations (ET sec. [1.220.020](#) and [1.810.050](#)) under the “Independence Rule” and the “Form of Organization Rule,” respectively, to determine if they are appropriate and sufficient.

Scope 1: Evaluate the current “Alternative Practice Structure” interpretation under the “Independence Rule” for applicability to private equity structures.

Scope 2: Evaluate the “Alternative Practice Structures” interpretation under the “Form of Organization Rule” for applicability to private equity structures.

Scope 3: Consider what nonauthoritative guidance would assist members in private equity structures to comply with the “Independence Rule” and its related interpretations.

During discussion, the committee noted that the task force may need to broaden the scope of the project to incorporate other potential alternative practice structures.

### [IESBA strategy and work plan](#)

Ms. Lee-Andrews shared preliminary planning committee's observations about the IESBA Strategy and Work Plan, 2024–2027, Consultation paper ([agenda items 4A–4B](#) and [exhibit 4](#) in the appendix of this document):

- The volume is driving the inability to implement the standards and for bodies to converge on a timely basis. There is a need for a period of stability to implement new standards.
- Several projects seem to be moving away from scalable principles-based standards and toward more rules-based standards, so the planning committee will be paying close attention to that as they consider IESBA's proposed new projects.
- Observations about IESBA's proposed new work streams:
  - *Role of CFOs and other senior PAIBs.* There is a lack of clarity of what the project entails. Considering recent enhancements to the IESBA code such as the Role and Mindset and Technology projects, and the NOCLAR standard as well as the need for a stability period, if this project is undertaken, the focus should be on developing nonauthoritative material to help CFOs and other senior PAIBS apply the code properly.
  - *Business relationships.* PEEC plans to study this topic in the near term. This is one of the projects where IESBA could be moving away from principles-based guidance and PEEC's comment letter will note this.
  - *Audit firm / audit client relationship.* The planning committee is considering whether the comment letter should recommend IESBA not undertake the project unless the fees post-implementation review indicates it is necessary.
  - *Definitions and descriptions of terms.* The planning committee discussed the definition of "employee." Staff does not recommend defining "employee" to include those that act in a capacity of an employee at a client as doing so would blur the line on permitted non-assurance services. The AICPA eliminated this concept from the AICPA Code of Professional Conduct in May 1999.
  - *Custody of data.* The planning committee discussed whether doing a post-implementation review on the confidentiality components of the Technology project could better inform IESBA where additional guidance might be needed.

The committee will submit their observations of IESBA's SWP to division staff, who will submit

PEEC's comment letter to IESBA.

### IESBA update

Ms. Powell and Ms. Daly updated the committee on IESBA's sustainability and use of experts projects. Roundtable events took place in March and April of 2023 for both projects and IESBA will give a summary of feedback at its June meeting. IESBA expects to issue exposure drafts for each project in December 2023 ([agenda items 5A–5C](#)).

### Sustainability

This project has two workstreams:

- Workstream 1: Independence in sustainability assurance engagements
- Workstream 2: Ethics in sustainability reporting and assurance

At its March 2023 meeting, IESBA provided feedback on each of the workstreams' preliminary views on certain key definitions and the scope in which revisions would apply.

### Use of experts

This project addresses the following:

- Ethics and independence provisions considerations for the use of an external expert in audit and assurance engagements
- Ethics considerations regarding the involvement of an expert in the preparation and presentation of financial and non-financial information, including sustainability information, and other activities
- Ethics considerations regarding the involvement of an expert in the provisions of other services

The use of experts project is progressing in tandem with the sustainability project, given that the use of experts is anticipated to increase as demand for sustainability information and assurance accelerates.

At its March 2023 meeting, IESBA considered and supported the task force's preliminary thinking on the following:

- A possible ethics framework to guide professional accountants' judgments, decisions, and actions as to the use of experts in their professional activities or services
- A potential approach to addressing considerations relating to the ethical behavior (including independence) expected of experts when their work is used by professional

accountants

### Engagements subject to Statements on Standards for Attestation Engagements

Ms. Powell presented the proposed task force charge and related scopes and provided an update on task force activities to date ([agenda item 6](#)).

#### Task force charge

The committee considered and approved the following charge and scopes:

Consider revision to or nonauthoritative guidance for the “Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” subtopic (ET sec. [1.297](#)).

Scope 1: Consider whether the modified independence requirements in “Agreed-Upon Procedures Engagements Performed in Accordance with SSAEs” interpretation are appropriate when the AUP report is not restricted in use.

Scope 2: Consider whether threats to independence exist when the practitioner assists in developing the criteria for an engagement subject to the SSAEs.

Scope 3: Consider which independence interpretations use financial statement factors and determine what guidance should be provided when the attest engagement is not a financial statement attest engagement.

Scope 4: Consider whether the nonattest services exception described in the “Engagements, Other Than AUPs, Performed in Accordance with SSAEs” interpretation appropriately considers prohibited nonattest services for an engagement subject to the SSAEs.

Scope 5: Consider the adequacy of code’s definition of “client” and “attest client” for members who are applying the SSAEs, as the SSAEs do not define “client” and whether independence with respect to the “responsible party” remains appropriate.

Scope 6: Consider updating the “Application of the Independence Rule to Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” interpretation for SSAE No. 18 which moved compilations out of the SSAEs.

Scope 7: Consider nonauthoritative guidance for applying independence requirements in a direct engagement.

Scope 8: Monitor IESBA’s Sustainability Project.

Scope 9: Monitor SEC activities.

### Project update

Ms. Gorla updated the committee on a number of new projects ([exhibit 5](#) in the appendix of this document):

- Plan to begin the three IESBA convergence projects related to nonassurance services during Summer, 2023. These projects cover the following topics:
  - Tax services. Jimmy Williams, chair.
  - Legal services. Dan Vuckovich, chair.
  - General projects, Andy Bonner, chair.
- Work on the following projects from the AICPA Professional Ethics Division's Strategy and Work Plan for 2021-2023 should begin during Summer, 2023:
  - Reporting on an independent breach. Jennifer Kary, chair.
  - Digital assets. Anna Dourdourekas, chair.
  - Artificial intelligence. Claire Levison, chair.
  - 529 plans. Randy Milligan, chair.
- Business relationships. Initiation pending based on finalization of other projects. Cathy Allen, chair.
- Ongoing staff projects.
  - Division project monitoring database.
  - Compliance audit tool development.
  - Common violations reports.
  - Online ethics library enhancements.
  - Nonattest services toolkit refresh.

### IESBA tax planning and related services

Mr. Wiley presented an update on the working group's progress and sought the committee's input on PEEC's and the Tax Executive Committee's joint comment letter to IESBA ([agenda item 7](#) and [exhibit 6](#) in the appendix of this document):

- History of the IESBA project.
- Proposed new sections of the IESBA code. The ED proposes new sections for professional accountants in public practice and in business and industry.
- Overview of the working group and its considerations while monitoring the project and proposal:
  - The AICPA is already substantially converged with most provisions of the proposal.
  - The working group has concerns about several provisions in the proposal as outlined in exhibit 6. Members of the committee agreed with working group concerns, particularly in regard to the stand-back test.
- The joint comment letter will be submitted to IESBA by the comment deadline of May 18, 2023.

### Overview of digital assets

Ms. Krupica and Ms. Beers presented background information on blockchain and digital assets ([exhibit 7](#) in the appendix of this document):

- Blockchain
  - Layers and aspects of software systems
  - Examples of ledgers including distributed ledgers
  - How a blockchain works and how blocks are cryptographically connected to the previous block
  - How blockchains maintain security
  - Functions of blockchain nodes
  - Methods and risks for auditors when accessing information from a blockchain
- Digital assets
  - Definition
  - Types



### Future meeting dates

The following quarterly PEEC meeting dates are set:

- August 9–10, 2023
- November 8–9, 2023

## Appendix

## Exhibit 1

### Guests in attendance at the May 2023 meeting

	Name	Organization
1.	Ami Beers	AICPA, Senior Director — Assurance & Advisory Innovation
2.	Henry Grzes	AICPA, Lead Manager — Tax Practice and Ethics
3.	Carrie Kostelec	AICPA, Lead Manager — SOC & Related Services
4.	Diana Krupica	AICPA, Senior Manager — Emerging Assurance Technologies — Assurance & Advisory Innovation
5.	Jessica Marino	AICPA, Senior Learning Writer — Writing & Authoring
6.	Brian Wilson	AICPA, Director — Audit & Attest Standards
7.	P. Anthony Allen	Kentucky Society of CPAs
8.	Sonia Araujo	PwC
9.	Arthur Auerbach	Arthur Auerbach, CPA
10.	Paul Balas	Michigan State Board of Accountancy
11.	Rita Barnard	Kansas Society of CPAs
12.	Rosemarie Barnickel	Rosemarie Giovinzazzo-Barnickel, CPA
13.	Andrew Bendyk	Fermi Research Alliance, LLC
14.	Loralee Bennett	U.S. Department of Energy
15.	Mary Beth Walsh	RSM US LLP
16.	Brian Bluhm	Eide Bailly LLP
17.	Myra Boelscher	Deloitte
18.	Sheila Border	Wipfli LLP

	Name	Organization
19.	Tammie Brown	U.S. Department of Health and Human Services
20.	Thomas Burtner	RSM US LLP
21.	D. Boyd Busby	Alabama State Board of Public Accountancy
22.	Yvonne Chanda	PwC
23.	David Chiang	MNP LLP
24.	David Kirklan Cloniger	RSM US LLP
25.	Kathryn Clymer-Knapp	EY
26.	Gwen Combs	U.S. Department of Energy
27.	Karen Cookson	U.S. Department of Housing and Urban Development
28.	Kelly Costanzo	RSM US LLP
29.	Monique Cote	MNP LLP
30.	Michele Craig	BakerTilly US, LLP
31.	Debra Cutler	Debra A. Cutler CPA PC
32.	Arthur (Kip) Dellinger, Jr.	Kallman + Logan & Company, LLP
33.	James Denney	RSM US LLP
34.	Kenny Diaz	RSM US LLP
35.	Sarah Doran	RSM US LLP
36.	Darren Durbin	Idaho Environmental Coalition, LLC
37.	Daniel Dustin	NASBA

	Name	Organization
38.	Chantel Edwards	RSM US LLP
39.	Shimon Einhorn	S Einhorn and Company LLC
40.	Jennifer Elder	Moss Adams LLP
41.	Suzanne Esterlis	RSM US LLP
42.	Jason Evans	BakerTilly US, LLP
43.	Mira Finé	Ethics Chair — Colorado Society of CPAs
44.	Yuto Fukushima	Plante Moran
45.	Alicia Gelinis	Colorado Society of CPAs
46.	Michael Genova	RSM US LLP
47.	Joel Gonzalez	U.S. Department of Energy
48.	Andrew Gripp	Crowe LLP
49.	Michael Hillman	Idaho Environmental Coalition, LLC
50.	Kelly Hnatt	External Counsel
51.	Amanda Hulien	RSM US LLP
52.	Diane Jules	CohnReznick LLP
53.	Vassilios Karapanos	U.S. Securities and Exchange Commission
54.	Faith Kim	KPMG
55.	Linda Kuersten	Fermi Research Alliance, LLC
56.	Kimberly Kuhl	KPMG
57.	Moussa Maiga	U.S. Department of Energy

	Name	Organization
58.	Brandon Mercer	Deloitte
59.	Kim Meyer	Meyer & Associates CPA, LLC
60.	Paul Meyer	Cherry Bekaert LLP
61.	Angela Miratsky	FORVIS, LLP
62.	Karen Moncrieff	EY
63.	Dawn Moore	Savannah River Nuclear Solutions, LLC
64.	Christina Moser	Plante Moran
65.	Samantha Mueller	Twain Financial Partners
66.	Jessica Mytrohovich	Georgia Society of CPAs
67.	Juliette Nardella	RSM US LLP
68.	Jan Neal	Deloitte
69.	David Neill	Savannah River Mission Completion, LLC
70.	Anastasia Netto	EY
71.	James Newhard	James J. Newhard, CPA
72.	Tatsuya Ogaki	Plante Moran
73.	Mariola Oscarson	Fermi Research Alliance, LLC
74.	Kiersten Parks	RSM US LLP
75.	Reena Patel	Moss Adams LLP
76.	Paul Pierson	Illinois CPA Society
77.	Joseph Pooppally	N/A

	Name	Organization
78.	Brian Powers	Honkamp, P. C.
79.	Andrew Prather	Clark Nuber P.S.
80.	Renee Rampulla	Rampulla Advisory Services, LLC
81.	Laura Rice	Armanino LLP
82.	Brandon Rigby	Idaho National Laboratory
83.	LeighAnne Robbins	RSM US LLP
84.	John Robinson	RSM US LLP
85.	Deborah Rood	CNA
86.	Paul Russo	Deloitte
87.	David Sanford	Guam Society of CPAs
88.	Dylan Sanzo	RSM US LLP
89.	Stephanie Sauer-Watts	PwC
90.	Gerard H. Schreiber, Jr.	Schreiber & Schreiber, CPAs
91.	Nate Seacrist	RSM US LLP
92.	April Sherman	CliftonLarsonAllen
93.	Kaylee Shorter	TCWGlobal
94.	Korinne Smillie	Plante Moran
95.	Duke Speed	Tennessee State Board of Accountancy
96.	Matthew Sturza	Michigan Association of CPAs

	Name	Organization
97.	Joseph Tapajna	University of Notre Dame
98.	Deborah Thomas	U.S. Department of Energy
99.	Pierre Torres	EY
100.	Peggy Ullmann	Ullmann & Company
101.	Shelly Van Dyne	BDO
102.	Kenya Watts	The Ohio Automobile Club / AAA Central Ohio
103.	Anissa Winn	Idaho National Laboratory
104.	Ellen Wisbar	CBIZ, Inc.
105.	Madiha Zafar	PwC
106.	Shannon Ziemba	CliftonLarsonAllen
107.	Paul Ziga	Georgia State Board of Accountancy



