

Basis for Conclusions
Prepared by the Staff of the IESBA®
January 2017

*International Ethics Standards Board
for Accountants®*

**Changes to the Code
Addressing the Long
Association of Personnel with an
Audit or Assurance Client**



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This document was prepared by the Staff of the International Ethics Standards Board for Accountants® (IESBA®).

The IESBA is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate *Code of Ethics for Professional Accountants™* (the Code).

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**BASIS FOR CONCLUSIONS:
CHANGES TO THE CODE ADDRESSING THE LONG ASSOCIATION OF
PERSONNEL WITH AN AUDIT OR ASSURANCE CLIENT**

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I. Introduction

1. This Basis for Conclusions has been prepared by the Staff of the IESBA (the Board). It relates to, but does not form part of, the changes to the *Code of Ethics for Professional Accountants* (the Code) addressing the long association of personnel with an audit or assurance client. The Board approved the final changes under the extant structure and drafting conventions of the Code (“[close-off document](#)” at its December 2016 meeting with the affirmative votes of 15 out of 17 IESBA members present. One IESBA member abstained from the vote and another IESBA member voted against the document. The close-off document will be restructured using the new structure and drafting conventions developed under the Structure of the Code project. The Board will issue the revised provisions as part of the restructured Code.

II. Background

2. In the case of both audit and assurance engagements, it is in the public interest and required by the Code that members of audit and assurance teams and firms be independent, both of mind and in appearance, of their audit and assurance clients.¹
3. Long association of personnel on an audit engagement with an audit client can adversely impact objectivity and professional skepticism, which in turn are important contributors to audit quality. The independent auditor constitutes the principal external check on the integrity of financial statements. Hence, the length of an individual’s relationship with the audit client becomes a visible factor when evaluating the auditor’s independence of mind and in appearance.
4. The Board acknowledged that a perception issue exists with respect to the current long association provisions in the Code. This is particularly so as the length of time that an individual may currently serve an audit client that is a public interest entity (PIE) in a key audit partner (KAP) role may be 14 out of a total of 16 consecutive years. It was therefore important, and in the public interest, for the Board to consider whether the provisions continued to be appropriate for addressing the threats to independence created by long association.
5. The issues involved are complex and interwoven. The factors that give rise to threats to independence may also be factors that contribute to audit quality. These include knowledge of the audit client and its operations and continuity of personnel. In addition, while some stakeholders called for strengthening the requirements addressing long association in the Code, the Board also recognized that arbitrary requirements could create unintended hardship on entities when rotations are forced to occur at times of change or transition.
6. In August 2014, the Board published an Exposure Draft (ED), [Proposed Changes to the Code of Ethics for Professional Accountants Related to Provisions Addressing the Long Association of Personnel with an Audit or Assurance Client](#). Seventy seven comment letters were received from various respondents, including regulators and audit oversight bodies, national standard setters (NSS), IFAC member bodies, other professional bodies, and firms.

¹ **Independence of mind** is the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

Independence in appearance is the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm’s, or a member of the audit team’s, integrity, objectivity or professional skepticism has been compromised.

7. In December 2015, the Board concluded on many aspects of its proposals in both extant Sections 290² and 291,³ taking into account respondents' comments on the ED and the Board's discussions with its Consultative Advisory Group (CAG) and other stakeholders. However, the Board determined to issue for re-exposure new or revised proposals concerning three specific matters in relation to extant Section 290 only: (a) the length of the cooling-off period for the engagement quality control reviewer (EQCR) on an audit of a PIE; (b) circumstances where jurisdictions have established different legislative or regulatory requirements addressing long association (the "jurisdictional clause"); and (c) how long to cool off in circumstances where an individual has served in a combination of engagement partner (EP), EQCR and other KAP roles during the seven-year time-on period.
8. In February 2016, the Board issued the re-ED, [Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client](#), with a comment deadline of May 9, 2016. The re-ED included a Basis for Conclusions summarizing the significant issues raised by respondents on proposals in the August 2014 ED that the Board finalized in December 2015, and how the Board had addressed those issues. Thirty eight comment letters were received on the re-ED from various respondents, including regulators and audit oversight bodies, NSS, IFAC member bodies, other professional bodies, and firms.
9. In September 2016, the Board reached agreement on the provisions pertaining to the remaining three matters that were included in the re-ED, taking into account respondents' feedback on the re-ED as well as input from the CAG. Subsequently, in early November 2016, the Public Interest Oversight Board (PIOB) communicated a number of concerns regarding the revised provisions, primarily regarding their perceived complexity and a perceived limited improvement in the cooling-off provisions due to permitted exceptions. As a result of discussions between senior representatives of the Board and the PIOB, the PIOB's concerns were narrowed down to three key areas, namely:
 - (a) The jurisdictional clause;
 - (b) The exception that would permit under certain conditions an audit engagement team for a PIE to consult with an individual who previously acted as EP or EQCR on the audit engagement and has already served two years of the cooling-off period if they have taken on a primary role as a technical specialist in their firms; and
 - (c) The need for transitional provisions relative to the effective date.
10. In December 2016, the Board finalized changes to the revised provisions to respond to the PIOB concerns.
11. This Basis for Conclusions explains the significant issues raised by respondents on the proposals in the re-ED, and how the Board has addressed them. It also explains the final changes to the revised provisions in response to the PIOB concerns.
12. The Board discussed this project with the CAG on nine separate occasions: at the project commencement stage; prior to the issuance of the ED and re-ED; and before and after finalization of the close-off document. The Board also held numerous discussions with the regulatory community, NSS, the Forum of Firms, the IFAC Small and Medium Practices (SMP) Committee, and IFAC member bodies, among others.

