

Long Association—Issues Paper**I. Background**

1. Since the initiation of the Long Association project, the Task Force (TF) has presented proposals to the Board at the September and December 2013 Board meetings. As a result of these meetings, the Board has agreed the following:
 - Mandatory tendering and firm rotation developments should be closely monitored as any provisions developed by the TF should provide a reasonable and robust alternative to those proposals.
 - The overall framework and general principles currently contained in paragraph 290.150 (see Appendix 1) that apply to all audit engagements should be strengthened.
 - The time-on period of seven years remains appropriate but the cooling-off period of two years is arguably too short and warrants re-consideration.
 - Mandatory rotation requirements in the Code should not be extended to audits of entities that are not public interest entities (PIEs).
2. Based on the proposals made by the TF and the discussion during the September Board meeting, the Board requested the TF to consider the following:
 - A. Whether a longer cooling-off period for Key Audit Partners (KAPs) on PIEs might be more appropriate (see page 2)
 - B. The nature of the roles that are acceptable for a rotated individual to undertake during the cooling-off period (see page 7)
 - C. Whether the amount of time served by managers and other partners on the audit prior to becoming a KAP should be taken into account with respect to considering the total length of time served (see page 9)
 - D. Whether enhanced guidance can be provided within the general framework regarding individuals, other than KAPs, who may also have direct influence on the audit, e.g., managerial staff (see page 9)
 - E. Whether guidance on communicating with those charged with governance (TCWG) regarding rotation issues should be improved (see page 11)
3. The TF presented a proposed first draft of revised provisions at the December 2013 Board meeting and comments were received from the Board. The TF met in January 2014 to consider those comments and agree on its responses to the issues raised. The TF has made further refinements to the draft proposals which are to be discussed at the April 2014 Board meeting (see Agenda Item D-2).
4. There were clear differences of opinion on the Board in one area in particular, being the length of the cooling-off period for KAPs serving PIEs and whether the period should be different depending on the role of the individual. The TF is therefore currently considering two alternative proposals in that respect.

II. Significant Issues

A. Duration of Cooling-Off Period – KAPs on PIEs

TF Proposals at December 2013 Board meeting

5. Early feedback from the Board and some CAG Representatives was that the current two year cooling-off period was seen as being too short. The TF took into account that the rotation requirements are aimed, in large part, at ensuring that there is a “fresh look” with respect to the audit client and its financial reporting. Therefore, when a KAP is required to rotate off an audit engagement, the individual should be required to be away from the audit long enough to ensure that the individual does not exert influence over the engagement team, and also not undertake any roles during that time that would allow him or her to influence the outcome of the audit.
6. After considering various options, the TF proposed at the December 2013 Board meeting the introduction of a three year cooling-off period for all KAPs on PIEs, in conjunction with enhanced restrictions on permissible activities during the cooling-off period, as this was viewed as the most suitable approach to addressing concerns expressed about the current two-year cooling-off period. This combination of approaches would ensure that the incoming KAP is free from the influence of the outgoing KAP, for a sufficient period of at least two full financial year periods.

Board Responses

7. Board members had various views as to what the most appropriate cooling-off period should be. A few Board members were of the view that two years remain sufficient. Some Board members expressed support for the TF’s proposal of three years combined with greater restrictions on permissible activities during cooling-off, while others felt that three years were too short and suggested that it should be longer at five years. The rationales for these views also varied, with some noting practical challenges of limited partner resources in smaller firms, supply constraints regarding specialist resources and geographical constraints which may necessitate relocation of partners, and the impact of changing the rules on local jurisdictions. Others commented on the need to deal with the perception issues and the profession not being in a position to maintain the status quo.
8. Mr. Koktvedgaard noted that perception is one of the key elements to be considered when deciding the appropriate cooling-off period, even if two years are felt to be sufficient. He noted that three years was acceptable to some CAG representatives.
9. A few Board members suggested considering having a longer cooling-off period for the Lead Audit Engagement Partner (LAEP) and potentially the Engagement Quality Control Reviewer (EQCR) only. Other Board members expressed caution with this option, citing the additional complications that would result from bifurcating cooling-off periods among different types of KAPs, especially for smaller firms and taking into account the impact that this would have when overlaid over existing local laws and regulations and the complexity to implement and monitor.
10. After further deliberation, Board members took an informal poll on the two options of three year or five year cooling-off periods, with nine expressing support for a five-year cooling-off period but only for LAEPs and EQCRs, with a two or three-year cooling-off period for other-KAPs and seven Board members supporting a three year cooling-off period for all KAPs, as per the TF recommendations. Based on the results of the informal poll, the Board requested that the TF consider an alternative to its

proposal, namely whether a longer five year cooling-off period could be applicable to LAEPs and EQCRs and if so, what requirements would apply to other KAPs.

Main Outcome of TF Deliberations in January 2014

11. The TF first re-considered the rationale for increasing the cooling-off period from the current two years. The research conducted indicated that there was no specific concern with the current two year cooling-off period and there is little fact-based evidence to support a need for change. However, the TF recognizes that an obvious perception issue exists that has been raised by Board members and CAG representatives and this needs to be addressed. In turn, the TF considered that any change must be seen by stakeholders as being substantive and made on a sound and defensible basis, while balanced against the cost and complexity of implementation and the likely benefits.
12. In evaluating the Board's request to consider an alternate proposal which involves bifurcating the cooling-off periods with respect to different roles, the TF considered the different roles that KAPs play on an audit team:

ENGAGEMENT PARTNER

13. The TF considered that addressing perception issues created by long association would be most important with respect to the engagement partner (herein referred to as the Lead Audit Engagement Partner - "LAEP" - assuming a group audit situation) given the significant influence that an LAEP has on the outcome of the audit. This was supported by the survey data which showed that the majority of respondents felt the threats to independence created by the LAEP were the most significant. The TF also noted that while it could not be assumed, in practice it is generally likely that the rotated LAEP would not return to a client in an audit role once the cooling-off period had been completed, hence countering the need for a longer cooling-off period. Accordingly, it was recognized that if the incoming LAEP does serve seven years, the impact on audit quality of increasing the cooling-off period could be argued to be low.
14. On balance, the TF formed the view that, if there were to be any bifurcation of cooling-off periods, that it would be appropriate for a longer five year cooling-off period to apply to the LAEP.

ENGAGEMENT QUALITY CONTROL REVIEWER (EQCR)

15. The EQCR is a member of the "audit team", as defined in the code, but is not part of the "engagement team" which is responsible for the performing the engagement. The EQCR has a fundamentally different role to that of the engagement partner, in that:
 - The engagement partner is the individual in the firm who is responsible for the engagement and its performance.
 - The EQCR performs a review of the engagement and provides an objective evaluation of the significant judgments the engagement team has made and the conclusions it reached in formulating the audit report.
 - The firm is required to establish policies and procedures to maintain the objectivity of the EQCR – for example, the EQCR is not selected by the engagement partner and the EQCR does not participate in the engagement or make decisions for the engagement team.
 - Consultation between the engagement partner and the EQCR (e.g. on matters of judgment) is

intended to be limited so that the EQCR's objectivity is not compromised.

16. In effect the EQCR is there to provide an independent and objective evaluation. This is a requirement for audit of listed entities and may be applied on other audits. Accordingly, given their different roles and the fact that in general the EQCR will not have a relationship with client management, the extent to which familiarity and self-interest threats arise from long association for the EQCR is quite different from that of the engagement partner. Thus, the TF formed the view that, if there were to be any bifurcation of cooling-off periods, there was little rationale for requiring an extended period for the EQCR.

OTHER KEY AUDIT PARTNERS

17. The TF considered that KAPs who are not the LAEP or EQCR will generally have a lesser ability to influence the audit and are for that reason, also generally subject to less strict rotation requirements in most jurisdictions. For example, an engagement partner responsible for a significant subsidiary or division, who is deemed to be a KAP for the group audit, will not have the same relationship or contact with group management and the LAEP, and therefore the extent to which familiarity and self-interest threats arise from long association is lesser, in the context of a group audit, for other KAPs. The TF formed the view that, if there were to be any bifurcation of cooling-off periods, there was little rationale for requiring an extended period for KAPs who are not the LAEP.

ALL PIEs OR LISTED ENTITIES?

18. Taking into account the considerations above, if the LAEP were to be subject to a five year cooling-off period, the TF considered whether the requirement should apply to LAEPs on the audits of all PIEs or only LAEPs on the audits of listed entities.
19. While it is acknowledged that all PIEs are entities of public interest, the TF considered whether a five year cooling-off period for all LAEPs on all PIEs would have too high an implementation impact considering the increased complexity of overlaying these requirements on local legislation (many jurisdictions have local legislation that is stricter than the Code only in respect of listed entities). The TF also considered the greater stakeholder interest, public interest and regulatory oversight associated with listed companies which may warrant longer cooling-off requirements to apply only at a listed company level.
20. On balance, the TF formed the view that if the LAEP were to be subject to a five year cooling-off period, the requirement should apply only to LAEPs on the audits of listed entities.

COOLING-OFF PERIOD FOR KAPs OTHER THAN THE LAEP

21. If there was to be a bifurcation of the cooling-off period as described above, the TF considered whether the cooling-off period for other KAPs should remain at two years or be increased to three (in line with the TFs first proposal). Given the complexities outlined in the table below of adding yet another layer of requirements, and taking into account the comments of the Board, the TF formed the view that if the cooling-off period for LAEPs on the audits of listed entities is increased to five years, then the cooling-off period for all other KAPs should remain at two years.

ASSESSMENT AND COMPARISON OF IMPACTS AND COMPLEXITY OF THE TF’S PROPOSALS

22. The TF considered the potential benefits, impacts and complexity of the two proposals, and how having different cooling-off periods for different roles might impact a professional accountant’s understanding of the requirements and their implementation:

Seven years on / three years off for all KAPs on all PIEs	Seven years on / five years off for LAEP on listed entities Two years off for all other KAPs and LAEPs on other PIEs
Impact is high as of the 82 jurisdictions that participated in the benchmarking, only five apply a three year cooling-off period of some nature. However the proposal is consistent with the partner rotation requirements proposed in the European Union.	Impact is high as no jurisdictions currently apply a seven/five year approach solely for the LAEP. Only three jurisdictions that participated in the benchmarking have a five year cooling-off period for LAEPs and EQCRs (US, UK and Canada).
May not work easily in the context of firm rotation, for example with ten year firm rotation requirements in the EU.	May not work easily in the context of firm rotation, for example with ten year firm rotation requirements in the EU.
Complexity is low as it is easier to understand and apply a single requirement to all KAPs on all PIEs. However, may not address the heightened perception concern with the LAEP.	Complexity is high as layering bifurcated requirements over local legislation and standards make the requirements difficult to understand and apply.
Impact from increasing from two to three year cooling-off period may be seen as relatively low even though it would affect most jurisdictions.	High impact on jurisdictions with a five/two requirements (for example China, Australia, Singapore, New Zealand) as they would be forced into a five/five rotation requirement for LAEPs on listed entities, which is stricter than they intended.
Benefit of the cooling-off period always being the same regardless of the KAP role that the individual has served in, therefore it is easy to apply.	It is hard to define which cooling-off period applies when an individual has served as the LAEP for some, but not all, of the seven year time on period. (The discussion following this table outlines the difficulties the TF had in answering this question.)
Given that the current requirements (two year cooling-off) were only extended to all KAPs in 2011 this would be a significant change given that the current requirements have had so little time to be implemented and bedded in.	The two year cooling-off requirement for the engagement partner has been in existence for longer and so a change to the cooling-off requirement for the engagement partner only may be seen by stakeholders and member bodies as more acceptable.

LAEP FOR PROPORTION OF SEVEN YEAR TIME ON PERIOD

23. If a five year cooling-off period is applied to the LAEP on a listed entity, the TF spent a great deal of time considering what cooling-off period would apply where an individual has served for a proportion of the seven year time-on period as the LAEP, but has also served in another KAP role for the remainder

of the seven years. In considering solutions the TF considered how jurisdictions that currently have different cooling-off periods for LAEPs and EQCRs than for other KAPs had addressed this issue.

24. The TF considered two potential solutions, noting however that their application is still complex given the jurisdictions mentioned below apply the same requirements to the LAEP and EQCR:

1) *Model 1 – Consider time served as the LAEP consecutively or in aggregation*

The TF noted that the current Canadian requirements provide that if a KAP serves on the audit of a listed company in either role of an LAEP or EQCR consecutively or for an aggregate of seven years, the partner must cool-off for five years, instead of the two years that applies to other KAPs. If applied to the current proposal, it would mean (unless there was a consecutive period of seven years as LAEP) that an individual would only be required to rotate off for an extended period once he or she had served as the LAEP for a total of seven years in aggregate. However it would be complex to apply and the individual could end up serving the client in a variety of KAP roles, including as LAEP, and apply a two year cooling-off instead. For example, an individual serves as an "other KAP" for four years, then LAEP for three years, resulting in a cooling-off period of two years, and allows the LAEP back on for another four years thereafter in that role. It could be argued that the individual would have difficulty in properly cooling-off in the first two year period off (as they expect to resume the LAEP role) and such a scenario could result in that individual being a KAP for 13 out of 15 years.

2) *Model 2 – Consider any time served as an LAEP during a seven year period*

The UK applies a 5 year cooling-off for the LAEP (and EQCR) after 5 consecutive years in that role. However, the TF noted that the current UK requirements provide that any time served as the LAEP or EQCR during a seven year period requires the individual to cool-off for five years irrespective of the total length of time served as a LAEP or EQCR. This model is easier to apply, as an individual would be required to cool-off for five years once the maximum of seven years' service as a KAP has been reached even if they have only served one year as the LAEP. This could be viewed as excessive given the rationale for not proposing to extend the cooling-off period with respect to other KAP roles.

The TF also considered, but discarded as too complex, the option of placing a minimum number of years that would need to be served as LAEP within the seven year time-on period, for a five year cooling-off to apply.

Tentative TF Conclusions

25. The TF is not unanimous in its agreement as to which of the cooling-off proposals to recommend to the Board. There is a slight preference for the bifurcated model that applies a five year cooling-off period for the LAEP on the audit of a listed company. If the bifurcated model is recommended, the TF was evenly split as to how to deal with the question of which cooling-off period would apply to an individual who had served as the LAEP for some of the seven year time on period (Model 1 or Model 2). The TF has agreed to discuss its recommendations with the Board once the comments of the CAG have been sought.

Matter for CAG Consideration

1. Do Representatives support:
 - a. The TF's initial proposal of a three year cooling-off period for all KAPs with additional restrictions on permissible activities.
 - b. A five year cooling-off period for LAEPs on audits of listed companies, a two year cooling-off for other KAPs and additional restrictions on permissible activities for all KAPs.
 - c. Neither of the above options. If so, why not, and what would be an appropriate alternative proposal and why?
2. If b. is the preferred option, how do Representatives believe the situation of a KAP serving only part of a seven year time-on period as the LAEP should be dealt with?

B. Permissible Activities During the Cooling-Off Period

TF Proposals at December 2013 Board meeting

26. The rotation requirements are aimed in large part at ensuring that there is a “fresh look” with respect to the audit client and its financial reporting. Therefore, the TF concluded that limiting the relationship during the cooling-off period between the rotated KAP and the audit client and engagement team is as important as the length of the cooling-off period.
27. The Board agreed that the rotated individual should not continue to be involved in the audit nor be able to influence the audit, as set out in the extant provisions. In addition, the majority view of the Board was that the individual should be permitted only to have minimal contact with the audit client in any other role and should not, for example, be able to undertake the role of what is known as the client relationship partner. At the December 2013 Board meeting; the TF proposed the following conditions on permissible activities during the cooling-off period:
 - 1) During cooling-off the rotated individual would be prohibited from being a member of the engagement team or providing quality control for the audit engagement; and consulting with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement. This includes the elements of the definition of “Audit team” in the Code included under (a), (b)(ii) and (b)(iii) (Appendix 2).
 - 2) Limited discussions with the engagement team be permitted, provided they are concerning work undertaken or conclusions reached in the previous year and where such information remains relevant to the current audit. This would allow an appropriate balance to be struck between facilitating the partner transition and bringing a fresh look to the audit and the relationship.
 - 3) As a general principle, that the individual not be permitted to participate in the provision of services, including non-assurance services, to the audit client during the cooling-off period. The TF also proposed that this restriction apply to services provided to related entities over which the client has direct or indirect control. This would be an extension of the current requirement in the code. The TF proposed a limited exception in relation to the provision of services of a generic and non-client specific nature.

- 4) The rotated individual would not be permitted to have regular or ongoing contact during the cooling-off period with the audit client's senior management or TCWG, other than in a limited and social context. This would be an extension of the current requirement in the code. The TF agreed that it would be impractical to ban all contact between the rotated individual and the client during cooling-off, as there could be situations where some form of contact could potentially occur.

Board Responses

28. Board members generally expressed support for the TF's proposals that the rotated KAP should not be able to take a role that could influence the outcome of the audit or the new LAEP, and that the permissible contact with the engagement team and client be limited during the cooling-off period.
29. However, there were differing views as to the nature and extent of permissible roles, specifically in the area of specialist and technical resources if cooling-off periods were extended to five years. Some Board members were concerned about a long ban on any involvement with the client during the cooling-off period, especially given circumstances where specialist resources are in short supply. It was felt that such a ban would have the potential to adversely affect audit quality particularly when a rotated individual is the firm's technical or industry specialist. A Board member, however, felt that it would be difficult to have a true cooling-off if the rotated KAP is consulted as a specialist on an issue that is critical to the audit client. It was argued that if this were the case, the new LAEP would likely rely on the former KAP's opinion. Mr. Koktvedgaard emphasized the issue of resource constraints in smaller economies and suggested that consideration be given to allowing rotated KAPs who are specialists to undertake some limited services after a period of time, such as providing specialist advice on IFRS issues.

Main Outcome of TF Deliberations in January 2014

30. The TF considered whether having a longer five year cooling-off period should affect the nature of the activities that the individual could undertake while cooling-off. The TF agreed that if the cooling-off period was five years, there would likely be roles that would not create a significant threat to independence if undertaken after two or three years. This would strike the right balance between ensuring perception threats are addressed and having a practical outcome when considering potentially limited resources and technical skills that would be beneficial to the audit or client.
31. The TF considered its proposals on the restrictions on permissible activities and agreed that the self-interest and familiarity threats would have diminished after two years of having limited contact with the engagement team or client and that there could be merit to broadening the permissible activities a LAEP who has been rotated off for five years could undertake after two of the five years have been completed. The TF considered that after two years it may be appropriate to allow the following:
 - If an individual who was the engagement partner is ordinarily consulted within a firm on technical or industry specific issues, the individual may provide consultation to the engagement team or client after a period of two years has elapsed, provided that such consultation is in respect of issues, transactions or events that were not previously considered by that individual in the course of acting as engagement partner;
 - An individual who was the engagement partner may participate in the provision of other services to the audit client after a period of two years has elapsed, so long as the individual does not directly influence the outcome of the audit engagement.

Matters for CAG Consideration

3. Do Representatives agree with the proposals for restricting activities during the cooling-off period?
4. If the Board were to proceed with a five year cooling-off for the LAEP, do Representatives agree with the tentative conclusions above regarding certain activities that may be undertaken after two years?

C. Taking Into Account Time Served by Other Partners and Senior Personnel Before Becoming a KAP on the Audit of a PIE

TF Proposals at December 2013 Board meeting and Board Responses

32. The TF was asked to consider whether the time served by an individual on an audit engagement, prior to becoming a KAP, should be considered when determining the total length of time that individual may serve as a KAP.
33. The TF considered whether it would be appropriate to set a limit on the overall period of time an individual should be able to serve the audit client as a KAP if they had previously served on the audit engagement in other roles. It was discussed that the influence an individual is able to exert on the outcome of the audit engagement, and the threats created, would be dependent on numerous factors (e.g., the size of the engagement team, the nature of the role or roles performed and the time spent in the role or roles). It would therefore be arbitrary to try to identify a point when the “clock should start,” as regards when a non-KAP begins to exert a level of influence over an audit such that those years of service should decrease the amount of time they are able to serve as a KAP. Hence, the TF did not recommend implementing a fixed total term after which an individual would be required to cool-off even if they had not yet served seven years as a KAP.
34. The TF proposed instead to outline the principle that the roles undertaken and the overall length of the individual’s association with the audit engagement, should be taken into consideration when evaluating the threats created by the individual’s long association with the client. Accordingly, the TF proposed adding guidance to the provisions for audit clients that are PIEs to clarify that there may be situations where familiarity threats are so significant that it is not appropriate for a KAP to continue in that role even if the length of time served as a KAP is less than seven years. This would allow for the application of proper professional judgment in evaluating threats to independence.
35. The Board agreed with the TF that it would be preferable to set principles that would require the consideration of time served prior to becoming a KAP when considering familiarity threats, rather than setting a maximum period an individual could serve on becoming a KAP.

