AICPA Professional Ethics Executive Committee (PEEC)
Open Meeting Highlights – February 12, 2019

The following issues were discussed:

Chair Sam Burke announced that PEEC member Brian Lynch will take over chair duties in August 2019.

Hosting services - Updated Frequently-Asked-Questions (FAQs)

The task force chair reported the following changes to the Frequently-Asked-Questions (FAQs) on Hosting Services (1.295.143), which the PEEC reviewed in previous meetings.

FAQ 2, was added to address inquiries the AICPA staff has received. This FAQ says that once the hosting services interpretation becomes effective (7/1/19), a member does not have to terminate access to hosted client data or records for engagements completed prior to the effective date of the interpretation but should apply the new standard on a go-forward basis, since the AICPA Code of Professional Conduct (Code) does not currently prohibit hosting. Some PEEC members were concerned about allowing members to take no action with regards to previous engagements once the new rule goes into effect and asked that the task force consider revising the language. Later in the meeting, the PEEC reviewed and agreed with an updated version of the FAQ, which indicates that members need not terminate access prior to the effective date. Rather, they should terminate access to hosted client data or records for engagements completed prior to 7/1/19 within a reasonable period once the rule becomes effective.

FAQ 3 was revised as the task force agreed to provide examples of a "reasonable period of time" rather than suggest a period of six (6) months in all cases. Instead, the task force provided examples of what would or would not be considered reasonable and advised members to apply judgment. The PEEC agreed with this approach.

FAQ 5 was revised to address a concern about performing bookkeeping services when the firm has the software only on its server. Members questioned using "financial information system," (FIS) in the FAQ, as that term is being proposed for use in the Information System Services interpretation. Later in the meeting, the PEEC reviewed and agreed with an updated version of the FAQ that removed the term, "financial information system" but retained the requirement that the client have a complete set of books and records.

Information System Services (ISS) Independence Proposal

The task force made various revisions to the proposed ISS interpretation in light of the comments, which include the following:

- Revised the definition of Financial Information System (FIS) by incorporating the notion of internal controls over financial reporting and other clarifications. One member asked whether it would be possible to provide examples of systems that would not be a FIS, e.g., email

system, or one that may be a FIS in some but not all circumstances. The task force chair invited PEEC members to send any examples they would consider to be meaningful.
- Removed tax provision as a specific example of a discrete item (par. 04 in the proposed interpretation which states in part that, "*designing and developing a template that performs a discrete calculation such as a tax provision or depreciation calculation does not constitute designing or developing a financial information system and will not impair independence…"*), due to task force concerns that a tax provision would be material or significant to the financial statements. Another countered that incorporating a materiality threshold into that provision would contradict the Code's bookkeeping provision (1.295.120), which allows a member to assist the client with developing its tax provision and does not consider materiality.

Next Steps: The task force will continue its evaluation of the comments to the ISS proposal and bring an updated proposal to PEEC in a future meeting.

Use of Outside Directors on Firm Boards

The task force chair presented the group's proposal on the application of independence rules to outside directors (i.e., persons unassociated with an audit firm serving on the firm's governance board), which treated them as covered members because as directors they are in the "chain of command" and can influence the firm's attest engagements. PEEC believed that the benefits of using outside directors on firm boards may warrant a different approach that is in the public interest. For example, firms may use the conceptual framework to evaluate relationships that an outside director may have with audit clients rather than apply covered member rules in all cases.

Next steps: The task force will continue its deliberations and provide an updated proposal in a future meeting.

FAQ - Client Consent for Records Transfer if CPA Selling Practice has No Ownership in New Firm

1.400.205, *Transfer of Files and Return of Client Records in Sale, Transfer, Discontinuance or Acquisition of a Practice*, applies if a seller retains no ownership in the successor firm. However, if the member will have *any* ownership in the acquiring firm, notification to the client seeking permission to transfer the records to the successor firm is ***not*** required. PEEC agreed with this FAQ and asked the staff to also address a situation in which a member acquires clients from a non-member.

International Ethics Standards Board for Accountants (IESBA) – Update

AICPA staff provided an update on IESBA activities, reporting that IESBA:

- Approved and will be issuing its Strategy and Work Plan, which included certain "pre-commitments," i.e., role and mindset project (professional skepticism requirement for all accountants), nonaudit services, fees and consistency with ISAE 3000.
- Is developing an e-code slated to go live in the 2nd quarter of 2019.

