

Supplement B 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 Responses to ED Questions

Question 1

Do respondents agree that the IESBA's proposal in paragraphs 290.150A and 290.150B 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?*

If not, what alternative proposal might better address the need for this balance?

#	Source	Comment
1.	ACCA ¹	<p>We recognise and agree that the EQCR plays an important role in ensuring audit quality is maintained in an engagement by providing an independent evaluation of the key judgements made. The role of the EQCR is particularly important in high-risk areas and the assessment of whether the related audit procedures and documentation support the audit conclusions reached. However, the EQCR is not a decision-maker and has little or no client contact.</p> <p>The current proposals for the cooling-off period for the EQCR on the audit of a PIE would be difficult to monitor and add more complexity to the provisions. We question the proposed distinction between listed and non-listed PIEs and the rationale for introducing a different length of cooling-off period for EQCRs involved in audits of these entities. The differentiation between PIEs based on whether they are listed or not may not necessarily indicate a need to strengthen the independence of the EQCR. More relevant considerations would be whether there is a</p>

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

#	Source	Comment
		<p>larger number of stakeholders in the entity, and the nature of their interests. It is difficult to define the public interest, and even if some jurisdictions have quite small PIEs, most will have an effective definition of a PIE, and that should be sufficient. We advocate simplicity, consistency and clarity, so that the provisions are easily understood and can be implemented by all audit firms.</p> <p>In our original response, we advocated convergence in the default cooling-off periods for EPs, EQCRs and other KAPs as this aids clarity, and we remain supportive of this approach. While we acknowledge that having all key audit personnel always rotating off an audit at the same time would be problematic, aligning the cooling-off periods does not necessarily mean this would be the case. The most challenging year is the first year of cooling-off for an EQCR. But once a new EQCR is in place there are benefits from retaining them as such for an effective period.</p> <p>However, we note that the IESBA has determined a cooling-off period of five years for an EP and two years for a KAP.² If the cooling-off period for a KAP is to remain at two years, we would advocate a cooling-off period for an EQCR of two years, aligning it to a KAP for clarity and consistency. We believe that, in such circumstances, a shorter cooling-off period of two years for an EQCR would not impact on audit quality.</p> <p>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. As acknowledged in paragraph 18 of the exposure draft with regard to EPs, a substantial body of respondents to the earlier consultation ‘commented that all PIEs are, by their nature, entities of public interest; that there was no previous distinction between listed and non-listed PIEs; and that applying the change in the provision to all PIEs would provide clarity, consistency and stability’. However, if a two-year cooling-off period for all EQCRs was considered unacceptable, we would advocate a compromise that balances the cooling-off period for all EQCRs and other KAPs at three years.</p> <p>If resourcing issues are identified and attributed to the equalisation of cooling-off periods, we would encourage the IESBA to explore alternative approaches to mitigating the familiarity threat while addressing these issues. For example, an alternative proposal might be to allow the EQCR to remain for (up to) another two years if the EP is also due to rotate off the engagement.</p>
2.	AICPA	<p>We support the IESBA's decision to increase the cooling-off period for the EQCR of a <i>listed entity</i> to five years which is consistent with the requirements for the EP. While we have some concern that having different cooling-off periods for the EQCR of a listed entity and that of a non-listed PIE may result in added complexity in applying the cooling-off requirements, we believe that there is a basis for reducing the cooling off period for the EQCR of a non-listed PIE to three years. Specifically, we believe the proposed approach provides for an appropriate balance and recognizes concerns expressed that in some jurisdictions, non-listed PIEs may be smaller sized entities audited by SMPs with a limited number of partners who can serve in the EQCR role.</p>

² 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.

