

November 5, 2014

Ken Siong,

Technical Director

International Ethics Standards Board for Accountants

International Federation of Accountants

529 Fifth Avenue, 6th Floor

New York, NY 10017

Dear Ken Siong,

Re: KICPA's Comments on IESBA Exposure Draft "Proposed Changes to Certain Provisions of the Code Addressing Long Association of Personnel with an Audit or Assurance Client"

The Korean Institute of Certified Public Accountants (KICPA) is pleased to comment on the Exposure Drafts (EDs) issued by the International Ethics Standards Board for Accountants (IESBA) in August, regarding the "Proposed Changes to Certain Provision of the Code Addressing Long Association of Personnel with an Audit or Assurance Client." KICPA is a strong advocate of the IESBA for its relentless efforts to increase the level of ethical standards that professional accountants are expected to perform and to serve the public interest by developing high-quality professional ethical standards.

We agree, in general, the proposed IESBA's proposed changes and their background that are designed to strengthen the provisions of the Code to address familiarity and self-interest threats that may be created by long association with an audit client, which are considered to protect the public interest better. In particular, more detailed explanations in the general provisions with regard to the cause of undermining independence arising from long association, and factors that impact the significance of any threats created will support firms identify and evaluate familiarity and self-interest threats, based on the principle.

Please read the below for our responses to the questions.

General Provisions

Question 1:

Do the proposed enhancements to the general provisions in paragraph 290.148 provide more useful guidance for identifying and evaluating familiarity and self-interest threats created by long association? Are there any other safeguards that should be considered?

We are with the IESBA's proposed EDs in that strengthening the general provisions with explanations and guidelines will provide more useful guidance for identifying and evaluating familiarity and self-interest threats.

Question 2:

Should the General Provisions apply to the evaluation of potential threats created by the long association of all individuals on the audit team (not just senior personnel)?

We are for the IESBA's perspective that the familiarity and self-interest threats created by long association could occur not just to senior personnel but to all individuals in the audit team.

Question 3:

If a firm decides that rotation of an individual is a necessary safeguard, do respondents agree that the firm should be required to determine an appropriate time-out period?

We support the IESBA's proposed changes that the firm should be required to determine an appropriate time-out period, instead of IESBA suggesting an appropriate period in the Code, when the rotation of an individual is a necessary safeguard.

Rotation of KAPs on PIEs

Question 4:

Do respondents agree with the time-on period remaining at seven years for KAPs on the audit of PIEs?

Please refer to our comments on the question No. 5.

Question 5:

Do respondents agree with the proposal to extend the cooling-off period to five years for the engagement partner on the audit of PIEs? If not, why not, and what alternatives, if any, could be considered?

Considering the time-on period varies from countries, and the long association with an audit client could contribute to improving audit quality, we believe that extending the cooling-off period would be more desirable than limiting the time-on period.

Question 6:

If the cooling-off period is extended to five years for the engagement partner, do respondents agree that the requirement should apply to the audits of all PIEs?

We agree in principle with the proposed EDs in terms of the consistency with the Code's other provisions related to PIEs and convenience in their implementation. Aside from this, allowing individual countries to determine those subject to requirements, according to their respective legal and regulatory framework, would be necessary. (For one, many countries apply different mandatory provisions to listed companies and unlisted ones.)

Question 7:

Do respondents agree with the cooling-off period remaining at two years for the EQCR and other KAPs on the audit of PIEs? If not, do respondents consider that the longer cooling-off period (or a different cooling-off period) should also apply to the EQCR and/or other KAPs?

We support the proposed changes to provide different cooling-off periods to the engagement partner, separate from other KAPs, taking into account the fact that the engagement partner

has the most influence on the outcome of the audit.

Question 8:

Do respondents agree with the proposal that the engagement partner be required to cool-off for five years if he or she has served any time as the engagement partner during the seven year period as a KAP?

We support the IESBA's intent to ease the complexity of implementation in practice.

Question 9:

Are the new provisions contained in 290.150C and 290.150D helpful for reminding the firm that the principles in the General Provisions must always be applied, in addition to the specific requirements for KAPs on the audits of PIEs?

The proposed EDs highlighting the necessity of applying the general provisions to PIEs, aside from the mandatory rotation provisions, will be helpful for principle-based judgments and implementation of the standards.

Question 10:

After two years of the five-year cooling-off period has elapsed, should an engagement partner be permitted to undertake a limited consultation role with the audit team and audit client?

As described in the proposed EDs, we agree with permitting the engagement partner to undertake a limited consultation role after two years, under a circumstance where the self-interest and familiarity threats are not created, since the permission to conduct the consultation role could contribute to improving audit quality in certain circumstances.

Question 11:

Do respondents agree with the additional restrictions placed on activities that can be performed by a KAP during the cooling-off period? If not, what interaction between the

former KAP and the audit team or audit client should be permitted and why?

Behind the rotation requirements for KAPs lies the objective of preventing them from impacting audit engagements in a continuous manner and ensuring a fresh look into the engagements. The objectives lead us to support the proposed additional restrictions.

In case of KAPs having significant or frequent interaction with senior management or TCWG during the cooling-off period, however, forbidding them from providing non-assurance services is considered to serve as an excessive limitation. We suggest the expression be modified in a clear manner into that the limit is imposed only when the above significant or frequent interaction has a direct impact on the outcome of the audit engagement.

Question 12:

Do respondents agree that the firm should not apply the provisions in paragraphs 290.151 and 290.152 without the concurrence of TCWG?

We suggest that the Code allow firms to apply exceptional provisions after they discuss appropriate safeguards applied with TCWG, since the exception is only allowed in rare cases due to unforeseen circumstances outside the firm's control or transitional provisions.

Section 291

Question 13:

Do respondents agree with the corresponding changes to Section 291? In particular, do respondents agree that given the differences between audit and other assurance engagements, the provisions should be limited to assurance engagements "of a recurring nature"?

We support the IESBA's proposed EDs that the long association is confined to assurance engagements of a recurring nature over a long period of time.

We hope our comments would be useful for the IESBA's project that aims to improve the provisions on long association. Please feel free to contact global@kicpa.or.kr for further inquiries.

Thank you.