- Plans to perform a post-implementation review of the NOCLAR and "long association" provisions by member bodies.
- Is examining trends in technology and its impact on the Code, new and evolving business models, public interest entities, materiality and more.

State and Local Government (SLG) Affiliates Independence Proposal

Staff is developing guidance for implementing the proposed SLG affiliates interpretation, once adopted and issued, that would be linked from the code and available to all members. The PEEC did not discuss the pending proposal as comment letters have not yet been received (comment period ends March 11, 2019).

Professional Issues Update

The AICPA staff presented trends the AICPA is tracking for the PEEC's consideration as they determine a strategy and work plan going forward included:

- Mergers & acquisition activity among CPA firms continues to be strong.
- Disruption of the profession is a concern.
- Technology - machine learning, artificial intelligence, virtual assistants, blockchain, etc. are impacting the profession.
- Multi-disciplinary firms are using fewer CPAs.
- Firms having difficulty hiring CPA talent and seeking non-CPAs, especially for technology-related skills.
- CPAs' core services, e.g., tax compliance, tax and financial planning, are being displaced.
- Trust in audit at an all-time high and other surveys show high confidence.
- AICPA making measurable progress in addressing audit quality issues.
- AICPA partnering with software developer to create tools to help members perform services.
- AICPA working with the 100 firms below big 4 to develop audit tool.
- CPA evolution project – efforts underway to re-evaluate the approach to CPA licensure.
- International auditing and ethics standards – work with the International Federation of Accountants (IFAC) to understand concerns of global regulatory community, e.g., Monitoring Group.

Selected Procedures Task Force

The task force chair and AICPA staff presented background about the Auditing Standards Board's (ASB's) Selected Procedures proposal:

- Client would no longer be required to make an assertion under the proposed standard.
- Would achieve convergence with international attestation standard ISAE 3000.
- Reports are no longer restricted-use and based on an assertion developed by the client.

- Idea was to be more flexible in this service and allow the CPA to develop or assist in the development of procedures.
- As proposed, the report identifies the responsible party and who created the procedures so would be transparent to the user.

One question raised was: how does the modified independence interpretation (1.297.020-.030) relate to this type of engagement?

Next steps: The task force will develop FAQs on independence for selected procedures for the PEEC's review.

Noncompliance with Laws and Regulations (NOCLAR) Update

The task force chair informed the PEEC that a new task force comprised of AICPA PEEC and NASBA/AICPA Uniform Accountancy Act (UAA) members will develop a blueprint for how to address the major issues, such as where various issues should be addressed, whether in the UAA or the Code. The objective of this group would not be to draft rule language but to agree on the major issues. The current PEEC NOCLAR task force will suspend discussions until the new task force has completed a blueprint for moving forward.

Next steps: The task force will report developments to PEEC in future meetings.

Planning Subgroup – Strategy and Work Plan (SWP)

The PEEC Planning Subgroup is developing a strategy and work plan (SWP) consultation paper and asked PEEC members to comment on issues the group should consider, which included the following:

- Revise the Code's modified independence interpretation for the attest standards, which is based on the use of restricted-use reports and consider whether other services should be included.
- Business relationships, which are not addressed fully in the Code today, e.g., subcontracting engagements.
- Impact of new technologies. Another member noted that cybersecurity should be a high priority item.
- Di minimus provision, e.g., for unpaid fees, financial interests, and whether there are opportunities to modernize the code.
- Requirement to report matters to state boards of accountancy and whether that overlaps with NOCLAR obligations.
- Code provisions on gifts and entertainment considering recently adopted IESBA standard on inducements.
- Whether the PEEC's convergence task force should perform a "lookback" review to determine whether there are differences between the AICPA and IESBA Codes. (For firms in the IFAC's "Forum of Firms," it's important to know if the AICPA Code is as strict as the IESBA Code. The PEEC has discussed development of an IESBA/AICPA Codes comparison, which would be a heavy undertaking but very beneficial.)

- Conflicting federal / state laws on marijuana usage. (AICPA has a policy statement and 12 states have declaratory statements that they will not enforce a reach of federal law against CPAs.)
- Guidance on outsourcing engagements.
- Independence interpretations for engagements other than financial statement audits, reviews and compilations, since there is limited guidance in the Code.
- 529 plans guidance, which was written several years ago when plans were new; guidance is less relevant today.

Next steps: The planning committee will continue to gather information between now and April and issue a consultation paper later this year.

The PEEC will meet in Seattle, Washington on May 14-15, 2019.