#	Source	Comment
3.	APESB	<p>APESB believes that the rotation requirements should be the same for all PIEs because PIEs have a large number and wide range of stakeholders, and there is public interest in these entities. Accordingly, APESB does not entirely agree with the IESBA's proposals.</p> <p>We note the reference to the “large numbers of small entities defined as PIEs around the world” in the IESBA's Exposure Draft. Given the definition of a PIE in the existing Code, we question whether such small entities have been correctly classified as PIEs. If they have, then the public interest in these entities must require that these entities are subject to the same independence requirements.</p> <p>We consider that, given the significance of the EQCR's role (in evaluating the significant judgements the engagement team made and the conclusions it reached in determining the opinion expressed in the report), the EQCR should be subject to similar cooling-off requirements as the EP to safeguard objectivity.</p> <p><u>Distinction between listed and non-listed PIEs (two-tier approach)</u></p> <p>APESB is concerned about the precedence the IESBA may set by distinguishing between listed and non-listed PIEs. The concept of PIEs was created by the IESBA in 2009 to group listed entities and entities that shared the same characteristics as listed entities together to ensure consistent auditor independence requirements are applied for entities that have a significant public interest.</p> <p>However, by introducing a distinction within the meaning of PIE in the Code, the IESBA may be <u>undoing the original premise in the Code</u> of why the definition of PIE was required in respect of auditor independence requirements.</p> <p>APESB strongly believes that the IESBA should not distinguish between listed and non-listed PIEs as by nature, they are entities of public interest.</p> <p>If this is an issue in a certain jurisdiction, then we are of the view that the audit regulator or the National Standards Setter of the relevant jurisdiction are the appropriate bodies to consider whether there are compelling reasons in their jurisdiction to provide appropriate exemptions relating to PIEs. For example, we are aware that in Canada there is relief for small market capitalisation entities (i.e. reporting issuer or listed entity audit client below the market capitalisation or total assets threshold of \$10 million) from the PIE auditor independence requirements.</p> <p>As such, APESB is not supportive of the introduction of a distinction of PIEs between listed and non-listed entities in the IESBA Code.</p> <p><u>Jurisdictional safeguards</u></p> <p>APESB is strongly supportive of the introduction of the proposed jurisdictional safeguards in the Exposure Draft. This is a major achievement as overlaying the proposals with local jurisdictional rules is a complex issue, and APESB congratulates the IESBA on how they have addressed this issue in the Exposure Draft.</p> <p>Whilst APESB supports the inclusion of the jurisdictional safeguards, we note that complications are likely to arise in Australia due to the introduction of the two-tier approach to PIEs.</p>

#	Source	Comment
		<p><u>Overlay of two-tier approach with jurisdictional safeguards</u></p> <p>The definition of a PIE in APES 110 is specific to the Australian jurisdiction. For example, under APES 110 entities regulated by the Australian Prudential Regulatory Authority (Banking and Insurance regulator) and issuers of debt and equity instruments to the public are classified as PIEs.</p> <p>The Exposure Draft proposes to introduce a two-tier approach that distinguishes a listed PIE from a non-listed PIE. However, when this two-tier approach overlays with the Australian jurisdictional safeguards (i.e. existing Australian <i>Corporations Act 2001</i> requirements in respect of the shorter 5-year time-on period for listed entities), it inadvertently results in:</p> <ul style="list-style-type: none"> • an EP on a listed PIE having a shorter 3-year cooling-off period compared to an EP on a non-listed PIE who is required to have a 5-year cooling-off period; and • an EQCR on a listed PIE having a shorter 5-year time-on period compared to an EQCR on a non-listed PIE having a 7-year time-on period. <p>Consequently, in Australia, an EP or EQCR may serve on a listed PIE for longer than a non-listed PIE. For example, an EP or EQCR on a listed PIE will serve 10 years out of 13-year period (5-year time-on, 3-year cooling-off, and 5-year time-on) whereas, an EP or EQCR may only serve on a non-listed PIE for 7 years in a 12-year period (7-year time-on, 5-year cooling-off). The impact overall is that an EP or EQCR will serve a longer duration on a listed PIE engagement (77% of the time), whilst an EP or EQCR will serve a shorter duration on the non-listed PIE engagement (58% of the time).</p> <p>This has inadvertently caused the IESBA's proposed rotation requirements on a non-listed PIE to be more onerous compared to a listed PIE when the Australian jurisdictional requirements are overlayed with the IESBA's proposals. Furthermore, the IESBA's proposals add complexity in monitoring the different rotation requirements for an EP and EQCR on listed PIEs and non-listed PIEs.</p> <p>Stakeholders at the APESB roundtables in Australia noted that the IESBA's proposals may also inadvertently prompt firms to take action to avoid these cooling-off requirements. For example:</p> <ul style="list-style-type: none"> • firms may actively manage the rotation rules rather than allocate the most appropriate audit personnel on an engagement as many Small and Medium Practices (SMPs) may lack adequate resources to comply with the IESBA's proposals; or • firms may 'manage' the classification of entities or certain categories of entities as PIEs unless they are defined by regulation or legislation as a PIE. <p>APESB considers that these actions may also adversely impact audit quality.</p> <p><u>APESB's alternative proposal</u></p> <p>Based on these unintended consequences from the combination of the two-tier approach and the jurisdictional safeguards, APESB is of the view that in the IESBA Code:</p>

