



International Federation of Accountants

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Accounting Standards Oversight
Securities and Exchange Commission
Rua Sete de Setembro, 111
27th Floor
Rio de Janeiro – RJ, CEP 20050-901
Brazil

By e-mail: audpublicaSNC1011@cvm.gov.br

Dear Sir/Madam,

Re: SNC No. 10/11: Change of CVM Instruction 308 of May 14, 1999 – Mandatory Audit Firm Rotation

The International Federation of Accountants (IFAC) values the opportunity to comment on the proposed change to CVM Instruction 308 of May 14, 1999, pertaining to the mandatory rotation of audit firms. Through its membership, currently 164 professional accountancy organizations in 125 countries, IFAC represents approximately 2.5 million accountants in public practice, industry and commerce, government, and education.

As the global organization for the accountancy profession, IFAC is committed to contributing to the highest quality professional services by the accountancy profession around the world. Matters pertaining to the conduct and quality of audit are important to IFAC.

In its submission to the European Commissions' Green Paper, *Audit Policy: Lessons from the Crisis*,¹ IFAC stated its position on the mandatory rotation of audit firms. That is, IFAC does not consider that the engagement of audit firms should be time-limited. It is our view that in light of the range of safeguards to auditor independence that are potentially available, mandatory firm rotation would not bring an incremental benefit to auditor independence that would outweigh the risks to audit quality. These safeguards include such things as:

- Safeguards provided in the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* with respect to rotation of key audit partners for public interest entities;
- Corporate governance arrangements that emphasize the importance of the selection, appointment, and remuneration of the auditor being independent of management and/or executive directors; and

¹ Refer: <http://web.ifac.org/publications/ifac-policy-position-papers-and-comment-letters/comment-letters>

- Appointment of the statutory auditor by the general meeting of shareholders, as part of arrangements which recognize that the shareholders and audit committee are generally in the best position to determine which auditor to appoint based on their assessment of the business model, industry knowledge, organizational structure, and risk management issues.

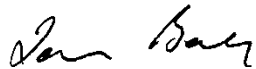
Notwithstanding the academic papers cited in this Consultation Paper, we recognize that there is considerable other research in this area that indicates that mandatory firm rotation can undermine audit quality.² Indeed, we strongly hold the view that market intervention of the kind being proposed requires evidence that the intervention will improve the situation in relation to threats to auditor independence, especially as there appears to be considerable evidence to the contrary.

Finally, we draw to your attention the following two points in relation to the question of mandatory audit firm rotation:

- There is a commonly applied public sector practice of the appointment of a single audit organization in perpetuity, which suggests that auditor rotation is not essential to audit quality.
- This Consultation Paper refers to the EU Green Paper consultation on audit policy as an example of where regulators have considered the question of mandatory audit firm rotation. We note that nearly 80 percent of respondents who answered the specific question in the Green Paper expressed a view opposing mandatory firm rotation.

Please do not hesitate to contact me should you wish to discuss any of the matters raised in this submission.

Sincerely,



Ian Ball
Chief Executive Officer

[Note: Attached is an unofficial translation of this letter. Being the working language of IFAC, English prevails in cases where differences may exist between the English version and the Brazilian Portuguese version of this letter.]

² SDA Università Bocconi, *The impact of mandatory audit rotation on audit quality and on audit pricing: the case of Italy*, 2002
The United States General Accounting Office, *Mandatory Audit Firm Rotation*, 2003
The International Chamber of Commerce, *Policy Statement: The Adverse Effects of Compulsory Audit Firm Rotation*, 2005
The European-American Business Council, *EABC Policy Paper: EABC Opposes Mandatory Audit Firm Rotation*, 2007
The Committee of Sponsoring Organizations of the Treadway Commission (COSO), *Fraudulent Financial Reporting 1998 – 2007: An Analysis of U.S. Public Companies*, 2010
www.coso.org/documents/COSOFRAUDSTUDY2010.pdf