American Institute of CPAs
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SENT VIA E-MAIL

November 12, 2014

International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

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

Dear Members of the International Ethics Standards Board for Accountants:

The American Institute of Certified Public Accountants' (AICPA) Professional Ethics Executive Committee (PEEC) is pleased to submit this comment letter to the International Ethics Standards Board for Accountants (IESBA) on its Exposure Draft: *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client* (the "Exposure Draft"). The AICPA is the world's largest member association representing the accounting profession, with more than 400,000 members in 145 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting; membership is also available to accounting students and CPA candidates. Throughout its history, the AICPA has been deeply committed to promoting and strengthening independence and ethics standards. Through the PEEC, the AICPA devotes significant resources to independence and ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards.

General Comments

We support the IESBA's objective of setting high-quality ethics standards for professional accountants around the world and facilitating the convergence of international and national ethics standards. We further support the Board's decision to consider whether the IESBA Code's provisions on Long Association of Personnel with an Audit or Assurance Client remain appropriate for addressing the threats created by such relationships.

While we agree that threats to independence may be created due to long association with an audit client and partner rotation requirements are appropriate for key audit partners of public interest entities, we also are mindful that the benefit of a "fresh set of eyes" must be appropriately balanced with the cost of loss of continuity and institutional knowledge that a recurring partner brings to an audit engagement and therefore, such requirements must not have the unintended

consequence of diminishing audit quality. Accordingly, we ask the Board to be mindful of this important balance when considering any further revisions to the long association provisions.

Responses to Request for Specific Comment

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?

With the exception of the specific issues discussed in our responses to questions 2 and 3 below, we believe the proposed enhancements to the general provisions section provide useful guidance in identifying and evaluating the significance of threats created by long association with an audit client. We are not aware of any other safeguards that should be considered under such circumstances.

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

We do not support the proposed revision to apply the General Provisions to all individuals on the audit team. While audit decisions are made every day by all members of the engagement team, senior personnel on the audit team, primarily the key audit partners, have the overall responsibility for all of the significant audit judgments and decisions made during the audit. Non-senior personnel generally do not participate in making key or significant auditing decisions that are not reviewed with, or approved by, senior personnel. We believe any familiarity or self-interest threats resulting from "junior" personnel on the engagement, such as a staff person, would be insignificant and therefore, would generally not result in the need to apply safeguards. Accordingly, we do not believe firms should be required to devote time and resources to evaluate threats resulting from non-senior personnel who have been assigned to an audit engagement for a significant period of time. We believe the extant scope of the guidance (i.e., to senior personnel) remains appropriate and do not support broadening the scope to cover all engagement personnel.

3. If a 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?

We do not believe it is necessary to include a requirement that the firm determine an appropriate rotation period when it concludes that rotation of an individual is an appropriate safeguard. Since there is no rotation *requirement* for such individuals under the guidance, it would appear counterintuitive to require that the firm determine a rotation period. Furthermore, in practice, we believe firms will most likely determine an appropriate period if they believe rotation is an appropriate safeguard and therefore, such a requirement is unnecessary. Finally, in cases where a firm determines that rotation is an appropriate safeguard, the firm should have the ability at any given time to re-evaluate the threats and determine that such rotation is no longer necessary without being "locked-in" to a pre-determined period.

Rotation of Key Audit Partners (KAPs) on Public Interest Entities (PIEs)

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

We support the seven year "time-on" period for KAPs on the audits of PIEs that currently exists in the Code.

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 believe the familiarity and self-interest threats created by the audit engagement partner's long association with an audit client that is a PIE may be more significant than for other KAPs. Accordingly, we support the proposal to make the requirement more robust by extending the cooling-off period for the engagement partner to five years.

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?

While many jurisdictions may have more restrictive partner rotation requirements for the engagement partner than the extant Code, such requirements generally only extend to audits of listed entities. Furthermore, while all PIEs are entities of public interest, there is generally a greater public interest component and regulator focus with respect to audits of listed entities. Accordingly, we believe it may be a more reasonable approach to limit the more restrictive five year cooling-off period for the engagement partner to audits of listed entities only. For PIEs, other than listed entities, we believe the cooling-off period for engagement partners should be consistent with other KAPs and remain at two years.

