

# Supplement A to Agenda Item 6

**Note:** This supplement has been prepared for information only. A comprehensive summary of the significant comments received on the February 2016 exposure draft (ED), [Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client](#), as of May 23, 2016 and the Task Force's related analysis of significant issues and proposals are included in Agenda Item 6-A. All comment letters on the ED can be accessed [here](#).

**Please consider the environment before printing this supplement.**

## February 2016 Long Association ED—Compilation of General Comments

#	Source	Comment
1.	ACCA <sup>1</sup>	<p>We support the objectives of this IESBA project and agree that the enhancements to the Code of Ethics for Professional Accountants (The Code) that are not subject to re-exposure will provide a more robust framework for dealing with the long association of personnel with an audit client. However, we note that the decisions made by the IESBA in respect of the matters not subject to re-exposure have largely been based on the 'broad support' of respondents.<sup>2</sup> We urge the IESBA to carefully consider the qualitative nature of responses received, and more clearly articulate its decision-making process when setting out its basis for conclusions to the current exposure draft.</p> <p>We note that audit quality and the importance of having adequate resources in audit firms continue to be emphasised in the exposure draft. We also welcome the strengthened general provisions which apply to all individuals on the audit team, not just senior personnel. These general provisions must be regarded as valuable guidance in support of the application of the conceptual framework approach.</p> <p>The provisions on long association are rules-based and we believe these sit better within a separate set of independence standards rather than a high level Code of ethical principles. In our response to the IESBA consultation on <i>Improving the Structure of the Code of Ethics for Professional Accountants – Phase 1</i>, we advocate the complete separation of the independence standards (C1 and C2) from the Code. We believe that the Code should primarily focus on behaviours, and prescriptive standards should be clearly set apart.</p> <p>We welcome the IESBA's decision to require a cooling-off period of five years for an engagement partner (EP) on the audit of a public interest entity (PIE).<sup>3</sup> We also welcome the recognition of 'jurisdictional safeguards' which allows a relaxation in the cooling-off period for EPs where alternative national or regional requirements exist.</p>

<sup>1</sup> For a list of abbreviations, see the Appendix to Agenda Item 6-A.

<sup>2</sup> Exposure draft paragraphs 20, 22, 26, 46, 60 and 70

<sup>3</sup> The definition of a PIE includes entities defined as such by regulation or legislation, as well as listed entities.

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		<p>In our original response to the IESBA consultation on the <i>Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client</i> we advocated convergence in the default cooling-off periods for EPs, engagement quality control reviewers (EQCRs) and other key audit partners (KAPs) as this would aid clarity. While we remain supportive of this approach, we note that the IESBA has determined to make no change to the two-year cooling-off period for a KAP and is reconsidering the cooling-off period for an EQCR.</p> <p>We believe the proposal to implement different lengths of cooling-off period depending on the category of KAP involved in an audit introduces a layer of requirements which adds further complexity to the existing provisions for long association. We remain concerned over the ability of small start-ups, unsophisticated companies and the smaller accounting firms to engage with these proposed changes. The unintended negative consequences of such provisions are likely to outweigh the benefits, which are founded more on the public perspective than the need to maintain objectivity in practice.</p> <p>The length of the cooling-off periods for an EP, an EQCR and a KAP must strike a balance between robust independence standards and the practical consequences of implementation such as audit quality and cost. Due regard must be paid to the principle of proportionality. Aligning the cooling-off periods for each category of KAP involved in an audit would also minimise the need to introduce complex requirements relating to situations where an individual has served in a combination of roles during the seven-year time-on period.</p> <p>We question the validity of the resources argument when considering whether the cooling-off period should be two, three or five years. While we acknowledge that resources and the cost to companies and SMPs are important, we believe (as does the IESBA) that the public interest is paramount. We also note that complexity was cited as a reason for not including joint audits in the proposals, and we support this.</p> <p>If the cooling-off period for other KAPs is to remain at two years, we would advocate a cooling-off period for an EQCR of two years for the sake of clarity and consistency.<sup>4</sup> In such circumstances, a shorter cooling-off period of two years for an EQCR would not impact audit quality, and would be consistent with the cooling-off period for a KAP. We also believe that the IESBA should seek to avoid the additional complexity that would exist with different cooling-off periods for an EQCR with respect to listed PIEs and other PIEs. If a two-year cooling-off period was considered unacceptable in respect of an EQCR, we would advocate a compromise that balances the cooling-off period for all EQCRs and other KAPs at three years.</p> <p>We question the status of, and need to issue, the proposed IESBA Staff Questions and Answers (Q&amp;A) publication with the final pronouncement in order to facilitate implementation of the provisions for long association. The need for a Q&amp;A would indicate a lack of clarity in the proposals, and it could undermine the Code itself.</p> <p>The overriding consideration in finalising the provisions relating to long association must be achieving the right balance between safeguarding objectivity (for which the visibility of independence is a proxy) and maintaining audit quality (which might be enhanced by continuity within the</p>

<sup>4</sup> We note that the case for retailing a two-year cooling-off period for other KAPs has not been made out in paragraphs 21 to 23 of the exposure draft.

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		<p>audit team). Objectivity is a state of mind or an attitude to be adopted; independence cannot be absolute, and so has most relevance in terms of appearances.</p> <p>Overall, it is difficult to see how a more complex set of provisions on long association will add anything to safeguarding objectivity and improving audit quality. Excessive and complex provisions present a barrier to understanding, implementation and enforcement, and can result in unintended breaches. As a guiding rule, we would advocate simplicity, consistency and clarity, so that the provisions for dealing with the long association of personnel on an audit or assurance client are easily understood by all audit firms.</p>
2.	ACCA	<p><b>SMPs</b></p> <p>We believe that the IESBA should consider the operational aspects for SMPs – particularly those that audit PIEs – and the companies they audit. Resource limitations within such firms could frustrate their ability to interpret the detailed requirements, as well as implement them using personnel of the required knowledge and experience.</p> <p>There are also costs associated with tracking compliance with the independence requirements. The independence records relating to specific partners, audit staff and PIEs would result in higher costs and complicated planning procedures, and these problems would be exacerbated by variances in the rotation requirements of different jurisdictions and the independence standards.</p> <p>In addition to our concerns that complicated provisions for long association will give rise to inadvertent breaches, we are also concerned about further concentration in the PIE audit market due to SMPs no longer having the resources to ensure compliance. This arises solely from complexity, rather than potentially long cooling-off periods.</p> <p>While this exposure draft recognises the difficulties faced by SMPs, especially with regard to ‘limited resources’, we remain concerned that the smaller accounting firms, small start-ups and unsophisticated companies may have a difficult time engaging with, and dealing with, these changes. As a guiding rule, we would advocate a ‘think small first’ approach, so that minimum requirements in respect of long association are applicable to all firms, but enhanced safeguards are put in place where greater threats are perceived, or where there is a clear public interest rationale.</p>
3.	ACCA	<p><b>Developing Nations</b></p> <p>Member bodies in different parts of the world operate within a range of cultural environments, and clarity and conciseness are important in this respect. If complicated provisions are to remain within the revised Code, the IESBA will be required to provide detailed guidance to aid consistency of understanding and interpretation across all the IFAC member organisations.</p>
4.	ACCA	<p><b>Translations</b></p> <p>In our opinion the proposals should be clear, consistent and logical. While we are not aware of any potential translation issues, the IESBA should remain alert to this in proposing further changes to the existing wording.</p>