# Simultaneous employment or association with an attest client

Agenda item 2

May 2023

# Original Covered Member Approach

Covered member

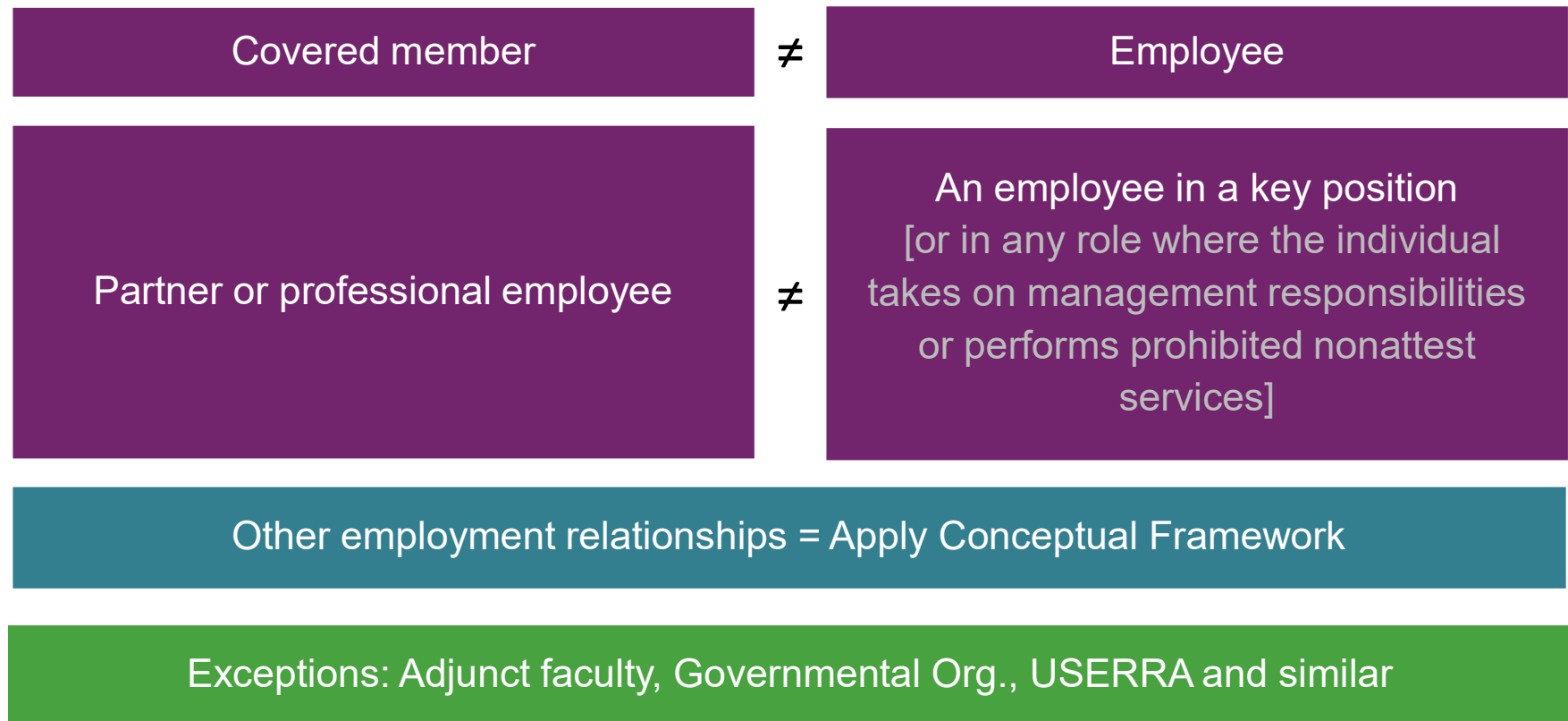
≠

An employee in a key position,  
or in any role where the  
individual takes on management  
responsibilities or performs  
prohibited nonattest services

Other employment relationships = Apply Conceptual Framework

Exceptions: Adjunct faculty, Governmental Org., USERRA and similar

# Potential Revised Framework



# Outreach

Group	Response
State societies	11 confirmed participants
Advisory groups/committees	Yes – Private Company Practice Section, Regulatory/legislative affairs, (Uniform Accountancy Act committee representative & 3 additional participants), Technical Issues Committee Pending – Audit and attest standards
Expert panels	Yes – Employee benefit plan, Insurance, Healthcare Pending – Not-for-Profit, Investment, and State & Local Government
Quality centers	Yes – Employee benefit plan audit quality center Pending – Governmental audit quality center
Peer review	4 participants: reviewers and oversight members
Firm representatives	4 individual firm representatives
Industry representatives	3 individual industry representatives

Interested in  
participating in a  
roundtable or survey

Jennifer.Kappler@  
aicpa-cima.com

# Questions for PEEC

---

Does the committee approve exploration of the framework previously outlined as a foundation for potential revisions to the interpretation?

---

Does the committee approve a survey of stakeholders to obtain feedback on potential modifications to the prohibition of certain employment relationships?

---

Assuming the answer to the above is yes, would the committee prefer to perform a fatal flaw review of the survey questions via email or defer to the task force's judgment?

---

Does the committee approve the task force's request to conduct roundtable discussions with stakeholders?

---

Assuming the answers to the previous questions are yes, besides the committee members and representatives of the groups identified by outreach efforts, are there any other contacts the committee would like included in the survey and roundtable invitations?



# Thank you

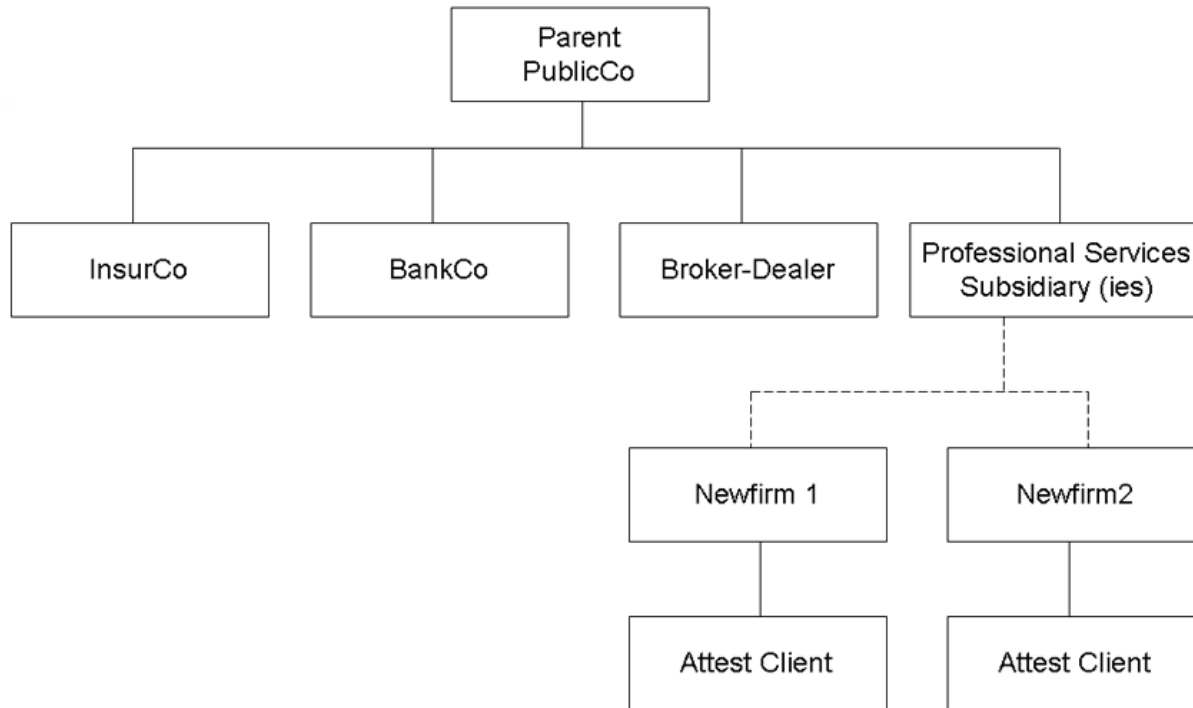
© 2023 Association of International Certified Professional Accountants. All rights reserved. This presentation's images are subject to copyright protection and used under license from third parties. **Do not use images from this presentation in other presentations or documents without first consulting with Legal.** The use of copyrighted images outside the licensed scope constitutes copyright infringement and subjects the user to monetary damages and other penalties. 2201-15634-2023

# Private equity investments in firms

PEEC agenda item 3

May 2023

## APS model currently in interpretation



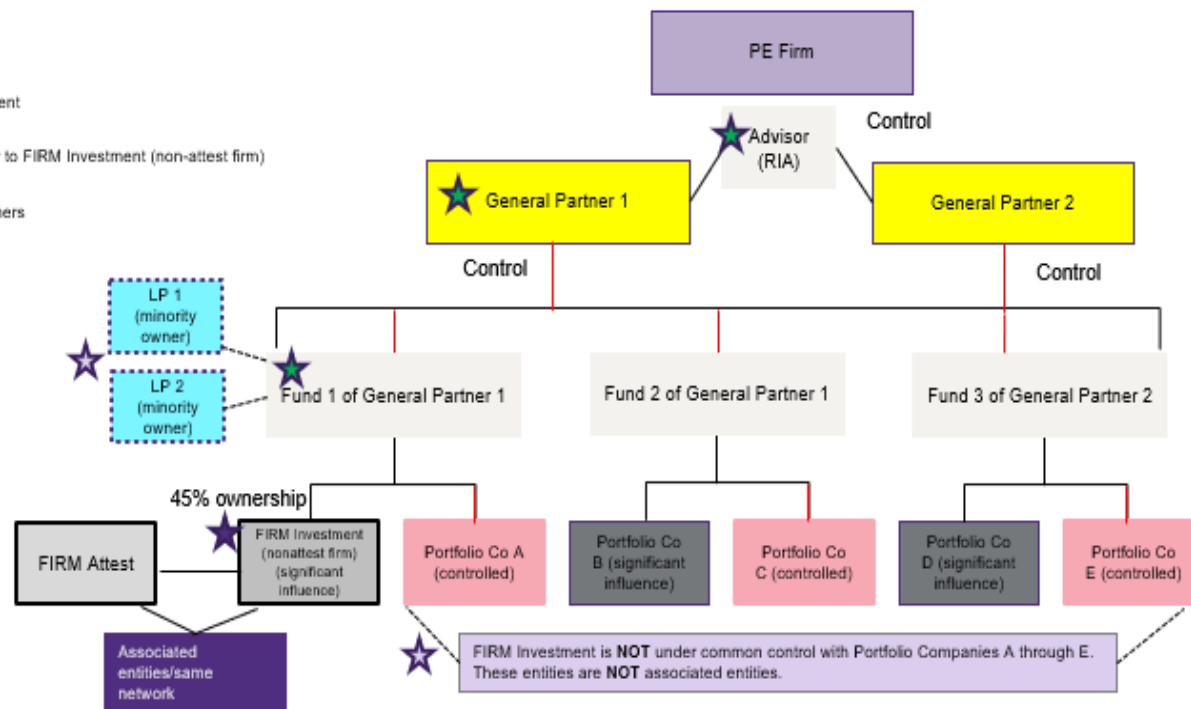
The current model implies common control by the Parent Public Co.



