Long Association Re-ED – IOSCO Committee 1 Comments and Task Force Responses

#	IOSCO C1 Comments	Preliminary Staff Response
1.	**Overall Comment** We thank the Board for re-exposing its proposed model for addressing the familiarity threats created by the long association of personnel with an audit client, in light of respondents' comments on the initial exposure draft. While we support a number of the proposals we have some comments that we believe would strengthen the effectiveness of the Code.	Support noted.
2.	We have developed our comments in the context of the long association of personnel with an audit client (Code section 290), versus due to involvement with other assurance engagements (Code section 291); however, some of the points may apply to assurance engagements as well.	See comments below pertaining to Section 290.
3.	**Scope** The Board's proposed model, as articulated in 290.149A, calls for an audit firm to evaluate the significance of the long association threat for each audit engagement and apply safeguards if *necessary* in the circumstances, without deference to whether it is *possible* to do so in the circumstances. If the Board retains the current scope, we think it will leave the users of the Code with a conundrum; either stretch the requirements or exceptions beyond their intent in an attempt to make it seemingly possible to comply with the Code, or do not comply with the Code. Neither of these outcomes seems like a good result. We suggest that the Board address this matter by making it clear that the described safeguards are included in the Code only for situations in which it is possible for the audit firm to apply adequate safeguards in the circumstances. If due to resource constraints or otherwise it is not reasonably possible for the audit	[Para 290.149A in the re-ED is now para 290.151 in the revised draft] Point accepted. A conforming amendment will be made as a result of Phase 1 of the Safeguards project to direct the firm to comply with the requirements in proposed Section 120 of the restructured Code instead of applying safeguards when necessary. Specifically, proposed Section 120, *The Conceptual Framework*, requires a professional accountant to decline or end a specific professional activity where the circumstances creating the threats cannot be eliminated and there are no safeguards to eliminate those threats or reduce them to an acceptable level.

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	firm to implement safeguards, then the Code should require the audit firm to address the long association threat by resigning from the audit engagement.	
4.	**Complying with Laws and Regulations** We have observed that the Board has taken a different approach than it did in its NOCLAR work with respect to accountants complying with associated laws and regulations. More specifically, in the Board's NOCLAR proposal language was included regarding laws and regulations as follows: "In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance with laws and regulations. The professional accountant shall obtain an understanding of those provisions and comply with them…" We believe it would be useful for the Board to include similar language in the Paper tailored for long association of personnel with an audit client. Inclusion of this point in the Code would accomplish two things: First, it would give the Board the opportunity to make clear that the Code's provisions on long association are not meant to supplant an auditor's compliance with applicable legal and professional requirements; and Second, it would give the Board the opportunity to make clear that compliance with such legal and professional requirements does not remove an auditor's need to also comply with the long association provisions of the Code.	Compliance with applicable laws and regulations is a general principle that applies across the entire Code. The Preface to the Code makes it clear that professional accountants must comply with the more stringent of laws and regulations, and the Code: "*Some jurisdictions may have requirements and guidance that differ from those contained in this Code. Professional accountants in those jurisdictions need to be aware of those differences and comply with the more stringent requirements and guidance unless prohibited by law or regulation.*" In the NOCLAR provisions, the requirement to obtain an understanding of applicable laws and regulations and comply with them is a point of emphasis intended in particular to stimulate increased reporting of NOCLAR pursuant to requirements under law or regulation. Including a similar provision in the context of long association could undermine the revised long association provisions and potentially cause confusion as it would make no reference to compliance with the more stringent requirements.
5.	**Length of the Proposed "Cooling Off" Period for Listed Entities and PIEs** We have observed that in many jurisdictions there are several PIEs which are not listed entities whose operations and economic impact may have greater public interest implications than that of some small listed entities. As such, we believe that the rotation and cooling-off requirements for audit clients that are listed	Point accepted. The Board has resolved not to make a distinction between listed entities and non-listed PIEs with respect to the cooling-off requirement for EQCRs.

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	entities and those that are PIEs other than listed entities should be the same. To this end, we recommend that the Board establish the same cooling-off period for the engagement quality control reviewer (EQCR) on a PIE as it is on a listed entity.	
6.	**Proposed Exceptions to Proposed Rotation and "Cooling Off" Period Requirements** We note that the Board has proposed a few exceptions to its proposed model for addressing long association threats via rotating the audit firm's partner(s) who are responsible for a particular audit engagement. Our comments on these proposed exceptions are as follows:	–
7.	*Mandatory Re-Tendering of the Audit Appointment* In paragraph 290.150D, we are concerned with the proposed reduction of the cooling-off period from five to three years in instances in which "an independent standard setter, regulator or legislative body has established requirements for either…(b)(ii) Mandatory firm rotation or mandatory re-tendering of the audit appointment at least every ten years". Particularly with respect to mandatory re-tendering, does this mean that if the audit firm continues to be appointed after a re-tendering that the familiarity threat has dissipated? Whereas mandatory rotation provides a break in service, mandatory re-tendering may not provide such a break and as such, the engagement team's service and familiarity would continue uninterrupted.	The Task Force believes that the mandatory retendering condition is integral to the "jurisdictional safeguards" provision and removing it would undermine the whole provision. None of the conditions regarding mandatory firm rotation, mandatory retendering and joint audits is addressing familiarity threats at the level of the individual. Rather, the Board has determined to recognize that some jurisdictions may, after following appropriate due process, have chosen a robust but different approach to that in the Code to address threats created by long association.
8.	*Rare and Unforeseen Circumstances* Paragraph 290.151 of the Paper states that: "Despite paragraph 290.150A and 290.150B, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm's control, and with the	[This is para 290.166 in the revised draft.] This provision is already in the extant Code and was closed off in December 2015. Accordingly, it was not subject to re-exposure.

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	concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards." We are concerned that the exception provided by paragraph 290.151 could be subject to misuse by engagement teams wishing to delay the rotation of personnel. Even with the Board's use of examples, we believe that engagement teams can justify their circumstances as "rare" or "unforeseen" based on their own biases. As such, we believe the Board should avoid including exceptions or alternatively enhance the provision by better defining what is considered "rare" or "unforeseen". If the Board continues to believe that such an exception continues to be necessary, we suggest adding a provision calling for soft consultation with an applicable regulatory body provided the regulator has the means to intake and process the related matter.	In closing off the provision, the Board agreed on enhancements to it in terms of the requirements to discuss the matter with those charged with governance and to obtain their concurrence regarding the additional year of service on the audit engagement.
9.	Additionally, we are having difficulty understanding the second aspect of this exception. Our concern is how the audit firm could have concluded that rotation of an individual is necessary since the threats are so significant (as per paragraph 290.149B) yet at the same time conclude that the threat to independence could be eliminated or reduced by applying other safeguards (as per paragraph 290.151 above).	[Para 290.149B in the re-ED is para 290.152 in the revised draft.] Whether service can be extended by an additional year will depend on whether there are additional safeguards that will eliminate or reduce the threats to an acceptable level. As this provision has been closed off, it is not subject to further Board deliberation.
10.	*No Partner(s) Available to Rotate onto the Engagement* Paragraph 290.153 states: "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	[Para 290.153 in the re-ED is now para 290.168 in the revised draft.] Support noted.

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	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." We recognize that there are small audit firms in which the availability of partners might be limited and therefore rotation may be more challenging for these constituents. While we believe the familiarity threat still remains, we believe paragraph 290.153 could provide an amenable solution for those circumstances that justify its use.	