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

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,

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

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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.