## Examples of challenges

### PE example model

Diagram 1: Overview of a potential APS structure involving PE



- Which portfolio co's must be independent of the attest firm's clients?
- Which investors need to be monitored?
- Which entities can be attest clients of the attest firm?
- Who can be on what board?
- Who has significant influence over the attest firm?
- Which portfolio co's clients can be attest clients of the attest firm?

## Scope 1

Evaluate the current “Alternative Practice Structures” interpretation under the “Independence Rule” for applicability to private equity structures.

- Terminology
- Framework for current and future structures

## Scope 2

Evaluate the “Alternative Practice Structures” interpretation under the “Form of Organization Rule” for applicability to private equity structures.

Consider ownership and governance factors unique to private equity structures.

## Scope 3:

Consider what nonauthoritative guidance would assist members in private equity structures to comply with the “Independence Rule” and its related interpretations.

- Model diagram depicting relationships and scenarios
- Q&A
- Tool for evaluating and monitoring independence

## Proposed task force charge

Determine if the increase in private equity investments in public accounting firms creates a need to revise the code or issue nonauthoritative guidance. The task force will evaluate the current provisions in the code including the “Alternative Practice Structures” interpretations (ET sec. [1.220.020](#) and [1.810.050](#)) under the “Independence Rule” and the “Form of Organization Rule,” respectively, to determine if they are appropriate and sufficient.

1. Does the Committee have any concerns with or comments on the proposed Charge?
2. Are there any other items the committee would like the task force to include in its charge?

# Thank you



# IESBA strategy and work plan

PEEC agenda items 4A-4B  
May 2023

## Preliminary Observations

- Volume of projects
- Scalable and principle-based standards
- Profession agnostic standards
- Email observations to [iklepcha@aicpa.org](mailto:iklepcha@aicpa.org)

May 15



## Role of CFOs and Other Senior PAIBs

- Role of CFOs is changing
- Identify and understand the ethics issues and challenges faced by CFOs and other senior PAIBs
- Consider if Parts 1 and 2 of the IESBA code need enhancement

## Business Relationships

- Define “business relationships”
- Gather information on business arrangements between firms and their clients, including technology-related business arrangements
- Consider if materiality and significance should be retained as criteria for exceptions to some business relationships (Section 520) and loans and guarantee arrangements (Section 511)

## Audit Firm – Audit Client Relationship

- Self-interest threat in the audit client payer model
- Consider whether the IESBA code should use the term “audit client” instead of “audited entity” or “entity subject to audit”

## Definitions and Descriptions of Terms

- Align the definitions of terms used in the IESBA code with the corresponding IAASB definitions
- Review of how the following terms are defined
  - Audit team
  - Employee
  - Engagement period
  - Firm
  - Network firm
  - Professional accountant
  - Professional accountant in public practice
  - Professional accountant in business

## Custody of Data

- Investigate the ethics implications of a PA's custody of data belonging to third parties
- Consider establishing a new section in Part 3 of the IESBA code

## Communication With Those Charged With Governance

- NAS and Fees projects enhanced provisions relating to communication with TCWG
- Concepts of transparency and accountability to minimize potential “over-reliance” on experts or consultants

## Question to Committee

- Do you support the IESBA's potential work streams?
- Should the IESBA accelerate or defer any potential work streams?
- Are there other topics the IESBA should consider as potential new workstreams?

# Thank you

© 2023 Association of International Certified Professional Accountants. All rights reserved. This presentation's images are subject to copyright protection and used under license from third parties. **Do not use images from this presentation in other presentations or documents without first consulting with Legal.** The use of copyrighted images outside the licensed scope constitutes copyright infringement and subjects the user to monetary damages and other penalties. 2201-15634-2023



