



National Association of State Boards of Accountancy

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April 27, 2015

Professional Ethics Executive Committee
c/o Lisa A. Snyder, Director
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Via Email: lsnyder@aicpa.org

Re: Firm Mergers and Acquisitions, Proposed Interpretation, AICPA Professional Ethics Division,
Exposure Draft dated December 10, 2014

Dear Members and Staff of the AICPA Professional Ethics Executive Committee:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the Exposure Draft from the AICPA Professional Ethics Executive Committee on *Firm Mergers and Acquisitions (Exposure Draft)*. NASBA's 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. In furtherance of that objective, we offer the following comments on the *Exposure Draft*. Our comments focus on the issue of prohibited nonattest services and the *Exposure Draft's* request for specific comments relating to this topic.

Employment Relationships

We support the proposed interpretative guidance outlined in paragraph .03 of the *Exposure Draft* regarding employment or association with an attest client. However, there is an item that we believe needs further clarification. Paragraph .03d introduces a new concept to the Code when it states that "an individual with appropriate stature, expertise and objectivity, should review the subsequent engagement prior to issuing an attest report to determine whether the attest engagement team maintained appropriate integrity, objectivity, and professional skepticism." Does PEEC intend that this should not be the responsibility of the engagement partner and that this responsibility should be passed on to a partner responsible for engagement quality review? In our opinion, this responsibility should continue to rest with the engagement partner.

Also, we recognize that mergers often take a considerable period of time. We believe that once the letter of intent is signed, a partner or professional employee covered by employment relationships in paragraph .03 should terminate his or her relationship with the attest client as soon as possible, but in no case later than the effective date of the merger or acquisition.

Prohibited Nonattest Services

We do not support the *Exposure Draft's* overall direction on prohibited nonattest services. Attributing prohibited nonattest services to either the acquiring firm or to the acquired firm does not significantly alter the basic situation. If prohibited nonattest services are performed by either the acquiring firm or the acquired firm during the period covered by the financial statements, we believe threats to independence are at an unacceptable level. Paragraph 1.210.10.02 makes it clear that the conceptual

framework, and safeguards, cannot be used to overcome a prohibition or other requirement of an independence interpretation. Therefore, we do not agree with the proposed guidance in paragraphs .07 through .10.

In addition, the approach taken in the proposal might result in an arbitrary outcome if there were a true “merger of equals,” when it proves difficult to determine which is the acquiring and which is the acquired firm.

When the issue of prohibited nonattest services raises an independence issue due to an accounting firm’s merger or acquisition, we believe the engagement partner should discuss the nature of the prohibited nonattest services performed by the acquired firm, and the effect on the acquiring firm’s independence, with those charged with governance of the attest client as soon as practicable under the circumstances.

Items Needing Additional Clarification

We have identified three items that we believe need clarification. First, the exposure draft uses the term “effective date of the merger.” Is it the “closing date of the merger” or the “effective date of the merger” to which references are being made?

Second, paragraph .03 uses the term “professional employee.” This term is not defined in the Code. Would this term include “contract professionals” ?

Finally, all of the examples used in the *Exposure Draft* relate to financial statement engagements. It should be clear that this exposure draft is intended to cover all attest engagements, not merely financial statement engagements.

Effective Date

NASBA questions if a delayed effective date is appropriate for practitioners to apply the proposed standard as it is ultimately revised. Therefore, we suggest the final standard be effective 180 days after it is published in the *Journal of Accountancy*, given the lack of current guidance available to practitioners, and the threats created by provisions of impermissible nonattest services to attest clients.

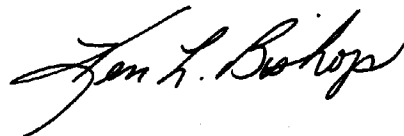
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Thank you for the opportunity to comment on the *Exposure Draft*.

Sincerely,



Walter C. Davenport, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO