



National Association of State Boards of Accountancy

150 Fourth Avenue North ♦ Suite 700 ♦ Nashville, TN 37219-2417 ♦ Tel 615/880-4200 ♦ Fax 615/880-4290 ♦ Web www.nasba.org

February 25, 2020

Vanessa A. Countryman, Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Via e-mail: rule-comments@sec.gov

Re: Amendments to Rule 2-01, Qualifications of Accountants (File Number S7- 26-19)

Dear Ms. Countryman:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the proposed *Amendments to Rule 2-01, Qualifications of Accountants* (the proposal or proposed amendments). NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories. Our comments on the Securities and Exchange Commission's (SEC) amendments are made in consideration of the Boards' of Accountancy charge as regulators to promote the public interest.

In furtherance of that objective, NASBA offers the following comments on the amendments described in the following sections of the proposal:

Section II.A.1. Proposed Amendments to Affiliate of the Audit Client and the Investment Company Complex

NASBA agrees with the proposed amendments to the definitions *affiliate of the audit client* (affiliate) and *investment company complex* (ICC), which would no longer include immaterial sister companies, i.e., companies under common control with the audit client. For ICCs, the amendment would also focus the analysis for identifying affiliates of the entity under audit rather than the *audit client*, which, by definition, includes all affiliates.

Section II.A.2. Proposed Amendment to Audit and Professional Engagement Period

NASBA agrees that Rule 2-01 should allow the auditor of a domestic first-time filer of an Initial Public Offering (IPO) to apply the same exemption to the definition of *audit or professional engagement period* that auditors of foreign IPO filers apply today. Such exemption would no longer require the auditor to apply the SEC independence rules for *all* financial statement periods included in the filing, but rather allow the auditor to apply SEC rules for the most recently completed fiscal year provided the auditor complied with the applicable independence rules, e.g., American Institute of Certified Public Accountants (AICPA) independence standards, for all prior periods included in the filing.

Section II.B.1. Proposed Amendment to Except Student Loans

NASBA agrees that an additional exemption for certain student loans a covered person obtained from an audit client to pay for educational expenses prior to becoming a covered person may be appropriate. However, we believe that such loan (or loans), if material to the covered person's net worth, may impact independence in fact and/or appearance. We note that the proposal cites a concern about materiality as the rationale for not exempting student loans obtained for the covered person's immediate family. Excluding immediate family from this rule is inconsistent with other elements of Rule 2-01, which apply similar restrictions on the financial interests and relationships of both the covered person and his or her immediate family. As an alternative, NASBA suggests that the covered person and his or her immediate family be permitted to have one or more student loans with an audit client if: (i) the loan(s) was/were obtained *before* the individual became a covered person in the firm, *and* (ii) the loan(s) is/are immaterial to the covered person and his or her immediate family's net worth.

Section II.B.2. Proposed Amendment to Clarify the Reference to “a Mortgage Loan”

NASBA agrees that a covered person may exempt more than one mortgage loan on his or her primary residence if all the applicable criteria in Rule 2-01 are met.

Section II.B.3. Proposed Amendment to Revise the Credit Card Rule to Refer to “Consumer Loans”

NASBA agrees that expanding the current credit card rule to permit other de minimis consumer loans obtained by covered persons for personal consumption, such as retail installment loans and cell phone installment plans, is appropriate.

Section II.C. Proposed Amendment to the Business Relationships Rule

NASBA agrees with the amendments to replace the term *substantial shareholder* with the concept of a *beneficial owner with significant influence*, which is consistent with the SEC's 2019 amendments to the loan provision. NASBA also believes that focusing the analysis for identifying affiliates on the entity under audit (as opposed to the *audit client*, which by definition sweeps in all affiliates) is appropriate.

Section II.D. Proposed Amendments for Inadvertent Violations for Mergers and Acquisitions

NASBA agrees that adding a “transition framework” to address the inadvertent violation of independence rules (due to prohibited services or relationships existing during the audit or professional engagement period) that occur in connection with a client's merger or acquisition is appropriate.

However, NASBA has some concerns that the maximum six-month transition period will become the acceptable standard in practice. Further, NASBA believes under no circumstances should the auditor be permitted to audit its own work if such work materially affects the consolidated financial statements at the acquisition effective date and in any post acquisition period.

Section II.E. Proposed Amendments for Miscellaneous Updates

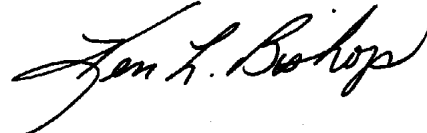
NASBA agrees that certain miscellaneous updates to achieve consistency and conformity and delete outdated provisions are appropriate.

Again, we appreciate the opportunity to comment on the proposed amendments.

Very truly yours,

A handwritten signature in black ink that reads "Laurie J. Tish". The signature is written in a cursive, flowing style.

Laurie J. Tish, CPA
NASBA Chair

A handwritten signature in black ink that reads "Ken L. Bishop". The signature is written in a cursive, flowing style.

Ken L. Bishop
NASBA President and CEO