



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

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AICPA Peer Review Board
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

Attention: Brad Coffey, Manager – AICPA Peer Review Program

Via e-mail: PR_expdraft@aicpa.org

Re: Exposure Draft: Proposed Peer Review Standards Update No. 3, *Modernizing Peer Review Administration Requirements*

Dear Members and Staff of the AICPA Peer Review Board (PRB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the Proposed Peer Review Standards Update No. 3, *Modernizing Peer Review Administration Requirements* (the Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of 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 offers the following comments on the Exposure Draft.

General Comments

As noted in the explanatory memorandum, accounting firms have been part of alternative practice structures (APS) for more than two decades. Private equity (PE) investments are rapidly transforming the accounting profession. Without established guidance, concerns are growing from regulators, accountants and the public over potential conflicts of interest arising from these transactions and the potential impact to audit quality.

NASBA commends the PRB's efforts to modernize peer review administration to address the potential risks associated with APS and PE participation. Overall, NASBA supports the concept of requiring a firm with an APS to have its peer review administered by the National Peer Review Committee (NPRC). Concentrating on the initial oversight of peer reviews of firms involved in APS at the NPRC can facilitate learning and understanding of these complex structures and enhance the consistency of reviews for those impacted firms.

As you are aware, the AICPA Professional Ethics Executive Committee (PEEC) is currently working on a project to revise the AICPA Code of Professional Conduct (Code) and guidance related to independence in APS. While the project is ongoing, the recent discussion memorandum describes independence considerations focusing on characteristics of an APS in terms of attest and nonattest practices and ownership by investors or commercial enterprises using the concepts of control or significant influence.

As noted in response to specific questions in the Exposure Draft later in this letter, there are a few instances in which terminology and wording in the proposal do not seem consistent with PEEC's current project. NASBA encourages the PRB to consider the PEEC's project and ensure the terminology is consistent to help avoid confusion and potential misapplication.

The Exposure Draft states that if approved by the PRB, the proposed revisions to the standards will be effective for peer reviews with years ending on or after December 31, 2025. While acknowledging the intent to move quickly in an area significantly impacting the profession, NASBA believes that the effective date may be too soon to practically implement for the PRB, NPRC and firms as well as peer reviewers and commercial organizations publishing peer review practice aids.

The PRB will need time to identify and notify the firms that will now be subject to review administered by the NPRC as well as to evaluate the qualifications of the existing reviewer pool to ensure adequate coverage to perform the required reviews. Firms may need time to transition from their current administering entity to the NPRC and understand any impact to the review process, timing and required firm resources.

Peer reviewers consider firms' quality management systems and independence processes and procedures with any peer review. The governance and leadership structure in an APS will be different from that of a traditional firm structure. Reviewers will need to consider the appropriate individuals to interview to understand governance and leadership in an APS and how the quality management responses are executed. They will also need to consider certain matters specific to APS (e.g., those functional areas such as the firm's processes around client acceptance, personal independence reviews, client continuation, resource allocations, etc.). Those considerations may require additional training and resources for the reviewers.

Comments on Specific Questions

1. Regarding the proposed revision to paragraph .35 of PR-C section 100, please provide your views on the following:

a. Do you agree with the proposed change? If not, please explain your reasoning.

As drafted, paragraph .35(c) allows the PRB to designate any "...practice structure [that] is deemed by the board to present an elevated risk to quality and to the profession." for NPRC

administration. NASBA believes that firms with APS structures are being scoped into the NPRC review administration due to a heightened risk profile (as compared to firms with a traditional ownership structure) just as firms that conduct audits under the PCAOB standards are scoped in for NPRC review as there is more risk associated with those complex, high-stakes engagements. The phrase “elevated risk” is not defined and could be applied beyond the intended scope.

Instead of using the phrase “elevated risk”, which could be difficult to define, NASBA recommends the PRB develop a process or list of objective criteria so that a firm can readily determine if they are scoped into NPRC review. Application guidance could be included to further clarify the criteria and provide examples.