#	Source	Comment
		<ul style="list-style-type: none"> all PIEs should be treated consistently; and the <u>same</u> rotation requirements should be applied to EPs and EQCRs on <u>all</u> PIEs. <p>APESB is also of the view that the IESBA should perform a timely post-implementation review to assess whether the IESBA's proposals are successful and whether the project's intended objectives (i.e. addressing auditor independence threats created by self-interest and familiarity) are achieved</p>
4.	BDO	<p>As we had responded in November 2014, we continue to support retaining the cooling off period for EQCRs at 2 years. While we recognize the need for a safeguard to ensure a 'fresh look' at the audit issues, we believe that the objectivity requirement for an EQCR combined with the 2 year cooling off period provides a sufficient safeguard. We also believe that the different nature of the EQCR role compared to that of the Engagement Partner (EP), as well as the experience and authority required of the role, coupled with the limited availability of individuals to serve in an EQCR role because of the need for special expertise, particularly for SMPs, warrants the shorter (2 year) cooling off period.</p> <p>Should the Board decide to implement its proposal, we support having a shorter cooling off period for PIEs other than listed entities because they may encompass many smaller organizations, which might impose particular practical difficulties on SMPs. However, we recommend that this remain at 2 years.</p>
5.	CAANZ	<p>We accept that a cooling-off period for the engagement partner and engagement quality control reviewer provides a mechanism for a 'fresh pair of eyes' to be introduced to the engagement and to help maintain independence. However, as stated in our response to the previous ED, and given the lack of empirical evidence, the number of years that is appropriate for a cooling-off period is arbitrary. Assurance practitioners have confidence that the current mechanism already provides sufficient safeguards to address the threat to independence of mind from long association. The independence of the EQCR is already protected by the nature of their role, in which they have limited contact with the client and the day to day management and conduct of the audit. We see no need for the cooling off period for EQCRs to be extended.</p> <p>In our consultations with the director and preparer community, they similarly did not feel there was any issue with the current two year cooling-off period for either EPs or EQCRs. Therefore, we do not support this proposal.</p>
6.	CPAA	<p>CPA Australia is unable to support the key proposals to increase the cooling-off period for the EQCR from 2 to 5 years for listed PIES and from 2 to 3 years for non-listed PIES, as we have not been convinced that there is evidence to support this increase.</p> <p>However, if the increase is going to be adopted we support that it is 3 years for both listed and non-listed PIES, as we do not think that the threats vary between the two groups.</p> <p>We are of the view that a 'fresh look' does not necessarily provide a robust safeguard. Objectivity, professional competence and due care and having the skills to have an inquiring mind does. So we believe that the profession should focus on the development of professional competencies, if that is in fact an identified deficiency. Also, there is no evidence that two years is an insufficiently robust safeguard and we</p>

#	Source	Comment
		<p>need to be alert to the possible positive and negative consequences. Increasing the cooling-off period for the EQCR could adversely impact the audit market and audit quality in many jurisdictions. In Australia, for example, the geographical spread, industry-specific competencies (e.g. extractive industries) and a reducing auditor population would be expected to present challenges to the quality of the EQC review in order to meet the increased cooling off period that may far out weight any potential benefits. CPA Australia has consistently been calling for evidence based standards that would address these concerns.</p> <p>It is our view that the proposals could result in mandatory firm rotation, particularly in the SMP market, and this potential and its likely consequences need to be examined in different contexts.</p>
7.	CPAC	<p>Generally, we are in a position to agree with these proposals. However, in our review of these recommendations, we noted some consistent observations that should be taken into consideration in receiving our overall support for the proposals:</p> <ul style="list-style-type: none"> • The application and impact of the rules regarding PIEs is dependent upon how each member body interprets and applies the definition of PIEs. It was noted that jurisdictional differences in legislation even within the same country may result in differing applications and effect based on IESBA's definition; • It was difficult to assess the precision of the proposals and, overall, whether the changes recommended were appropriately addressing problems in reality or perception. Definitive empirical evidence identifying the issues and supporting the solutions would be preferred to support such changes; • EQCRs have a high level of technical expertise which, depending upon the firm and location may be in scarce supply. An increase to the EQCR cooling off period may exacerbate this issue creating significant issues for firms and clients alike. • Making the rules easier to understand and apply was identified as particularly important for those areas that are inherently more complicated. In the absence of empirical evidence as noted above, the distinguishing of the requirements between listed and non-listed entities was identified as arbitrarily increasing the complexity of the requirements. <p>With our position noted above to generally agree with these proposals as presented in the Exposure Draft, we do not have an alternative proposal to submit.</p>
8.	Crowe	<p>We agree, in principle, with IESBA's proposal, and acknowledge that it achieves the right balance. However, IESBA should take the opportunity to 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). Companies that are quoted on secondary markets (for example, markets not regulated by European legislation such as the Alternative Investment Market) should be treated as "other PIE" for the purposes of the Code. This will help address concerns about the application of the changes to the Code and concerns about the availability of EQCRs.</p>
9.	DTT	<p>Despite the Board's original conclusions, and feedback from a substantial body of respondents to the original ED that the cooling-off period for the EQCR should not be extended, the Board has concluded in this ED that a two-year cooling-off period is insufficient for the EQCR on</p>