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5.	AICPA	<p>We support the IESBA's objective of setting high-quality ethics standards for professional accountants around the world and facilitating the convergence of international and national ethics standards.</p> <p>Overall, we support the proposals contained in the Exposure Draft</p>
6.	APESB	<p>APESB commends the IESBA's efforts to enhance auditor independence by addressing familiarity and self-interest threats created by the long association of personnel with an audit client. We appreciate that the IESBA has incorporated some of our proposals to the IESBA's 2014 Exposure Draft <i>Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client</i> (the 2014 Exposure Draft).</p> <p>We congratulate IESBA on the proposal to consider jurisdictional safeguards in the determination of rotation requirements for Engagement Partners (EPs) and Engagement Quality Control Reviewers (EQCRs).</p> <p>APESB is concerned with the IESBA's proposal to distinguish between listed Public Interest Entities (PIEs) and non-listed PIEs in the Exposure Draft. We are of the view that the long association requirements should be the same for <u>all PIEs</u> irrespective of whether they are listed or non-listed. Accordingly, we believe that there should be consistency in respect of the cooling-off period for EQCRs on all PIEs. This issue is discussed in more detail below.</p> <p>In developing APESB's response to the Exposure Draft, we have taken into consideration feedback received from Australian stakeholders. The feedback was gathered through submissions to APESB and two roundtable events conducted by APESB in Melbourne and Sydney in March 2016.</p> <p>APESB has also responded to the IESBA's general and specific questions in Appendix A.</p> <p><b>Long Association requirements in respect of PIEs</b></p> <p>APESB is of the view that all PIEs should be treated equally. When the concept of PIEs was introduced into the IESBA Code in July 2009, the stated intention was to classify entities that shared similar characteristics with listed entities, because there is <u>public interest</u> in applying the same auditor independence requirements to these non-listed entities.</p> <p>We note that this is reflected in the definition of a PIE in the existing IESBA Code, i.e. "<i>An entity ... for which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities.</i>" The typical examples of these types of entities are unlisted financial institutions, insurance companies or public utilities.</p> <p>APESB is of the view that any proposals to distinguish listed and non-listed PIEs undermine the very concept of a PIE as defined. We believe that the IESBA may unintentionally be setting a precedent or expectation that a similar approach may be applied to the other PIE provisions in the Code.</p> <p>If there is a compelling reason for such a distinction in a jurisdiction, we are of the view that the regulator or National Standards Setter of that</p>

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		<p>jurisdiction would be the appropriate body to establish such a distinction.</p> <p>We recognise that the availability of suitably qualified partners to act in an EP or EQCR role in certain jurisdictions may have led to this proposal. However, invariably there are specific reasons why an entity is a PIE and must adhere to stricter auditor independence requirements compared to non-PIEs.</p> <p><b>Recommendations</b></p> <p>APESB's key recommendations for the IESBA's consideration are:</p> <ul style="list-style-type: none"> <li>to remove the proposed <u>distinction</u> between listed PIEs and non-listed PIEs in the proposed paragraphs 290.150A and 290.150B; and</li> <li>the <u>same</u> rotation requirements should be applied to EPs and EQCRs on <u>all</u> PIEs.</li> </ul> <p>APESB strongly supports IESBA's proposals in respect of jurisdictional safeguards and the consideration of combination time served by an EP and EQCR before the maximum cooling-off period is enacted.</p> <p><b>Concluding comments</b></p> <p>APESB acknowledges the IESBA's significant efforts in conducting surveys and stakeholder outreach in respect of this Exposure Draft.</p> <p>APESB's key concern is in respect of the proposal to distinguish between listed and non-listed PIEs. We believe that if an entity is classified as a PIE due to the existence of significant public interest and wide ranging stakeholders then it should not matter whether it is listed or unlisted.</p>
7.	APESB	<p><b>Impact of the proposals subject to re-exposure for SMPs</b></p> <p>APESB believes that the IESBA's proposals in the Exposure Draft in respect of the introduction of the two-tier approach that differentiates between a listed PIE from a non-listed PIE may disadvantage SMPs due to its complexity.</p> <p><b>Disproportionate impact on non-listed PIEs</b></p> <p>When the current proposals are overlayed with Australian jurisdiction safeguards, it disproportionately impacts non-listed PIE engagements as EPs and EQCRs are required to serve a shorter period on these engagements compared to listed PIE engagements. Consequently, the more stringent requirements for non-listed PIEs may force some SMPs out of the PIE audit market as SMPs may not have the necessary structures and resources in place to monitor and implement these rotation requirements.</p>
8.	BDO	<p>We are concerned about the impact the proposed cooling off period for EQCRs would have, which we believe could adversely impact audit quality. In that regard, we continue to support retaining the cooling off period for EQCRs at 2 years for the reasons included in our response to question one below.</p> <p>We are supportive of the other proposed changes to the Code.</p>

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9.	CAANZ	<p>We commend the IESBA's efforts to promote and enhance objectivity and professional scepticism. We agree it is essential that audit and assurance teams and firms are independent, both of mind and in appearance, of their clients and we support a common international framework for making that assessment. However, as stated in our response to the previous ED on this subject, while we support review of the framework and continuing work to enhance the framework if required due to changing circumstances, we do not support the specific proposals in this ED.</p> <p>We believe that there has still not been any evidence presented that indicates that increasing the cooling off periods for Engagement Partners (EPs) or Engagement Quality Control Reviewers (EQCRs) will improve audit quality. In contrast we have heard repeated concerns from practitioners and preparers that increasing the cooling off period will increase costs, increase complexity of administration of the rotation process, and potentially drive smaller audit firms out of the market. We do not believe that implementing requirements that will potentially contract the audit market and lead to these consequences can have a positive impact on audit quality.</p> <p><b>Inadvertent impacts on the audit market in some jurisdictions</b></p> <p>Our members have repeatedly expressed their views that in Australia and New Zealand, the extension of cooling off periods to five years for EPs and EQCRs will negatively impact audit quality for the following reasons:</p> <ul style="list-style-type: none"> <li>Below the larger firms, introducing a five year cooling-off period may result in a de facto mandatory audit firm rotation if there are an insufficient number of audit partners to manage partner rotation successfully. Given that other proposals in relation to mandatory rotation have largely been aimed at ensuring that the audit market does not become an oligopoly, this proposal appears to be counterintuitive with the objective of having a competitive market.</li> <li>One country that is held up as an example that five year partner rotation is manageable is the US. In the US partner rotation applies only to SEC issuers and has not been extended to PIEs. US SEC issuers, due to the size of the market, are substantially larger than the majority of issuers in our capital markets. Therefore comparisons in relation to the manageability and impacts of the rotation process are not appropriate. In the US audit firms are registered to be able to audit issuers rather than individual partners. We note that in the US, even in relation to US issuers, there are exemptions to rotation requirements for smaller firms (less than 10 audit partners) with small numbers of clients who are registrants (less than five), so the regulator has acknowledged the potential for these requirements to adversely impact the smaller end of the market. We also understand that in Canada the independence code includes an exemption to certain independence requirements for listed entities (including partner rotation) below a certain market capitalization as it was felt requiring those entities to comply with the full requirements of the code would adversely impact those entities and smaller audit firms.</li> <li>Even in firms which have sufficient numbers of audit partners to manage rotation, it is likely that increasing the cooling-off period will result in an increase in the number of engagements where the engagement partner is located in a different geographical location to the client and the engagement team. A high level of direct audit partner involvement with the client and the engagement team has been acknowledged to be a key driver of audit quality. Similarly, EQCR need to be able to interact with the engagement team and engagement</li> </ul>