Additionally, NASBA recommends limiting the initial scope of the proposal to firms associated with an APS by ending paragraph .35(c) after the word “profession” and deleting “or the firm’s practice includes certain engagements or services deemed to present such risk.”

The explanatory memorandum to the Exposure Draft includes rationale for allowing the PRB discretion in determining whether a review should be administered by the NPRC for future emerging areas. As these emerging areas are not expected to occur frequently, NASBA recommends that any new category of required review by the NPRC be conducted through a public due process to seek input from key stakeholders.

b. Is the revised requirement sufficiently clear and understandable? If not, please explain any suggestions for improvement.

See response to 1.a. above.

c. Does the corresponding application and other explanatory material proposed in paragraph .A50 provide sufficient understanding for users to apply the related requirement? If not, please explain any suggestions for improvement.

The extant APS interpretation of the “Independence Rule” (ET Section 1.220.020) provides the definition of APS as a form of organization in which a firm that provides attest services is closely aligned with another public or private organization that performs other professional services. The phrase “closely aligned” is not defined in the Code.

Paragraph .A50 requires a firm to have its review administered by the NPRC when the firm is “closely aligned with a non-CPA-owned entity (an alternative practice structure).” The phrase “closely aligned” is not defined and could be difficult to apply. For example, a firm may have a CPA firm, a business brokerage firm, an executive search firm and a tax and consulting firm which are all legally separate entities but share some services including a brand name. Is the name enough to make them closely aligned or is there additional analysis of the various agreements required to evaluate their substance? Who determines which firms are subject to this requirement (i.e., who decides what is considered closely aligned)?

NASBA recommends replacing “closely aligned with a non-CPA-owned entity (an alternative practice structure)” with “operating in an alternative practice structure” and supplementing the application material with examples and scenarios to promote consistent implementation.

2. Regarding the proposed revision to paragraph .08 of PR-C section 200, please provide your views on the following:

a. Do you agree with the proposed change? If not, please explain your reasoning.

Paragraph .08 of PR-C Section 200 states that a captain for a peer review of a firm whose review is required to be administered by the NPRC because the firm performed an engagement under PCAOB standards should be currently employed by or be an owner of a firm whose most recent review was also required to be administered by the NPRC for the same reason. Paragraph .A13 then provides an exception to that requirement if the captain submits a request in writing to the NPRC that describes the experience and qualifications that enable the review team to effectively review the firm’s engagements and its system of quality management.

NASBA believes that the qualifications as captain for a peer review of a firm whose review is required to be administered by the NPRC should be competency-based. Qualified team captains should not be excluded if they can substantiate appropriate competence, knowledge and experience.

b. Is the revised requirement sufficiently clear and understandable? If not, please explain any suggestions for improvement.

See response to 2.a. above.

c. Does the corresponding application and other explanatory material proposed in paragraph .A13 provide sufficient understanding for users to apply the related requirement? If not, please explain any suggestions for improvement.

As stated above, NASBA believes that the qualifications as captain should be competency-based. NASBA encourages the development of competency criteria, which could be verified through PRIMA before engagement acceptance, to ensure captains and the review team possess appropriate expertise.

3. Do you agree with the proposed effective date (for peer review years ending on or after December 31, 2025)? If not, please explain your reasoning and note any concerns or anticipated challenges.

As stated previously, NASBA believes the proposed effective date is too soon and recommends deferring the effective date to allow the PRB and the NPRC more time to consider the impact of the number of firms now subject to reviews administered by the NPRC as well as to evaluate the existing reviewer pool and provide any necessary training and resources. Time will also be needed to

communicate with impacted firms and allow for an appropriate transition from a current administering entity to the NPRC. PRIMA would need any appropriate updates to incorporate necessary checks and routing controls. Effective implementation of any new standard is in the public interest.

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We appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

Maria E. Caldwell

Maria E. Caldwell, CPA
NASBA Chair

Daniel J. Dustin

Daniel J. Dustin, CPA
NASBA President and CEO