Matter for CAG Consideration

5. Do Representatives agree with the TF’s tentative proposals outlined above?

D. Strengthening of Overall Framework and General Principles for All Audits (General Provisions)

TF Proposals at December 2013 Board meeting

36. At the December 2013 Board meeting, the TF proposed adding significantly to the overall framework provisions contained in paragraph 290.150 (Appendix 1) to enhance the principles and guidance for application to all audit engagements. These proposals are summarized as follows:

- In addition to explaining that familiarity threats may impact objectivity and professional skepticism, acknowledging that a level of familiarity with an audit client's operations is fundamental to audit quality.
- Explaining separately how familiarity and self-interest threats may be created in the context of long association.
- Providing additional factors to be considered when evaluating the significance of the threats created by long association.
- Recognizing that factors should be considered both individually and in combination. The interaction of different factors, or changes in the significance of particular factors, can both reduce and increase the threat.
- Providing additional examples of safeguards that can be applied to reduce or eliminate the threat, both at an individual engagement level and more generally.
- Providing more guidance on the consideration and application of rotation as a safeguard.

Board Responses

37. The Board generally supported the proposed enhancements to the framework. Board members made various comments and suggestions for the TF's further consideration in refining the framework, including the following:
- While knowledge of the entity's business and its environment is fundamental to audit quality, the position of the first sentence should be reconsidered. The TF proposes reordering the introduction.
 - Consideration should be given to clarifying how threats and factors contribute to the significance of the threats may be created as a result of an individual's long association with senior management and TCWG. The TF has proposed amendments to the draft proposals to respond to various comments regarding the clarity of examples.
 - Clarity is needed as to why the enhanced framework refers to "senior management" as opposed to simply "management." The TF considered that the reference to "senior management" was appropriate as defining the level of relationships at the client that would influence the existence of familiarity threats. The term is used in other sections of the Code.
 - Consideration should be given to aligning the suggested minimum cooling-off period of one year (if rotation is applied in the case of an audit of a non-PIE) to the proposed three year cooling-off for partners on audits of PIEs. The TF considered this and tentatively concluded that one year was sufficient as a minimum, as the rotation could be applied to any level of personnel, even perhaps a junior manager on the engagement, so it did not make sense to align with the requirements that apply to partners, rather to allow judgment to be used.

Matter for CAG Consideration

6. Representatives are asked to note the Board reactions to the proposed revised framework and comment on whether there are any other considerations that should be taken into account in refining the overall framework on long association.

E. Involvement of TCWG

TF Proposals at December 2013 Board Meeting and Board Responses

38. The TF was of the view that, while there may be a benefit in providing further guidance on improving communication between the auditor and TCWG, the issue should be considered in the context of the Code as a whole and is not specific to long association. The Code already encourages regular communication between the auditor and TCWG on matters thought to bear on independence (see Appendix 3) and in practice communication regarding rotation generally already takes place between the auditor and TCWG. The TF therefore concluded additional provisions in this respect were not required.
39. However, the TF did consider whether it would be appropriate for TCWG to play a role in relation to the application of the exception provisions. Extant paragraph 290.152 provides that a KAP may remain on an audit engagement for an extra year after the mandatory rotation requirement due to “unforeseen circumstances outside the firm’s control,” provided safeguards can be applied to eliminate, or reduce, the familiarity threat. The TF proposed that the firm should be required to discuss with TCWG the reasons that the planned rotation cannot take place and the safeguards that will be applied. At the December 2013 Board meeting, some members of the Board did not think this proposal was sufficient and suggested that the TF consider applying an approach like in the breaches provisions, where the firm should undertake an analysis and then obtain the concurrence of TCWG.
40. With respect to paragraph 290.154, the TF noted that in contrast to extant paragraph 290.152, which allows an exception to the rotation requirements, this is a transitional provision that sets out how years of services should be calculated when an audit client becomes a PIE. The TF therefore believed that additional provisions regarding communication with TCWG are not necessary with respect to this provision. As above, some members of the Board did not agree and requested the TF at the December 2013 meeting to consider whether the concurrence of TCWG should be obtained.
41. Paragraph 290.155 allows an exception to the rotation requirements in the case that rotation is not an available safeguard. However, the TF did not believe that additional provisions regarding communication with TCWG are needed with respect to this paragraph, as an individual may only remain a KAP for more than seven years, in accordance with this exception, if a regulator has provided an exemption in the relevant jurisdiction. The Board agreed with this approach.