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		<p>partner as appropriate. Where partners are geographically separated it becomes more difficult for partners to sustain this level of involvement, and therefore audit quality may be adversely affected.</p> <ul style="list-style-type: none"> <li>• In Australia and New Zealand, we are already concerned about a shortage of registered auditors in regional areas. If smaller firms cannot manage rotation, it is likely that they will leave the market. Contraction of the audit market will not enhance audit quality. Firms may have even smaller pools of partners with the appropriate seniority and experience to act as EQCRs which only increases the potential impact of these issues.</li> <li>• Clients may decide that moving to a firm where they only have to change audit partners rather than change firms altogether is preferable. This could result in partners having to spend additional time in business development activities and securing additional clients. This is time that then cannot be spent on audit quality activities. Clients would also incur additional costs from the time and resources required to conduct a tender process, and then again when a new auditor is selected.</li> </ul> <p>These outcomes could negatively impact audit quality, reducing the progress that the profession has worked hard for over the last decade, which is not in the public interest. Given that there is no evidence that a longer cooling-off period will improve independence, we believe the costs of this proposal clearly outweigh any potential benefits.</p> <p><b>Practical difficulties</b></p> <p>The coordination of EP and EQCR rotation is already time consuming and costly for firms. Increasing the administrative complexity by introducing an excessive cooling-off period will only increase these costs, even when the audit firm does not change, without increasing audit quality. While our members do not support the increase in cooling off periods for EPs and EQCRs they expressed a view that for practical implementation purposes, a system where the cooling off period is the same for EPs and EQCRs and for listed entities and PIEs is simpler to manage which would minimise the increased costs of changes.</p> <p><b>Other approaches</b></p> <p>We reiterate our belief, as expressed in our submission on the previous ED, that other approaches which strengthen auditor independence without negatively impacting audit quality, such as a comply or explain model, should be further explored. We do not believe there is an issue in the Australian or New Zealand market with the current requirements in place. The current requirements combined with audit firms' own systems of quality control already achieve the objective of maintaining a robust independence framework. In addition, independent internal and external quality reviews, use of an auditor's expert for specialist areas, natural turnover of audit team and client personnel, provide adequate safeguards.</p> <p>Should the proposals proceed, our members emphasised the importance of an adequate lead time to enable them to plan for implementation of partner rotation. We also believe that if the proposals are implemented, the board should consider whether other safeguards currently implemented in the code which are largely procedural and appearance driven such as bans on partners holding mortgages with banks they</p>

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		audit, can be removed.
10.	CPAA	<p>In line with our comments to IESBA's Exposure Draft: <i>Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client</i>, CPA Australia is unable to support the key proposals of the current ED to increase the cooling-off period for the engagement quality control reviewer (EQCR) from 2 to 5 years for listed Public Interest Entities (PIES) and from 2 to 3 years for non-listed PIES. Our position is based on the absence of clear evidence indicating that these changes would more effectively address potential threats and positively impact audit quality.</p> <p>In addition, we do not support the proposed change in the requirements between listed and non-listed PIES. We think this additional differentiation is not conducive to improving public trust and the rationale for it is rather fragile.</p> <p>Overall, we find the revised proposals more complex, onerous and not based on any evidence that they will result in improvements to the effectiveness of safeguards, thus we do not support them. The lack of evidence and selective emphasis on specific views is also creating a risk, as the potential consequences may not be adequately ascertained or considered. There is no evidence that the assumptions of the proposals will lead to improvements have been tested or the possibility has been considered that the proposals may actually have a negative impact on audit quality and public trust, and what these could be in some circumstances.</p>
11.	CPAC	<p>In general, we support the recommendations made while also noting there is a continuing tension created by such precise and specific rules embedded within a principles based code. Whether trying to address reality or a perception, we acknowledge that it is a very difficult balance to achieve the rules that may be expected by some stakeholders compared to the simpler standards desired by others within a more principles based code. We encourage IESBA to continue its efforts towards ensuring an appropriate balance is achieved between principles and a highly rules based approach to meet expectations.</p>
12.	CPAC	<p>Overall, we anticipate that the proposed changes will be met with some level of concern by Small and Medium Practices (SMPs). Mandatory rotation and longer cooling off periods are cited as being too complex, restrictive or difficult to manage for SMPs. We understand that resulting concerns include remaining competitive in the assurance market, attracting and retaining technical talent and effectively transitioning client engagements and relationships without significant burden or loss. Generally, as typically resourced constrained organizations, we understand that SMPs desire clearer and simpler rules to understand and apply. The <i>Proposed IESBA Staff Questions &amp; Answers</i> should be a very helpful tool for SMPs and other firms but we note that it also illustrates very well the complexity of the proposed requirements and the due diligence that will be required in considering and applying the rules in practice.</p>
13.	Crowe	<p>We agree with the proposals contained in the Exposure Draft in most respects. We comment that IESBA should take the opportunity to treat companies quoted on secondary markets as "other PIEs". Making this distinction would fairly acknowledge that the different nature and circumstances of companies quoted on secondary markets.</p>



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14.	DTT	<p>We recognize the continuing efforts of the Board to find the appropriate balance between addressing the familiarity and self-interest threats to independence created by long association, and the need to maintain relevant knowledge and experience to support audit quality. We fully support the Board's determination that the overriding objective in the public interest is to ensure an effective "fresh look" on the audit engagement by both the engagement partner and the engagement quality control reviewer (EQCR), the question is how this is best achieved. The provisions in this ED, however, add several additional, and potentially incompatible, layers to an increasingly complex patchwork of audit partner rotation requirements around the world. We are a strong proponent of adoption of a global set of robust independence standards by regulatory authorities, member bodies of the International Federation of Accountants and others because we believe this will best serve the public interest. Changing the current cooling-off period for EQCRs on the audits of listed public interest entities (PIEs) from two to five years is too extreme of a measure and will only further exacerbate the global diversity in practice.</p> <p>In addition, the complexity of the proposed two-tiered approach to the EQCR cooling-off provisions for the audits of PIEs 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. Together with the safeguards of a five year cooling-off period for the engagement partner and provisions that ensure individuals are away from the client and the audit during the cooling-off period, it is unclear whether there is any additional benefit gained by proposing a five year cooling-off period for the EQCR on the audits of listed PIEs.</p> <p>It is paramount that auditors be able to understand, without excessive difficulty, what they should and shouldn't do. We are concerned that the overly complex set of prescriptive and overlapping audit partner rotation rules in the current proposals will lead to non-adoption by local regulators, or inadvertent non-compliance, both of which would lead to the erosion of public trust in the capital markets. Rules that are too complicated impose obligations that are disproportionate to the intended benefit, and we urge the Board to place more effort in avoiding unnecessary complexity, at a minimum, by deciding on one common time-off period for EQCRs on the audits of all PIEs.</p> <p>Finally, we found the "Proposed IESBA Staff Questions and Answers" to be particularly useful. We urge the Board to include this guidance within the Code as part of the restructuring efforts that are underway.</p>
15.	EY	<p>We appreciate the Board's thoughtful consideration of our and others' previous comments on this topic and the opportunity to provide input on the remaining areas where there continues to be a lack of consensus amongst stakeholders.</p> <p>We agree that there may be perception issues with respect to the current long association provisions of the Code and support the Board's efforts to respond to these concerns and to continuously challenge the robustness of the Code.</p>
16.	FAR	<p>As a general comment, FAR would first like to declare that FAR does not find the proposed changes to the Code called for and is opposed to their introduction to the Code. FAR is firmly convinced that if the IESBA wishes to maintain the legitimacy and the authority of the Code of Ethics as a the leading international ethics standard for public accountants, it must remain principles-based and refrain from detailed, complicated regulation that unavoidably will conflict with national law and regulation. From a practitioner's point of view, there should not be</p>

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		<p>more than one framework regulating the same set of circumstances, i.e. either IESBA rules or other regional or national legislation (eg. the EU Audit Reform). The benefit from the rules, i.e. securing the quality of the audit through ensuring the independence of the auditor, will not increase with two layers of rotation rules (see also the reasoning in paragraph 290.150D of the ED).</p> <p>For those jurisdictions where no rules on rotation exist and the regulators and legislators depend on the IESBA to provide even specific rules, FAR recognizes that the IESBA sees a need for more detailed rules on rotation than those already provided by the Code. Such specific rules could, in FAR's opinion, be set up in standards separated from the Code, in order to maintain the Code principles-based and as free as possible from the risk of conflicting local regulations. The adoption of such standards could be optional for IFAC's members, depending on whether the particular matter has been dealt with by local regulators or not. This would avoid putting the practitioners in the extremely difficult situation of having to manoeuvre between different detailed rules on the same subject. Regulators, legislators and policy makers could thus choose if they would like to adopt the IESBA standard on a specific subject or make their own detailed rules on the subject.</p> <p>FAR is, furthermore, of the opinion that the Code would benefit from a general clearance of overly detailed rules.</p>
17.	FAR	<p>The sets of rules, especially considering the extra layer with the EU Audit Reform rules, are getting more and more complex, which will limit the possibility for growth for SMPs with respect to the audit of PIEs and similar companies.</p> <p>One particular concern regarding the impact for SMPs would be that because of a more limited number of partners at an SMP, the proposed changes might entail firm rotation rather than rotation of the engagement partner.</p>
18.	FEE	<p>In our response to IESBA Exposure Draft: <i>Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client</i> dated 10 November 2014, we presented the following general comments:</p> <ul style="list-style-type: none"> <li>• IESBA should take the audit reform in the European Union (EU) into account by taking a holistic approach based on an analysis of the interaction of the different approaches that exist to mitigate the familiarity threat.</li> <li>• The Federation would expect this analysis to address the impact on audit quality that an overly complex system of internal and external rotation requirements may have.</li> <li>• Some flexibility in the Code is necessary to take into account the different systems in place to achieve the appropriate mix of safeguards. A high level international Code of Ethics should have the objective of striving for the application of high level ethical principles at an international level.</li> <li>• The implementation of a different length of cooling-off period depending on the category of the Key Audit Partners (KAPs) involved is difficult to monitor in practice.</li> <li>• IESBA should seek to assess the potential impact on SMPs (small- and medium-sized practices) that perform audits of Public Interest Entities (PIEs), and not disadvantage this group.</li> </ul> <p>These comments were later reinforced in our letter to IESBA's Chairman, Mr Stavros Thomadakis, dated 21 May 2015, especially the fact that</p>