#	Source	Comment
		<p>the audits of PIEs.</p> <p>We do not consider that the Board's proposals with respect to the cooling off period for EQCRs on the audits of PIEs are striking the right balance between addressing the need for a robust safeguard to ensure a fresh look, and the practical consequences of implementation. The proposed rules are no longer reflective of the application of the principles in the Code and have become extraordinarily complex to understand and apply.</p> <p>The Board has stated that the overriding objective in the public interest is to ensure an effective “fresh look” on the audit engagement, and recognizes that this will only be effective if the rotating partner has sufficient time away from the engagement to allow the incoming partner to have a fresh look. There is no explanation in the ED as to why a fresh look can be achieved by the incoming EQCR as a result of having the rotating EQCR on a non-listed PIE observe a three year cooling-off period, but on a listed PIE the rotating EQCR needs to observe a five year cooling-off for the incoming EQCR to achieve the same fresh look.</p> <p>We do not agree that it is in the public interest, nor consistent with the treatment of PIEs in the Code, to differentiate between requirements for listed PIEs and non-listed PIEs with respect to the cooling-off period for the EQCR. It does not seem reasonable to conclude that there is more public interest in a very small listed company than there would be in the audit of large non-listed financial institution. This differentiation also adds another level of complexity to the application of the proposals, particularly when audit clients change from non-listed to listed PIEs during the tenure of the EQCR. Additionally, a five year cooling-off period would have a real and practical cost and impact on smaller firms and the audits of smaller PIEs, as noted in the original ED.</p> <p>If the Board is unable to conclude that a two-year cooling-off period is sufficient for the EQCR on the audits of PIEs, then we consider that a cooling-off period of three years for the EQCR on the audits of all PIEs better addresses the need for the balance that the Board is seeking and removes at least one layer of complexity from an already complex set of provisions.</p>
10.	EY	<p>Yes. We know there will be practical and resource challenges in some geographies or industries caused by the 5 year cooling off period for EQCR for listed PIEs but we believe the public interest benefits outweigh these and thus agree with proposed changes.</p>
11.	FAR	<p>In FAR's opinion five years is not an appropriate cooling-off period for the EQCR for audits of PIEs. Five years is too long. FAR would in this context like to reiterate its comment from the previous consultation in November, 2014:</p> <p>“The EQCR, at least in Europe, does not have the kind of association with the client that there should be any need for a cooling-off period. But if a cooling-off period must apply for the EQCR, it should not exceed two years.”</p> <p>(a) The need for a robust safeguard to ensure a “fresh look” would be served by handling the role of the EQCR not in the Code of Ethics, but in the context of the ISQC 1. In FAR's opinion the EQCR has a separate role from the engagement team and should not be handled in the same context as members of the engagement team. If dealt with in the Code of Ethics, the same rules should apply to EQCR as to any KAP. It may also be noted that the EQCR is not defined by the EU regulation as a member of the engagement team that must be</p>

#	Source	Comment
		<p>rotated.</p> <p>(b) FAR would like to point out that the introduction of different lengths of cooling-off periods, depending on the category of the Key Audit Partner involved, is difficult to monitor in practice and would add in complexity to an already complex area of regulation. This would not benefit SMPs. FAR finds that, particularly regarding small PIEs, a five year cooling-off period would be excessively restrictive. The cooling off period should be limited to two or, maximally, three years and be the same for all involved.</p>
12.	FEE	<p>As IESBA is aware, the EQCR is not encompassed within the cooling-off requirements applicable to KAPs in the EU legislation. We believe that a more strategic discussion needs to take place on the role of the 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>; we think that the potential familiarity threat posed with the role of the EQCR would be addressed better within the remit of the revision of the 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 EQCRs across jurisdictions and only after the discussion on ISQC 1.</p> <p>On the other hand, as IESBA duly recognized in the Explanatory Memorandum, longer cooling-off period might lead to a reduction in the availability of people to perform the EQCR, with a potential adverse consequence for audit quality.</p> <p>Regarding the proposed distinction between listed and non-listed PIEs we would like to stress that the implementation of a different length of cooling-off period depending on the category of the KAPs involved is difficult to monitor in practice, adding more complexity to an “already complex area”. In addition, these 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 auditors of non-listed PIEs; in particular when taking into account that some non-listed PIEs may have a much bigger impact on society at large than certain small listed PIEs.</p> <p>On the other hand, we would also like to draw your attention to the fact that the proposed amendment would imply that in many EU jurisdictions, regardless of the category of the entity, for the EQCR a longer cooling-off period needs to be applied than for the other KAPs, namely the partner responsible for the conduct of the audit and partners signing the audit report.</p> <p>In addition, especially for SMPs that may perform audits of smaller listed PIEs, five years is likely to be excessively restrictive and they may even find it impossible to comply with such rotation plans because they have a smaller number of partners to draw upon. A shorter minimum cooling-off period, two or three years, would be sufficient, the overruling principle being still applicable for those constituencies that want to go further.</p> <p>In our view the need to ensure a “fresh look” is achieved with a two to three-year period and does not outweigh the potential effect on audit quality and the additional complexity.</p>