# Project update

May 2023

# IESBA Convergence: Nonassurance services

## Tax Services

- Jimmy Williams - Chair
- Staff: John Wiley
- Summer 2023

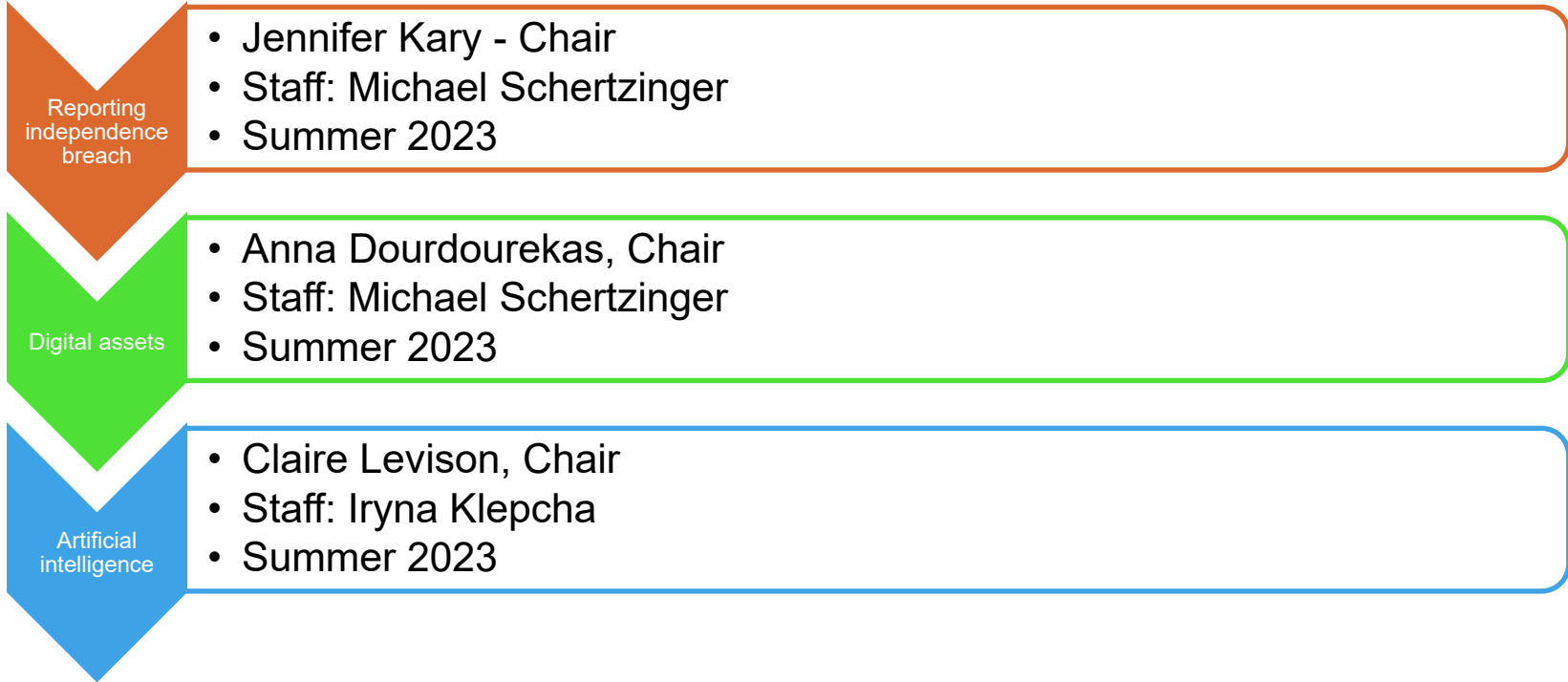
## Legal service

- Dan Vuckovich – Chair
- Staff: Liese Faircloth
- Summer 2023

## General

- Andy Bonner – Chair
- Staff: Amy Franklin and Liese Faircloth
- Summer 2023

# PEEC SWP project



## PEEC SWP project

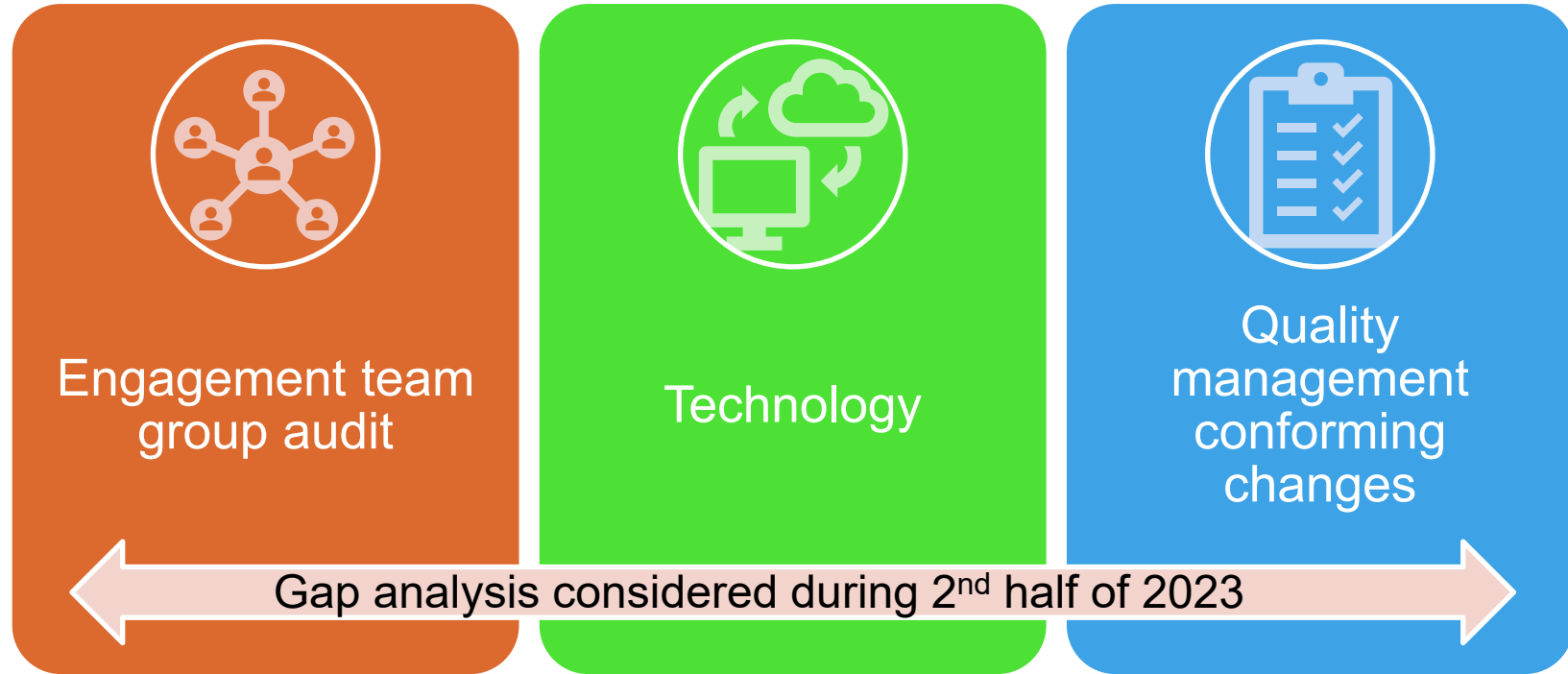
Business  
relationships

- Cathy Allen – Chair
- Fall 2023

529 plans

- Randy Milligan – Chair
- Summer 2023

# IFAC Convergence and Monitoring Task Force



## Staff lead projects

Project monitoring

Compliance audit

Common violations reports

Ethics library

Nonattest services toolkit

# Thank you

# IESBA Tax Planning and Related Services ED

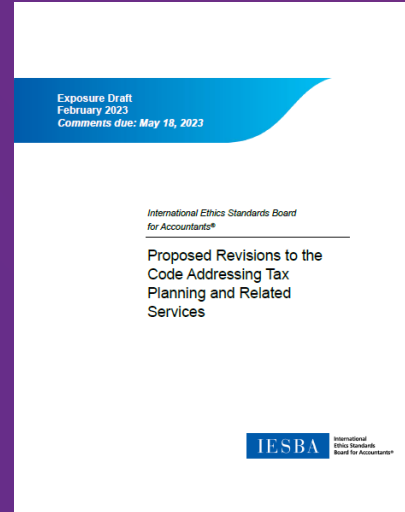
Joint comment letter update

May 2023



# IESBA Tax Planning and Related Services ED

- IESBA working group formed in September 2019
- Working group issued final report in September 2021
- Task force formed at same time
- April 2022 global virtual roundtables held
- The IESBA unanimously approved the proposal for exposure at its November-December 2022 meeting
- Exposure draft issued February 2023
- Comments due May 18, 2023



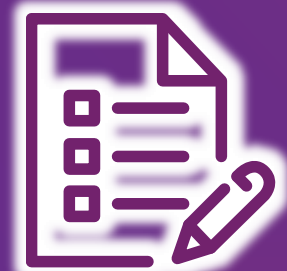
# IESBA Tax Planning and Related Services ED

- AICPA will issue a joint comment letter to IESBA
  - PEEC
  - Tax Executive Committee (TEC)
- Comment Letter Working Group
  - PEEC
  - TEC
  - Tax Practice and Responsibilities Committee
  - Personal Financial Planning section
  - AICPA Professional Ethics and Tax Practice and Ethics staff



## Gap analysis with existing AICPA standards

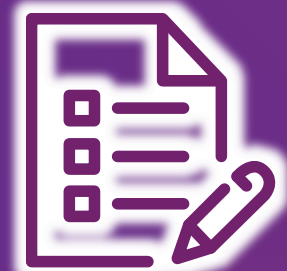
- The ED proposes two new sections to be added to the IESBA code
  - Section 380 for professional accountants (PA) in public practice (PAPP)
  - Section 280 for PAs in industry and business (PAIB)
- Proposal process concentrated on Section 380
- Section 280 essentially same concepts and language, but customized for PAIBs and their employing organizations



## Gap analysis with existing AICPA standards

Staff considered and compared the following existing and proposed standards:

- Proposed Section 380
- Proposed Section 280
- Explanatory memorandum to ED
- AICPA Code of Professional Conduct
- SSTs (proposed revisions)
- SSPFPS



## Gap analysis with existing AICPA standards

Provisions identified in ED that we believe we are already aligned with:

- Compliance with laws and regulations
- Organize affairs for tax planning purposes
- Anti-avoidance laws and regulations
- Tax avoidance versus tax evasion
- Role of the courts or other adjudicative bodies



## Gap analysis with existing AICPA standards

Provisions identified in ED that we believe we are already aligned with:

- Responsibilities of management and those charged with governance
- Responsibilities of all PAs
- Credible basis
- Potential Threats Arising from Providing a Tax Planning Service (conceptual framework)



## Gap analysis with existing AICPA standards

Provisions identified in ED that have significant concerns:

- The required “stand-back test” and the disclosure requirement when the stand-back test fails.
- The provision that a PA referring or advising on a TP product or arrangement of a third-party be held to these same provisions as if they were the creator of the TP product or arrangement.
- Provisions that may infringe upon the legal rights of taxpayers through disclosure requirements or considerations.



