



KPMG LLP  
345 Park Avenue  
New York, NY 10154

Telephone +1 212 758 9700  
Fax +1 212 758 9819  
Internet www.us.kpmg.com

July 18, 2016

Lisa A. Snyder  
Director of the Professional Ethics Division  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

**RE: AICPA Professional Ethics Executive Committee Proposed Interpretation  
*Hosting Services***

Dear Ms. Snyder

We appreciate the opportunity to provide comments on the AICPA Professional Ethics Executive Committee's (PEEC) Proposed Interpretation to the Code of Professional Conduct *Hosting Services* (the "proposed interpretation"). In evaluating the proposed interpretation, we offer the following comments for PEEC's consideration:

**Overall**

- Taking responsibility for the maintenance, custody, storage, security, repository or back-up of client data and/or records (i.e., "client data") on behalf of an attest client (i.e., "hosting of client data" or "hosting services") is an intrinsic management responsibility that should not be assumed by a member for an attest client. Whether such responsibility is over electronic or hard copy data does not change the underlying premise that such responsibility is a management responsibility. Therefore, hosting of client data by a member for an attest client where the member has taken responsibility for the client's data or records should be prohibited for an attest client. As a result, we recommend that the PEEC include hosting services in ET 1.295.030.02 as an example of a management responsibility that would impair independence.
- The concept of "engaged by" to determine independence as noted in the proposed interpretation at ET 1.295.143.01 and ET 1.295.143.03.c seems to take a form over substance approach to the independence consideration when providing hosting services. We believe that if a member is substantively providing hosting services, the member has taken on a management responsibility regardless of whether the member was engaged to specifically provide hosting services. Hosting services may be provided specifically as an explicit service or be inherent within the delivery of an otherwise permissible service.
- While the act of taking responsibility includes the concept of control of such data, a member may not actually control data but still have responsibility by virtue of being a repository of the client's data. Physical custody of data is an increasingly irrelevant concept as data moves to various third-party cloud servers. Therefore we suggest the criteria change from custody or control to responsibility. Control and custody over data would both be incorporated into criteria of "primary or sole responsibility for data".
- Hosting services do not change the determination of permissibility of services offered in connection with the hosting service. As written, the proposed interpretation may confuse



Lisa A. Snyder, Director of the Professional Ethics Division  
AICPA  
July 18, 2016  
Page 2 of 4

members in regard to the threats inherent in taking responsibility for the data with the threats associated with delivery of the service that caused the member to take responsibility for the data. We believe that an introductory paragraph is needed to clarify that the proposed interpretation covers only the threats related to hosting services. That paragraph should refer the member to other sections of the AICPA Code of Professional Conduct, including the conceptual framework for independence, to determine permissibility for related services provided along with potential hosting services.

- We believe the emphasis of the proposed interpretation should be on the impermissible management responsibilities inherent in hosting client data. Hosting services contain inherent management participation threats as a result of taking responsibility for client data. We believe self-review threats do not always exist by virtue of hosting client data but rather, a self-review threat results from other services associated with the hosting activity. We suggest that the proposed interpretation avoid implying that self-review threats always exist when providing hosting services.

#### **Prohibition on hosting services (ET 1.295.143.01)**

- We recommend avoiding the use of the term “asset” in the first paragraph of the proposed interpretation. We do not believe that it provides clarification regarding the definition of data and could be misunderstood.
- Data and records should be defined within the code or the proposed interpretation in order avoid having to include the phrase “client uses to conduct its operations”. We believe that data “client uses to conduct its operations” could be interpreted in several ways and may confuse members.
- We suggest the following revisions to reflect the preceding comments:

*[0.400.xx] Client data and/or records are primary, source, or backup data used in the client’s business processes. Client data and/or records includes information that the client would have to replicate if lost or otherwise becomes unavailable.*

*[0.400.xx] Hosting services include services where the member has taken responsibility for the maintenance, custody, storage, security, repository, or back-up of client data and/or records on behalf of the client.*

*1.295.143.01 An attest client’s management is responsible for maintaining its data and records. When a member assumes responsibility for the client’s data and/or records (hosting services) on behalf of management, the management participation threats to the member’s compliance....*

#### **Hosting service examples (ET 1.295.143.02)**

- We recommend deleting the phrase “production environment” as used in ET 1.295.143.b of the proposed interpretation. We believe the phrase “production environment” focuses inappropriately on the related service as opposed to the member taking responsibility for the client’s data and/or records on behalf of the attest client. In addition, members may assume that hosting in a non-production environment may always be permissible hosting services



Lisa A. Snyder, Director of the Professional Ethics Division  
AICPA  
July 18, 2016  
Page 3 of 4

which may not always be the case. We propose the following replace the example used in 1.295.143.02.b:

*b. Housing the attest client's financial or non-financial system(s) on the member's firm's servers or servers licensed by the member firm. For example, the firm hosts the attest client's financial information system or website on firm servers.*

- Paragraph 1.295.143.02.c of the proposed interpretation seems dated and not reflective of data that is more often maintained electronically. We suggest changing the example to the following:

*c. Responsible for keeping the attest client's data or records on behalf of the client. For example, the attest client's lease agreements or other legal documents stored on servers licensed, maintained or provided by the member's firm or hard copy storage maintained by the member's firm.*

### **Examples where a hosting service is not occurring (ET 1.295.143.03)**

We agree with the PEEC that exchanges of data (i.e., through the use of an electronic portal or other means) for otherwise permissible services can occur without the member taking on responsibility for client data or records. However, we believe that use of portals could be a hosting service in certain circumstances. To safeguard against providing an unintended hosting service, a firm may provide notification to a client that the portal is not intended to be the client's repository for the work product delivered through the portal. The firm may then purge or return data after a reasonable time frame to ensure that the portal does not become a repository or means of hosting the client's data or records. We therefore suggest modifying paragraph 1.295.143.03.c as follows:

*c. Electronically exchanging data or records with or on behalf of an attest client. For example, a member... to third parties. However, the member should consider threats that the client may use the portal as its primary or sole repository of data and therefore result in the member providing hosting services. In such cases, the member should apply the Conceptual Framework for Independence [1.210.010].*

Paragraph 1.295.143.03.d indicates that inputs by a client have an impact on determining whether a service is a hosting service. If the member is responsible for client data as a result of the client's input, we believe that would constitute hosting and be impermissible. We believe that the determinant should be who has responsibility for the data and not who inputs the data. We propose the following modification to the example:

*d. Licensing to an attest client the use of software where not providing hosting services and the software provides the attest client with an output that the attest client is responsible for maintaining. The software must perform an activity that if performed by the member, would not impair independence.*

### **Other examples**

We offer the following examples of circumstances where a member may not be responsible for hosting client data and/or records.



Lisa A. Snyder, Director of the Professional Ethics Division  
AICPA  
July 18, 2016  
Page 4 of 4

*Survey tools*

An audit client engages the member to conduct a survey that is a permissible nonattest service. The survey data is stored on cloud servers licensed by the member. The client has the ability to obtain dashboard reporting through a visualization tool. The dashboard reporting is the only deliverable to the client and the detailed survey data is not provided to the client at the end of the engagement. We do not believe this constitutes hosting since the data is for internal use by the member in order to provide the summary reports to the client. This would be no different from the firm using paper surveys, summarizing them manually, and then providing a summary hard copy report to the client.

*Data and analytics*

Data and analytics engagements involve analyzing very large amounts of structured and unstructured data using sophisticated analysis tools. A client engages a member to perform data and analytics on its customer records to identify purchasing patterns as part of a permissible service. The client provides copies of its customer records to the member who then performs the data and analytics analysis and provides the client with summary reports of the data. The analysis is performed once and the engagement is concluded. We do not believe this constitutes hosting of client data and/or records. The data obtained by the member is a copy of the client's data and is used by the member to perform the analysis. The data does not represent data that is necessary to the client's business process as it is a copy of historical data.

**Effective date**

We propose an effective date of one year from issuance for existing engagements. Many of these engagements could require significant effort by members and their clients to move data onto other platforms. For new engagements, members should apply the proposed interpretation upon issuance.

\*\*\*\*\*

We appreciate the PEEC's careful consideration of our comments and observations. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Theresa Ahlstrom at (631) 425-6027 or tahlstrom@kpmg.com.

Very truly yours,

KPMG LLP

Theresa P. Ahlstrom  
Partner in Charge - Independence