² Section 290, *Independence – Audit and Review Engagements*

³ Section 291, *Independence – Other Assurance Engagements*

III. Length of the Cooling-off Period for the EQCR

13. The re-ED proposed that the cooling-off period for the EQCR be increased from two to five years with respect to listed PIEs, and to three years with respect to non-listed PIEs.
14. Several respondents agreed that the proposal achieved an appropriate balance between:
- Addressing the need for a robust provision to ensure a “fresh look,” given the important role of the EQCR on the audit engagement and the EQCR’s familiarity with the audit issues; and
 - Having regard to the practical consequences given the large numbers of small entities defined as PIEs around the world and the generally more limited availability of individuals able to serve in an EQCR role.

Some of them, nonetheless, were concerned about the perceived complexity of the proposal, the potential for it to create significant practical challenges for firms and clients alike given EQCR resource constraints, and the significant impact on SMPs.

15. A substantial body of respondents across all stakeholder categories, however, disagreed with the proposal for various reasons, including:
- The perceived complexity in differentiating cooling-off periods between different types of PIEs and KAPs, which some felt would be difficult, time-consuming and costly to manage, especially when applied in jurisdictions that have similar but different regulatory rotation requirements and definitions of PIEs.
 - The proposal seeming to suggest that there is a greater public interest in a small listed entity than in a large unlisted PIE such as a financial institution.
 - Illogical outcomes in some cases when the two-tiered approach is overlaid with national requirements.
 - The potential impact on SMPs and market competition, particularly if firms have insufficient audit partners to manage the partner rotation requirements successfully.
 - The lack of proportionality in the proposals, with the increase in the cooling-off period to five years for EQCRs on listed PIEs not seen as commensurate with the risks associated with that role. In this regard, some respondents advocated retaining the current two-year cooling-off period for EQCRs.
 - The potential for unintended consequences, including firms being pressured to appoint inexperienced individuals into the EQCR role or being restricted in their ability to allocate the best resources to an audit engagement.
16. A few respondents commented that current mechanisms regarding the EQCR role already provide sufficient safeguards against threats created by long association. In particular, it was argued that the independence of the EQCR is already protected by the nature of the role, i.e., limited contact with the client and with the day to day management and conduct of the audit. It was also argued that current requirements combined with firms’ own systems of quality control (including the objectivity requirement for EQCRs under ISQC 1)⁴ already achieve a robust independence framework.

⁴ 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*

17. Some respondents suggested that the potential familiarity threat regarding the EQCR role might be better addressed as part of a potential revision of ISQC 1, given that the latter sets out criteria for the eligibility of individuals to act as EQCRs.
18. A respondent was of the view that the differential approach the Board was proposing to try to address the concerns regarding SMPs was unnecessary as ISQC 1 already indicates that SMPs may contract with suitably qualified external persons or other firms for engagement quality control reviews.⁵

IESBA Decisions

Bifurcation between Listed and Non-listed PIEs

19. The Board acknowledged the significant concerns expressed by respondents regarding the bifurcation of the EQCR cooling-off proposal between listed and non-listed PIEs. On further reflection, and given the many valid concerns expressed by respondents, the Board believes that the differentiation between listed and non-listed PIEs is unnecessary given that EQCRs are only appointed where required by ISQC 1 or by law or regulation. In particular, ISQC 1 currently requires, among other matters, that firms establish policies and procedures to (a) require an engagement quality control review for all audits of financial statements of *listed entities*; and (b) set out criteria against which all other audits are evaluated to determine whether an engagement quality control review should be performed, and require it for *all audit engagements meeting those criteria* [emphases added].⁶ Therefore, it is unlikely that many unlisted audits will have an EQCR anyway, and so such differentiation is unnecessary.