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		<p>a holistic approach should be taken in order not to undermine provisions that are already in place at jurisdictional level to address long association in the context of the EU.</p> <p>The Federation's responses to the questions set out in the ED can be found in the appendix to this letter.</p>
19.	FEE	<p><b>General comments</b></p> <p>A high level international Code of Ethics should have the objective of striving for the application of high level ethical principles at an international level, as opposed to a Code representing another layer of requirements that may not always be appropriate or compatible with national or regional requirements. Generally speaking, the Federation thinks that by adding these restrictive requirements, the Code becomes rules-based and very complex, leading to problems of application at an international level. The Code should emphasise much more the underlying principle: the professional accountant will need to be able to show that there is no threat resulting from long association.</p> <p>Although IESBA has taken the audit reform in the EU into account to an extent, the Federation believes that a holistic approach should be taken based on an analysis of the interaction of the different approaches that exist to mitigate the familiarity threat. For example, the concept of joint audit, which has not been taken into account by the Board. In addition, an overly complex system of internal and external rotation requirements may have unintended consequences with respect to compliance without any contribution to audit quality.</p> <p>We believe that a more strategic discussion needs to take place on the role of the Engagement Quality Control Review (EQCR). The IAASB recently released its <i>Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits</i> (the ITC); we think that the potential familiarity threat posed with the role of the EQCR would be better addressed within the remit of the revision of the International Standard on Quality Control 1 (ISQC 1). The consideration of a cooling-off period for the EQCR should be carefully re-assessed, taking into account the differences between the role of engagement partners and EQCR across jurisdictions and only after the discussion on ISQC 1.</p> <p>The implementation of a different length of cooling-off period depending on the category of KAPs involved is difficult to monitor in practice, adding more complexity to an "already complex area". Such complex requirements could lead to inadvertent violations from professionals – which would not be in the public interest. Furthermore, the two subsets of PIEs (listed versus non-listed) are not aligned with the applicable European framework. Differentiation between PIEs may solely be acceptable with respect to the size of the entity, but not on whether they are listed or not. We also question the rationale underlying the decision of having different independence requirements for auditors of listed and non-listed PIEs.</p> <p>In addition, we draw your attention to the fact that the proposed amendment would in many EU jurisdictions imply, regardless of the category of the entity, shorter cooling-off periods for KAPs in comparison with the EQCR.</p>
20.	FEE	<p><b>SMPs</b></p> <p>In our view, the same rules should apply to SMPs. The public cannot accept different levels of independence that would depend on the size of</p>

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#	Source	Comment
		<p>a practice.</p> <p>Having said that, IESBA should seek to assess the potential impact on SMPs that perform audits of small listed PIEs, and ensure not to disadvantage this group. For instance, with regard to the proposed cooling-off period, five years for listed PIEs is likely to be excessively restrictive, and SMPs may even find it impossible to comply with such rotation plans because they have a smaller number of partners to draw upon. The latter is also relevant for the proposed cooling-off period for EQCR.</p>
21.	FSR	<p>In our response to IESBA Exposure Draft, Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client dated 10 November 2014, we presented the following general comments:</p> <p>“Our main concern is that we find it ill advised to introduce special and stricter rotation requirements for the cooling-off of engagement partners”.</p> <p>Although IESBA has somehow taken the audit reform in the EU into account, we believe that a holistic approach should be taken based on an analysis of the inter-action 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.</p> <p>We prefer a strategic discussion to take place on the role of the EQCR. The IAASB has released its Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits (the ITC) and we prefer the potential familiarity threat posed with the role of the EQCR to be dealt with as a revision of ISQC 1. The consideration of a cooling-off period for the EQCR should be carefully assessed, taking into account the differences between the role of engagement partners and EQCR across jurisdictions and only after the discussion on ISQC 1.</p> <p>Further, the implementation of a different length of cooling-off period depending on the category of the Key Audit Partners (KAPs) involved is difficult to monitor in practice, adding more complexity to an already complex area. Such complex requirements could lead to inadvertent violations from professionals.</p> <p>Furthermore, the two subsets of PIEs, i.e. listed versus non-listed, are not aligned with the applicable European framework. Differentiation between PIEs may solely be acceptable with respect to the size of the entity, but not on whether they are listed or not.</p>
22.	GT	<p>We support the Board’s proposals and believe they will enable IFAC in its mission to serve the public interest and allow the Board to achieve its objective of strengthening the IESBA Code (the Code) by continuing to set high-quality standards that will enhance the profession.</p>
23.	GT	<p><b>General Comments</b></p> <p>Grant Thornton supports IFAC’s mission to serve the public interest and the Board’s objective to strengthen the Code by putting forth a framework that addresses threats associated with the long association of personnel with an audit/assurance client. We believe professional accountants aspire to have a code of ethics that promotes greater consistency which will lead to increased public confidence in the</p>

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		<p>accounting profession.</p> <p>However we do not believe the Board should bifurcate the partner rotation requirements between listed PIEs and non-listed PIEs. This approach undermines the application of the Code to all PIEs and can have an adverse impact and hamper convergence of international and national ethical standards, which is not in the public interest.</p> <p>We believe the current definition of PIE in the extant Code is appropriate and the Board should not make a distinction between listed and non-listed PIEs.</p>
24.	HKICPA	<p>We acknowledge that the engagement quality control reviewer ("EQCR") plays an important role in an audit engagement. While we agree that extending the cooling-off period for the EQCR for audit of public interest entities could provide an effective "fresh look" on the audit engagement, we are also concerned that the proposals would pose further pressure on firm resources and reduce the availability of individuals suitably qualified to act in this role. This would lead to potential adverse consequences for audit quality, which might not be in the public interest.</p> <p>We are mindful that the benefits of such a "fresh look" must be appropriately balanced with the costs of having stringent rotation requirements. In this regard, we believe that it is crucial to analyse how the different rotation requirements would interact and how the entire package of safeguards would impact audit quality. We, therefore, recommend that the IESBA reconsiders the proposals with caution and ensure that the rotation requirements are both robust and balanced.</p>
25.	ICAEW	<p><b>Major Points</b></p> <p>We are pleased to have the opportunity to comment on at least some of the aspects of IESBA's latest proposals to amend its Code of Ethics (the Code) in respect of long association. However, given the evident concerns expressed by many respondents to the original consultation, many of which seem not to have been addressed properly, we are surprised that this is only a partial re-exposure.</p> <p>The Code is meant to be principles-based, with all the advantages that brings. Over time, some of the auditor independence requirements on public interest entity (PIE) audits have become more black and white, risking unintended consequences and easier circumvention. Partner rotation on PIE audits was one of those areas but at least the rules were relatively simple. Extending these requirements inevitably increases the unintended consequences and in the Boards' efforts to mitigate some of the side effects, complexity has been heaped upon complexity. Any ostensibly principles based code must have gone wrong if 18 FAQs are needed to explain 14 paragraphs in the Code.</p>
26.	ICAEW	<p><b>SMPs</b></p> <p>The extension of the ECQR off-period, albeit with a number of complex mitigations, is particularly likely to have a significant impact on smaller firms with PIE clients.</p> <p>While the unchanged prohibition on partners during the off-period providing NAS where this could involve 'significant or frequent interaction with senior management or those charged with governance' is not being consulted on, we note that most respondents opposed this. The</p>

