

Long Association—Summary of Significant Comments on Re-Exposure Draft and Task Force Proposals

I. Overview of Responses

1. The comment period on the re-exposure draft [*Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*](#) (the ED) closed on May 9, 2016. As of May 23, 2016, comment letters had been received from 35 respondents, as listed in Appendix 1. All comment letters can be accessed on the [IESBA website](#).
2. The table below provides a break-down of the responses by category of stakeholders:

Category	No. of Responses
Regulators and public authorities	4
National standards setters (NSS)	2
IFAC member bodies (MBs)	18
Firms	9
Other professional organizations	2
Total	35

3. The scope of the ED was limited to three specific matters, namely:
 - (a) The cooling-off period for the engagement quality control reviewer (EQCR) on the audit of a public interest entity (PIE);
 - (b) Whether the Code should provide an alternative to elements of the partner rotation requirements for PIE audits set out in the Code where jurisdictions have established different regulatory safeguards, or a package of safeguards, to address threats created by long association (“jurisdictional safeguards”); and
 - (c) How long a key audit partner (KAP) should cool off given service in a combination of roles during the seven-year time-on period.
4. The vast majority of respondents understood that the Board had reached a final position on the various other issues addressed in the project and refrained from providing further views on those issues. A respondent,¹ however, commented generally that the enhancements not subject to re-exposure would provide a more robust framework for dealing with the long association issue.
5. There were significant concerns among most of the respondents regarding the proposals addressing issues (a) and (c) above. While the proposals addressing issue (b) were largely

¹ MB: ACCA

supported by respondents, there were nevertheless reservations about a few aspects of the proposals relating to that particular issue.

6. The remainder of this paper summarizes respondents' significant comments and presents the Task Force's (TF's) related responses or proposals under the following subheadings:

- II. General comments and overarching concerns
- III. Responses to specific questions in the Explanatory Memorandum (EM)
- IV. Other comments and suggestions from respondents
- V. Proposed IESBA Staff Q&A Publication
- VI. Effective date

II. General Comments and Overarching Concerns

7. A few respondents² acknowledged the Board's continuing efforts and focus on finding an appropriate balance between (a) addressing familiarity and self-interest threats to independence created by long association, and (b) the need for auditors to maintain relevant knowledge and experience of their clients to support audit quality. They agreed that the overriding objective in the public interest should be to ensure an effective "fresh look" on the audit engagement by both the engagement partner (EP) and the EQCR.
8. A respondent³ acknowledged that while considerations of resources and cost to companies and small and medium practices (SMPs) are important, the public interest is paramount. Another respondent⁴ reflected on the continuing tension created by precise and specific rules embedded within a principles-based code, noting that it is very difficult to achieve a balance between rules that may be expected by some stakeholders and simpler standards desired by others. The respondent encouraged continued Board efforts towards achieving an appropriate balance between principles and a highly rules-based approach to meet expectations.
9. Many respondents, however, expressed a number of overarching and specific concerns about the proposals. The overarching concerns are summarized in this section and the more specific concerns in Section III.

Overarching Concerns

Perceived Increased Focus on Rules and Departure from Principles

10. Several respondents⁵ felt that the proposals made this section of the Code overly engineered and too complex. They were concerned that the Code is becoming increasingly rules-based, risking unintended consequences and easier circumvention. There was a view that the Code should strive for the application of high level ethical principles at an international level, and not represent another layer of requirements that may not always be appropriate or compatible with national or regional

² **MB:** ACCA; **Firms:** DTT, RSM

³ **MB:** ACCA

⁴ **MB:** CPAC

⁵ **Regulator:** IRBA; **NSS:** XRB; **MBs:** ACCA, FAR, FSR, ICAEW, ICAS, IDW, NBA, WPK; **Firm:** PwC; **Others:** FEE

requirements.⁶ There was also a broader concern that a focus on bright-line rules would detract from the auditor standing back and assessing whether familiarity threats have been mitigated for the audit engagement.⁷

Perceived Complexity and Unintended Consequences

11. An overriding concern was that the proposals as a whole appeared too complex.⁸ Some felt that the perceived complexity would heighten the risk that the firm or the professional accountant (PA) would either not understand the requirements in a given situation or inadvertently fail to comply with the provisions. It was felt that this would be particularly the case where an individual performs a variety of roles over a seven-year time-on period, where the individual's involvement in an audit is not continuous, or where the requirements in local regulations differ from those in the Code.
12. Others shared broader concerns about complexity, including the following:
 - Rules that are too complicated impose obligations that are costly to implement and disproportionate to the intended benefit.
 - Excessive complexity also is a barrier to enforcement and could lead to non-adoption by local regulators.
 - Firms may actively manage the rotation rules rather than allocate the most appropriate audit personnel on an engagement.
 - The complexity is likely to detract from any perception that a principle basis has been applied and undermine confidence in the effectiveness of the requirements.

TF Responses

13. The TF noted that the Board has acknowledged that partner rotation with respect to PIE audits represents one area where the provisions in the Code are already in rules-based territory. In this regard, the Board has determined it appropriate to prescribe how long KAPs should be permitted to serve on an audit engagement and how long they should cool off before returning to audit the same client. This level of prescription serves broadly two purposes: it ensures consistency of treatment across jurisdictions that have adopted or otherwise use the Code as a basis for national ethical standards, and across firms that are required to comply with it; and, importantly, it provides a clear “backstop” against client pressure to retain the same KAPs on audit engagements for a long time. Firms have been required to comply with these rules for a long time and the TF does not believe that the proposals in the ED were breaking new ground in this regard.
14. Also, the fact that the Code contains precise requirements addressing partner rotation does not mean that it is no longer principles-based. The Code overall remains overwhelmingly principles-based, and the Board has made clear its belief that setting ethical standards on that basis is and must continue to be the right approach in the public interest. In a number of areas, the Code establishes requirements, and prohibitions on certain interests and relationships, based on the application of the principles.

⁶ **MBs:** FSR, NBA; **Others:** FEE

⁷ **NSS:** XRB

⁸ **Regulator:** UKFRC; **NSS:** APESB, XRB; **MBs:** ACCA, CAANZ, ICAEW, IDW, WPK; **Firms:** DTT, PwC, RSM

15. The TF, however, recognizes that there is a balance that needs to be struck between establishing requirements in the Code that will engender public trust in auditor independence and doing so in a way that will (a) enable them to be operable without creating an unreasonable burden on those who will need to comply with them, and (b) and avoid any unintended consequences (see below). Accordingly, the TF accepts that there is a need to be sensitive to stakeholder concerns about excessive complexity if such complexity leads to outcomes that run counter to the public interest. The TF considers the matter of complexity further in Section III below.

