

Long Association—Proposed Final Changes**I. Changes Based on IESBA and National Standard Setters' (NSS') Feedback**

1. Broadly, apart from editorial changes, the Task Force's (TF's) proposed changes to the long association text presented at the June 2016 IESBA meeting are as follows:

- Clarifying that the time-on period with respect to rotation of key audit partners (KAPs) on audits of public interest entities (PIEs) is determined on a cumulative (and not consecutive) basis. This responds to feedback received at the June 2016 IESBA-NSS meeting regarding making clear how the Code addresses breaks in service. In support of this, the Task Force has added the following guidance to clarify when the "clock" may be restarted in determining the time-on period (see paragraph 290.154):

In calculating the time-on period, the count of years may be restarted if the individual ceases to act in any one of the above roles [i.e., engagement partner (EP), engagement quality control reviewer (EQCR) or any other KAP role] for a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs 290.155 to 290.157 as applicable to the role in which the individual served in the year immediately before ceasing such involvement. For example, an individual who served as engagement partner for four years followed by five consecutive years off the audit engagement may thereafter return to the same audit engagement for a cumulative period of seven years in any one of the roles in paragraph 290.153(a) – (c) above or a combination of such roles.

In this regard, the Task Force noted that setting the trigger for restarting the clock to be completion of a period away from the engagement equal to the cooling-off period applicable to the role served in the year immediately before the individual ceases that role may lead to an outcome that some might perceive as harsh in a few circumstances. For example, where an EP has taken a break in service of four consecutive years after having served three years in that role, the individual would not be entitled to restart the clock upon coming back to the engagement in any KAP role, even though some might view four years as already adequate from a cooling-off perspective. By contrast, the individual would be entitled to restart the clock had the break in service been extended only by an additional year.

The Task Force considered other possible approaches to setting the trigger but came to the view that they would either be overly complex, not establish a proper cooling off before the clock is restarted in some cases, or result in a similar situation where the outcome in a few cases might be perceived as harsh. On balance, the Task Force recommends the approach set out in paragraph 290.154 as it is relatively simple to understand and aligns with the approach taken in the revised provisions regarding when a former KAP can come back to the PIE audit engagement in the same or another KAP role.

The Task Force recognizes that any approach to setting the trigger for when the "clock" may be restarted will be arbitrary. However, it is in the public interest that the approach set out in the Code be consistent with the principle of fresh look, and be readily understandable and operable.

- With respect to rotation of EQCRs for PIE audits, deleting the references to appointment of an EQCR *pursuant to the requirements of ISQC 1¹ or law or regulation* (see paragraphs 290.153(b) and 290.156 in **Agenda Item 5-B**). This is to avoid any potential confusion as ISQC 1, in addition to mandating the appointment of an EQCR for the audit of the financial statements of a listed entity, also requires firms to establish policies and procedures setting out criteria for the appointment of EQCRs for audits of other entities. The revised rotation provisions now clearly apply only to EQCRs on audits of PIEs. For EQCRs on audits of other entities, they would be subject to the general provisions.
- With respect to the provision addressing alternative jurisdictional approaches to addressing threats created by long association:
 - Removing the limitation of the “joint audit” condition to a predefined period (see paragraph 290.163(a)(iii)). This now does not preclude specific approaches to joint audits that jurisdictions might have chosen to implement for particular entities after due process.
 - In response to NSS feedback, rewording the provision so as not to imply that the legislative body or regulator that has established mandatory firm rotation, mandatory re-tendering or joint audits must be the same body that has also implemented an independent regulatory inspection regime in the jurisdiction (see paragraph 290.163(a)-(b)).
 - Substituting the term “requirements” for “safeguards” as those alternative jurisdictional approaches would not meet the definition of a safeguard under the Safeguards project.
- Inserting sub-headings to better indicate the nature of the particular matters addressed by the provisions.

Matter for Consideration

1. IESBA members are asked whether they agree with the proposed changes.

II. IOSCO Committee 1 (C1) Response

2. On July 8, 2016, C1 submitted its response to the February 2016 long association re-Exposure Draft (re-ED). **Agenda Item 5-E** sets out the various matters C1 has raised as well as the TF’s responses to those matters.
3. In the TF’s view, none of the matters raised by C1 gives rise to new issues the Board has not previously considered within the scope of the re-ED, or fundamentally affects the direction of the proposed final provisions.

Matter for Consideration

2. IESBA members are asked whether they agree with the Task Force’s responses to the matters raised by C1.

¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

III. Proposed IESBA Staff Q&A Publication

4. With input from the Task Force, staff has updated the draft set of Q&As to reflect the revised long association provisions presented at this meeting. In commenting on the re-ED, some respondents had noted a perception that the numerous Q&As that were provided well illustrated the complexity they saw in the proposals. In view of this perception, staff has carefully reviewed the original draft Q&As and identified for deletion those Q&As that do not appear to add further clarity to what would already be stated in the Code.²

Matter for Consideration

3. IESBA members are asked for any feedback on the revised Q&As in **Agenda Item 5-G**.

IV. Other Matters

DEFINITION OF FAMILIARITY THREAT

5. The extant Code defines the term “familiarity threat” as follows:

The threat that due to a long or close relationship with a client or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work.
6. Paragraph 290.148 of the revised long association provisions states, among other matters, that “a familiarity threat may be created as a result of an individual’s long association as a member of the audit team with the financial statements on which the firm will express an opinion or the financial information which forms the basis of the financial statements.”
7. Likewise, paragraph 291.137 of the revised provisions states that “a familiarity threat may be created as a result of an individual’s long association with the subject matter and subject matter information of the assurance engagement.”
8. Given this explicit linkage between familiarity threat and long association with the client’s financial information, subject matter or subject matter information, the Board had asked the Safeguards Task Force to consider, in the context of its review of the categories of threats in the Code and their descriptions, whether the definition of familiarity threat would need to be reconsidered. The Safeguards Task Force liaised with the Long Association Task Force on this particular matter, leading to the two Task Forces considering the following two possible revised definitions:
 - (a) Familiarity threat – The threat that due to a long or close relationship with a client or employer, or with the financial information or other subject matter or subject matter information relating to an audit or other assurance engagement, a professional accountant will be too sympathetic to the interests of the client or employer or too accepting of the work produced by them.
 - (b) Familiarity threat – the threat that due to a long or close relationship with a client, client information, or employer, a professional accountant will be too sympathetic to their interests or too accepting of their work

² Q7-Q8 and Q13-Q14 in the original set of Q&As have been deleted (see Agenda Item 5-F). Q1 has been retained as an introduction to the Q&As.

9. The Safeguards Task Force considered that the first option represents an attempt at making the definition comprehensive with the addition of the phrase “or with the financial information or other subject matter or subject matter information relating to an audit or other assurance engagement.” However, it felt that the resulting definition would be too complex and unclear, particularly within the general section of the Code.
10. With respect to the second option, there was a concern within the Long Association Task Force about the potential for unintended consequences if reference is made to “client information” without specific qualification to audit and other assurance engagements. In particular, professional accountants in public practice providing services other than audit and other assurance engagements would, in applying the conceptual framework, have to identify and evaluate any familiarity threat relative to their long association with client information. If the level of such threat is determined to be significant and no safeguards can be applied to eliminate or reduce the threat to an acceptable level, the Code would require them to resign from the client relationships.
11. Without a clear mandate from the Board to review the definition comprehensively, the Safeguards Task Force has suggested that the extant generic definition be retained unchanged, allowing it to be interpreted in the broadest possible sense in the appropriate context. This would include in particular familiarity with client information in the context of long association. Appropriate elaboration would then be made in the relevant sections of the Code – in the case of long association, highlighting familiarity with financial information, subject matter or subject matter information, which has already been done in paragraphs 290.148 and 291.137 of the revised long association sections. A few on the Long Association Task Force, however, do not feel that the extant definition clearly addresses familiarity with a client’s financial information, subject matter or subject matter information.
12. The Long Association Task Force does not believe that resolution of this matter is needed before the Board approves the revised long association provisions. However, it would welcome the Board’s views as to whether to retain the extant definition unchanged.
13. A related matter that arose in the Long Association Task Force’s consideration of a potential revision to the definition is the reference to “employer” within the definition. Extant Part C of the Code currently does not address familiarity threat with respect to employers in the context of PAIBs, other than a brief mention in paragraph 300.11 which is not further developed:

Examples of circumstances that may create familiarity threats for a professional accountant in business include:

 - Being responsible for the employing organization’s financial reporting when an immediate or close family member employed by the entity makes decisions that affect the entity’s financial reporting.
 - Long association with business contacts influencing business decisions.
 - Accepting a gift or preferential treatment, unless the value is trivial and inconsequential.
14. The Task Force believes that there may be a need to revisit the definition of familiarity threat in that regard, and potentially the broader question of how extant Part C addresses issues of PAIBs’ familiarity with their employers. This matter has not yet been considered by the Part C Task Force and is outside the scope of the Part C project.

Matter for Consideration

4. IESBA members are asked for views on the above matters.

KAP MOVING DIRECTLY INTO AN EQCR ROLE

15. One of the respondents to the August 2014 Long Association [Exposure Draft](#) had raised the question of whether a KAP (who has not yet served seven years) should be able to move into an EQCR role without any cooling-off. The respondent was of the view that if this were to occur, the effectiveness of the EQCR role would be significantly diminished as the individual would be reviewing his or her prior work. This matter was not addressed in the Exposure Draft.
16. The Board had determined that if a cooling-off period is to be served before a KAP could become the EQCR, this matter would be better addressed under ISQC 1 given that ISQC 1 already establishes requirements for the independence and objectivity of the EQCR. The Board had therefore agreed with the International Auditing and Assurance Standards Board (IAASB) for the matter to be considered as part of the IAASB's initiative to review ISQC 1.
17. The IAASB sought stakeholders' views on the matter as part of its December 2015 Invitation to Comment, [Enhancing Audit Quality in the Public Interest](#) (ITC). There were mixed views from respondents to the ITC as to whether the IAASB should address the cooling-off period in ISQC 1. The ITC respondents raised various options as to how the matter could be addressed and by whom as follows:

ITC Respondents' Suggested Actions for the IAASB

- A requirement in ISQC 1 for the firm to define the cooling-off period.
- Calls, mostly from regulators and other oversight authorities and public sector organizations for the IAASB to define a minimum cooling-off period.
- Support from a firm for establishing requirements for a cooling-off period, but not mandating a specific period, as mandating a specific period would depend, in part, on the nature and complexity of the engagement, and local laws and regulations.
- Concern from a few stakeholder groups that the IAASB should not address the cooling-off period. These respondents cited concerns that prescribing the cooling-off period would become too rules-based and that the standards should instead focus on the principle of the EQC reviewer's objectivity.

ITC Respondents' Suggested Actions for the IESBA (Potentially in Coordination with the IAASB)

- While agreeing that the cooling-off period should be addressed, some respondents were of the view that it is a matter that should be addressed by IESBA. There were also recommendations that the IESBA should address this in coordination with the IAASB.
- Support from a firm for collaboration between the IAASB and IESBA.
- Support from an NSS for both the IAASB and IESBA to address the cooling-off period.
- Some respondents believing that it is a matter for the IESBA to address.

18. The IAASB Steering Committee discussed the matter and took the view that while there may be elements that the IAASB could potentially address, there are other aspects that may be better addressed by the IESBA. That is, the elaboration of what is appropriate in terms of being able to demonstrate sufficient objectivity to perform the EQCR role is a matter for which the IESBA's expertise is required. For example, if a specific cooling-off period were to be prescribed, it felt that the IESBA would likely be best placed to do so having considered threats to objectivity in more detail. It also was of the view that the IESBA would likely have a view on how the self-review threat should be addressed. In contrast, it believed the IAASB can address qualification matters such as required competencies of the EQCR.
19. On the other hand, the IAASB Steering Committee noted that the EQCR function is a mechanism established by ISQC 1, which sets out requirements for firms to establish related policies and procedures. It felt that the IAASB could therefore seek to address the issue by further framing the concept of eligibility of an individual to serve as an EQCR as potentially being affected by whether the individual had previously served on the engagement and the time that had elapsed.
20. The IAASB Steering Committee did not believe that this matter needed to be addressed immediately by the IESBA through its Long Association project. However, it recognized that the matter cannot remain unaddressed in either the IAASB's Standards or the Code, and that any steps forward should be consistent with the respective Boards' remits. It recommended that the IESBA be informed of the developing views, and that appropriate coordination be determined once the IAASB's discussions have further advanced.

Matter for Consideration

5. IESBA members are asked to note the above update and for views on the way forward.

V. Due Process Matters

SIGNIFICANT MATTERS IDENTIFIED BY THE TASK FORCE

21. In the Task Force's view, the significant matters it has identified as a result of its deliberations since the beginning of this project, and its related considerations, have all been reflected in the issues papers presented at the Board meetings. In the Task Force's view, there are no significant matters it has discussed that have not been brought to the Board's attention.

NEED FOR FURTHER CONSULTATION

22. The Task Force notes that this project has been subject to extensive consultation with stakeholders, including issuance of two exposure drafts, discussion with the CAG on eight separate occasions, and various consultations with and outreach to the regulatory community, national standards setters, firms, IFAC member bodies, and the IFAC SMP Committee. The Task Force does not believe that there is a need for further consultation or a roundtable on, or a field test of, the proposals.

CONSIDERATION OF THE NEED FOR FURTHER RE-EXPOSURE

23. The Board's due process and working procedures require that prior to finalizing the revised content of an exposed international pronouncement, the Board determine whether there has been substantial change to the exposed document such that re-exposure would be necessary. They also

require that when an ED has been subject to many changes, a summary comparative analysis be presented to the Board showing, to the extent practicable, the differences between the ED and the proposed final international pronouncement.

24. Under the due process and working procedures, situations that constitute potential grounds for a decision to re-expose may include, for example:
- Substantial change to a proposal arising from matters not aired in the ED such that commentators have not had an opportunity to make their views known to the Board before it reaches a final conclusion;
 - Substantial change arising from matters not previously deliberated by the Board; or
 - Substantial change to the substance of a proposed international pronouncement.
25. The changes to the re-ED are set out in **Agenda Item 5-C** in mark-up. Broadly, the main changes are as follows:
- Simplification of the partner rotation provisions for PIEs.
 - Clarification that the time-on period is on a cumulative (and not consecutive) basis, and illustration of how this is to be determined. This does not represent a change in principle.
 - General reorganization and improvements in the flow of the provisions addressing required cooling-off, including with respect to combinations of roles.
 - Enhancement and clarification of the provision addressing alternative jurisdictional approaches to addressing threats created by long association.
26. On the basis of the above, the Task Force believes that the changes to the text post-exposure are in response to feedback from respondents to the re-ED and do not fundamentally or substantively change the proposals in the re-ED. In the Task Force's view, there are no substantial changes arising from matters not previously deliberated by the Board or aired in the re-ED. Accordingly, the Task Force believes that re-exposure is not necessary.

Matter for Consideration

6. Do IESBA members agree that the changes to the re-ED do not warrant re-exposure?

VI. Effective Date

27. The August 2014 Exposure Draft proposed that the revised Long Association provisions be effective for audits of financial statements for years beginning on or after December 15, 2017. The TF had noted that subject to final Board approval at the September 2016 meeting, the close-off document could be submitted for PIOB approval of due process at the December 2016 meeting. The close-off document could then be made available on the IESBA website in January 2017 with an indication of its effective date.
28. Finalization of the restructured document would be at the same time as, or before, finalization of the restructured Code, i.e., by Q4 2017. With the need for PIOB approval of due process on the restructured document, issuance of the final revised and restructured long association provisions would be expected by early Q2 2018.

29. The TF has considered two options for the effective date of the revised and restructured provisions:
 - (a) Retain the original proposal, i.e., effective for audits of financial statements for years beginning on or after December 15, 2017 (effectively calendar year 2018 audits); or
 - (b) Defer by one year, i.e., effective for audits of financial statements for years beginning on or after December 15, 2018 (effectively calendar year 2019 audits).
30. The TF noted that the restructuring process is not intended to, and should not, result in any change of meaning of the revised provisions in the close-off document. Accordingly, under the first option, NSS and firms would have a little under 12 months to implement the revised provisions once the close-off document is made publicly available in early January 2017.
31. However, the issuance of the re-ED has shortened the lead time for implementation. Accordingly, NSS, IFAC member bodies (including those with NSS responsibilities) and firms might well find the original effective date too tight, particularly if they have to undertake translation, updates to systems and policies, training and other implementation activities. Deferral of the effective date by one year may therefore be viewed as a more reasonable approach and certainly would be responsive to stakeholder calls for adequate lead time for implementation.
32. The TF therefore recommends that the Board go with Option (b).

Matter for Consideration

7. IESBA members are asked whether they agree with the TF's recommendation.