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		Boards' rationale for their decision is that objectors' reasons varied. This seems somewhat dismissive and is likely to have a more significant impact on smaller firms with PIE clients, than others.
27.	ICAS	<p>From a UK perspective we are generally content with IESBA's proposals other than as noted below.</p> <p>We would highlight that, whilst not opposing the proposals in relation to the Engagement Quality Control Reviewer (EQCR), we believe that the role and related implications thereof of the EQCR would be better considered in a holistic manner within the remit of the revision of the International Standard on Quality Control 1 (ISQC 1) at least before IESBA makes a final pronouncement in this regard.</p> <p>We also question whether the benefit of a reduced "cooling-off" period for EQCRs in respect of the audits of non-listed PIEs outweighs the increased associated complexity.</p>
28.	ICPAK	<p>We believe that the proposal in the exposure draft reflects a position where all non-listed PIEs are in effect deemed to be of less public interest than listed PIEs—this is inconsistent with the definition of a PIE and is likely to be confusing for stakeholders. For instance, in our jurisdiction, there exist large commercial banks and insurance entities which are not listed but have greater public interest than many small listed entities, and therefore regulators demand more accountability from them.</p> <p>We are also opposed to the proposed 5 year cooling off period for an EQCR who is not normally directly involved in the audit judgements and interaction with the client and will prove to be a significant challenge for smaller and medium sized firms to implement. We suggest a 3 year cooling off period applied consistently for all PIEs (whether listed or not) for the EQCR.</p>
29.	IDW	<p>As we have previously stated, ethical behavior, driven by globally applicable ethical standards of a high quality, is essential to the reputation of the entire accountancy profession. We recognize that it is common for regional (e.g., EU) or national laws and professional codes to establish certain requirements governing specific aspects of ethical behavior for certain groups of professional accountants within individual jurisdictions, but also agree there is a need for IESBA to strive for the application of ethical principles at an international level to provide a common basis and to facilitate harmonization.</p> <p>We note IESBA's decisions explained in the Basis for Conclusions and Explanatory Memorandum accompanying the ED and accordingly do not comment again on those issues upon which an IESBA decision has been reached, except where relevant to the changed and new proposals within the ED.</p> <p>The proposals foresee various different time periods in a variety of different situations, which makes this section rules-based, overly engineered and complex as well as extremely difficult to read. In particular we suggest the first bullet point in paragraph 290.150A is essentially unintelligible to readers without an understanding of the situation the IESBA is seeking to address (break in time-on period). We appreciate that restructuring of this section is yet to be effected, and trust that sufficient clarity can be introduced so as to alleviate readers' difficulties in understanding how to apply the specific parts of these provisions relevant to their own circumstances.</p> <p><b>Alternative Safeguards</b></p>

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		<p>In our letter dated 12 November 2014 we had suggested that flexibility be provided in the IESBA Code to take into account the needs of different systems to achieve the appropriate mix of safeguards. We are pleased to note that the ED now proposes to address the fact that the EU has established alternative safeguards addressing long association.</p> <p>However, rather than reflecting only these specific safeguards in paragraph 290.150D, we believe IESBA ought to recognize as a point of principle that alternative safeguards could fully replace certain specific provisions of the Code, provided they are sufficiently robust so as to eliminate or reduce the threat to an acceptable level. Only when this is not the case would additional measures (i.e., detailed provisions of the Code) have to replace or supplement the alternative jurisdictional measures. It seems counterintuitive to require additional watered down requirements of the Code to supplement alternatives that are sufficient in their own right.</p> <p>We comment on this aspect of the proposals more fully in responding to IESBA's questions in the appendix to this letter.</p> <p><b>Impact Analysis</b></p> <p>Besides noting increased complexity in its Analysis of the Overall Impact of Proposals Subject Re-exposure (Section V. of the Explanatory Memorandum), the IESBA specifically recognizes that extending the cooling-off period for EQCRs for audits of listed entities (from 2 to 5 years) and for audits of PIEs other than listed entities (from 2 to 3 years) may create practical challenges for firms, particularly smaller firms that have fewer partners able to serve in an EQCR role. Trying to assess how these proposed changes fit in with the already complex provisions in the EU whereby certain listed entities do not fall under the PIE definition (e.g., AIM) may also lead to nonsensical treatment for different entities and amongst firms and their networks and will constitute an administrative horror.</p> <p>As in the 2014 ED, once again IESBA is not proposing to address the perceived problems faced by SMPs.</p> <p>In responding to the specific question regarding the impact analysis in relation to the 2014 ED, the IDW commented on the lack of a proper analysis of the impact as follows:</p> <p style="padding-left: 40px;">We do not believe that views provide a sufficient basis for an impact analysis. Indeed the text is a very disappointing read, as it points out significant problems (factual and practical) and does not justify "ignoring" these other than with the argument of perceived independence.</p> <p style="padding-left: 40px;">The IESBA should seek firm numbers in order to assess, in particular, the potential impact on SMPs who perform audits of PIEs, and take steps not to disadvantage this group; in addition, in many cases the costs may exceed the benefits for larger audit firms auditing PIEs, given that there may be other safeguards that could be used beyond internal rotation and cooling-off ...."</p> <p>In our view, the IESBA ought to weigh the benefits to be attained by its current proposals against any potential adverse impact on threats to another fundamental principle (in the case of SMPs, professional competence and due care, if applying the Code forces less suitable individuals to assume the role of EQCR, or denies the firm access to the best internal consultation on technical issues). This also supports our argument that as a matter of principle, where alternative jurisdictional safeguards exist, these ought to replace rather than temper safeguards</p>

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		<p>set forth in the Code.</p> <p><b>Particular Complexities in the EU</b></p> <p>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 on period and 3 year cooling-off) is subject to adaptation at Member State level. In contrast, the IESBA proposals distinguish between listed and non-listed PIEs.</p> <p>In our view, this is an entirely arbitrary differentiation. A large non-listed bank or insurance company may be of far greater significance in terms of the public interest than e.g., a small listed regionally active manufacturer at the bottom of the SDAX. It certainly does not readily make sense for the internal rotation requirements applicable to the latter to be more stringent than for the former.</p>
30.	IDW	<p><b>SMPs</b></p> <p>We refer to our general comments as well as the responses to individual questions in which we have detailed our concerns in this regard.</p> <p>All firms will be challenged to a larger or lesser extent by the need to maintain more extensive partner rotation plans, and SMPs in particular may find it impossible to comply with such rotation plans because they have a smaller number of partners upon which to draw.</p>
31.	IRBA	<p>In preparing this comment letter, the IRBA, through its CFAE, hosted a seminar for users and practitioners to consider the exposure draft and has drawn on feedback from the seminar in drafting these comments.</p> <p><b>Opening Comments</b></p> <p>The IRBA supports the initiatives of the IESBA to strengthen the independence requirements in the Code as this will ensure that the Code is in line with international developments.</p> <p>While this exposure draft on the Code has been drafted in the context of professional accountants, our responses are provided in the context of registered auditors who perform audits and reviews as well as provide other assurance services.</p> <p>As a regulator, we are concerned about the effective implementation and enforceability of the Code. However, we still support a principle-based code. These proposed amendments to long association suggest a rule-based approach. We believe that ultimately a Code with strong principles and salient rules would be the correct approach for the IESBA.</p> <p>The re-exposed amendments may create complexity by introducing different cooling-off periods for differing levels of public interest entities (PIEs) and key audit partners (KAPs). This could lead to unnecessary complexity and might be too difficult, time-consuming and costly to manage.</p> <p>The IESBA may have to consider including a general statement regarding joint audit engagements. 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. Such a statement would clarify that additional planning may be required for joint audit engagements.</p>



