

IESBA

Long Association

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IESBA CAG Meeting
New York
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Background and Recent Activities

- Feb 2016 re-ED focused on 3 remaining issues:
 - Cooling-off period for EQCR on PIE audit
 - Whether to allow reduction of 5-year cooling off period for EPs and EQCRs (listed PIEs) to 3 years where alternative jurisdictional safeguards exist
 - How long to cool off if service in combination of EP, EQCR and other KAP roles
- 35 responses received across range of stakeholder categories as of cut-off date; IOSCO Committee 1 response received subsequently
- Discussion with NSS liaison group June 15
- IESBA deliberation June 29

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EQCR Cooling-off Period – Re-ED Proposal

| Category of KAP | Listed PIE | Non-Listed PIE |
|-----------------|------------|----------------|
| EP | 7/5 | 7/5 |
| EQCR | 7/5 | 7/3 |
| Other KAPs | 7/2 | 7/2 |

Support for Proposal?

- Some support but also some reservations among those in support
 - Added complexity from bifurcation between listed and non-listed PIEs
 - Will exacerbate scarcity of EQCR supply
 - Will significantly adversely impact SMPs
- One respondent supporting 5 years for *all* PIE audits
- Substantial body of respondents not supportive

Key Concerns

- Bifurcation of listed and non-listed PIEs

Setting precedent?

Another layer of complexity?

Suggesting non-listed PIEs may be of less public interest than listed PIEs?

Why not similar approach for EP?

Necessary? Already accepted fresh look can be achieved with 3 years in some cases

Issue already addressed by ISQC 1.A50?

Key Concerns

- Where is the evidence?

Evidence proposals will work better?

Evidence current 2-year cooling-off not working?

- Complexity

Too complex for all firms?

Too difficult and costly to manage?

Magnified with overlay upon jurisdictional requirements

Key Concerns

- Impact on SMPs and market competition

Excessively restrictive/
competitive
disadvantage for SMPs?

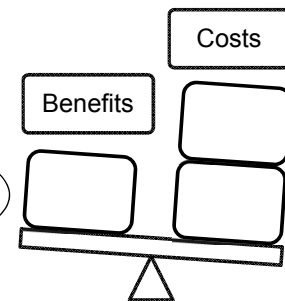
Further
concentration in
PIE market?

De facto MFR?

- Proportionality

Commensurate
with role or risks?

Disproportionate impact on
non-listed PIEs with
overlay in some countries



Key Concerns

- Potential unintended consequences

Further strain on
experienced resources
– impact on AQ?

Pressure to use
inexperienced people
– impact on AQ?

Partners required to
move around more –
impact on attracting
and retaining talent?

- Compatibility with EU framework

Listed/non-listed PIE
split not compatible
with EU legislation

EQCR not required
to rotate in EU

Unintended result
in EU: EQCR
required to cool off
longer than EP?

Revised Task Force Proposal

- 3-year cooling-off for EQCR
- No distinction between listed and non-listed PIEs

Rationale

- Listed / non-listed PIE differentiation unnecessary – EQCRs only appointed:
 - Where required by ISQC 1 (i.e., for listed entities); or
 - Where firm has decided EQCR needed based on firm's criteria pursuant to ISQC 1; or
 - Where required by law or regulation
- Elimination of bifurcation:
 - Cuts away layer of complexity and fixes illogical outcomes
 - Alleviates concerns re SMPs – EQCR only where required as per above

Rationale

- 3 years off vs 5 years:
 - Some G20 jurisdictions already require 5 years, in particular US, Canada, UK, and Japan (which tend to have largest numbers of listed entities)
 - In other G20 jurisdictions, no consensus approach (e.g. US exemptions for SMPs; Canada exclusion of small listeds from PIEs; 2 years for SMPs in Japan; no cooling-off required in EU)
 - Public interest lies in facilitating development of EQCR approach more widely
 - Proposed EQCR cooling-off regime will fill gap in EU legislation
 - Achieves better balance

Rationale

- Why 3 years vs 2 years?
 - Recognizes special importance of EQCR role vs KAPs other than EP
 - Ensures full 2 years away from audit engagement
- Keep provision under future review

Tentative IESBA Decision

- Support for three-year cooling-off period for EQCRs on audits of all PIEs, whether listed or not
 - A more balanced and simplified outcome
 - But also a significant step forward given strengthened cooling-off requirement for EQCRs compared with extant provision

Do CAG Representatives agree?

Jurisdictional Safeguards – Re-ED Proposal

- Cooling-off period of 5 years for EP (PIE audits) and EQCR (listed PIE audits) may be reduced to 3 years provided:
 - Independent regulatory inspection regime; and
 - Time-on period < 7 years OR mandatory firm rotation or mandatory retendering at least every 10 years

Support for Overall Proposal?

- Overwhelming support across all stakeholder groups
- But:

Still disproportionate outcome between listed and non-listed PIEs in some jurisdictions?

Illogical outcome in EU with EQCR cooling off longer than EP?

Preconditions for Provision

- Substantial support across all stakeholder groups
- But some reservations



Support for Proposal?

- Disagreement from one respondent:
 - Mandatory firm rotation does not address threats at level of an individual
 - Mandatory retendering without mandatory rotation may provide no additional safeguard
 - Regulatory inspection regime provides only general oversight – cannot help mitigate threats created by long association

Revised Task Force Proposal

- Retain provision but not link so closely to EU requirements:
 - Mandatory firm rotation or retendering after a predefined period; or
 - Joint audits
- Provision would apply only to EPs (given revised EQCR cooling-off proposal)

Rationale

- Appropriate not to completely disregard jurisdictional safeguards
- Inappropriate to exclude joint audits
 - Concept has legislative backing in some jurisdictions such as EU
- Recognize legislators or regulators as legitimate bodies to determine formulation of safeguards re MFR/MT and joint audits
 - Better enables application of provision beyond EU
- Application only to EPs reduces concerns re complexity

Tentative IESBA Decision

- Support for TF proposal

Do CAG Representatives agree?

Service in Combination of Roles – Re-ED Proposal

| Case | Threshold | Listed PIE Cool-off | Non-Listed PIE Cool-off |
|---------------------------------|---|---------------------|-------------------------|
| EP | 4 or more years OR 2 of last 3 years | 5 years | 5 years |
| EQCR | 4 or more years OR 2 of last 3 years | 5 years | 3 years |
| Combination or EP/EQCR roles | 4 or more years OR 2 of last 3 years | 5 years | 3 years |
| Any other KAP combinations | – | 2 years | 2 years |

Support for Proposal?

- Broad support for direction of proposal
- But:

Increasing complexity arbitrarily?

Explore simpler approach that will be easier to apply

Too rules-based and prescriptive?

Focus only on majority of 7 years

Consider only one of the two criteria but not both?

Revised Proposal (Appendix 2 Agenda Item E)

- If EP for 4 or more years → cool off 5 years
- If EQCR for 4 or more years → cool off 3 years
- If combination of EP and EQCR roles for 4 or more years:
 - If EP for 3 or more years → cool off 5 years
 - Otherwise cool off 3 years
- Any other combination of KAP roles → cool off 2 years

Rationale

- Important to recognize EP/EQCR/KAP roles vary
 - Some degree of complexity unavoidable to deal with different possible combinations of roles
- Already in rules-based territory with partner rotation for PIEs
- Appropriately weighs length of service in EP vs EQCR roles
- Removal of “2 out of last 3 years” criterion reduces complexity
- Illustrative table will greatly assist understanding & application
 - To be included in Basis for Conclusions and Q&As

Tentative IESBA Decision

- Support for TF proposal

Do CAG Representatives agree?

IOSCO Committee 1 Response

- Committee 1 comments and Task Force proposals in Agenda Item E-4

Do CAG Representatives agree?

Computing the Time-on Period

- Clarifications made in response to NSS input: references to time-on period is with respect to *cumulative* (not consecutive) time-on
 - Cumulative basis now made explicit in paragraphs 290.153, 155-157
- Guidance added in paragraph 290.154 clarifying when the “clock” may be restarted
 - Illustration of application to be provided in Basis for Conclusions and FAQs

Do CAG Representatives agree?

Way Forward

- IESBA to monitor:
 - IAASB's initiative to review ISQC 1 for possible revision
 - How the proposals work in practice
 - Experiences and effects re implementation of MFR in EU and other jurisdictions

Next Steps

| Timing | Action |
|-----------|--|
| Sept 2016 | IESBA approval under current structure and drafting conventions ("close off") and consideration of draft restructured text |
| Dec 2016 | PIOB approval of due process for close-off document |
| | IESBA approval of restructured text for exposure |



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