#	Source	Comment
13.	FSR	<p>The EQCR is not encompassed by the cooling-off requirements applicable to Key Audit Partners (KAPs) in the EU legislation.</p> <p>We prefer a strategic discussion on the role of the EQCR. The IAASB has released its ITC. We prefer the potential familiarity threat posed with the role of the EQCR to be dealt with as a revision of the ISQC 1 in the context of this ITC. The consideration of a cooling-off period for the EQCR should be 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>Regarding the proposed distinction between listed and non-listed PIEs we would like to stress that the implementation of a different length of cooling-off period depending on the category of the KAPs involved is difficult to monitor in practice, adding more complexity to an already complex area. In addition, these two subsets of PIEs are not aligned with the 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> <p>On the other hand the proposed amendment would imply, regardless of the category of the entity, shorter cooling-off periods for “EU” KAPs in comparison with the EQCR.</p>
14.	GT	<p>With respect to 1(a):</p> <p>Grant Thornton is supportive of the Board’s objective to create high quality international standards however, we believe a two year cooling-off period was appropriate for EQCRs. Although EQCRs have significant roles in the group audit, these partners generally do not have the same influence on the audit, exposure to management or relationships with management that the EP has. Accordingly, serving in these roles give rise to a lesser familiarity or self-interest threat from long association with the client.</p> <p>Respondents to the last exposure draft were very supportive of the cooling –off period remaining at two years for the EQCR. It is not clear to us why the Board would move from a two year to a five year cooling off period for the EQCR, especially in light of the overwhelming support by respondents for the Board’s original recommendation of two years. The standards being proposed by the Board should provide a principles based framework that is lucid and user friendly and not complex.</p> <p>With respect to 1(b):</p> <p>As stated above, we do not support the Board’s proposal to bifurcate the partner rotation requirements between listed and non-listed PIEs or to extend the EQCR’s cooling-off period from two years to three years for non-listed PIEs and to five years for listed PIEs.</p> <p>Furthermore, the Board recognizes that many national jurisdictions’ definition of a PIE includes small, non-listed entities that are audited by smaller firms. Although we don’t support bifurcating the requirements, having recognized the practical consequences and intricacies with the partner rotation requirements as they apply to the EQCR, why hasn’t the Board taken the same view for EPs on small, non-listed PIEs and lessen the time-out period to three years in accordance with the proposal for the time-out period of the EQCR?</p> <p>A five year cooling-off period for EPs auditing small, non-listed PIEs has an adverse impact on the ability of small and medium size practitioners to adhere to these requirements as their resources are limited and their audit clients may need to look at larger firms to provide</p>

#	Source	Comment
		<p>audit services. This can result in the small and medium size practitioners potentially exiting the PIE audit market, and it is likely only a few of the larger firms will remain in the market. This will reduce competition and increase costs, particularly for small and medium size PIEs. We believe a three year cooling-off period is more appropriate.</p>
15.	HKICPA	<p>We acknowledge that the EQCR plays an important role in an audit engagement. However, in order to maintain his/her objectivity as an EQCR, the EQCR does not usually interact with the audit client management. Therefore, the level of familiarity threat created by the EQCR's long association with audit client is less than that created by the engagement partner ("EP").</p> <p>The IESBA's final conclusion on the extension of cooling-off period for the EP to five years and the additional restrictions on activities that the rotating partners could undertake during the cooling-off period would already pose practical challenges to firms of all sizes. The pressure on firm resources would even be more intense if the EQCR has to be subject to the same longer cooling-off period as that of the EP. We are concerned that this proposal not only would further reduce the availability of individuals who are senior and experienced to act in this role, but also result in loss of knowledge and expertise (especially on highly specialized industries). This would, in turn, lead to potential adverse consequences for audit quality, which might not be in the public interest.</p> <p>We note that the IESBA acknowledges the potential difficulties faced by smaller firms and proposes a shorter cooling-off period of three years for the EQCR of non-listed public interest entities ("PIEs"). However, it is not clearly explained in the Explanatory Memorandum how this three-year cooling-off period is determined and why such differential approach only applies in the rotation of EQCR. We also consider that such proposal is too complex to apply and effectively adopt.</p> <p>We are mindful that the benefit of 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 safeguard would impact audit quality. In the light of the above, we recommend the IESBA reconsiders the proposals with caution and ensure that the rotation requirements are both robust and balanced.</p>
16.	ICAEW	<p>The original IESBA proposal in 2014 was to retain the two-year off-period for EQCRs as the familiarity threat in such a role, which typically does not involve meeting personnel from the audited entity, is significantly less than that for an engagement partner (EP). We and, we note from the explanatory memorandum (EM), 'a substantial body' of other respondents supported the Board's proposals. There is no reference in the EM to any objective evidence that the current two year period presents a significant threat to independence and objectivity. The amended proposal to extend the off-period for EQCRs appears, according to the comments in the EM, to be based largely on the views of a handful of respondents that as the ECQR role is important, the off-period should be longer. We believe safeguards should be proportional to the threat, not the role: the two do not always go hand in hand.</p> <p>Having extended the off-period, IESBA has sought to partially mitigate the practical effect on smaller firms auditing PIEs by distinguishing between the off-period for listed PIEs (5 years) and unlisted PIEs (3 years). The rationale given is that many unlisted PIEs are small and</p>