Duration of the Cooling-off Period for EQCRs

20. The Board noted the significant concerns expressed by respondents across stakeholder groups regarding the proposed five-year cooling-off period for EQCRs on listed PIEs. After further deliberation in the light of this feedback, the Board determined that this cooling-off period be set at three instead of five years for the following reasons:
 - Some G20 jurisdictions already require a five-year cooling-off period for EQCRs on listed audits, in particular, Canada, Japan, the UK and the US. Therefore, these jurisdictions, which also tend to have the largest numbers of listed entities, have already addressed their specific needs.
 - Across G20 jurisdictions, there is no consensus on what the cooling-off period for EQCRs should be. For example, in Canada, certain small listed entities are excluded from the PIE category; in Japan, the cooling-off requirement for all KAPs including EQCRs is set at 2 years for SMPs; and in the US, firms meeting predefined SMP characteristics are exempted from partner rotation requirements. Further, within the EU, there is no cooling-off requirement for an EQCR as this role is not recognized within the KAP definition established by the EU framework.
 - The public interest lies in facilitating development of the EQCR approach more widely around the world, particularly given that it is not currently required for all PIEs under ISQC 1. In this regard, the Board believes that three years would be a more gradual step-up from the current requirement of two years than five years.

⁵ ISQC 1, paragraph A50

⁶ ISQC 1, paragraph 35

- This approach achieves an appropriate balance, recognizing the different levels of familiarity threat given the differences in EP and EQCR roles, and the relative scarcity of EQCR resources.
21. The final provision is set out in paragraph 290.156. The Board nevertheless agreed to keep it under future review (see the commitment to review the long association sections in the next strategy cycle in paragraph 37 below).

Suggestions from Respondents

22. The Board did not accept the suggestion from some respondents to retain the current two-year cooling-off requirement for EQCRs for PIE audits. The Board believes that three years would better recognize the special and particularly important role the EQCR plays with respect to the audit outcome compared with other KAPs other than the EP. Importantly, three years would better ensure that the individual would be away from the audit engagement for a full two financial years, given the “hand-over” process that can occur at the end and beginning of an audit, thereby better supporting the “fresh look” principle.
23. The Board also did not accept the suggestion from some respondents for the cooling-off requirement for EQCRs to be addressed under ISQC 1 given that the matter of partner rotation is an independence matter within the remit of the Code. The Board nevertheless continues to liaise with the International Auditing and Assurance Standards Board (IAASB) in relation to the latter’s review of ISQC 1 for matters requiring potential future coordination.
24. With respect to the comment from one of the respondents that ISQC 1 has already recognized the specific considerations relating to SMPs and therefore the differential approach the Board was proposing was unnecessary, the Board noted that not all SMPs will necessarily be able to avail themselves of suitably qualified external persons for the EQCR function. In particular, as noted by one of the respondents, there may be legal or regulatory constraints that would preclude firms from sourcing relevant individuals for the EQCR role beyond their national borders.

IV. Jurisdictional Provision

25. The re-ED proposed that where an independent standard setter, regulator or legislative body has implemented an independent regulatory inspection regime and either (a) established requirements for a time-on period shorter than seven years, or (b) implemented mandatory firm rotation (MFR) or mandatory retendering (MRT) at least every ten years, the cooling-off periods of five consecutive years specified for the EP and EQCR (as would apply in the latter case to audits of listed entities) may be reduced to three consecutive years.
26. A substantial body of respondents across all stakeholder categories expressed support for the proposal. These respondents believed that it would be appropriate to recognize alternative robust requirements at the jurisdictional level to avoid the undue complexity and burden that would arise from overlaying the requirements of the Code with pre-existing jurisdictional requirements.
27. A respondent disagreed with the proposal on the grounds that the specified conditions do not justify reducing the cooling-off period:
- Rotation of firms does not address familiarity threat at the level of the individual partner unless it serves to reduce the partner’s involvement with the entity to the same extent as requirements imposed directly on individuals.