## Stand-back test

R380.12 states that

In addition to determining that there is a credible basis for the tax planning arrangement, the professional accountant ***shall exercise professional judgment and consider the reputational, commercial and wider economic consequences that could arise from the way stakeholders might view the arrangement.***





## Stand-back test

R380.13 states that

If, having considered the matters set out in paragraph R380.12, the professional accountant decides not to recommend or otherwise advise on a tax planning arrangement that the client would like to pursue, the accountant **shall inform the client of this and explain the basis for the accountant's conclusion.**



## Stand-back test

The working group has expressed the following concerns regarding the stand-back test:

- PAs could incur additional costs that outweigh the benefits, and as a result, drive taxpayers to other providers that are less qualified and not bound by higher ethical standards.
- Considering stakeholder's views on a TP arrangement falls squarely into the discussion of tax morality, tax fairness, and tax justice that was scoped out of this project.
- This provision is redundant as the extant code already requires PAs to comply with the fundamental principles of Integrity, Objectivity, and Professional Competence and Due Care and the reasonable informed third-party test.



## Stand-back test

The working group has expressed the following concerns regarding the stand-back test:

- It could create unintended consequences for financial planning, as PAs that provide financial planning services may be subject to the stand-back test, since tax planning is one of many aspects considered in performing financial planning services.



## Stand-back test

If the stand-back test fails, and the PA does not recommend a TP arrangement, R280.13 requires disclosure of the PA's basis of their conclusion to the client:

- The working group has concerns this required disclosure could compromise or jeopardize rights to which a taxpayer is legally entitled, as CPAs do not have privilege in the U.S., any proposed provisions that could result in disclosure or documentation would be discoverable not only by the tax authorities, but later in litigation, resulting in the legal rights of the taxpayer being compromised.



## Stand-back test

The working group is currently considering the following recommendations regarding the stand-back test:

- Elimination of the required provisions
- Changing the required provisions to application guidance
- Proposal of language to address taxpayer's legal rights
- Requesting exception for jurisdictions that have long standing and proven regulatory and tax practice standards to prevent unnecessary issues with convergence.



## Referrals to third-parties

380.22 A1 states:

There might be circumstances where a professional accountant refers a client to a third-party provider of tax planning products or arrangements, or where a client approaches the accountant for advice on a tax planning product or arrangement developed by a third party. **In both circumstances, the provisions in this section apply.**



## Referrals to third-parties

Circular 230 as well as the SSTs provide long standing guidance regarding the due diligence required when relying on the advice of others.

- Assess if assumptions and representations of the third-party are reasonable
- Consider its source (for example, the knowledge and expertise of the TP provider)
- Consider if the TP arrangement is consistent with other information known to the member.



## Referrals to third-parties

380.22 A2-A3 discuss threats to compliance with the fundamental principles if a PA receives referral fees or commissions, and that in some jurisdictions, PAs are prohibited by law or regulation from receiving referral fees or commissions.

The working group believes the extant IESBA code Section 330 “Fees and Other Types of Remuneration” is applicable to all PAs in public practice when providing any services, so these provisions are not necessary.





## Definition of tax planning services

The members of the working group believe these descriptions could be refined or clarified so that they do not include services where the primary goal is not tax planning but rather where tax planning is an ancillary result.



## Beneficiaries of TP arrangements

Certain provisions regarding identification of threats when applying the conceptual framework and documentation suggest that the PA should determine the identify of the ultimate beneficiaries of a TP arrangement.

Members of the working group think that this task could be too broad in scope and could impose additional costs on the PA, and is considering proposal of changing “ultimate beneficiaries” to “known and expected beneficiaries”



# Disagreements

R380.19 states:

If the professional accountant disagrees that a tax planning arrangement that a client would like to pursue has a credible basis, the accountant shall:

- a) Inform the client of the basis of the accountant's assessment;
- b) Communicate to the client the potential consequences of pursuing the arrangement in the event of an adverse ruling; and
- c) Advise the client not to pursue the arrangement.



# Disagreements

R380.19 states:

If the professional accountant disagrees that a tax planning arrangement that a client would like to pursue has a credible basis, the accountant shall **consider**:

- a) Inform the client of the ~~basis~~ of the accountant's assessment;
- b) Communicate to the client the potential consequences of pursuing the arrangement ~~in the event of an adverse ruling~~; and
- c) Advise the client not to pursue the arrangement.



# Disagreements

R380.20 states

“If the client decides to pursue the tax planning arrangement, despite the professional accountant’s advice to the contrary, the accountant shall take steps to disassociate from the engagement. In doing so, the accountant shall consider advising the client to” take steps listed in the required provision.



# Disagreements

## R380.20 states

“If the client decides to pursue the tax planning arrangement, despite the professional accountant’s advice to the contrary, the accountant ~~shall take steps to disassociate from the engagement. In doing so, the accountant shall consider advising the client to~~ take steps listed in the required provision.

## R380.21 states

In light of the client’s response to the professional accountant’s advice, the accountant shall consider the need to withdraw from the engagement and the professional relationship.



## Effective Date

The working group believes that IESBA should consider a significantly longer delayed effective date than its usual standards. This extended timeframe is considered especially critical for jurisdictions that have no tax practice standards in place.



## Comment letter draft to date – 1<sup>st</sup> drafts



220



## Comment letter draft to date – Current draft



# Thank you

# Blockchain and digital assets

# Blockchain background

# Layers and aspects of software systems

Application layer: user needs

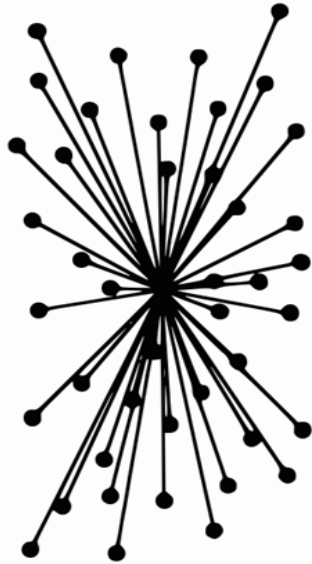
Implementation layer: making things happen

Functional aspects: what is done

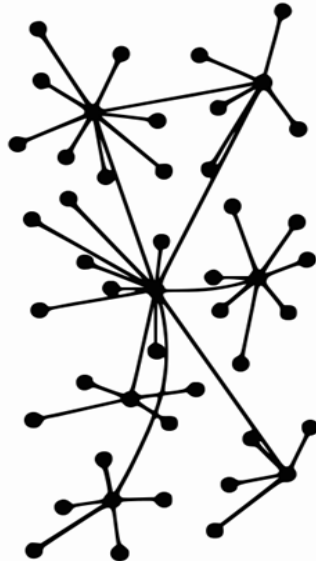
Nonfunctional aspects: how things are done

- Users focus on functional aspect/ application layer (taking picture/making phone call/texting)
- Nonfunctional aspect of implementation layer less visible to users (store data efficiently)
- Integrity important nonfunctional aspect
- Blockchain part of implementation layer and ensures integrity of nonfunctional aspect

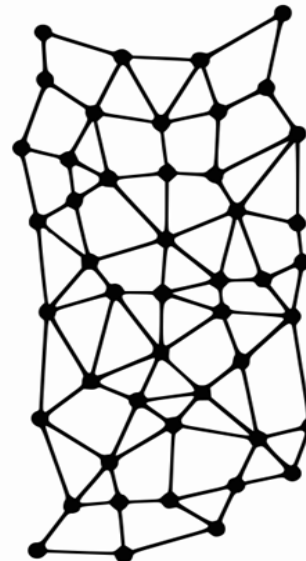
# What is a distributed ledger?