#	Source	Comment
		<p>likely to be audited by small firms.</p> <p>Accepting that this point is outside of the remit of the current project, we wonder if IESBA is trying to deal with that issue in the wrong way. Given that the Code is global, it seems likely that there are very many small listed entities. Indeed, in some countries (for example Canada and, if current proposals by the Financial Reporting Council are carried through, the UK) there are listed non-PIEs, something the Code does not present allow for. This suggests that there is a wider issue around IESBA's definition of a PIE, which the Board may wish to consider: it does not automatically follow that the characteristics of a PIE and the characteristics of all listed entities, overlap.</p> <p>However, in the meantime we fail, therefore, to see that the distinction achieves what it seeks to do, and it should be reversed.</p>
17.	ICAS	<p>We were content with the IESBA's previous proposal in this regard i.e. the cooling-off period remaining at two years for the Engagement Quality Control Reviewer (EQCR). We would highlight that whilst not opposing the proposals in relation to the 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. Additionally, we question whether the benefit of a reduced "cooling-off" period for non-listed PIEs outweighs the increased associated complexity. In this regard we have concerns that the Code is becoming increasingly rules-based.</p>
18.	ICAZ	<p>We do not agree with the proposal.</p> <p>While we are in agreement with the need for a robust safeguard to ensure a "fresh look" considering the key role of the EQCR we consider the suggested cooling off period to be too long. It is important to first take into consideration the role of the EQCR and the manner their involvement is likely to result in threats to independence.</p> <p>The role of the EQCR in an audit does not involve making significant judgements about the audit, but to provide limited consultation that does not result in impairment of the EQCR's objectivity as guided by ISQC 1. The EQCR does not make significant decisions about the audit opinion and has minimal interaction with the audit client unlike the EP. Due to the less involvement and limited judgement made on the subject matter or subject matter information of the assurance engagement we do not see why there should have a cooling off period of five years as required for the EP.?</p> <p>Implementation of the 5 year cooling off period may pose great difficult to SMPs as they may not have the resource capacity internally and may also not be able to outsource the services of an EQCR especially in developing countries,</p> <p>We propose that the cooling off period be set at 3 years for listed PIE's and 2 years for non-listed PIE's.</p>
19.	ICPAK	<p>Overall we are supportive that the EQCR requires a cooling period that is sufficiently long to promote a proper 'Fresh Look'</p> <p>However, we are not in agreement with the distinction between listed entities and other non-listed PIEs. All PIEs whether listed or not have a similar degree of public accountability – this distinction also adds to complexity in the understanding and implementation of the proposals.</p>

#	Source	Comment
		<p>We are also of the view that a 5 year cooling off period is longer than it needs to be 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. Accordingly, our suggestion would be for a 3 year cooling off period applied consistently for all PIEs (whether listed or not) for the EQCR.</p>
20.	IDW	<p>In our previous letter we expressed our agreement that the cooling-off period for KAPs (i.e., also for EQCRs) should not be extended.</p> <p>In any case, although we appreciate the Board's intention is to balance the diverging views expressed by various parties, we do not believe that inflexible time periods extending the cooling-off period(s) for an EQCR role (i.e. rules) can achieve a meaningful balance.</p> <p>As stated previously, we have some sympathy with a differentiation based on the fact that the more influential a partner is, the more critically his or her objectivity will be perceived to be. However, we do not believe there is any justification behind the proposal to treat the respective roles of engagement partner and EQCR as equivalent in this context, and thus do not believe that the extensions of the cooling-off periods for the EQCR currently proposed is appropriate.</p> <p>Our previous comments concerning the extension of the cooling-off period for the engagement partner are equally valid to the discussion on extending the cooling-off period for the EQCR role. In our previous letter we had commented in relation to the impact analysis to the 2014 ED as follows:</p> <p>“...“No other jurisdictions currently apply a seven/five year approach solely for the engagement partner and only three jurisdictions that participated in the benchmarking survey have a five-year cooling-off period.” The IESBA is charged with developing a Code for international application and should therefore perform an analysis of impact 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.”</p> <p>We believe that an (equivalent) analysis is still needed in regard to the EQCR role.</p> <p>The circumstances of individual firms are likely to differ widely, as will the circumstances of each of their audit and assurance clients. For smaller firms in particular the availability of suitable individuals to perform EQC reviews can be a key issue. In particular, the detrimental impacts of having a less well-suited individual assume the role of EQCR could outweigh any additional benefit brought by an extension of the cooling-off period.</p> <p>The IAASB is currently revisiting its standard ISQC 1 and is considering a Quality Management Approach that would involve a more tailored application of inter-related measures to support a firm's delivery of high quality services. In our view, the balance referred to above might be better achieved by drawing on such a principles-based approach rather than establishing rules.</p> <p>In addition, as explained in the accompanying letter, we believe that, as currently drafted, the provisions in paragraphs 290.150A and B are overly complex and will likely prove extremely difficult for firms of all sizes to apply in practice.</p>

#	Source	Comment
21.	IRBA	<p>To accommodate more views, this section of the Code has resulted in amendments that are unduly complicated and clearly not in the public interest.</p> <p>The introduction of three types of key audit partners (EP, EQCR and other KAP) is within the scope of the project. However, the introduction of the two levels of PIEs (listed and unlisted) may fall outside the scope of this project, and will have extensive unnecessary regulatory consequences.</p> <p><u>PIE (listed) vs. PIE (unlisted)</u></p> <p>This distinction may not only make rotation complex, but may open the door for similar differentiation when considering independence and non-assurance services.</p> <p>There has previously been no distinction or ranking between the different categories of PIEs in the IFAC Code, and we suggest that all PIEs continue to be treated uniformly.</p> <p>We question why a listed PIE should be differentiated from an unlisted PIE in the IESBA Code. There are certain pension funds (unlisted) that hold funds in a fiduciary capacity and have a greater public interest than small listed entities.</p> <p>While we appreciate that PIEs may be overly complicated, the current solution may not solve the long-term problem i.e. clarify the definition of a PIE.</p> <p>The correct approach may be to encourage jurisdictions to work on finding the correct fit for the definition of a public interest entity.</p> <p>The IESBA may have to consider transition provisions relating to rotation for a PIE (unlisted) that becomes a PIE (listed) or vice versa.</p> <p><u>EQCR Partner</u></p> <p>We do agree that an EQCR is required to be independent of the financial information and that the familiarity threat needs to be addressed. If independence requirements need to be clarified, we would argue that the Code would be the appropriate guide rather than ISQC1.</p> <p>ISQC1 includes a sub-heading on Criteria for the Eligibility of Engagement Quality Control Reviewers. The IESBA may wish to suggest to the IAASB that independence and the familiarity threat need to be addressed within the ISQC1.</p> <p>Furthermore, according to ISQC1 not all audits of PIEs require an EQCR partner to be appointed. However, from the proposed wording of the exposure draft it may appear that all audits of PIEs require an EQCR partner, which may lead to a misunderstanding.</p> <p><u>Jurisdictions Clarification</u></p> <p>We are concerned if these restrictions are imposed on non-jurisdictional individuals (i.e. restrictions on individuals from outside the country of domicile of the company acting as an EP or EQCR). The IESBA would also need to consider whether the restrictions would result in a decrease in audit quality. For example, in French Africa (Francophone Africa), where there are limited numbers of practitioners with appropriate industry knowledge in-country, jurisdiction restrictions would prevent those countries from sourcing either EPs or EQCRs from</p>

#	Source	Comment
		<p>out of country.</p> <p>We understand that the primary reason for a limit to in-country professionals is primarily to ensure adequate local market and legislative knowledge. But we believe that there are circumstances where deep local knowledge would not be critical to the role of an EQCR and as such these countries should not be prevented from outsourcing beyond their borders. We recommend that where these restrictive legislative requirements are in place, the IESBA should consider writing a specific exception that deals with these situations in addition to the exemptions in sections 290.150 and 291.151.</p> <p><u>Cooling-off Period</u></p> <p>We agree with the cooling-off period suggested for EQCRs. The frequently asked questions provide a good indication on how these requirements will be implemented.</p> <p>We especially support the provisions included in 290.150A.</p> <p><u>Alternate Proposal</u></p> <p>We see no significant difference between the two-year cooling-off period currently being applied and the proposed three years in terms of the strength of safeguard. Consequently, we are not convinced that it is necessary to incur the implementation costs of moving from a two-year to a three-year cooling-off period for the marginal improvement in safeguard for non-listed PIEs.</p> <p>We suggest that the EQCR partner for non-listed entities remains within a cooling-off period of two years. An EQCR partner for a listed PIE would be subject to the same rotation requirements of an engagement partner.</p>
22.	JICPA	<p>We agree that the IESBA's proposal in paragraphs 290.150A and 290.150B reflects an appropriate balance.</p> <p>However, it is considered that the IESBA's proposal has a great impact on small and medium practices (SMPs). We received a large number of comments from JICPA members who belong to SMPs in Japan. Those are unfavorable comments expressing concerns regarding the extended cooling-off requirement for EQCRs (five year cooling-off period) in the proposed provisions. Approximately 150 SMPs in Japan audit listed companies and currently, all these SMPs are subject to the seven year time-on and two year cooling-off requirement for all KAPs including EPs and EQCRs. (Large audit firms are currently required for listed companies' audit to rotate EPs and EQCRs based on the cooling-off period of five years.)</p> <p>These SMPs do not have a sufficient number of partners to meet a stricter rotation requirement than the current two year cooling-off period after seven year time-on period. As sufficient knowledge and considerable experience are necessary especially for the EQCRs' role and it also requires EQCRs to have sufficient and appropriate authority which calls for seniority and experience equivalent to the EPs to objectively evaluate EP's judgments and conclusions, there is inevitably a limited number of partners who can perform the role of the EQCRs. For this reason, the SMPs have a concern that proposed five year cooling-off period for the EQCR is likely to make rotation more difficult.</p> <p>In addition, we have been receiving opinions against this proposal as it has no ground for why five year cooling-off period ensures a "fresh</p>