- Mandatory retendering without mandatory rotation, as would be possible under the proposal, may provide no additional safeguard in relation to threats related to KAPs.
- An independent regulatory inspection regime contributes to general oversight and quality control but could not be relied upon to help mitigate threats such as familiarity, particularly given that several years can elapse between inspections of audits of a particular entity.

The respondent was of the view that the Board should determine what, in principle, it believes should be the appropriate cooling-off period and require that in the Code. The respondent did not believe it would be appropriate to compromise that position to seek to obtain acceptance in jurisdictions that may view less stringent requirements as appropriate.

28. With respect to the MRT precondition, a respondent wondered whether the familiarity threat would have dissipated if the firm continued to be appointed after a retendering. The respondent commented that whereas MFR provides a break in service, MRT may not provide such a break and as such, the engagement team's service and familiarity could continue uninterrupted.
29. Several respondents, however, disagreed with the proposal for various reasons, including the following:
- Provisions for a reduction in the cooling-off period should be left to legislators, regulators and standard setters as they consider appropriate to support audit quality in their jurisdictions.
 - It is unclear whether the proposal can be implemented in a consistent and useful manner in practice. Depending on a jurisdiction's rules, application of the proposal may lead to disproportionate outcomes between listed and non-listed PIEs. For example, where a jurisdiction only requires a shorter time-on period for EPs on the audit of a listed entity (such as in Australia), the cooling-off period for those EPs would be three years, but five years for EPs on audits of non-listed PIEs.
 - The detailed conditions make an already complicated set of rotation requirements even more complex and rules-based. In this regard, it was suggested that these could be rewritten more as a set of principles. It was also noted that it was unclear why an independent regulatory inspection regime would be needed to take advantage of the alternative requirement of a shorter on-period.
 - The conditions specified reflect the key measures introduced recently under EU legislation, but – in being rules-based – do not provide flexibility, nor allow, for any further jurisdictional alternatives that might be introduced in the future.
 - The level of specificity removes the focus on whether the familiarity threats have been mitigated and places unnecessary focus on a number of years. It was suggested that the Board should allow for the application of professional judgement as to whether a shorter time-on period justifies a shorter cooling-off period.
30. Some respondents disagreed with the Board's proposal not to address joint audits, believing that the reduction in complexity in not addressing such audits would not outweigh the inconsistency that this would create. It was argued that a consideration of joint audits would not add more complexity than the other alternatives of the new approach the Board had proposed. In addition, the respondents felt that omitting joint audits would jeopardize consistency with the EU Regulation.

September 2016 IESBA Deliberations

31. Under the Code, a professional accountant is required to comply with whichever is the stricter of the provisions in the Code or the provisions laid down by law or regulation. As a result of this fundamental provision of the Code, an issue arises where a jurisdiction has implemented a different approach to addressing threats created by long association to that adopted in the Code. For example, the EU Audit Regulation⁷ now provides for a three-year cooling-off period for KAPs, coupled with MFR, MRT and/or joint audits, while not addressing the position of an EQCR. In those circumstances, a firm could interpret the requirements of the Code to mean that it would have to comply, in effect, with the provisions of the Code *and* the requirements of the EU Regulation.
32. The Board acknowledged that such a situation could have serious consequences to the adoption of the Code in those jurisdictions, which would undermine the credibility of the Code globally. The Board therefore considered that the Code should respect legal or regulatory regimes that have been brought into effect by governments or regulatory bodies independent of the profession – provided that an independent regulatory inspection regime was also in place. The jurisdictional provision thus appropriately acknowledged existing jurisdictional diversity in approaches to addressing threats created by long association, while using the enhanced provisions in the Code to raise ethical standards in jurisdictions that have not implemented such regulatory requirements or in an area where cooling off is not required (for example, EQCRs in the EU).
33. Given the Board decision to set the cooling-off period for EQCRs at three years, the jurisdictional provision would no longer apply to EQCRs. The Board therefore noted that this would eliminate another layer of complexity from the revised provisions.
34. The Board nevertheless agreed to make some refinements to the jurisdictional provision as follows:
- Removing the 10-year threshold within the precondition regarding MFR or MRT, and instead leaving it to a jurisdiction to specify a predetermined period for such firm rotation or retendering, where applicable. This would reflect a more principles-based approach, allowing for different periods that jurisdictions believe would fulfill their national needs if they have also established MFR or MRT.
 - Accepting joint audits as a further jurisdictional requirement. On further reflection in the light of concerns expressed by some respondents, the Board did not believe that it would be appropriate to exclude joint audits as a precondition given that it already has legislative backing in some jurisdictions (for example, France and to some extent South Africa).
 - Replacing the concept of an independent standard setter with the concept of an organization authorized by a legislative body or regulator. This would minimize the risk of confusion regarding the status or authority of the former.
 - Re-ordering the elements within the provision to make clear that it is not intended that it would be the same body that would establish both the independent regulatory inspection regime and the legal or regulatory requirements regarding a shorter time-on period, MFR, MRT or joint audits.
35. With respect to the comment as to whether the familiarity threat would have dissipated if the firm continued to be appointed after a retendering, the Board believed that the MRT precondition was integral to the jurisdictional provision and removing it would undermine the whole provision. None of

⁷ Regulation No. 537/2014 of April 16, 2014

the conditions regarding MFR, MRT and joint audits was addressing familiarity threats at the level of the individual. Rather, as noted above, the Board determined that it would be appropriate 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.

Final IESBA Decisions in Light of PIOB Comments

36. Subsequent to the September 2016 Board deliberations, the PIOB questioned whether the jurisdictional provision was necessary, in addition to its broader concerns about overall complexity. The PIOB noted that by allowing a reduction in the cooling-off period for EPs to three years, the jurisdictional provision would weaken the overall partner rotation regime in the Code. It noted that stricter rules in national legislation, such as mandatory firm rotation, would prevail and apply.
37. In the light of the PIOB concern, the Board reconsidered the position regarding the jurisdictional provision. After careful deliberation, the Board determined to make the following three changes:
- Replacing the revised jurisdictional provision with a simpler formulation that would achieve the objective of the original provision, i.e., that where an appropriately qualified body has established a cooling-off period for an EP of less than five years, the higher of that period or three years may be substituted for the cooling-off period of five years (see paragraph 290.163). The only condition is that the applicable time-on period not exceed seven years.
 - Clarifying that the appropriate national body may be not only one that is authorized by a legislative body or regulator but also one that is recognized by such legislative body or regulator.
 - Permitting a transitional period of up to five years from the effective date of December 15, 2018 (see Effective Date section below) during which the jurisdictional provision would remain available. This transitional approach is intended to facilitate an eventual changeover to the cooling-off period of five years for EPs in those jurisdictions where the appropriate national body has currently specified a cooling-off period of less than five years. However, the Board has committed as part of its next strategy and work plan to review, during this transitional period, the long association sections in the Code to take account *inter alia* of relevant legislative and regulatory developments as well as experience of the application of the sections in practice. See the Effective Date paragraph in the close-off document.
38. The Board believes that this revised formulation achieves the outcome desired under the original provision while being responsive to the public interest concerns raised by the PIOB.

V. Allowance for Limited Consultation During the Cooling-off Period

39. In December 2015, having considered stakeholders' feedback on the August 2014 ED, the Board concluded that the Code should permit an EP or EQCR who has rotated off a PIE audit engagement to provide consultation to the engagement team on a technical or industry-specific issue after two years have elapsed during the cooling-off period if that individual is also, or becomes, a technical specialist within his or her firm. This was on condition that:
- (a) There is no other partner within the firm expressing the audit opinion with the expertise to provide the advice; and
 - (b) Such consultation is in respect of an issue, transaction or event that was not previously considered by that individual in the course of acting as EP or EQCR.

40. Subsequent to the Board's September 2016 deliberations, the PIOB questioned this exception to the general principle that consultation with an EP or EQCR is prohibited during his or her cooling-off period. The PIOB wondered whether the provision addressing restrictions on activities during the cooling-off period could be simplified, eliminating the conditions set out above.

IESBA Decision

41. After careful deliberation in the light of the public interest concerns raised by the PIOB, the Board determined to withdraw the exception. Consequently, unless it is about work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit (see paragraph 290.164(b)), consultation between the engagement team and the EP or EQCR would be prohibited during his or her cooling-off period. The Board acknowledged that while it is unlikely that the withdrawal of this permission would affect the larger firms to any significant extent, smaller firms may face added challenges in auditing PIEs.
42. However, the Board noted that pursuant to paragraph 290.168, firms may have the opportunity for relief from the partner rotation requirements in the Code based on an exemption provided by the relevant regulator in their jurisdiction. Where such relief is available, the individual could remain as a KAP (for example, as the EP) on the audit engagement in accordance with any conditions specified under such relief.

VI. Service in a Combination of Roles During Seven-year Time-on Period

43. The re-ED proposed that with respect to the audit of a listed entity, an individual who has acted as an EP or EQCR, in either capacity or a combination of these roles, for either four or more years, or for at least two of the last three years, during the seven-year time-on period be required to cool off for five years. With respect to the audit of a non-listed PIE, the re-ED proposed a similar provision but bifurcated to take into account that the EQCR and EP would be subject to different cooling-off periods in respect of such audit.
44. Many respondents were supportive of the proposal. Some, however, continued to reiterate concerns similar to those they had expressed regarding the other proposals, including the following:
- In the absence of empirical evidence, distinguishing the requirements where there has been a combination of roles arbitrarily increases complexity.
 - The proposed approach is so complicated that it will increase the administrative burdens on SMPs. Consideration should be given to exploring a simpler approach.
 - The proposals appear too rules-based and will provide an opportunity for gaming.
45. Many other respondents, however, did not support the proposal on grounds of complexity and the perception that it was rules-based. Some of those respondents offered various suggestions for simplification.
46. A respondent who supported a five-year cooling-off period for the EQCR reiterated its view that a partner who has served the maximum time-on period, including as the EP, EQCR or a combination of those roles should be required to cool-off for the full five years. The respondent was of the view that the familiarity threat is not diminished by the partner serving part of the time-on period as a KAP other than the EP or EQCR.

IESBA Decisions

47. The Board noted that some degree of complexity is unavoidable given:
- (a) The fact that the revised cooling-off requirements for the EP, EQCR and other KAPs are different, recognizing that their roles and influence on the overall outcome of the audit vary in importance; and
 - (b) The need to address the various combinations of EP, EQCR and other KAP roles that are theoretically possible, although in practice it would be unlikely that an individual would be “role hopping” every few years.
48. However, on further reflection in the light of the concerns expressed by respondents, the Board concluded that understandability should be the overriding consideration, no matter what approach is taken to address circumstances where there is service in a combination of roles. The Board did not believe that it would be in the public interest if NSS or firms do not fully understand or otherwise misinterpret how the provisions should be applied, leading to potential inadvertent breaches of the Code.
49. Accordingly, the Board determined to revise the provisions as follows:
- (a) First, consistent with the suggestion from some of the respondents, removing the “2 of the last 3 years” criterion. This thereby leaves the determining factor as “4 or more years,” i.e., a majority of the time-on period. This has the effect of removing a layer of complexity.
 - (b) Reformulating the provision as follows:
 - (i) Addressing the norm where an individual has acted in a single KAP role for seven years (see paragraphs 290.155 – 290.157).
 - (ii) Then addressing combinations of roles as follows:
 - If the individual has acted as the EP for four or more years during the time-on period: cool off for five consecutive years (see paragraph 290.158).
 - If the individual has acted as the EQCR for four or more years: cool off for three consecutive years, consistent with the revised provision regarding the EQCR cooling-off period (see paragraph 290.159).
 - If the individual has acted in a combination of EP and EQCR roles for four or more years:
 - If during those four or more years, the individual acted as the EP for three or more years: cool off for five years.
 - Otherwise, cool off for three years (see paragraph 290.160).

This approach gives appropriate weight to the fact that the EP is the dominant role in the audit engagement.
 - In the case of any other combination: cool off for two years (see paragraph 290.161).
 - (c) To facilitate understanding and proper application of the different elements of the provision, providing a table illustrating all the different possible combinations of EP, EQCR and other KAP roles and what the effect of each combination would be on the cooling-off period (see

Appendix). The table also contains a cross reference for each combination to the relevant paragraph in the revised provisions.

50. The Board considered various other approaches to address service in a combination of roles and believes that the above approach, while unavoidably containing some degree of specificity, comprehensively addresses all the possible combinations and is appropriately balanced, recognizing the varying importance of the different roles to the audit.
51. The Board did not agree with the view from one of the respondents above that a partner who has served the maximum time-on period, including as the EP, EQCR or a combination of those roles should be required to cool-off for the full five years. The Board noted that this would fail to recognize situations such as where the individual acted as the substitute EP or EQCR for just one year while the incumbent EP or EQCR took, for example, maternity leave, resulting in a disproportionate outcome.

VII. Calculating the Time-on Period When There Are Breaks in Service

52. In response to feedback from its NSS liaison group regarding making clear how the Code addresses breaks in service, the Board has added guidance to clarify that the time-on period with respect to rotation of KAPs on PIE audits is determined on a cumulative (and not consecutive) basis (see paragraph 290.154). The guidance explains that the trigger for restarting the “clock” is 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. For example, an individual who served as EP for four years followed by three years off can only act thereafter as a KAP on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph 290.158.
53. The Board considered other possible approaches to setting the trigger for restarting the clock after a break in service but concluded 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 situation where the outcome in a few cases might be perceived as harsh. On balance, the Board resolved to adopt the approach set out in paragraph 290.154 as it is relatively simple to understand, is consistent with the principle of fresh look, 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.

VIII. Effective Date

54. In the August 2014 ED, the Board had proposed that the revised provisions be effective for audits of financial statements for years beginning on or after December 15, 2017. The issuance of the re-ED in February 2016, however, effectively deferred finalization of the provisions by almost a year. In addition, the Board had resolved to restructure the close-off provisions to align with the new structure format before they are released as part of the restructured Code (anticipated by the end of March 2018 or early April 2018, subject to PIOB approval of the restructured Code). This is to avoid the introduction of new provisions (which would need to be translated and adopted through due process) that would then need to be replaced shortly thereafter.
55. Given these circumstances, the Board determined that December 2018 would be the earliest possible date when the new provisions could be implemented to allow sufficient time for translation, due process and other implementation activities. Accordingly, subject to the transitional provision pertaining to the revised jurisdictional provision (see Jurisdictional Provision section above), the

Board determined that the effective date of the revised provisions in extant Section 290 be for audits of financial statements for periods beginning on or after December 15, 2018.

56. The Board discussed the merit of including transitional provisions that would apply for the revised provisions, primarily in support of audit quality as firms may face practical challenges in implementing changes to partner rotation plans, particularly where specialist and EQCR resources are in short supply. However, the PIOB expressed concern about the need to provide such transitional provisions given that the revised provisions would not become effective until two years after the finalization of the close-off document. On balance, recognizing also the importance of the significant enhancements overall becoming effective as early as possible, the Board determined not to provide transitional provisions. Firms will therefore have a two-year window to make the necessary arrangements for partner rotation on relevant PIE audit engagements before the revised provisions become effective.
57. While these revised provisions will not be formally released until after they have been restructured under the new Structure format, the restructuring exercise will not change the substance of the provisions.
58. With respect to other assurance engagements (extant Section 291), the revised provisions (also to be issued in the new structure format) would be effective as of December 15, 2018.
59. In both cases, early adoption would be permitted.

Appendix

Application of Provisions Regarding Service in a Combination of Roles

Number of Years During Time-on Period			Cooling-off (Years)	Sec. 290 Para Ref.
Engagement Partner	Engagement Quality Control Reviewer	Other Key Audit Partner		
7	–	–	5	155
6	1	–	5	158
6	–	1	5	158
5	2	–	5	158
5	1	1	5	158
5	–	2	5	158
4	3	–	5	158
4	2	1	5	158
4	1	2	5	158
4	–	3	5	158
3	4	–	5	160(a)
3	3	1	5	160(a)
3	2	2	5	160(a)
3	1	3	5	160(a)
3	–	4	2	161
2	5	–	3	160(b)
2	4	1	3	160(b)
2	3	2	3	160(b)
2	2	3	3	160(b)
2	1	4	2	161
2	–	5	2	161
1	6	–	3	159
1	5	1	3	159
1	4	2	3	159

BASIS FOR CONCLUSIONS: CHANGES TO THE CODE ADDRESSING LONG ASSOCIATION

Number of Years During Time-on Period			Cooling-off (Years)	Sec. 290 Para Ref.
Engagement Partner	Engagement Quality Control Reviewer	Other Key Audit Partner		
1	3	3	3	160(b)
1	2	4	2	161
1	1	5	2	161
1	–	6	2	161
–	7	-	3	156
–	6	1	3	159
–	5	2	3	159
–	4	3	3	159
–	3	4	2	161
–	2	5	2	161
–	1	6	2	161
–	–	7	2	157

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**International
Ethics Standards
Board for Accountants®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ethicsboard.org