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		<p>We recommend that the effective date on the final amendments to this exposure draft be set before the finalisation of the restructured Code. This will allow the valuable proposed amendments to be effective sooner rather than later.</p> <p>We note that there are certain overlaps between the Code and the <i>International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements (ISQC 1)</i>. We suggest that all ethics issues be dealt with primarily in the IESBA Code and, if needed, reiterated in the IAASB ISA.</p> <p>This exposure draft implies that the rotation required by the IESBA is a safeguard. However, we note that in the IESBA Safeguards exposure draft, safeguards are defined as:</p> <p style="padding-left: 40px;">“120.7 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively eliminate threats to compliance with the fundamental principles or reduce them to an acceptable level.”</p> <p>A rotation requirement in the Code would not be a safeguard as it is a “safeguard created by the profession or legislation”, which has been specifically excluded from the revised definition of a safeguard highlighted above.</p> <p>We welcome the clarity provided in the Frequently Asked Questions (FAQs) section of the Code. This includes questions that are often asked in South Africa. However, the additional complexity will lead to more questions that will need clarification and which may not be addressed in the FAQs, e.g. transitional provisions if an audit client is a PIE (unlisted) and then lists.</p> <p>We appreciate the efforts of the IESBA to accommodate all views in finalising the amendments to the exposure draft. We support the majority of these changes, but would like to record our concerns regarding the following:</p> <p><i>a) Allowance for Limited Consultation on Technical Issues after Two Years</i></p> <p style="padding-left: 40px;">The importance of the cooling-off period is to distance the person from the financial information. Additionally, there is a need for a cooling-off before being reinstated in the position of a key audit partner, as lack thereof may result in a self-review threat.</p> <p><i>b) Long Association of Audit Team Members other than KAPs</i></p> <p style="padding-left: 40px;">This statement may be useful and we do not think that it may have created confusion. The issue of non-partner engagement team members “growing up” on an engagement is a real one that the IESBA Code does not address.</p> <p><i>c) The Appropriate Cooling-Off Period for Rotation of an Individual Other than a KAP</i></p> <p style="padding-left: 40px;">There may be a need for a statement to be made on what would be the appropriate cooling-off period for an individual other than a KAP of a PIE. The firm should consider the requirements applicable to the public interest entities’ cooling-off period (i.e. two years) as a guideline.</p>
32.	IRBA	<p><b>SMPs</b></p> <p>The biggest barrier faced by SMPs in complying fully with the Code is in understanding its requirements.</p>

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		<p>We have received responses from SMPs expressing concerns that the proposed amendments will add a strain on the limited resources available to them. In particular, they are concerned about:</p> <ul style="list-style-type: none"> <li>• Difficulty to understand;</li> <li>• Cost implications;</li> <li>• Complex schedules; and</li> <li>• Additional local requirements.</li> </ul> <p><b>Regulators</b></p> <p>Without maintenance of appropriate documentation and rotation schedules, it will be difficult for an inspector (of a regulator) to ascertain during inspections if the proposed rotation requirements have been implemented. These schedules will have to be assessed and updated at least annually.</p> <p><b>Developing Nations</b></p> <p>In environments where the ISAs and the Code have been adopted recently, the need for clarity is self-evident. The complex calculation and the different levels of requirements in this exposure draft will make it difficult for practitioners, standard-setters and regulators to apply and enforce the Code accordingly.</p>
33.	JICPA	<p><b>SMPs</b></p> <p>We consider that this revision has a great impact on SMPs in particular. Please refer to the above-mentioned I. 1. and 4 for specific comments.</p> <p><b>Translation</b></p> <p>English is not the official language in Japan, thus, it is inevitable to translate the Code from English to Japanese in an understandable manner. For this reason, we pay close attention to the wording used in the Code in respect of whether it is translatable and comprehensible when translated. We therefore request the IESBA to avoid lengthy sentences and to use concise and easily understandable wording.</p>
34.	NBA	<p>This Exposure Draft has our special attention because the European legislation<sup>5</sup> regarding partner (and firm) rotation which will take effect on 17 June 2016.</p> <p>As a member of the Federation of European Accountants (FEE) we align with the comments FEE provided you. We would like to make two comments in addition.</p>

<sup>5</sup> Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

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		<p>1. This Exposure Draft introduces another layer of requirements. We believe that by adding these requirements, the Code becomes very complex, potentially leading to problems of application at an (inter)national level and to a result that may not always be appropriate. The Code should emphasise much more the underlying principle: the Professional Accountant has to be alert to threats resulting from long association at all times, so also <i>within</i> the prescribed period (i.e. prior to reaching the 'maximum' length prescribed) and <i>after</i> the 'minimum' cooling-off period prescribed (threats and safeguards). This would also make clear that the periods prescribed are, by definition, subjective and arbitrary.</p> <p>2. In addition to the FEE comment that "[.....] the proposed amendment would in many EU jurisdictions imply [.....] shorter cooling-off periods for KAPs in comparison with the EQCR" we would like to mention an additional similar effect resulting from the Dutch regulation. This effect results from the difference made in our regulation between statutory audits, non-statutory audits and review engagements of financial information. When we apply the proposals from the exposure draft, the result is a difference in cooling-off period for the Engagement Partner and the individual responsible for the engagement quality control review in statutory audits (3 years) and non-statutory audits/reviews (5 years). As it will be difficult to explain this to our members, it is expected to be even more difficult or even confusing for other stakeholders. We advocate a more general application of cooling off period and less diversification between roles and types of section 290-engagements.</p>
35.	Nexia	<p>We support the objective of exploring ways to improve audit quality. However, in our opinion, extending the cooling-off period is not the right solution and the proposal lacks clear evidence to support that assertion. Instead, we believe that IESBA should consider other means that would more directly improve audit quality such as through improving auditor competency, consultation requirements and education.</p>
36.	NZAG	<p>We note the IESBA is not seeking further comment on the matters on which it has already formed a view, and that have been exposed previously. However, we have concerns about the decisions the IESBA has made that, in the New Zealand context, do not result in a proportionate response to the concerns about the (overly) long association of personnel with an audit entity. We would observe that the application of the proposed requirements in New Zealand (see the table in Appendix 2 [included below]) tend to have a disproportionate impact on non-listed public interest entities (PIEs). This is counter intuitive, as it is generally accepted that the independence threat arising from long association is greater for listed PIEs.</p> <p>We would note that the principle of "proportionate application" was carefully considered by the International Auditing and Assurance Standards Board when the International Standards on Auditing were introduced. The result of this consideration was the Staff Questions and Answers document dated August 2009 called "Applying ISAs Proportionately with the Size and Complexity of an Entity".</p> <p>In our opinion, the IESBA should adopt a similar approach in responding to the independence threat arising from the long association of personnel with an audit entity.</p> <p>The problem facing the IESBA is the different approaches various jurisdictions have taken in defining non-listed PIEs. However, the IESBA is</p>

