



National Association of State Boards of Accountancy

◆ 150 Fourth Avenue, North ◆ Suite 700 ◆ Nashville, TN 37219-2417 ◆ Tel 615.880-4201 ◆ Fax 615.880.4291 ◆ www.nasba.org ◆

July 14, 2016

Professional Ethics Executive Committee
c/o Lisa A. Snyder, Director
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Via e-mail: lsnyder@aicpa.org

Re: PEEC Exposure Draft on Hosting Services

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

We appreciate the opportunity to offer comments on the Exposure Draft referred to above. The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following comments on the Exposure Draft.

Impaired Independence as a Result of Hosting Client Systems or Data

The core issues to address are who controls the client's data and what constitutes control. It is not clear whether services commonly provided under the existing code (See AICPA, "Frequently Asked Questions: Non Attest Services Questions as of November 12, 2015") would, under the proposal, impair independence. Would the conclusion be different if they were to be maintained on the licensee's software or in a hosted environment? Common examples include maintaining a client's depreciation records, and performing write-up services for which the accountant maintains the client's general ledger based on source documents provided and journal entries approved by the client.

It appears reasonable to conclude that, when a licensee takes custody or control of data or records that the attest client uses to conduct its operations, the licensee's independence would be impaired. However, as the proposal is worded it would appear to preclude write-up work for an attest client unless the data were stored on an unrelated third party's system. If that is not PEEC's intent, we recommend the PEEC clarify the circumstances in which write-up work would still be permitted under the new rule.

Examples of Services that Would Impair Independence

We believe more examples of services that would impair, or not impair, independence are needed in paragraphs 02 and 03. Specifically, examples that clarify what constitutes control of

client data, and what constitutes “data or records the attest client uses to conduct its operations” would help licensees, their clients and regulators better understand the boundaries of permitted services.

Define Production Environment

The concept of the “production environment” should be more completely defined. We assume what is intended is any environment that contains real-time systems and/or data upon which the client depends for regular operations, financial or otherwise.

Need for a Holistic Approach to the Issues

We understand that the task force addressing the hosting issue is also reviewing a number of issues related to hosting, cloud services (a type of hosting service) and licensee access to client production data. While we acknowledge that these are complex issues, we suggest it may be more helpful to address the issues in a single interpretation rather than piecemeal, to help avoid unintended consequences, inconsistency and confusion in applying guidance. We hope PEEC will work to ensure the final result is cohesive and provides clear guidance on these issues.

Control and Access

Issues arise when the licensee takes control of a client’s systems, as is the case when the licensee hosts the client’s production systems on servers owned or controlled by the licensee. When the client has no direct control over the disposition of their systems, threats arise to the client’s continued financial operations should the ability of the licensee to provide those services be compromised, through third party actions or the licensee’s own actions. These same issues exist if the licensee is providing the hosting service through a private cloud leased from a third party.

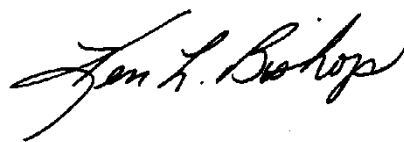
We do not believe access to client production systems alone impairs independence.

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

Very truly yours,



Donald H. Burkett, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO