



December 20, 2021

Ms. Toni Lee-Andrews  
Director, Professional Ethics Division  
AICPA Professional Ethics Executive Committee  
1345 Avenue of the Americas, 27th Floor  
New York, NY 10105

**Re: AICPA Professional Ethics Executive Committee, Proposed Revisions to the AICPA Code of Professional Conduct, Unpaid Fees Interpretation (ET sec. 1.230.010)**

Dear Ms. Lee-Andrews:

PricewaterhouseCoopers LLP appreciates the opportunity to provide comments on the AICPA Professional Ethics Executive Committee's (the PEEC's or the "Committee's") proposed revised interpretation, "Unpaid Fees" (ET sec. 1.230.010) (the "proposed revised interpretation"), under the "Independence Rule" (ET sec. 1.200.001) of the AICPA *Code of Professional Conduct* (the "Code of Conduct").

We agree with the PEEC's proposal to replace the current interpretation's approach of considering independence to always be impaired when there are any unpaid fees for a professional service provided more than one year prior to the date of the current-year report with a principles-based threats and safeguard framework.

Appendix A offers our detailed comments and recommendations intended to clarify the proposed revised interpretation. Appendix B includes our specific responses to the supplementary questions in the exposure draft. We believe these recommendations will enhance the proposed revised interpretation and are consistent with the intent of the PEEC.

\* \* \* \* \*

We would be pleased to discuss our comments and to answer any questions that you or the PEEC may have. If you have any questions regarding this submission, please contact Marc Panucci at [marc.panucci@pwc.com](mailto:marc.panucci@pwc.com).

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



## APPENDIX A

### Detailed comments and recommendations

1. Clarify in paragraph .03 that “other situations” require judgment to assess whether independence threats exist

Paragraph .03 of the proposed revised interpretation states that “[o]ther situations require judgment to **assess the threats** to the covered member’s compliance with the “Independence Rule” [emphasis added]. In our view, this language implies that whenever “other situations” arise, there is always an assumed threat to independence. For example, the wording would seem to indicate that a threat to independence is present when the unpaid fee is significant, even if the balance due is current, the client has a history of paying on time, and there is no indication the client will fail to pay timely. This inference is drawn from the language, “assess the threats,” which presumes there are always threats to independence.

We suggest that the Committee amend the interpretation as follows:

“Other situations require judgment to assess whether there are ~~the~~ threats to the covered member’s compliance with the “Independence Rule.”

This description would be consistent with the application of the conceptual framework approach as described in ET 1.000.010.07 of the Code of Conduct, under which members are required to identify threats, evaluate the significance of a threat, and identify and apply safeguards. As it relates to identifying threats, the Code of Conduct requires a member to determine *whether* relationships or circumstances create one or more threats. Only after the threat is identified is the member required to assess its significance.

2. Clarify that consideration of the potential effects on the auditor’s objectivity and appearance of the auditor’s ability to maintain independence is an overarching principle

Paragraph 4 of the exposure draft’s explanatory memo provides that there are four factors used to determine the level of threats:

- a. The significance of the fees to the covered member
- b. How long the fees have been outstanding
- c. The likelihood that the fees will be paid
- d. The potential effects the situation will have on the auditor’s objectivity and appearance of the auditor’s ability to maintain independence



In our view, factor d. describes an overarching principle underpinning any independence evaluation rather than a specific factor for consideration when determining whether threats created by unpaid fees are at an acceptable level. Therefore, we agree with the Committee's omission of that factor from paragraph .02 of the proposed revised interpretation. We suggest that the Committee consider clarifying that factor d from the explanatory memo is an overarching principle.

3. *Clarify that the listed factors for evaluating whether threats are at an acceptable level are examples only and add a factor related to whether the unpaid fee is due from the financial statement attest client or an affiliate*

Paragraph .02 of the proposed revised interpretation establishes factors for evaluating whether threats to independence are at an acceptable level.

We suggest that the Committee consider clarifying in paragraph .02 that there may be other factors beyond those listed that are also relevant to the evaluation of whether threats are at an acceptable level in the specific facts and circumstances.

We also suggest adding another factor to paragraph .02 that considers the specific entity in the attest client's organizational structure from which the unpaid fees are due. We believe understanding if the fees are due from the financial statement attest client or from an affiliate would be an important consideration to the threats evaluation and the member's conclusion regarding its ability to issue the attest report.

4. *Replace the "significance" threshold with materiality instead*

Pursuant to paragraph .02 of the proposed revised interpretation, the first factor to consider when evaluating whether threats are acceptable is the "significance" of the unpaid fees to the covered member. As stated in paragraph .03, threats would not be at an acceptable level when unpaid fees are both *significant* to the covered member and relate to professional services provided more than one year prior to the issue date of the current-year attest report. The proposed revised interpretation does not define "significant" or otherwise address the circumstances under which unpaid fees may be considered significant to the covered member. We recommend that the Committee consider replacing the proposed significance threshold with a "materiality" threshold. In our view, materiality is more broadly understood by the profession. It is a well-established concept in the AICPA professional standards and also already widely used in the Code of Conduct as a threshold for assessing the permissibility of certain interests in and relationships with an attest client (e.g., cooperative arrangements, financial interests, leases, unsecured loans).



5. *Replace references to “covered member” with “member”*

Paragraph .01 of the proposed revised interpretation states that “[t]he existence of unpaid fees to a **covered member** for professional services previously rendered to an attest client may create self-interest or undue influence threats to the **covered member’s** compliance with the ‘Independence Rule’ [1.200.001].” [emphasis added] Similar to paragraph .01, the remainder of the proposed revised interpretation refers to “covered member” rather than “member.” In our view, when there are fees due from an attest client for professional services provided more than one year prior to the issue date of the current-year attest report, the threats are to the independence of the *member* (or the member’s firm) as, generally, it is the member who was the party to the relationship with the attest client to provide the professional services and is owed the fees for performing those services. Accordingly, we do not believe that the references to “covered member” are appropriate and suggest that the Committee refer instead to the “member” throughout the proposed revised interpretation.



## APPENDIX B

### Responses to the supplementary questions posed by the PEEC in the exposure draft

1. *PEEC does not believe unpaid fees create advocacy threats and, as such, proposes to eliminate this from the interpretation. Do you believe the advocacy threat is applicable to unpaid fees? If so, please explain.*

We agree with the PEEC that unpaid fees do not create an advocacy threat and that the reference to this threat should be eliminated from the proposed revised interpretation.

2. *Are the factors to consider when evaluating whether threats are at an acceptable level clear? Should any other factors be considered?*

Please refer to our detailed comments and recommendations in Sections 2 and 3 of Appendix A regarding the factors, including our recommendation of adding a new factor related to whether the unpaid fee is due from the financial statement attest client or an affiliate.

3. *Do you agree with the use of the terms “clearly insignificant” and “significant” in paragraph .03 of the interpretation? Why or why not?*

Please refer to our detailed comments and recommendations in Section 4 of Appendix A regarding replacing “significant” with “material.”

4. *Should any other safeguards be provided as examples in paragraph .04?*

We do not believe that additional examples of safeguards are necessary.

5. *Are the safeguards in paragraphs .04a and .04d clearly delineated? Why or why not?*

We believe that the safeguards outlined in paragraphs .04a and .04d are clearly delineated.

6. *Is it clear in paragraph .04f that communication with those charged with governance is not in itself a sufficient safeguard?*

We do not believe that paragraph .04f, as proposed, clearly articulates the notion that communication with those charged with governance is not in itself a sufficient safeguard. The PEEC’s expectation that the member would also apply other safeguards is not clear from the reference to “...and the other safeguards applied” without the benefit of the additional clarity



provided by this question in the exposure draft. Accordingly, we suggest stating this expectation explicitly in paragraph .04f.

7. *Do you agree that a six-month delayed effective date provides adequate time to implement the proposal? If not, why, and what period would provide adequate time?*

We agree that the PEEC's proposed six-month delayed effective date provides adequate time to implement the proposed revised interpretation.