Main Outcome of TF Deliberations in January 2014

42. Based on the feedback obtained at the December 2013 Board meeting, the TF has tentatively agreed to include a requirement in extant paragraphs 290.152 and 290.154 for the firm to obtain the concurrence of TCWG.

Matter for CAG Consideration

7. Do Representatives agree with the TF’s tentative proposals that the concurrence of TCWG should be obtained with respect to the application of the requirements of paragraphs 290.152 and 290.154?

Extant Long Association provisions

290.150 Familiarity and self-interest threats are created by using the same senior personnel on an audit engagement over a long period of time. The significance of the threats will depend on factors such as:

- How long the individual has been a member of the audit team;
- The role of the individual on the audit team;
- The structure of the firm;
- The nature of the audit engagement;
- Whether the client's management team has changed; and
- Whether the nature or complexity of the client's accounting and reporting issues has changed.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Rotating the senior personnel off the audit team;
- Having a professional accountant who was not a member of the audit team review the work of the senior personnel; or
- Regular independent internal or external quality reviews of the engagement.

Audit Clients that are Public Interest Entities

290.151 In respect of an audit of a public interest entity, an individual shall not be a key audit partner for more than seven years. After such time, the individual shall not be a member of the engagement team or be a key audit partner for the client for two years. During that period, the individual shall not participate in the audit of the entity, provide quality control for the engagement, consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events or otherwise directly influence the outcome of the engagement.

290.152 Despite paragraph 290.151, KAPs whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, be permitted an additional year on the audit team as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards. For example, a KAP may remain on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner.

290.153 The long association of other partners with an audit client that is a public interest entity creates familiarity and self-interest threats. The significance of the threats will depend on factors such as:

- How long any such partner has been associated with the audit client;
- The role, if any, of the individual on the audit team; and

- The nature, frequency and extent of the individual's interactions with the client's management or those charged with governance.

The significance of the threats shall be evaluated and safeguards applied when necessary to eliminate the threats or reduce them to an acceptable level. Examples of such safeguards include:

- Rotating the partner off the audit team or otherwise ending the partner's association with the audit client; or
- Regular independent internal or external quality reviews of the engagement.

290.154 When an audit client becomes a public interest entity, the length of time the individual has served the audit client as a key audit partner before the client becomes a public interest entity shall be taken into account in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for five years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. If the individual has served the audit client as a key audit partner for six or more years when the client becomes a public interest entity, the partner may continue to serve in that capacity for a maximum of two additional years before rotating off the engagement.

290.155 When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.

Appendix 2

Definitions of “Audit Team” and “Engagement Team”

Audit Team

- (a) All members of the engagement team for the audit engagement;
- (b) All others within a firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent);
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who provide quality control for the engagement, including those who perform the engagement quality control review for the engagement; and
- (c) All those within a network firm who can directly influence the outcome of the audit engagement.

Engagement Team

All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform assurance procedures on the engagement. This excludes external experts engaged by the firm or by a network firm.¹

¹ This is the current definition of engagement team. There is a revised definition of engagement team effective for audits of financial statements for periods ending on or after December 15, 2014.

Appendix 3

Extant Paragraph 290.28

290.28 Even when not required by the Code, applicable auditing standards, law or regulation, regular communication is encouraged between the firm and those charged with governance of the audit client regarding relationships and other matters that might, in the firm’s opinion, reasonably bear on independence. Such communication enables those charged with governance to:

- (a) Consider the firm’s judgments in identifying and evaluating threats to independence,
- (b) Consider the appropriateness of safeguards applied to eliminate them or reduce them to an acceptable level, and
- (c) Take appropriate action.

Such an approach can be particularly helpful with respect to intimidation and familiarity threats.