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		<p>able to determine the appropriate rotation requirements for listed PIEs because the characteristics of listed PIEs are similar across all jurisdictions.</p> <p>Because local jurisdictions define non-listed PIEs differently, it is not possible for the IESBA to determine a “proportionate” response that reflects local conditions. The IESBA acknowledges this situation in paragraph 78 of the Explanatory Memorandum where it states:</p> <p><i>“The IESBA did not believe that trying to deal with “equivalence” between the PIE rotation requirements in the Code and different jurisdictional requirements to address the threats created by long association would be possible.”</i></p> <p>In our opinion, the appropriate standard setting process for non-listed PIEs, is to require local standards setters (who are familiar with the local requirements) to develop a proportionate response that will be based on the requirements determined by the IESBA for listed PIEs. Consideration also needs to be given to the practicality of the requirements in the local jurisdiction. A proportionate response should improve audit quality and increase confidence in the work of the auditor. An impractical requirement will have the reverse effect.</p> <p>To further illustrate our concern we audit about 10 listed PIEs. With some effort we will be able to meet the requirements proposed by the IESBA for these entities. However, we audit a further 220 non-listed PIEs and the proposed IESBA requirements will place a considerable, if not insurmountable, burden on our limited audit resources. Our request is that the IESBA reconsiders its requirements to extend the 5-year time-off period for the Engagement Partners and Engagement Quality Control Reviewers of non-listed PIEs. Instead we request that the IESBA requires local standards setters to adopt a proportionate approach in responding to the independence threat posed by long association with non-listed PIEs. This would require the local standards setter to:</p> <ul style="list-style-type: none"> <li>• Take account of the IESBA requirements for listed PIEs;</li> <li>• Recognise the independence threats arising from long association with non-listed PIEs; and</li> <li>• Introduce a response that is practicable, promotes improved audit quality and increases confidence in the work of the auditor.</li> </ul> <p><b>Appendix 2 – Impact of the IESBA Proposals for Public Interest Entities in New Zealand</b></p> <table> <tr> <th colspan="3">Listed Public Interest Entities</th></tr> <tr> <th></th><th>Existing Requirements</th><th>Proposed Requirements</th></tr> <tr> <td>Engagement Partner</td><td>5 years on, 2 years off</td><td>5 years on, 3 years off *</td></tr> <tr> <td>EQCR</td><td>7 years on, 2 years off</td><td>7 years on, 5 years off</td></tr> <tr> <td>Other Key Audit Partners</td><td>7 years on, 2 years off</td><td>7 years on, 2 years off</td></tr> </table>	Listed Public Interest Entities				Existing Requirements	Proposed Requirements	Engagement Partner	5 years on, 2 years off	5 years on, 3 years off *	EQCR	7 years on, 2 years off	7 years on, 5 years off	Other Key Audit Partners	7 years on, 2 years off	7 years on, 2 years off
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37.	NZAG	<p><b>SMPs</b></p> <p>In our opinion, the proposals do not reflect a proportionate response to the independence threat posed by long association with non-listed PIEs. The absence of a proportionate response makes application of the proposals extremely difficult in a SMP context. We have proposed an alternative approach in the covering letter.</p> <p><b>Users</b></p> <p>We have no comment to make from the perspective of a preparer. From a user perspective widespread non-compliance with the proposals will reflect badly on the audit profession. Its therefore essential that the requirements can be applied in practice.</p> <p><b>Developing Nations</b></p> <p>If we are going to have difficulty in applying the proposals in New Zealand, it is very likely that developing nations will also have difficulty in applying the proposals.</p>															
38.	PwC	<p><b>Principal comments</b></p> <p>We do not believe that the Board has made a persuasive case for aligning the cooling off period, even for listed entity audits, with that of the audit engagement partner.</p> <p>We have concerns that the proposals will limit the ability of a firm to allocate the best resources (with the right skills and experience) to an audit, which will have a detrimental impact on the application of the fundamental principles of professional competence and due care and a consequent threat to audit quality. We believe that the proposals focus overly on the fundamental principle of objectivity to the potential detriment of the wider application of other fundamental principles and, therefore, may impact the broader application of the Code.</p> <p>Furthermore, when we reflect on the revisions as a whole, taking into account the decisions that the Board has made in relation to other relevant provisions, we have an overriding concern that the proposals are too complex. This complexity heightens the risk that the firm or</p>															

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		<p>professional accountant will either not understand the requirements in a given situation or may inadvertently fail to comply with the provisions in the Code. This will be particularly the case where an individual performs a variety of roles over a seven year time-on period, when their involvement in an audit is not continuous or where the requirements established in local regulations differ from those in the Code.</p> <p>The Board recognises this complexity in its impact assessment in the ED (paragraph 88), as well as the practical challenges it will create. We believe the associated risks are not insignificant and warrant further consideration.</p> <p>Overall, we do not believe that the possible consequences of the proposals noted above are in the public interest and we strongly recommend that the Board considers ways in which they can be modified to respond to them. We hope that the comments below will help.</p>
39.	RSM	<p>As explained in our letter responding to the first Exposure Draft, we recognise that stakeholders have raised concerns with regard to the long association of personnel with an audit or other assurance client, particularly with respect to Public Interest Entities. We continue to support extending the cooling-off period from two to five years to signal to stakeholders the value the profession places on being, and being seen to be, independent from audit and assurance clients.</p> <p>However, as explained below, in this re-exposure we consider that insufficient evidence has been provided to support important changes to the proposals and with respect to cooling-off periods we consider the revisions to the rules to be unnecessarily complex, which may result in inadvertent compliance failures.</p>
40.	SAICA	<p><b>SMPs</b></p> <p>In our view, there will be significant cost implications for SMPs, even if the cool-off period is increased by only one year.</p> <p><b>Preparers and Users</b></p> <p>The standard is in the public interest. It will increase costs and effort but given the current PIE scandals, the standard setters need to do and to be seen to be actively protecting the public.</p> <p><b>Proposed IESBA Staff Q&amp;A</b></p> <p>Perhaps reconsider the example given in Q3 which attempts to define a situation where the engagement partner is not the person who signs the audit report, this may only happen in rare situation, so this fact should be highlighted if the example is included. The reason for the suggested removal is the current ISA standards in principle do not encourage or endorsing such behaviour on the contrary:</p> <p>A few examples of current standards to illustrate the point are given below:</p> <ol style="list-style-type: none"> <li>1. ISA 220 Para 15 (b) - The engagement partner shall take responsibility for the auditor's report being appropriate in the circumstances.</li> <li>2. ISA 220 Para 17 - On or before the date of the auditor's report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.</li> </ol>

#	Source	Comment
		<p>3. ISA 220 Para 7 (a) defines the engagement partner as - The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm.</p> <p>4. ISQC 1 Para 29 (b) is very conclusive - The firm shall establish policies and procedures designed to provide it with reasonable assurance...Enable the firm or engagement partners to issue reports that are appropriate in the circumstances.</p> <p>In our view, users and Those Charged with Governance would prefer that firms should appoint an accountable engagement partner in terms local legislation.</p>
41.	SCM	<p>The Audit Oversight Board, Malaysia (AOB) supports the efforts of the International Ethics Standards Board for Accountants (IESBA) to develop more robust and comprehensive provisions dealing with the long association of personnel with an audit or assurance client.</p> <p>In this regard, the AOB has no objection to the proposed changes outlined in the exposure draft addressing the long association of personnel with an audit client. However, AOB wishes to reiterate that certain jurisdictions may not have sufficient resources to accommodate the extended cooling-off period under paras 290.150A and 290.150B. For example, in a situation where there is a limited number of audit partners with expertise in a specialised industry, there may not be sufficient resources to perform the role of an engagement quality control reviewer or provide consultation should the need arise.</p>
42.	SMPC	<p>The SMP Committee has been grateful for the opportunity to provide comments on the Long Association project in advance of the IESBA Board's meetings and submitted a <a href="#">response</a> to the August 2014 Exposure Draft in which we raised concerns that the proposals may place unreasonable constraints on SMPs and have significant unintended consequences. The basis of conclusions regarding the proposals that were previously exposed was helpful to be included as background to this ED.</p> <p>We believe that the role of the engagement quality control reviewer (EQCR) is quite distinct from the role of the Engagement Partner (EP) such that the independence and familiarity threats created by long association of the EQCR are significantly less. In our opinion, the cooling-off period for the EQCR does not need to be subject to same restrictions as the new provisions for the EP. We consider that any 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. In addition, we are concerned that SMPs may be disproportionately affected by the proposals due to their more limited availability of individuals able to perform the EQCR role. We encourage the Board to re-consider these proposals.</p> <p>Notwithstanding that the SMP Committee did not agree with the extension of the cooling-off period to five years for the engagement partner on the audit of PIEs, we support the proposal to allow for a reduction in the cooling-off period for EPs on audits of PIEs to three years under the conditions specified. We also agree with the proposed principles to be used in determining whether the longer cooling-off period applies when a partner has served a combination of roles during the seven-year time-on.</p>
43.	SMPC	<p>As we have previously communicated to the IESBA, keeping up with new regulations and standards has been consistently ranked as one of</p>