Matter for Consideration

1. IESBA members are asked for any reactions to the general comments and overarching concerns from respondents.

III. Responses to Specific Questions in the Explanatory Memorandum

A. COOLING-OFF PERIOD FOR THE EQCR ON A PIE AUDIT

16. The EM asked respondents whether they agreed that the proposal in paragraphs 290.150A and 290.150B of the ED regarding the cooling-off period for the EQCR for audits of PIEs (i.e., five years with respect to listed entities and three years with respect to PIEs other than listed entities) reflects an appropriate balance in the public interest between:
- (a) Addressing the need for a robust safeguard 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
 - (b) Having regard to the practical consequences of implementation 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.
17. Several respondents⁹ agreed that the proposal achieved *an appropriate balance between these two considerations*. Among those respondents, some nevertheless expressed a number of reservations, including the following:
- Having different cooling-off periods for the EQCR depending on whether the entity audited is a listed or non-listed PIE may result in added complexity.¹⁰
 - EQCRs have a high level of technical expertise which, depending upon the firm and location, may be in scarce supply. Increasing the EQCR cooling-off period may exacerbate this issue, creating significant practical challenges for firms and clients alike.¹¹
 - The proposal will have a significant impact on SMPs, which do not have a sufficient number of partners to meet a stricter rotation requirement, even though the proposal might give rise to external experienced consultants filling the gap.¹²
18. A substantial body of respondents across all stakeholder categories, however, disagreed with the proposal for various reasons as set out below.¹³

⁹ **Regulator:** SCM; **MBs:** AICPA, CPAC, JICPA, MICPA, SAICA; **Firms:** Crowe, EY

¹⁰ **MBs:** AICPA, CPAC

¹¹ **Regulator:** SCM; **MB:** CPAC; **Firm:** EY

¹² **MBs:** JICPA, SAICA

Distinguishing between Listed and Non-Listed PIEs

19. Many of the respondents¹⁴ disagreed with the proposal to distinguish between listed and non-listed PIEs on grounds that include the following:
- The proposal suggests in effect that there is less public interest in all non-listed PIEs than in listed PIEs. This is inconsistent with the PIE definition in the Code and would likely be confusing to stakeholders. In particular, it is unreasonable and illogical to conclude that there is more public interest in a very small listed company than in a large non-listed financial institution.
 - Overlaying the two-tier approach with national requirements may lead to illogical outcomes in some cases. For example, in the case of Australia, legislation requires a shorter 5-year time-out period for listed entities. This means that the EQCR on a listed audit may serve 10 years out of a 13-year period (5 years on, 3 years off, and 5 years on) whereas the EQCR on the audit of a non-listed PIE may only serve for 7 years in a 12-year period (7 years on, 5 years off). Such overlay could therefore result in the EQCR on the audit of a listed PIE serving for longer than on the audit of a non-listed PIE.
 - If the Board recognized the practical consequences and intricacies with the partner rotation requirements as they apply to EQCRs, why the Board did not also take the same view for EPs on small, non-listed PIEs and lessen the time-out period to three years.
 - The complexity of the proposed two-tiered approach seems unnecessary, especially considering that the Board recognizes that a fresh look can in fact be achieved in some circumstances by a three year time-out period.
 - There is no strong reason to differentiate between listed and non-listed PIEs, given the nature of the EQCR role. The threats do not vary between the two groups. There is also no evidence or strong rationale to support the 3-year cooling-off period with respect to non-listed PIEs.
 - The proposal adds another layer of complexity to manage rotation periods. Retaining a consistent approach to all PIEs provides clarity, consistency and stability.
 - This approach would potentially set a precedent, opening the door to similar differentiation when considering independence and the provision of non-audit services to audit clients.
 - The proposal might hamper convergence of international and national ethical standards.
20. A respondent¹⁵ was of the view that the differential approach the Board was proposing to try to address the concerns regarding SMPs is unnecessary as ISQC 1 already indicates that SMPs may contract with suitably qualified external persons or other firms for engagement quality control reviews:¹⁶

¹³ **Regulators/Public Authorities:** IRBA, NZAG, UKFRC; **NSS:** APESB; XRB; **MBs:** ACCA, CAANZ, CPAA, FAR, FSR, HKICPA, ICAEW, ICAS, ICAZ, ICPAK, IDW, NBA, WPK; **Firms:** BDO, DTT, GT, KPMG, Nexia, PwC; **Others:** FEE, SMPC

¹⁴ **Regulators/Public Authorities:** IRBA, UKFRC; **NSS:** APESB; XRB; **MBs:** ACCA, CPAA, CPAC, FAR, ICAEW, ICPAK, IDW; **Firms:** DTT, GT, KPMG, PwC, RSM

¹⁵ **Regulator:** UKFRC

¹⁶ 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*, paragraph A50

It may not be practicable, in the case of firms with few partners, for the engagement partner not to be involved in selecting the engagement quality control reviewer. Suitably qualified external persons may be contracted where sole practitioners or small firms identify engagements requiring engagement quality control reviews. Alternatively, some sole practitioners or small firms may wish to use other firms to facilitate engagement quality control reviews. Where the firm contracts suitably qualified external persons, the requirements in paragraphs 39-41 and guidance in paragraphs A47-A48 apply.

21. A respondent in the Public Authority category¹⁷ noted that with some effort it would be able to meet the proposed requirements for the 10 listed PIEs it audits. However, for the further 220 non-listed PIEs it audits, the proposals would place a considerable, if not insurmountable, burden on its limited audit resources.

Evidential Basis for Proposals

22. Some respondents¹⁸ commented that little or no empirical evidence had been presented that increasing the cooling-off periods for EPs and EQCRs will improve audit quality. A few¹⁹ felt that no objective evidence had been provided that the current two year period presents a significant threat to independence and objectivity. One of them²⁰ also commented that consultations with those charged with governance and the preparer community in its jurisdiction had indicated that they also do not feel there is any issue with the current two year cooling-off period for either EPs or EQCRs.

Complexity

23. Many respondents²¹ expressed various specific concerns regarding the perceived complexity of the EQCR proposals, including the following:
- The proposed provisions no longer reflect the application of principles in the Code and have become extraordinarily complex for firms of all sizes to understand and apply.
 - The increased complexity by differentiating cooling-off periods between differing levels of PIEs and KAPs might be too difficult, time-consuming and costly to manage.
 - An overly complex system of internal and external rotation requirements may have unintended consequences with respect to compliance without any contribution to audit quality.
 - It is questionable whether the benefit of a reduced “cooling-off” period for EQCRs on non-listed PIEs would outweigh the increased associated complexity.
 - The complexities in the Code will be magnified when applied in jurisdictions that have similar but different legal rotation requirements as well as definitions of PIEs in place. Specifically in the EU, the PIE definition to which the EU Regulation applies (7 year time-on period and 3

¹⁷ **Public Authority:** NZAG

¹⁸ **NSS:** XRB; **MBs:** CAANZ, CPAC, WPK; **Firms:** Nexia, RSM

¹⁹ **MBs:** CAANZ, ICAEW; **Others:** SMPC

²⁰ **MB:** CAANZ

²¹ **Regulators:** IRBA, UKFRC; **NSS:** XRB; **MBs:** ACCA, FAR, FSR, HKICPA, ICAS, ICPAK, IDW, NBA, WPK; **Firms:** DTT, PwC, RSM; **Others:** FEE, SMPC

year cooling-off) is subject to adaptation at the Member State level. In contrast, the proposals in the ED distinguish between listed and non-listed PIEs.

- An example of complexity that arises is when audit clients change from non-listed to listed PIEs during the tenure of the EQCR.

Potential Impact on SMPs and Market Competition

24. There were significant concerns from many respondents²² about the potential impact of the proposals on SMPs and market competition. Concerns that were articulated included the following:

- Resource limitations could frustrate SMPs' ability to interpret and implement the detailed requirements.²³
- A period of five years is likely excessively restrictive. SMPs may find it impossible to comply with such rotation plans because they have a smaller number of partners upon which to draw.²⁴
- The potential for further concentration in the PIE audit market due to SMPs no longer having the resources to ensure compliance. In particular, it was felt that introducing a five-year cooling-off period could result in a de facto mandatory audit firm rotation if there are insufficient audit partners to manage partner rotation successfully. It was argued that competition and choice tend to drive quality and innovation in audit market, and as such are in the public interest.²⁵
- The extension of the EQCR cooling-off period may create a competitive disadvantage for SMPs that audit PIEs and listed entities. SMPs may therefore be disproportionately affected by the proposals due to the practical challenges of having more limited availability of individuals able to perform the EQCR role.²⁶
- The perceived complexity in the proposals also may disadvantage SMPs and limit their growth with respect to PIE audits.²⁷

25. A few respondents²⁸ noted that SMPs may be required to seek and appoint EQCRs from outside the jurisdiction. In this regard, it was observed that in some jurisdictions there are restrictions as to who can perform this role (for example, to ensure an adequate knowledge of the local market, laws and regulations), and so this may not be an option in practice.

²² **NSS:** APESB, XRB; **MBs:** ACCA, CPAA, CPAC, FAR, ICAEW, ICAZ, ICPAK, IDW, NBA, WPK; **Firms:** DTT, Nexia, PwC; **Others:** FEE, SMPC

²³ **NSS:** XRB; **MBs:** ACCA, CPAC, ICAEW

²⁴ **MB:** IDW; **Others:** FEE

²⁵ **NSS:** APESB, XRB; **MBs:** ACCA, CPAA, CPAC; **Firm:** Nexia; **Others:** SMPC

²⁶ **Others:** SMPC

²⁷ **NSS:** APESB; **MBs:** CPAC, FAR, WPK; **Firm:** Nexia

²⁸ **Regulator:** IRBA; **Firm:** PwC

Proportionality

26. A respondent²⁹ was of the view that the EQCR cooling-off period should be five years for all PIEs.
27. Many respondents,³⁰ however, felt that the proposed increases in the cooling-off period for EQCRs on listed and non-listed PIEs lacked proportionality. Most advocated retaining the current two-year cooling-off period for EQCRs, although there was some support for increasing it to at most three years, with jurisdictions allowed to go further based on national circumstances. Comments included in particular the following:
- The increase in the cooling-off period to five years for EQCRs on listed PIEs is not commensurate with the risks associated with that role. In particular, the EQCR generally does not have the same influence on the audit, and exposure to or relationships with management, as the EP. The EQCR also does not make significant decisions about the audit opinion. Accordingly, serving in an EQCR role gives rise to a lesser familiarity or self-interest threat from long association with the client.
 - Safeguards should be proportional to the threat, not the role: the two do not always go hand in hand.
 - The proposed extension to five years for EQCRs on a listed entity audit would result in an increase of 150%, which is disproportionate. In particular, the proposals do not achieve an appropriate balance between costs and benefits (high implementation and monitoring costs).
 - The increase in objectivity that might be achieved by extending the cooling-off period for the EQCR would not materially benefit audit quality, but will, in combination with rotation of the EP, instead likely adversely impact the effectiveness and efficiency of audits.
 - To the extent that this element of the rules makes application more complex, any marginal benefit in the field will be outweighed by problems in interpreting the rules or with acceptance.
28. A few respondents³¹ were of the view 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 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) already achieve a robust independence framework.
29. A respondent³² representing the Australia and New Zealand region noted that in the US, partner rotation applies only to SEC issuers and has not been extended to PIEs. The respondent also noted that US SEC issuers tend to be substantially larger than the majority of issuers in the Australia/New Zealand capital markets. Accordingly, the respondent argued that comparisons in relation to the manageability and impacts of the rotation process are not appropriate. It also noted that even in relation to US issuers, there are exemptions to rotation requirements for smaller firms

²⁹ **Regulator:** UKFRC

³⁰ **Regulators/Public Authorities:** IRBA, NZAG; **NSS:** APESB, XRB; **MBs:** ACCA, FAR, HKICPA, ICAEW, ICAZ, ICPAK, IDW, NBA, WPK; **Firms:** BDO, DTT, GT, KPMG, Nexia, PwC, RSM; **Others:** FEE, SMPC

³¹ **MBs:** CAANZ, FAR; **Firm:** BDO

³² **MB:** CAANZ

(less than 10 audit partners) with small numbers of clients that are registrants (less than five). The respondent was therefore of the view that the US SEC has acknowledged the potential for partner rotation requirements to adversely impact the smaller end of the market. The respondent also noted that in Canada, there is a regulatory exemption to certain independence requirements (including partner rotation) for listed entities below a certain market capitalization.

30. Another respondent³³ argued that the Board is charged with developing a Code for international application. The respondent therefore argued for an analysis of impact with respect to the EQCR that takes into account not only the views of some jurisdictions that choose, for national reasons, to have different provisions, but also the reasons why a large majority of other jurisdictions choose not to follow the few that have different positions.

Potential Unintended Consequences

31. Several respondents³⁴ highlighted the potential for unintended consequences from the proposals, including the following:
- Managing any change to an extended cooling-off period for EPs will be a significant burden given the implementation challenges. Extending this requirement to also include EQCRs would further compound the challenge and put further strain on experienced resources, which will harm audit quality.
 - The EQCR role is a specialized one, requiring experience and expertise. Compliance with the proposals could result in firms being pressured to put inexperienced people into the role or limit their ability to allocate the best resources to an audit. This would have a detrimental impact on the application of fundamental principle of professional competence and due care, and a consequent threat to audit quality.
 - Partners may be required to move around geographically to meet the requirements. As not all partners would be able or willing to relocate to meet rotation requirements, this may ultimately have a detrimental impact on the attractiveness of the profession, which would not be in the public interest.

Compatibility with EU Regulatory Framework

32. Some respondents³⁵ were concerned that the proposals would be incompatible with the EU regulation. In particular, it was noted that the regulation does not differentiate between PIEs as the Board has proposed to do with listed and non-listed PIEs. It was also noted that legislators in the EU did not appear to see any need for the EQCR to rotate as the new EU Audit Legislation did not change the concept of a KAP that had been introduced in 2006 (and the definition of which does not include the EQCR).
33. In addition, given the three year cooling-off requirement for KAPs in the EU, it was noted that the proposals would imply that in many EU jurisdictions, regardless of the category of the entity, for the EQCR a longer cooling-off period would need to be applied than for the other KAPs (including the

³³ **MB:** IDW

³⁴ **NSS:** XRB; **MBs:** CAANZ, FAR, HKICPA, IDW; **Firm:** PwC; **Others:** SMPC

³⁵ **NSS:** XRB; **MBs:** FAR, FSR, NBA, WPK; **Others:** FEE

partner responsible for the conduct of the audit). It was felt that such outcome would be difficult to explain or even confusing to stakeholders.

Coordination with IAASB

34. Several respondents³⁶ suggested the need for a more strategic discussion with the IAASB regarding role of the EQCR, particularly in the context of its recently released Invitation to Comment, [*Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*](#). In this regard, it was 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.
35. A respondent³⁷ also noted that under ISQC 1, not all PIE audits require an EQCR. However, under the proposals, it appeared that all PIE audits require an EQCR. The respondent felt that this could lead to misunderstanding.

Suggestions for Other Approaches

36. Respondents offered various suggestions for other approaches, including the following:
- Leaving it to regulators or NSS as the appropriate bodies to establish a distinction between listed and non-listed PIEs for rotation purposes.³⁸
 - Avoiding unnecessary complexity, at a minimum, by deciding on one common time-off period for EQCRs on all PIE audits.³⁹
 - Taking a holistic approach based on an analysis of the interaction of the different approaches that exist to mitigate the familiarity threat, as well as the impact on audit quality that an overly complex system of internal and external rotation requirements may have.⁴⁰
 - Considering a more principles-based approach that would require a firm's internal processes to consider whether the familiarity threat with respect to the EQCR has been appropriately addressed. In particular, it was suggested that rotation should be engagement specific and should be risk related rather than driven by the number of years on and off.⁴¹
 - Moving specific rules into standards separate from the Code to maintain the Code principles-based. It was suggested that the adoption of such standards could be then optional for the member bodies of IFAC, depending on whether the particular matter has been dealt with by local regulators or not.⁴²

³⁶ **Regulator:** IRBA; **NSS:** XRB; **MBs:** CAANZ, FAR, FSR, ICAS, IDW, NBA, WPK; **Firm:** BDO; **Others:** FEE

³⁷ **Regulator:** IRBA

³⁸ **Public Authority:** NZAG; **NSS:** APESB; **Firm:** Nexia

³⁹ **Regulators/Public Authorities:** IRBA, NZAG, UKFRC; **NSS:** APESB, XRB; ; **MBs:** ACCA, CPAA, CPAC, FAR, ICAEW, ICPAK, IDW; **Firms:** DTT, GT, KPMG, PwC, RSM

⁴⁰ **MBs:** FSR; **Others:** FEE

⁴¹ **NSS:** XRB

⁴² **MB:** FAR

- Adopting a ‘think small first’ approach, i.e., minimum requirements applicable to all firms, but enhanced safeguards where greater threats are perceived, or where there is a clear public interest rationale.⁴³

TF Proposals

Bifurcation between Listed and Non-listed PIEs

37. The TF acknowledged the various significant concerns expressed by respondents regarding the bifurcation of the EQCR cooling-off proposal between listed and non-listed PIEs. In particular, the TF took note of the potential unintended outcome of a more onerous rotation requirement for EQCRs on audits of non-listed PIEs compared with audits of listed PIEs when the provision is overlaid with national requirements in some jurisdictions. The TF also accepted concerns that the proposals implied that larger non-listed PIEs were of less public interest relevance than small listed entities.
38. More importantly, however, the TF believes on reflection that the differentiation between listed and non-listed PIEs is unnecessary given, as pointed out by one of the respondents, that EQCRs are only appointed where required by ISQC 1, or law or regulation. In particular, ISQC 1 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].⁴⁴ This therefore means that in many cases unlisted entities will likely not have an EQCR anyway. Accordingly, taking a differential approach to the cooling-off requirement between listed and non-listed PIEs becomes somewhat debatable. For this reason as well as in recognition of a number of valid concerns expressed by respondents as outlined above, the TF proposes that there be no differentiation between listed and non-listed PIEs.
39. The removal of this differentiation also would remove a layer of complexity and alleviate concerns about the related impacts of complexity on implementation. Further, coupled with the revised proposals below, it would go a long way towards addressing the concerns of the SMP community.
40. To make clear that EQCRs are appointed pursuant to the requirements of ISQC 1 or law or regulation, the TF proposes that this linkage be explicitly recognized in the time-on and cooling off provisions (see paragraphs 290.153(b) and 290.155).

Duration of the Cooling-off Period for EQCRs

41. The TF also took note of 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 TF proposes that this cooling-off period be set at three instead of five years for the following reasons:
- A few G20 jurisdictions already require a five-year cooling-off period for EQCRs on listed audits, in particular, Canada, Japan, the UK and the US. These jurisdictions also tend to have

⁴³ **NSS:** XRB; **MB:** ACCA

⁴⁴ ISQC 1, paragraph 35

the largest numbers of listed entities. These jurisdictions therefore already have addressed their specific needs.

- Within the G20 itself, the TF noted that there is really no consensus on what the approach to the cooling-off period for EQCRs should be. In particular, 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 rotation requirements. Further, within the EU, there is no cooling-off requirement for EQCRs as these are not recognized within the KAP definition established by the EU framework.
- The TF believes that 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 TF believes that three years would be a more gradual step-up from the current two years than five years.
- Three years would achieve a better balance, recognizing that the familiarity threat with respect to the EQCR will not be as significant as that with respect to the EP given the differences in the roles.

(See paragraph 290.155.)

42. Despite the fact that there is no consensus approach to the EQCR cooling-off requirement within the G20, the TF notes that the cooling-off regime under the Code will complement the audit legislation within the EU by addressing an area that the legislation does not currently cover.
43. The TF did not agree with the suggestion from some respondents to retain the current two-year cooling-off requirement for EQCRs for PIE audits. The TF believes that three years would better recognize the special and particularly important role the EQCR plays with respect to the final 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.
44. The TF also did not agree with 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 Board’s remit. The TF nevertheless agreed that the Board should continue to liaise with the IAASB in relation to the latter’s review of ISQC 1 for potential future revision.
45. With respect to the point 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 TF 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.

Matter for Consideration

2. IESBA members are asked whether they agree with the TF's proposals and responses above. In particular, do IESBA members agree:
- (a) Not to differentiate between listed and non-listed PIEs; and
 - (b) To set the cooling-off period for EQCRs, where they are appointed pursuant to the requirements of ISQC 1 or law or regulation, to three consecutive years?

B. JURISDICTIONAL SAFEGUARDS

Allowance for Jurisdictional Safeguards

46. The EM asked respondents whether they supported the proposal to allow for a reduction in the cooling-off period for EPs (on audits of PIEs) and EQCRs (on audits of listed PIEs) to three years under the conditions specified in paragraph 290.150D of the ED.
47. A substantial body of respondents across all stakeholder categories expressed support for the proposal.⁴⁵ There was a view that it would be appropriate to recognize alternative robust safeguards at the jurisdictional level so as not to make the requirements in the Code unduly complex and burdensome.⁴⁶
48. A respondent⁴⁷ suggested that the Board recognize that provided alternative safeguards at the jurisdictional level are sufficiently robust to eliminate or reduce the threat to an acceptable level, these safeguards may fully replace certain specific provisions of the Code. The respondent was of the view that only when such alternatives cannot eliminate or reduce the threat to an acceptable level would (other) provisions of the Code be needed to supplement (weaker) alternatives in place in a particular jurisdiction. Another respondent⁴⁸ believed that where jurisdictional safeguards exist, they should simply take precedence over the requirements of the Code.
49. A few respondents⁴⁹ urged the Board to avoid setting another layer of requirements, especially in the EU where the current cooling-off period for KAPs is set to three years.
50. With respect to the EU, a respondent⁵⁰ was of the view that as the EU legislation does not require the EQCR to rotate, it could be argued that paragraph 290.150D would not apply to such an individual. The respondent was therefore of the view that the proposal could lead to the odd result that this individual would be subject to shorter time-on and longer cooling-off periods than the EP.
51. A regulatory respondent⁵¹ disagreed with the proposal on the grounds that the specified conditions do not justify reducing the cooling-off period for KAPs:

⁴⁵ **Regulators:** IRBA, SCM; **NSS:** APESB, XRB; **MBs:** ACCA, AICPA, CPAA, CPAC, FAR, FSR, ICAEW, ICAS, ICAZ, ICPAK, IDW, JICPA, MICPA, NBA, SAICA, WPK; **Firms:** BDO, Crowe, DTT, EY, GT, KPMG, Nexia, PwC, RSM; **Others:** FEE, SMPC

⁴⁶ **MB:** AICPA

⁴⁷ **MB:** IDW

⁴⁸ **Firm:** Nexia

⁴⁹ **MBs:** FSR, NBA; **Others:** FEE

⁵⁰ **MB:** WPK

⁵¹ **Regulator:** UKFRC

- 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 paragraph 290.150D, 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.

Preconditions for Allowance for Jurisdictional Safeguards

52. The EM asked respondents whether they agreed with the conditions specified in subparagraphs 290.150D(a) and (b) and whether other conditions should be specified:

290.150D. ... In such circumstances, the cooling-off periods of five consecutive years specified in paragraphs 290.150A and 290.150B may be reduced to three consecutive years if an independent standard setter, regulator or legislative body has:

- (a) Implemented an independent regulatory inspection regime; and
- (b) Established requirements for either:
 - (i) A time-on period shorter than seven years during which an individual is permitted to be the engagement partner or the individual responsible for the engagement quality control review; or
 - (ii) Mandatory firm rotation or mandatory re-tendering of the audit appointment at least every ten years.

53. A substantial body of respondents across all stakeholder categories agreed with the proposed preconditions.⁵² Recognizing the level of specificity in this provision, a respondent⁵³ nevertheless was of the view that this approach would inevitably fail to deal with all jurisdictional differences. A few⁵⁴ agreed not to address joint audits.

54. Several respondents,⁵⁵ 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.⁵⁶

⁵² **Regulators:** IRBA, SCM; **NSS:** APESB; **MBs:** ACCA, AICPA, CPAA, CPAC, FAR, ICAS, ICAZ, ICPAK, JICPA, MICPA, SAICA; **Firms:** BDO, Crowe, DTT, EY, GT, KPMG, PwC, RSM; **Others:** SMPC

⁵³ **Firm:** PwC

⁵⁴ **MB:** ACCA; **Firm:** RSM

⁵⁵ **Regulator:** UKFRC; **NSS:** XRB; **MBs:** CAANZ, ICAEW, FSR, IDW, NBA, WPK; **Others:** FEE

- 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.⁵⁷
 - 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. In particular, it was noted that it was unclear why an independent regulatory inspection regime would be needed to take advantage of the alternative safeguards of a shorter on-period.⁵⁸
 - 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.⁵⁹
 - The level of specificity removes the focus on whether the familiarity threats have been mitigated and places unnecessary focus on a number of years. The Board should allow for the application of professional judgement as to whether a shorter time-on period justifies a shorter cooling-off period.⁶⁰
55. Among respondents who disagreed with the proposed approach, one⁶¹ also noted that the conditions specified would result in overly restrictive cooling-off requirements for a firm that elects to rotate an individual after, say, 6 years as EP (who would still need to cool off for 5 years) vs. a firm that is required by a regulator to rotate the EP after less than 7 years (who could then cool off for 3 years). The respondent also suggested that the Board clarify the meaning of the terms “regulator or legislative body” and “independent inspection regime.”

Joint Audits

56. Some respondents⁶² disagreed with the Board's proposal not to address joint audits in the jurisdictional safeguards provision, 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 has proposed to take. In addition, the respondents felt that omitting joint audits would jeopardize consistency with the EU Regulation.
57. A respondent⁶³ also noted that in South Africa, joint audits are required for the audits of some banks and some public sector audits performed on behalf of the Auditor-General of South Africa. The

⁵⁶ **MB:** CAANZ

⁵⁷ **Firm:** DTT

⁵⁸ **MBs:** ICAEW, IDW

⁵⁹ **MB:** IDW

⁶⁰ **NSS:** XRB

⁶¹ **NSS:** XRB

⁶² **MBs:** FSR, NBA, WPK; **Others:** FEE

⁶³ **Regulator:** IRBA

respondent suggested that a general statement would clarify that additional planning may be required for joint audit engagements.

TF Proposals

58. In the light of the substantial support from respondents across all stakeholder categories, the TF proposes that the Board retain the ED proposal. The TF believes that it continues to be appropriate not to completely disregard alternative but robust approaches that jurisdictions may have taken to address threats created by long association. The TF believes that in considering how robustly such threats are addressed, a holistic view should be taken having regard to the requirements of the Code and of the jurisdiction taken together and not in isolation. Thus, the provision is about a reduction in—but not an elimination of—the cooling-off period required by the Code taking other “jurisdictional safeguards” into account. The TF believes that the provision as a whole would remain robust.
59. Given the TF’s proposal above concerning the EQCR cooling-off period, the jurisdictional safeguards provision would no longer apply to EQCRs. Accordingly, there would be one fewer layer of complexity that NSS, firms and other stakeholders would have to deal with in interpreting and applying the provision.
60. The TF nevertheless proposes the following refinements to the provision (see paragraph 290.162):

- Removing the threshold within the precondition regarding mandatory firm rotation or mandatory retendering, and instead leaving it to the relevant jurisdiction to specify the predetermined period for such firm rotation or retendering that it believes would best address threats created by long association.

The TF noted that the Board’s intention in hard-wiring “at least 10 years” into the Code with respect to mandatory firm rotation or mandatory retendering was to establish a “floor” below which the cooling-off period may not be reduced. However, on further reflection in the light of respondents’ comments, the TF believes that doing so, while inevitably appearing arbitrary, would link the provision too closely to the specific requirement of the EU legislation. As a result, the Code would exclude different periods that other jurisdictions might have determined would just as well meet their national circumstances if they have also mandated firm rotation or retendering. The TF therefore accepted on balance that a more principles-based approach would be appropriate with respect to this specific precondition.

- Recognizing a requirement for joint audits for a predetermined period as a further jurisdictional “safeguard.”

On further reflection in the light of concerns expressed by some respondents on this particular issue, the TF does not believe that it would be appropriate to exclude joint audits as an appropriate alternative jurisdictional “safeguard” given that it already has legislative backing in some jurisdictions, including principally in the EU and to some extent in South Africa. However, as with the precondition concerning mandatory firm rotation or mandatory retendering, the TF proposes that the specification for the minimum number of years for the joint audit precondition be left to the relevant jurisdiction to determine as it deems appropriate for its national circumstances.

- Replacing the concept of an independent standard setter with the concept of an organization authorized by a legislative body or regulator, which the TF believes would minimize the risk of confusion regarding the status or authority of the former.
 - Rewording the term “independent regulatory inspection regime” to more clearly indicate that this is intended to be an inspection regime independent of the accountancy profession.
61. While the provision as a whole remains relatively prescriptive, the TF believes that the proposed changes give fuller regard to the alternative approaches major jurisdictions have taken to address long association threats.
62. With respect to the question from a few respondents as to the rationale for including the concept of an “independent regulatory inspection regime” as a precondition in the ED proposal, the TF noted that the existence of such a regime is intended to indicate that there are external checks and balances within the auditor oversight system within the particular jurisdiction. Accordingly, this contributes some degree of confidence that the jurisdiction would also deal with threats created by long association in a robust way.
63. The TF acknowledges that the provision as revised may still lead to an unbalanced outcome where a jurisdiction requires a shorter time-on period for EPs on the audit of a listed entity, such as in Australia where the cooling-off period for those EPs would be three years but five years for EPs on audits of non-listed PIEs. The Task Force notes that there is a limit to how far the Code can go in trying to address all possible circumstances. The TF considers that, short of adding another layer of complication, this is one outcome the Board may need to accept, having determined the 5-year cooling-off requirement for EPs on all PIE audits.
64. The TF did not accept the suggestion that the Board recognize that provided alternative safeguards at the jurisdictional level are sufficiently robust to eliminate or reduce the threat to an acceptable level, these safeguards may fully replace certain specific provisions of the Code. The TF noted that the Board has avoided taking an approach that would seek to measure equivalency, given the likely impossibility of agreeing a basis for doing so.
65. The TF also did not accept the suggestion that where jurisdictional safeguards exist, they should simply take precedence over the requirements of the Code. As noted above, the TF believes that where jurisdictions have taken specific approaches to address long association threats, these should be considered with, and not to the exclusion of, the Code. Indeed, the Code provides necessary robustness to dealing with such threats and in a way that complements the jurisdictional approaches provided they meet the conditions in paragraph 290.162.

Matter for Consideration

3. IESBA members are asked whether they agree with the TF’s proposals and responses above.

C. SERVICE IN A COMBINATION OF ROLES DURING SEVEN-YEAR TIME-ON PERIOD

66. The EM asked respondents whether they agreed with the proposed principle for determining when the longer cooling-off period would apply of “for either (a) four or more years or (b) at least two out of the last three years” when a partner has served in a combination of roles (including that of the EP or EQCR) during the seven-year time-on period (paragraphs 290.150A and 290.150B of the ED).

67. Many respondents⁶⁴ 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.⁶⁵
 - The proposed approach is so complicated that it will increase the administrative burdens on SMPs. Consideration should be given to exploring a simpler approach.⁶⁶
 - The proposals appear too rules-based and will provide an opportunity for gaming.⁶⁷
68. An NSS also noted that feedback from practitioners in its jurisdiction indicated that many were confused about the application of the proposed provisions.⁶⁸
69. Many other respondents, however, did not support the proposal simply on grounds of complexity⁶⁹ and the perception that it was rules-based.⁷⁰ Some of those respondents offered suggestions for simplification, including the following:
- Rewriting the “4 years in last 7 or 2 years in last 3” rule more as an alternative, simpler principle: “the majority of the period.”⁷¹
 - Going for either four years or more, or at least two out of the last three years, but not both criteria.⁷²
 - Retaining as a principle “four or more years” but not also “at least two out of the last three years” as it is not credible that serving two of the last three years as the EP, EQCR, or any combination thereof increases the familiarity and self-interest threats.⁷³
 - Amending the requirement to “or (b) the last three years” of the seven-year period, as this would be a more proportionate response to the threat and be more straightforward to understand and apply.⁷⁴
70. 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.⁷⁵

⁶⁴ **Regulators/Public Authorities** IRBA, NZAG, SCM; **NSS:** APESB, XRB; **MBs:** AICPA, CAANZ, CPAC, FAR, ICAZ, ICPAK, JICPA, MICPA, SAICA; **Firms:** BDO, Crowe, EY, KPMG; **Others:** SMPC

⁶⁵ **MB:** CPAC

⁶⁶ **MBs:** FAR, JICPA; **Others:** SMPC

⁶⁷ **NSS:** XRB

⁶⁸ **NSS:** XRB

⁶⁹ **MBs:** ACCA, ICAEW, ICAS, IDW, WPK; **Firm:** RSM

⁷⁰ **MBs:** FSR, NBA

⁷¹ **MB:** ICAEW

⁷² **Firm:** DTT

⁷³ **MBs:** HKICPA; **Firms:** GT, PwC, RSM

⁷⁴ **Firm:** PwC

⁷⁵ **Regulator:** UKFRC

TF Proposals

71. The TF noted that some degree of complexity is unavoidable given:
- (a) The fact that the proposed 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.
72. However, on further reflection in the light of the concerns expressed by respondents, the TF came to the view 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 TF did not believe that it would be in the public interest if NSS or firms do not fully understand or otherwise misunderstand how the provisions should be applied, leading to potential inadvertent breaches of the Code.
73. Accordingly, the TF agreed on revised proposals 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. One could argue that this makes the resulting provision marginally more principles-based. However, the net effect is to remove one further layer of complexity, which would go some way to alleviating the concerns of many.
 - (b) Reformulating the provision as follows:
 - (i) Address the norm where an individual has acted in a single KAP role for seven years (see paragraphs 290.154 – 290.156).
 - (ii) Then deal with 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 290.157).
 - If the individual has acted as the EQCR for four or more years: cool off for three consecutive years, consistent with the TF’s revised proposal regarding the EQCR cooling-off period (see paragraph 290.158).
 - 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 3 or more years: cool off for five years.
 - Otherwise, cool off for three years (see paragraph 290.159).
- 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 290.160).

- (c) To facilitate understanding of how these different elements of the provision are intended to operate, 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 2). The table also contains a cross reference for each combination to the relevant paragraph in the revised proposals.
74. Subject to the Board's views regarding this revised proposal, the TF proposes that the content of Appendix 2 be included in the Basis for Conclusions and in the Staff Q&As. The TF believes that this table will go a long way towards enabling NSS, firms and others to interpret and apply the revised proposal properly.
75. The TF has considered various other approaches to address the matter of service in a combination of roles and believes that the above proposal, 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.
76. The TF 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 TF 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 maternity leave, resulting in a disproportionate outcome.

Matter for Consideration

4. IESBA members are asked whether they agree with the TF's proposals and responses above.

IV. Other Comments and Suggestions from Respondents

77. Respondents also made a number of other comments or suggestions for the Board's further or future consideration. These include the following:

#	Respondents' Comments	TF Proposals/Responses
1.	In some countries (for example Canada and, if current proposals by the Financial Reporting Council are carried through, the UK) there are some listed entities that are not deemed to be PIEs. This suggests a wider issue regarding the IESBA's definition of a PIE. ⁷⁶	How the Code defines a PIE is outside the scope of this project. Nevertheless, the Board might wish to consider whether to revisit this definition as part of the development of its next strategy and work plan.
2.	The Board should take the opportunity to treat companies quoted on secondary markets as "other PIEs" and limit the application of the "listed" definition to "full listings" (for example, markets regulated by European legislation such as the full list of the London Stock Exchange). Making this distinction would fairly acknowledge the different	

⁷⁶ **Regulator:** IRBA; **MB:** ICAEW

#	Respondents' Comments	TF Proposals/Responses
	nature and circumstances of companies quoted on secondary markets. ⁷⁷	
3.	A rotation requirement in the Code would not be a safeguard as defined in the December 2015 Safeguards Phase 1 Exposure Draft as it is a "safeguard created by the profession or legislation." ⁷⁸	The TF will be liaising with the Safeguards TF during Q3 2016 regarding a review by the latter of the proposed revised Long Association provisions to identify any conforming amendments that might be needed for purposes of alignment with the revised concepts and principles developed under Safeguards Phase 1.
4.	The issue of non-partner engagement team members "growing up" on an engagement is a real one that the Code does not address. ⁷⁹	The TF noted that the Board had previously considered this issue and determined that the principles-based approach contained in the enhanced general provisions would address this concern (see paragraphs 40 and 42 in the EM).
5.	There may be a need to specify what would be the appropriate cooling-off period for an individual other than a KAP on a PIE audit. The firm should consider the requirements applicable to PIEs (i.e. two years) as a guideline. ⁸⁰	The TF noted that the Board had previously considered this issue and determined not to prescribe a specific period for the rationale set out in paragraphs 61-63 in the EM. Further, "hard-wired" guidelines in the Code such as the one suggested by the respondent will tend to be taken as de facto rules in practice, precluding the exercise of appropriate professional judgment that the Board intends in this particular case.
6.	Consideration should be given to a post-implementation review in due course. ⁸¹	Subject to priorities, the TF agreed that this may be a matter for future Board consideration. However, as is the case for any post-implementation review, there should be no presumption that a change will be made in future.

⁷⁷ **Firm:** Crowe

⁷⁸ **Regulator:** IRBA

⁷⁹ **Regulator:** IRBA

⁸⁰ **Regulator:** IRBA

⁸¹ **NSS:** APESB

Matter for Consideration

5. IESBA members are asked whether they agree with the TF's responses above and for any views they may have on the matters raised.

V. Proposed IESBA Staff Q&A Publication

78. Some respondents⁸² indicated that they found the proposed Q&A publication included in the EM particularly useful for SMPs and other firms. In this regard, there was a request for the document to include SMP-specific situations. However, some⁸³ also observed that the proposed Q&As well illustrated the complexity they saw in the proposals and the due diligence that they felt would be required in applying them.