Centralized



Decentralized

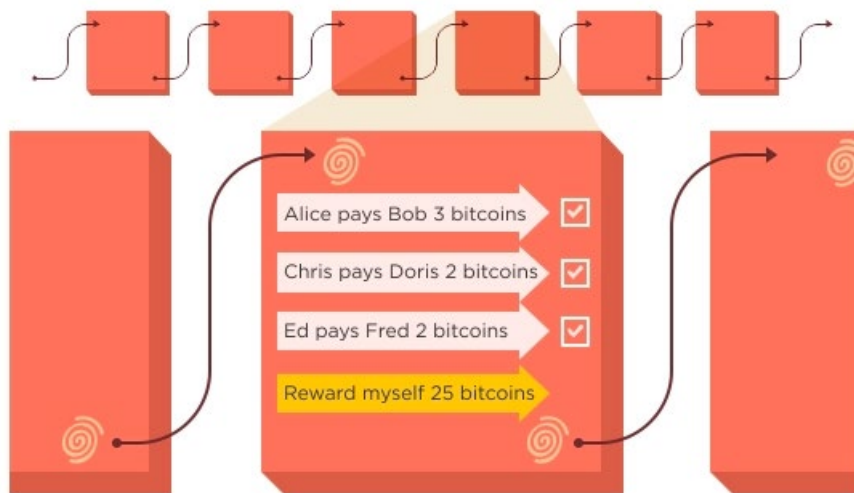


Distributed

- Distributed ledger where transactions are recorded and confirmed in trustless manner
- Record of events that is shared and updated in real-time, between all participants (nodes)

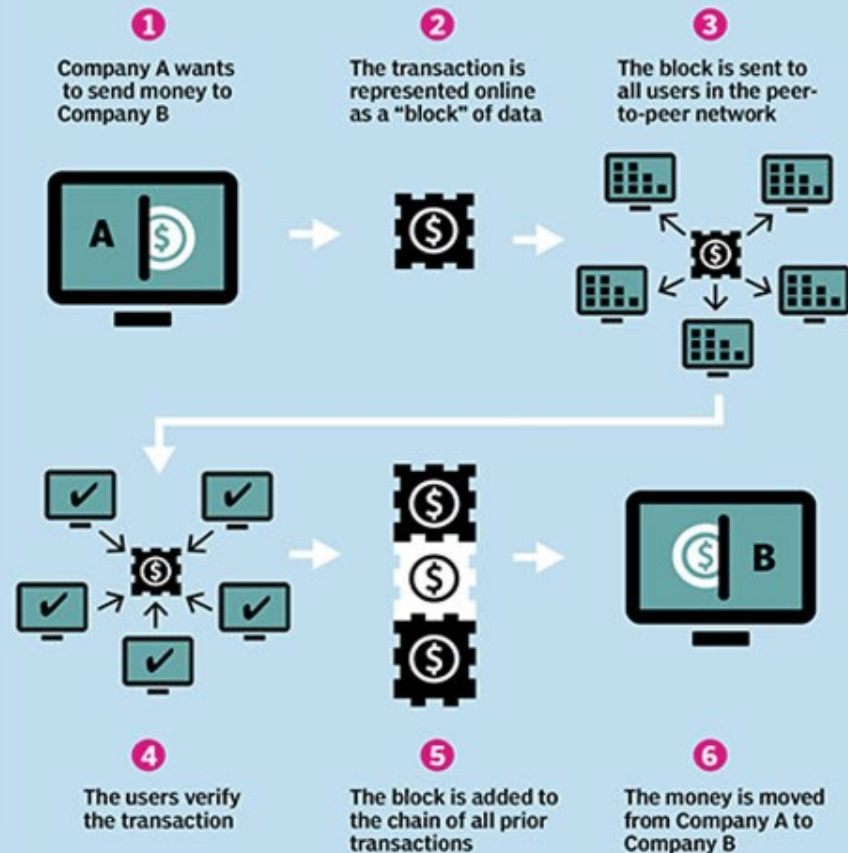
# What is blockchain?

- Blocks are cryptographically connected to the previous block using hashing



## How a Blockchain Works

Sending money using distributed ledger technology creates a highly transparent, immutable record.



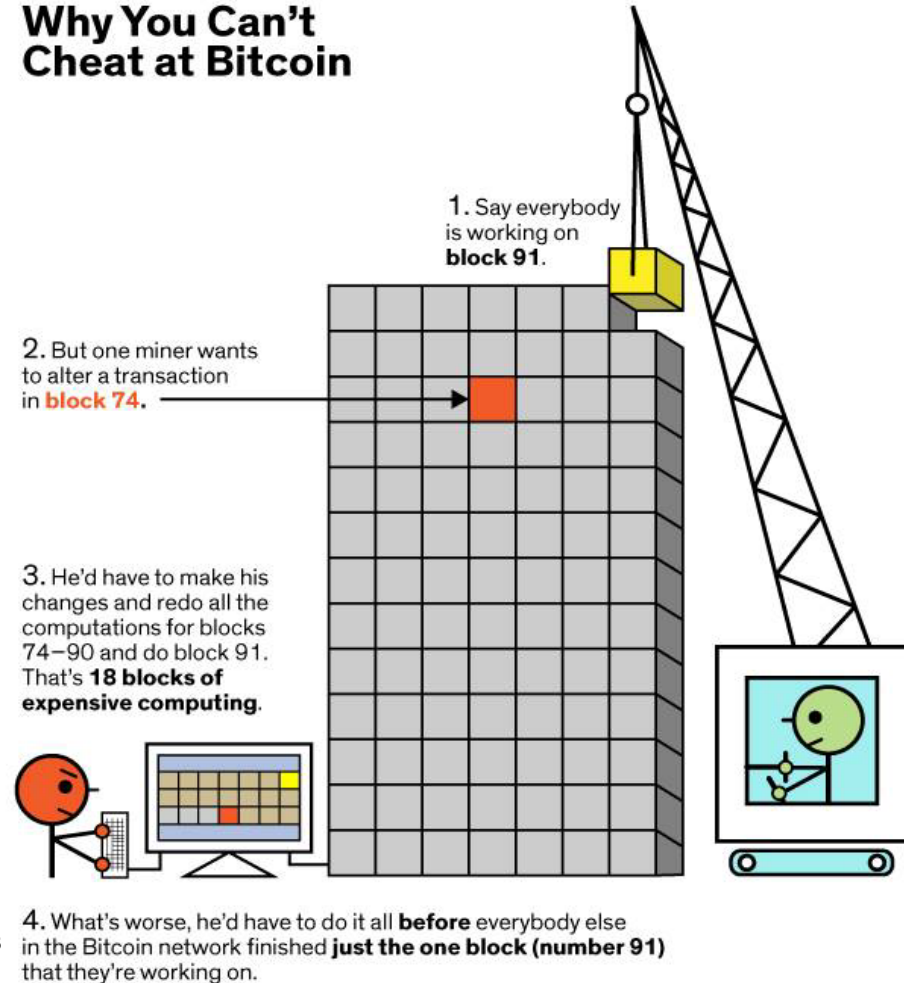
Source: CFO

# How do blockchains maintain security?

## Consensus mechanisms

- Many different types
- Dictates the rules transactions must follow to be approved by nodes on the network
- Dictates how transactions flow between nodes and are approved by nodes on the network
- Ensures next block in a blockchain is the single source of truth

