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March 11, 2019

Professional Ethics Executive Committee  
Professional Ethics Division  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas, 19<sup>th</sup> Floor  
New York, NY 10036

Via Email to [Ethics-ExposureDraft@aicpa-cima.com](mailto:Ethics-ExposureDraft@aicpa-cima.com)

**Re: Comments on Exposure Draft, Proposed Interpretation of the AICPA Code of Professional Conduct, State and Local Government Client Affiliates (formerly Entities Included in State and Local Government Financial Statements), AICPA Professional Ethics Division dated January 11, 2019**

Dear Committee Members:

Grant Thornton LLP appreciates the opportunity to comment on the American Institute of Certified Public Accountants ("AICPA") Professional Ethics Executive Committee's ("PEEC") second proposed interpretation "State and Local Government Client Affiliates" proposing changes to the initial exposure draft issued July 7, 2017 on revisions to the interpretation of the AICPA Code of Professional Conduct ("the Code") "Entities Included in State and Local Government Financial Statements" (ET sec. 1.224.020).

While Grant Thornton supports the proposed standard set forth in the new exposed interpretation, we have provided the following comments for PEEC's consideration.

**General Comments**

- In paragraph .01 of the proposed interpretation, Grant Thornton suggests the PEEC consider changing "...financial statement attest clients..." to "...financial statement attest clients **and their affiliates, as further defined below, except as provided for in paragraph .07 of this interpretation.**" (additions in bold) Such edit would allow for the removal of paragraph .05.
- Paragraph .01 refers to "state and local government entities (as defined in item d. of paragraph .03 of this interpretation) that are financial statement

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attest clients". Similarly, paragraph .04 refers to a "financial statement attest client that is a state or local government entity". However, we noted other references to the "financial statement attest client" are not consistent throughout the interpretation. For example, paragraphs .03a and .05, refer to a "state and local government financial statement attest client". Grant Thornton suggests PEEC consider removing "state and local government entity[ies]" from references to the "financial statement attest client" made after paragraph .01, which already defines the applicability of the interpretation to "state and local government entities".

- Grant Thornton suggests PEEC consider updating the reference in paragraph .06a from "A covered member's immediate family..." to "A covered member's immediate family **member**..." to be consistent as to how the Code refers to immediate family members.
- Paragraph .11 of the proposed interpretation notes the "determination of materiality is a matter of professional judgement" and that "both quantitative and qualitative factors [should be considered] when determining whether an entity or investment is material to a financial statement attest client's financial reporting entity." Grant Thornton suggests that the implementation guidance provides examples or illustrations on determining materiality in a state and local government environment, including, but not limited to, an example for pensions funds.

#### Request for Specific Comments

**Question 1: Are the examples of circumstances or relationships with nonaffiliates that could result in the member consulting the "Conceptual Framework for Independence" helpful to assessing when the conceptual framework may be applicable? If not, please provide other suggested examples or circumstances that should be included.**

Grant Thornton believes that the examples of circumstances or relationships with nonaffiliates that could result in the member consulting the "Conceptual Framework for Independence" are helpful to assessing when the conceptual framework may be applicable.

**Question 2: Does this exposure draft provide clear guidance to the member on how to determine which entities are affiliates to the financial statement attest client? If not, please explain what areas in this exposure draft are unclear.**

Grant Thornton believes this exposure draft provides clear guidance on how to determine which entities are affiliates to the financial statement attest client.

**Question 3: Is it clear that investments will only be considered an affiliate if they are held by the financial statement attest client or by an affiliate under item a.i. of paragraph .03? If not, please provide a suggested clarification on how to make it clear that investments of these two entities only will be considered an affiliate.**

Grant Thornton believes it is clear that investments will only be considered an affiliate if they are held by the financial statement attest client or by an affiliate under item a.i. of paragraph .03.

**Question 4: What implementation guidance do you believe would be helpful for the Ethics Division to develop so that the interpretation can be successfully implemented?**

Grant Thornton believes implementation guidance would be helpful for successful implementation of this interpretation, including providing online training (e.g., webcast or self-study), examples and illustrations, and a frequently asked questions document.

Specifically, Grant Thornton considers the judgmental nature of the decision of “more than minimal influence” introduces a risk that two auditors could look at the same situation and reach a different conclusion when evaluating “more than minimal influence” since the evaluation of “more than minimal influence” under the proposed interpretation is solely a qualitative analysis.

While, paragraph .10 of the proposed interpretation noted that some factors may be weighed differently depending on the circumstances and the subject matter of any potential impairment, there is no application guidance on how to weigh the existing factors. PEEC should consider providing examples or illustrations that would assist members with this evaluation.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Anna Dourdourekas, National Partner in Charge, Ethical Standards, at [Anna.Dourdourekas@us.gt.com](mailto:Anna.Dourdourekas@us.gt.com) or (630) 873-2633.

Sincerely,

/s/ Grant Thornton LLP