August 29, 2017

Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Via e-mail: Ethics-Exposure Draft@aicpa.org

Re: Proposed Interpretation Long Association of Senior Personnel With an Attest Client

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.

We would like to commend members and staff of the AICPA Professional Ethics Division for their work on these changes to interpretations of the Code of Professional Conduct. We believe that the proposal represents an overall improvement in guidance for AICPA members and for state board licensees.

In response to your request for specific comments, we offer the following:

1. The self-interest threat to independence exists when “...a member could benefit, financially or otherwise, from an interest in or relationship with an attest client or persons associated with the attest client” (ET sec. 1.210.010.16). Do you believe this threat may exist when a member is included in senior personnel of an attest engagement team over a long period and should therefore be included as a potential threat to independence in paragraph .02?

We believe that the self-interest threat is as great as the familiarity threat under these conditions and feel strongly that it should be included as a potential threat to independence in paragraph .02.

2. Are there significant challenges that would require the need for a delayed effective date? If so, please identify the challenges and provide a recommendation regarding an effective date.
Firms will typically build out their audit teams months in advance. A short term effective date will create challenges for firms of any size in re-assigning audit teams on short notice, should a change in staffing be necessary as a result of this new requirement.

We also believe there may be greater impacts on smaller firms who may have difficulty complying with the proposed rule. Small firms, particularly in rural environments, may have ongoing issues with familiarity threats because of the smaller business base and inherent familiarity found in these settings.

We also recommend that the interpretation encourage the attest engagement team to document the familiarity threats and safeguards whenever a member is included in the senior personnel of an attest engagement team over a long period of time. PEEC should provide guidance regarding what might represent a long period of time for purposes of recommended formal documentation. For example, PEEC may want to use the SEC’s five-year partner rotation rule as a benchmark (i.e., if that benchmark was used, it would be expected that the workpapers would contain contemporaneous documentation of the familiarity threats and safeguards whenever senior personnel on an attest engagement team serve in a senior role on a continuous basis for more than five years.)

We recommend that the effective date be extended to a minimum of six months after publication in the Journal of Accountancy.

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

Sincerely,

Telford A. Lodden, CPA
NASBA Chair

Ken L. Bishop
NASBA President and CEO