

Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

25 November 2014

Dear Mr. Siong:

Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

We are pleased to comment on the Exposure Draft, *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*. We understand that some stakeholders have expressed concerns and encouraged the Board to consider potential modifications to the long association provisions in the Code. We support the Board's efforts to respond to these concerns and to continuously challenge the robustness of the Code. However, with respect to the provisions on long association, there are other areas that should be given consideration to achieve the appropriate balance between the familiarity and self-interest threats created by the use of senior personnel over a period of time and the benefits to audit quality that result from the cumulative knowledge and experience that comes from the association, over time, between an auditor and an audit client.

Genuine independence issues are paramount. The right approach is further challenged by resourcing considerations that will likely be faced in certain markets if the two year cooling-off period is extended. This could be exacerbated by considerations with respect to specialized industries. We urge the Board to weigh all considerations in its final assessment as to whether the current long association provisions are indeed adequate and what, if any, changes are necessary and appropriate.

Fourteen specific topics and five general topics were identified on which the Board welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

General Provisions

- 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?**

Except as indicated in item 2 below we are supportive of the proposed changes to paragraph 290.148 and believe the changes will continue to enhance the evaluation of threats to independence created by long association and the application of appropriate safeguards.

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

No. We do not believe it is necessary to extend the General Provisions and the evaluation of potential threats created by long association from senior personnel to all individuals on the audit team since sufficient safeguards such as supervision and review and others are already in place for junior members of the audit team. However, we believe it is reasonable to give consideration to the cumulative number of years of service of an individual for the same client, once that individual becomes key audit partner, and whether an extended number of years on the same client in a variety of roles prior to becoming key audit partner creates a potential threat.

3. If the 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?

No. If the evaluation is made that it is appropriate to rotate an individual, we believe the applicable time-out period as set forth in the Code for KAPs (depending on the type of client) should be followed rather than the firm determining an alternate time period.

Rotation of KAPs on PIEs

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

Yes, we agree that a seven year time-on period continues to be appropriate for KAPs on the audit of PIEs. A seven year time-on period provides an appropriate balance between addressing the familiarity and self-interest threats created by long association and the need to both acquire and maintain relevant knowledge and experience to support audit quality. We are not aware of any empirical evidence that suggests that a seven year time-on period is too long.

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?

We have reservations with the proposal to extend the cooling-off period to five years from the current two years for the engagement partner on the audit of PIEs. We are unaware of any empirical research or evidence that indicates that the two year time out period is insufficient. While we understand some of the concerns of the Board that the existing two-year cooling-off period may appear too brief, we believe that a significant extension of the cooling-off period will accentuate the difficulty that firms already encounter in finding adequate partner resources to meet existing rotation requirements. In addition, we also believe that the Board should carefully consider the impact of other safeguards that are available under International Standards on Auditing and ISQC1, which in conjunction with

the existing two year cooling-off period protect against threats to the auditor's objectivity and professional skepticism.

However, if the Board concludes, after due process, that a change in the cooling-off period is warranted, we suggest it consider an increase to a three year cooling-off period. This would be an increase of 50% in the cooling-off period and, therefore, is substantial and meaningful. A three year cooling-off period would also be consistent with EU rules and, therefore, easier to implement in a number of jurisdictions.

We also believe that the Board should consider that many regulators or legal requirements currently stipulate other rotation rules (audit firm rotation or partner rotation with shorter periods than seven years) and that the combination of all these requirements causes considerable complexity and practical challenges.

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?

If the cooling-off period is extended to five years for the engagement partner, we are not of the view that it is necessarily appropriate to apply this standard to all audit clients defined to be PIEs. As mentioned above, it is essential to find the balance between safeguarding against threats created by long association and the benefits to audit quality that can result from knowledge and experience acquired over time. In this context, we believe that listed PIEs would be candidates to apply the five year cooling off period if the board so concludes and that for other PIEs it may not necessarily be a requisite.

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?

Yes, we believe the current two year cooling off for the EQCR and other KAPs on the audits of PIEs is appropriate and we do not suggest any change at this time.