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		the top challenges facing SMPs <sup>6</sup> . This supports the need for a stable platform for the Code. We would prefer that the Board do not make piecemeal changes to the Code and give due consideration to whether it would be practical for these revisions to be introduced as part of other significant changes resulting from other current projects. Practitioners need time to understand the changes, assess how they are affected and to put measures in place to enable them to comply. The impact on SMPs resources of this process can be particularly onerous as they do not have the same level of in-house resources available at larger firms.
44.	UKFRC	<p>We are disappointed that concerns we raised in our response of 12 November 2014 to the previous exposure draft on long association have not be addressed. However, as requested, in this response we are not repeating comments made previously.</p> <p>We believe that the proposals in this exposure draft introduce inappropriate compromises and unnecessary complexity and appear to be designed to accommodate extant requirements in some jurisdictions that are less stringent than the requirements IESBA originally proposed. The extent of the complexity is highlighted by the proposed IESBA Staff Questions and Answers. Such complexity is likely to detract from any perception that a principle-basis has been applied and undermine confidence in the effectiveness of the requirements.</p>
45.	WPK	<p>We appreciate that IESBA has revised the provisions of its first ED issued in 2014 and is now taking a more holistic approach insofar as it also considers some of the safeguards already available to address the threats to independence that may result from a long association with an audit client. In this respect we welcome that the new proposals take external rotation and tendering as alternative safeguards into consideration to address familiarity and self-interest threats.</p> <p>However, we wonder about the quite limited approach IESBA has taken in this respect by not taking into account the important key decisions made by the EU Audit Reform, including the consideration of joint audit as a potential safeguard. We regret that IESBA apparently does not view the approach taken by such an important legislator governing 31 jurisdictions (the members of the European Economic Area) as appropriate and sufficient. In our opinion the Code should not aim to be more restrictive than the provisions enacted by the European legislative authority:</p> <ol style="list-style-type: none"> <li>1. The EU Audit Regulation (No 537/2014 of the European Parliament and of the Council of April 16, 2014, hereinafter referred to as “the EU Regulation”) does not extend the definition of the Key Audit Partner (KAP) to the Engagement Quality Control Reviewer (EQCR) and accordingly Art. 17 of the Regulation that deals with KAP rotation does not require a rotation of the EQCR.</li> <li>2. Beside audit firm rotation the Regulation considers joint audit as an alternative (safeguard) to mitigate familiarity. As already mentioned, the Re-ED does not even address joint audit in this respect.</li> <li>3. The EU legislator has stipulated an exhaustive definition of PIEs which includes entities listed on EU regulated markets, credit institutions and insurance undertakings, but does not differentiate between listed and non-listed PIEs. We observe that the Re-ED now</li> </ol>

<sup>6</sup> Please see the [2015 IFAC Global SMP Survey Results](#)



#	Source	Comment
		<p>distinguishes between listed and non-listed PIEs in order to introduce different rotation regimes for KAPs of respective audit clients. Any approach taken on this issue is primarily to be driven by the consideration of audit quality which in the end prohibits a distinction between listed and non-listed PIEs (cf. question 1.b). Such a distinction will also inevitably cause practical difficulties: the compliance and monitoring processes of the respective audit firms would be in need of extensive adjustment resulting in a significant increase of costs.</p> <p>Furthermore, we wonder whether the application of different rule-sets can be justified from a public interest point of view, for example, where for a large non-listed insurance undertaking less restrictive rules would apply than for a small listed manufacturing company [Note: the German legislator recently adopted legislation that, whether listed or not, requires credit institutions and insurance undertakings to rotate their audit firm after 10 years whereas all listed entities that are neither credit institutions nor insurance undertakings are permitted to keep their audit firm for another 10 years, if there is a public tender for the 11<sup>th</sup> year. This said, the approach taken by IESBA would be completely different from the one taken by the German legislator, and add unnecessary complexity to the overall provisions that need to be applied in a German context.]</p> <p>Overall, we consider the new approach taken by IESBA to be very detailed and rules-based which makes this section of the Code overly complex and extremely difficult to read. It may lead to such a regulatory density which would hardly be manageable by the profession. This would particularly affect SMPs and may create a competitive disadvantage for them. As explained in our comment letter of November 12, 2014 to IESBA's first ED, such a detailed and complex approach contradicts the principles-based approach of the Code and does not achieve an appropriate balance between costs and benefits (high implementation and monitoring costs, cp. our aforementioned comment letter).</p> <p>With particular reference to the EQCR, we are pleased to note from the Explanatory Memorandum (note 28) that the IESBA plans to liaise with the IAASB in the context of the latter's current initiative to review ISQC 1. Given this (pending) liaison, we would have preferred IESBA to await the results of the IAASB's assessment before making the decision to extend the cooling-off period for the EQCR. We consider the roles of the Engagement Partner (EP) and the EQCR to be distinctly different. While the EP does have the overall responsibility for the audit (engagement) and potentially gains familiarity also with the client's management and those charged with governance, the role of the EQCR is much more limited. The EQCR does not make decisions for the engagement team nor does he or she regularly meet the client. Hence the perception of familiarity and self-interest threats is in our opinion much less with the EQCR and not comparable to that of another KAP and EP in particular. There is also no evidence that the current provisions have not worked satisfactorily which would justify the extension of the cooling-off period for listed PIEs by 150%. Any change of the Code should be based on sound facts which we are not able to recognize here.</p>
46.	WPK	<p><b>SMPs</b></p> <p>The proposals would particularly affect SMPs significantly. SMPs have normally fewer partners able to serve as EP and EQCR. Hence the</p>

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		<p>new proposals run the risk of bringing about a competitive disadvantage for them.</p> <p>While the aforementioned negative effects should be outweighed by the public interest with respect to the extension of the cooling-off period to three years for the EP, the ex-tension to five years would be a disproportionate burden for audit firms. This applies especially also for the EQCR.</p> <p><b>Translation</b></p> <p>In light of the high importance of the Code and its worldwide (de facto) binding effect on the profession, it might be worthwhile, as already stated in previous comment letters of the WPK, considering a translation of the Code and the present changes into the respective language of important jurisdictions by IFAC itself. This could also lead to greater acceptance and use of the Code.</p>
47.	XRB	<p>Whilst supportive of the project, the NZAuASB is concerned at the level of complexity that the proposals will bring to the rotation requirements and is concerned that the IESBA is moving away from establishing a strong principled approach to a complex rules based system. There is no magic number that will always be appropriate and undue focus on trying to establish those bright line rules detracts from the overarching requirement to evaluate at what stage the familiarity threat is so large that cooling off is required, and at what stage it is appropriate to rotate back on. This will be engagement specific and should be risk related rather than driven by the number of years on and off, as there may be significant changes in the accounting issues, in the management of the client and within the mix of partners available to the firm.</p> <p>The NZAuASB urges the IESBA to consider a more simplified but equally robust framework to addressing familiarity threats, as overly complex rules may result in accidental breaches or provide opportunity for gaming to get around the rules. The NZAuASB would prefer a strong principled-based approach to establishing cooling off requirements and is concerned that these proposals will have unintended consequences, as explored in response to each question posed.</p> <p>We commend IESBA for being responsive to the feedback received in response to the first exposure draft of proposed changes to the long association provisions in establishing requirements that achieve a balanced approach, that weighs up the issues of promoting audit quality, objectivity and professional scepticism while addressing familiarity threats. This is very relevant in the context of the vast array of jurisdictional requirements that establish rotation requirements. The proposal to recognise jurisdictional safeguards will make the provisions of the Code more practical to comply with. However, the NZAuASB is concerned that the conditions are too rules driven and lack a sound principle based position. The NZAuASB considers that this approach may have unintended consequences as explored in our response attached.</p> <p>The NZAuASB has concerns that the proposals to extend the cooling off period of the engagement quality control reviewer lack a clear reason for change or empirical evidence to support that such a change is needed and could have unintended consequences, creating undue supply pressure. They should be considered in conjunction with the actions the IAASB is considering in the audit quality project looking at the competencies of the engagement quality control reviewer. These concerns are explored in more detail in the attachment. The NZAuASB is</p>

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#	Source	Comment
		<p>not in favour of these proposals.</p> <p>In formulating this response, the NZAuASB sought input from New Zealand constituents. Feedback from New Zealand practitioners, from both larger and smaller firms, has been reflected in the attached submission.</p>