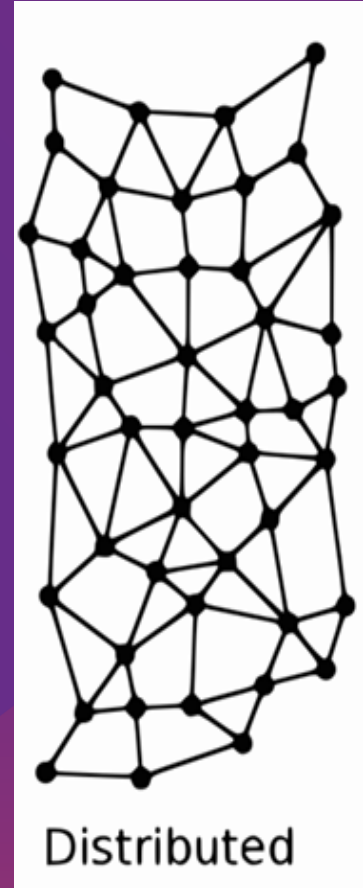
## Why You Can't Cheat at Bitcoin





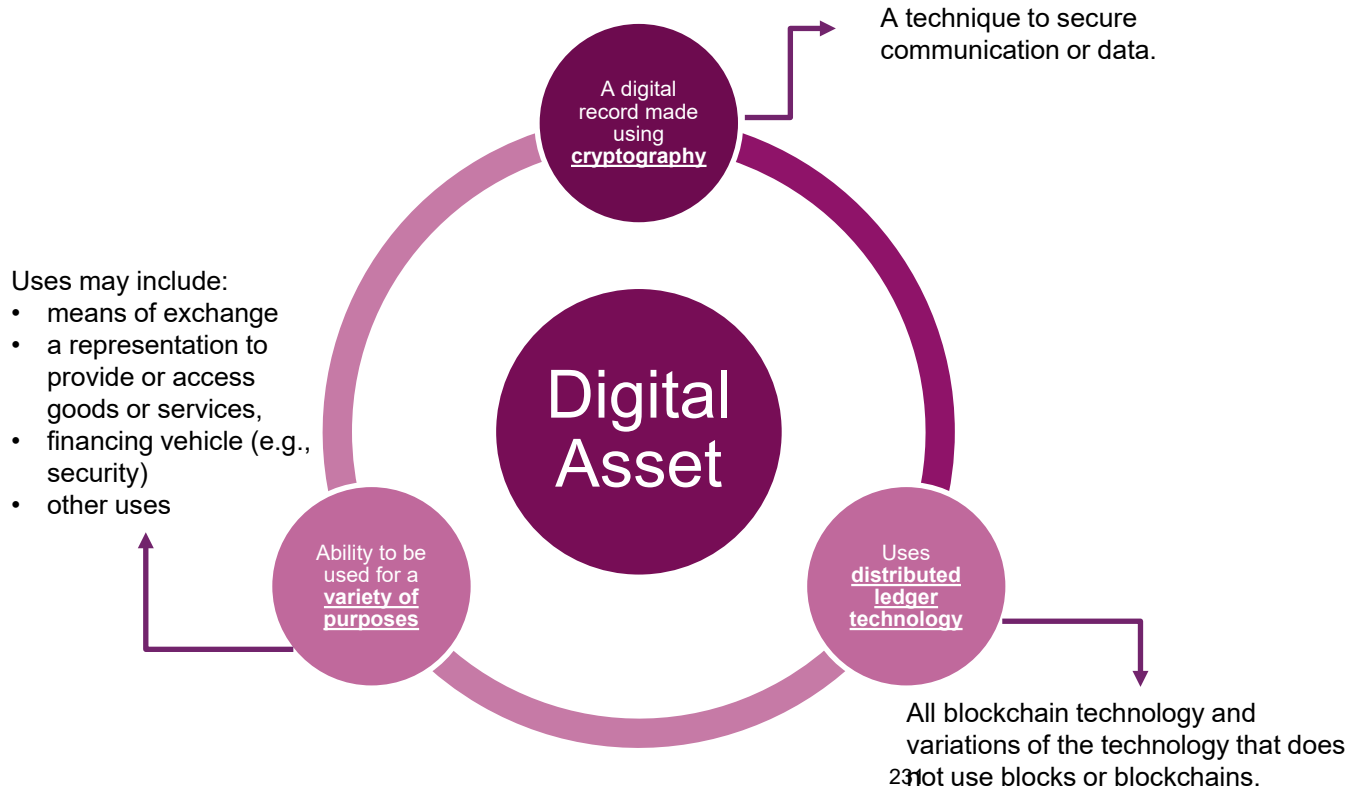
## Functions of blockchain nodes

- Integral part of blockchain ecosystem
  - Share and maintains distributed ledger
  - Data is distributed to all nodes
  - Ensure integrity of data and provide credibility of network
- Various functions of nodes
  - Accepting/rejecting transactions
  - Managing transactions and their validity
  - Storing blocks
  - Acting as point of communication



# Digital assets background

# What is a digital asset?



## Types of digital assets

- Crypto assets (bitcoin, ether)
- Asset-backed tokens
  - Fiat-pegged (stablecoins)
  - Crypto-pegged
  - Commodity-pegged
- Central-banked digital currencies (CBDCs)
- Non-fungible tokens
- Other tokens (security/utility)

## Uses of Digital Assets

Purchase/Sale

Investment

Trade

- Buying and selling based on current market price

Exchange


- Buying and selling based on an agreed upon price not necessarily the current market price

# Auditor accessing information from a blockchain

# Methods and risk when accessing information from a blockchain

Use free public blockchain explorer

- Information provided based on search parameter inputs
- Risks include not knowing how explorers are configured or if data is complete and accurate

**BLOCKCHAIR**

info@blockchair.com  
https://blockchair.com  
01/05/2023 - 02/05/2023 (Part 1/1)

WALLET STATEMENT

BITCOIN

WALLET ADDRESS: 38XnPvu9PmonFU0WouPXUjYbW9lwa5MezL

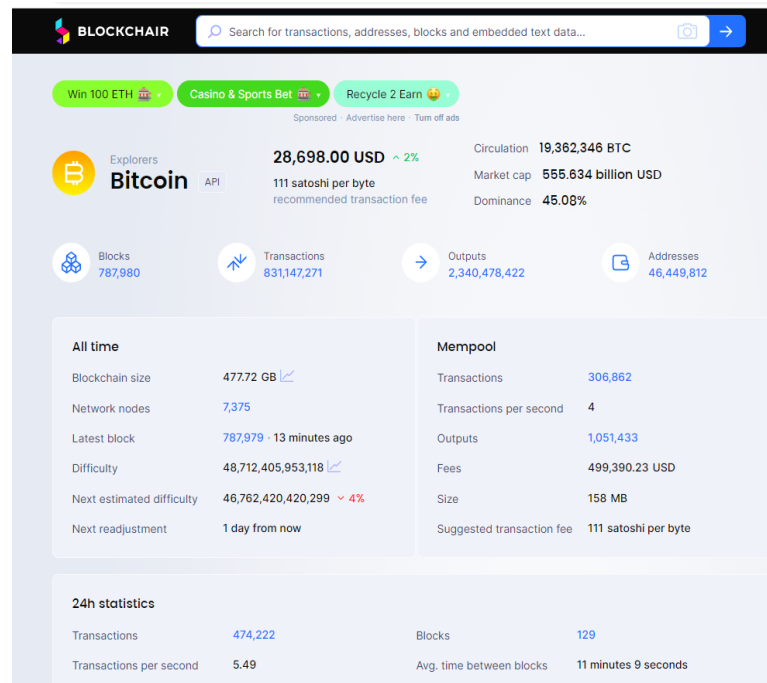
STATEMENT PERIOD: 01/05/2023 - 02/05/2023

BTC BALANCE SUMMARY:

STARTING BALANCE (01/05/2023)	307.97814740 BTC	9,020,371.96 USD
TOTAL RECEIVED	471.30954310 BTC	13,704,958.95 USD
TOTAL SENT	518.66240061 BTC	15,108,866.17 USD
ENDING BALANCE (02/05/2023)	260.62528989 BTC	7,479,424.57 USD

HISTORY OF TRANSACTIONS: 01/05/2023 - 02/05/2023

#	TIME		AMOUNT (BTC)	AMOUNT (USD)	TRANSACTION HASH
1	2023-05-01 00:18:30	Received	6.39479364	187,297.11	a107643013b6594e71776f5f4dc105eba8fa1f4d3e553cf89d586cec02fe7bfff
2	2023-05-01 00:26:53	Received	6.40543485	187,608.78	a7bafae4893a494639716023bb4d6efd7272f0e655684ee1198e39cf1831034a
3	2023-05-01 00:38:16	Received	6.45999955	189,206.93	45b4c33b14f2a52caefb57891193412c4f7bc05c3810b7a51d059af6d7498b89
4	2023-05-01 00:59:50	Received	6.35073995	186,006.82	f2b0d1e738a9d4ca20f593dc3f0fe81faa9fdd9d5ab8f20f444de2cde5e7754
5	2023-05-01	Received	6.3063725	186,306.54	10763d68fa6fca17669f2af60cb03a69a



## Methods and risk when accessing information from a blockchain (continued)

- Outsource to external specialist
  - Third party accesses information for the auditor
  - Risk includes not knowing how node was configured (unless SOC 1 report is obtained)
  - Risk that auditor, through third-party relationship, influences blockchain data
- Auditor operates own node
  - Maintains own copy of blockchain data, configuring an access node to extract data only
  - Risk that auditor executes transactions on the blockchain through the node based on configuration

# Thank you