7. Do respondents agree with the cooling-off period remaining at two years for the engagement quality control reviewer (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?

Due to the nature of the role of the EQCR and the limited amount of interaction with client management, we believe the threats to independence created by the EQCR's long association with an audit client are less significant as the threats created by the engagement partner. Accordingly, we do not believe it is necessary to extend the five year cooling-off period applicable to the engagement partner to the EQCR or any other KAP. We believe the two year cooling-off period remains appropriate for the EQCR and other KAPs.

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?

We interpret this question to address the length of the cooling-off period that should be required (i.e., two years or five years) when an individual has served as the engagement partner as well as in another KAP role during the seven year period. While we appreciate that the Board's

proposed approach may be the most simple approach in addressing the period of time served during the cooling-off period, we do not believe it is the most reasonable approach and unnecessarily restricts an engagement partner or other KAPs from providing services to an audit client. We would recommend an approach where after serving three years of the seven-year period as lead engagement partner, a five-year cooling off period should be required. If the key audit partner served less than three years as lead engagement partner then the two year cooling-off period should apply. We believe such an approach results in a credible and robust requirement to safeguard independence while providing a more reasonable and manageable approach for succession planning and deployment of partners.

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 believe the new provisions contained in 290.150C and 290.150D will be helpful in reminding firms that the General Provisions also remain applicable to PIEs. However, as noted in our response to question 2 above, we believe 290.150D should be revised to apply only to senior personnel on the audit and not extended to all members of the audit team.

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 recognize that there may be a limited number of partners within a firm with the necessary expertise and experience in a specific industry or technical area. Accordingly, prohibiting a former engagement partner from providing consultation on technical or industry-specific matters to the engagement team or client when such an individual has assumed such a role for the firm could have the unintended consequence of diminishing audit quality. We believe that under such circumstances, any threats to independence are sufficiently mitigated after a two year cooling-off period and therefore support the proposal to permit an individual who served as the engagement partner to perform a limited consultation role after two years of the cooling-off period has elapsed.

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?

We believe the additional restrictions proposed on activities that can be performed by a KAP during the cooling-off period are appropriate with the exception of the restriction on the provision of nonassurance services as discussed below.

Paragraph 290.150B states, in part, that during the cooling-off period, the KAP shall not:

- Undertake any other role or activity not referred to above with respect to the audit client including the provision of non-assurance services, that would result in the individual:
    - Having significant or frequent interaction with senior management or those charged with governance; or

- Exerting direct influence on the outcome of the audit engagement.

We believe that a KAP who has rotated off the audit engagement should not be prohibited from providing nonassurance services to the audit client provided such services have no material effect on the financial statements and do not result in the KAP being able to exert direct influence on the outcome of the audit. Specifically, the provision of such services, even if they involve significant interaction with senior management, should not result in an independence impairment. As long as the KAP has no direct influence on the outcome of the audit engagement, then his or her interaction with senior management or those charged with governance would not influence the current audit engagement team's objectivity and ability to provide a "fresh look" on the audit engagement. We believe such nonassurance services could be performed by a KAP but the cooling-off period would not be considered to commence until the nonassurance services were completed.

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

We agree that under the circumstances described in paragraphs 290.151 and 290.152, the firm should obtain the concurrence of TCWG since such circumstances result in an exception to the normal partner rotation requirements.

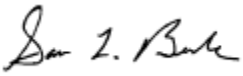
Section 291

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"?

We agree with the conforming changes to Section 291 with the exception of the specific issues raised in our responses to questions 2 and 3 above which would also apply to the proposed revisions to Section 291. We further agree that the provisions should be limited to assurance engagements "of a recurring nature" since any familiarity and self-interest threats would be insignificant where the assurance engagement is non-recurring.

We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the IESBA's Exposure Draft.

Sincerely,



Samuel L. Burke, CPA
Chair, Professional Ethics Executive Committee

cc: Brian Caswell, CPA, IESBA Member
Lisa Snyder, CPA, CGMA, Director – Professional Ethics