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?

No, we do not agree with the proposal that the engagement partner be required to have a five year cooling-off period if he or she has served any time as the engagement partner during the seven year period as KAP. We see this as disproportionate and believe an alternative method be considered that takes into account the actual amount of time served as engagement partner in relation to other time served.

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?

We do not believe that the new provisions proposed for inclusion in 290.150C are necessary since the concept is already covered elsewhere in the Code. If there is a perceived threat to independence or objectivity at any point during a KAP's period of service, the partner should be removed and replaced. For example, 290.131 specifically requires the evaluation of threats created by a close relationship between a member of the audit team and an audit client director, officer or an employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements. Removal from the audit team is identified as a safeguard.

With respect to the proposal related to 290.150D, consistent with our response to Question 2, we believe the General Provisions should only apply to senior personnel. However, as mentioned above, we believe it is reasonable to give consideration to the cumulative number of years of service of an individual for the same client, once that individual becomes key audit partner, and whether an extended number of years on the same client in a variety of roles (including at junior levels) prior to becoming key audit partner creates a potential threat.

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?

We believe that after two years of the five-year cooling-off period has elapsed, the rotated engagement partner should be permitted to undertake a limited consultative role with the engagement team and the client in the context of such a role with his or her firm because the self-interest and familiarity threats would have sufficiently diminished. However, in the interest of a "fresh look", we believe the engagement partner's role should be restricted to consultation with the engagement team on technical or industry-specific issues and any consultations in respect of issues, transactions or events that were not previously considered by the individual while he or she was the engagement partner.

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?

Yes, we agree with the additional restrictions the Board is proposing to be placed on activities that can be performed by a KAP during the cooling-off period and believe the new requirements strike an appropriate balance.

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

Yes, we believe that TCWG should be consulted and should concur prior to applying the provisions in paragraphs 290.151 and 290.152. The decision to allow a KAP to serve

additional time and the appropriate safeguards that should be put in place to address any threats created as a result of the additional time should be a joint decision between auditor and TCWG.

Section 291

- 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”?**

Yes, we agree with the changes to Section 291 and in particular, we agree the provisions should be limited to assurance engagements “of a recurring nature”. Assurance services of a recurring nature share similar attributes to audit engagements which we believe justifies substantially similar treatment under the Code. However, we believe it would be disproportionate to treat one-off assurance engagements the same as audit engagements or engagements of a recurring nature and we agree with the proposals as currently drafted.

Impact analysis

- 14. Do respondents agree with the analysis of the impact of the proposed changes? In the light of the analysis, are there any other operational or implementation costs that the IESBA should consider?**

We believe the Board has broadly considered the impacts that will likely result from the implementation of the proposals currently under consideration, but we believe the Board has underestimated the extent and potential challenges of the proposed provisions. In particular, we believe that extending the rotation period will intensify resource constraints. While such problems are particularly acute for SMPs, larger firms also encounter resource constraints due to limitations on mobility created by local certification requirements and language barriers.

Request for General Comments

- (a) Small and Medium Practices (SMPs) - The IESBA invites comments regarding the impact of the proposed changes for SMPs.**

No comment.

- (b) Preparers (including SMEs) and users (including Regulators) - The IESBA invites comments on the proposed changes from preparers, particularly with respect to the practical impacts of the proposed changes, and users.**

No comment.

- (c) *Developing Nations* - Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.**

No comment.

- (d) *Translations* - Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.**

No comment.

- (e) *Effective date* - Recognizing that the proposed changes are substantive, would the proposal require firms to make significant changes to their systems or processes to enable them to properly implement the requirements? If so, do the proposed effective date and transitional provisions provide sufficient time to make such changes?**

If any change is made to the cooling-off period, we believe an appropriate allowance of time should be provided for firms to implement the new requirements. We suggest a delayed effective date of a minimum of two years.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Bob Franchini (+39-02-7221 2014) or Susan Nee (+44(0)207 980 0877).

Yours sincerely,

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