TF Proposal

79. The TF proposes that the Board continue to support the development of the Staff Q&A publication. This would be consistent with the Board's strategic commitment to commission the development of appropriate implementation tools and resources where most needed, resources permitting. The publication will help understanding of the provisions given the inherent complexity of the circumstances that need to be addressed in practice.
80. With input from the TF, staff will update the draft Q&A publication based on the revised provisions post-exposure, and present a revised draft for the Board's feedback at the September 2016 meeting.

Matter for Consideration

6. IESBA members are asked whether they agree with the TF's proposal above.

VI. Effective Date

81. A respondent⁸⁴ commented that it would be important to allow adequate lead time for firms to plan for implementation. Another respondent⁸⁵ was of the view that the effective date should be set before finalization of the restructured Code in order for the strengthened provisions to be effective sooner rather than later. A respondent also suggested that the Board consider whether it would be practical to introduce the revisions as part of other significant changes to the Code resulting from other current projects, particularly to alleviate the burden on SMPs.

TF Proposal

82. 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 noted that subject to final Board approval at the September 2016 meeting under the extant structure and drafting conventions, the "close-off" document could be submitted for PIOB approval

⁸² **Regulator:** IRBA; **MB:** CPAC; **Firm:** DTT; **Others:** SMPC

⁸³ **Regulator:** UKFRC; **MBs:** ACCA, CPAC, ICAEW

⁸⁴ **MB:** CAANZ

⁸⁵ **Regulator:** IRBA

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.

83. The close-off document will need to be restructured using the proposed new structure and drafting conventions. 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 Long Association pronouncement would be expected by early Q2 2018.
84. The TF considered two options for the effective date of the revised 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).
85. 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 still have about 12 months to implement the revised provisions once the close-off document is made public available in early January 2017.
86. However, the issuance of the second Exposure Draft has shortened the lead time for implementation. Accordingly, NSS, IFAC member bodies (including those with NSS responsibilities) and firms may find that the original effective date would be too tight, particularly if they would prefer to await issuance of the restructured text before they undertake translation, updates to systems and policies, and other implementation activities. Deferral of the effective date by one year may therefore be viewed as a more reasonable approach. The TF has not concluded on this matter and is seeking the Board's view.
87. Regardless of the effective date, to facilitate transition to the revised provisions, staff will provide Q&As to illustrate the application of the provisions in various situations.

Matter for Consideration

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| <p>7. IESBA members are asked which of option (a) or (b) above they would support.</p> |
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Appendix 1

List of Respondents to the Re-ED

(As of May 23, 2016)

#	Abbreviation	Organization
REGULATORS & PUBLIC AUTHORITIES		
1.	IRBA	Independent Regulatory Board for Auditors (South Africa)
2.	NZAG	New Zealand Auditor General
3.	SCM	Securities Commission Malaysia
4.	UKFRC	Financial Reporting Council (UK)
NATIONAL STANDARD SETTERS		
5.	APESB	Accounting Professional & Ethical Standards Board (Australia)
6.	XRB	New Zealand Auditing and Assurance Standards Board, External Reporting Board
IFAC MEMBER BODIES		
7.	ACCA	Association of Chartered Certified Accountants (UK)
8.	AICPA	American Institute of Certified Public Accountants
9.	CAANZ	Chartered Accountants Australia and New Zealand
10.	CPAA	CPA Australia
11.	CPAC	Chartered Professional Accountants Canada
12.	FAR	FAR (Sweden)
13.	FSR	Foreningen af Statsautoriserede Revisorer (Denmark)
14.	HKICPA	Hong Kong Institute of Certified Public Accountants
15.	ICAEW	The Institute of Chartered Accountants in England and Wales
16.	ICAS	The Institute of Chartered Accountants of Scotland
17.	ICAZ	The Institute of Chartered Accountants of Zimbabwe

#	Abbreviation	Organization
18.	ICPAK	Institute of Certified Public Accountants of Kenya
19.	IDW	Institut der Wirtschaftsprüfer (Germany)
20.	JICPA	The Japanese Institute of Certified Public Accountants
21.	MICPA	Malaysian Institute of Certified Public Accountants
22.	NBA	Nederlandse Beroepsorganisatie van Accountants
23.	SAICA	The South African Institute of Chartered Accountants
24.	WPK	Wirtschaftsprüferkammer (Germany)
FIRMS		
25.	BDO	BDO International Ltd
26.	Crowe	Crowe Horwath
27.	DTT	Deloitte Touche Tohmatsu
28.	EY	Ernst & Young Global Ltd
29.	GT	Grant Thornton International Ltd
30.	KPMG	KPMG IFRG Ltd
31.	Nexia	Nexia International
32.	PwC	PricewaterhouseCoopers International Ltd
33.	RSM	RSM International
OTHER PROFESSIONAL ORGANIZATIONS		
34.	FEE	Fédération des Experts Comptables Européens
35.	SMPC	IFAC Small and Medium Practices Committee ⁸⁶

⁸⁶ Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Italy, Kenya, Malawi, Malta, Nigeria, South Africa, Spain, Sweden, Turkey, Tunisia, Uganda, United Kingdom, United States.

Appendix 2

Application of Provisions Regarding Service in a Combination of Roles

EP	EQCR	Other KAP	Cooling-off (Yrs)	Sec. 290 Para Ref.
7	–	–	5	154
6	1	–	5	157
6	–	1	5	157
5	2	–	5	157
5	1	1	5	157
5	–	2	5	157
4	3	–	5	157
4	2	1	5	157
4	1	2	5	157
4	–	3	5	157
3	4	–	5	159(a)
3	3	1	5	159(a)
3	2	2	5	159(a)
3	1	3	5	159(a)
3	–	4	2	160
2	5	–	3	159(b)
2	4	1	3	159(b)
2	3	2	3	159(b)
2	2	3	3	159(b)
2	1	4	2	160

Long Association – Summary of Significant ED Comments and Task Force Proposals
IESBA Meeting (June 2016)

EP	EQCR	Other KAP	Cooling-off (Yrs)	Sec. 290 Para Ref.
2	–	5	2	160
1	6	–	3	158
1	5	1	3	158
1	4	2	3	158
1	3	3	3	159(b)
1	2	4	2	160
1	1	5	2	160
1	–	6	2	160
–	7	-	3	155
–	6	1	3	158
–	5	2	3	158
–	4	3	3	158
–	3	4	2	160
–	2	5	2	160
–	1	6	2	160
–	–	7	2	156