#	Source	Comment
		look.”
23.	KPMG	<p>We believe that the cooling-off period increase to five years for the EQCR of listed PIEs is not commensurate with the risks associated with the EQCR role. The EQCR is an important role on an audit engagement, however, the familiarity threat associated with the role is not as great as that of the EP as interactions with the client are not as frequent and very limited.</p> <p>In addition, having a longer cooling-off period to that of EQCRs on non-listed PIEs adds another layer of complexity to manage rotation periods given the generally more limited availability of individuals able to serve in an EQCR role. This extended timeframe may result in the loss of expertise, in particular to highly specialised sectors or industries, e.g. financial services.</p> <p>We are of the view that the cooling-off period for the EQCR should be consistently applied as three years for both listed and non-listed PIEs. A three year period is sufficient to address familiarity risks associated with the EQCR role.</p>
24.	MICPA	Yes, the Institute agrees with the IESBA's proposal in paragraphs 290.150A and 290.150B regarding the cooling-off period for the EQCR for audits of PIEs.
25.	Nexia	<p>Nexia International agreed with the 2014 ED that the cooling-off period should remain at two years for the EQCR on the audit of PIEs.</p> <p>We are concerned that despite many respondents to the 2014 ED citing no evidence of a need for change, IESBA has not produced evidence of such need as part of its 2016 re-exposure nor has the Board addressed the concern that extending the cooling-off period for the EQCR to five years would be a significant burden for SMP firms and put further strain on specialist resources, thus harming audit quality.</p> <p>Consequently, we remain of the view that the cooling-off period for EQCR should remain two years.</p> <p>Nevertheless, we would be prepared to accept the cooling-off periods being extended to three years for both the Engagement Partner and EQCR for non-listed PIEs if the IESBA could demonstrate a causal link between the current duration periods of Engagement Partner and EQCR rotation and audit quality failures.</p>
26.	NZAG	As discussed in our covering letter, we disagree with the approach the IESBA has applied in determining a proportionate response to the independence threat posed by long association with non-listed PIEs. We have proposed an alternative approach in the covering letter.
27.	PwC	<p>No. We do not agree with this proposal and 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. As noted above, we also have concerns about the complexity of the overall proposals and believe that they could also have a detrimental effect on application of the fundamental principles of professional competence and due care, and consequently audit quality.</p> <p>In our response to the original ED, we concurred with the Board, as did many other respondents, that there should be no change for other KAPs and that the cooling-off period should remain at two years for the EQCR (and other KAPs) on the audit of PIEs. The audit engagement partner is most at risk from the threat of over-familiarity because of the nature of their role as the key ultimate decision-maker in the audit and</p>

#	Source	Comment
		<p>there is no other KAP that shares this role. That threat will be addressed by the increase in the cooling off period for the audit engagement partner.</p> <p>There are important considerations that support the cooling-off period remaining at two years for the EQCR in the interest of maintaining audit quality, balanced with managing threats to independence and objectivity. These include:</p> <ul style="list-style-type: none"> • KAPs, other than the audit engagement partner, are subject to an additional safeguard, which is the fact that there is an audit engagement partner on the engagement who is the ultimate decision maker, and so any decisions made by other KAPs would be scrutinized by, and be the responsibility of, the audit engagement partner. • Managing any change to an extended cooling-off period for audit engagement partners will be a significant burden given the implementation challenges. Extending this requirement to also include the EQCR would further compound the challenge and put further strain on experienced resources which will harm audit quality. EQCR resources are often already constrained, as many jurisdictions and firms have stringent requirements on those partners able to fill these roles, in the interest of quality. The EQCR role is a specialised one, requiring experience and expertise, and compliance with the proposals could result in firms being pressured to put inexperienced people into the role. • We believe that smaller firms and practices may be required to seek and appoint EQCR partners from outside the jurisdiction, perhaps from other network firms. In some jurisdictions there are restrictions on who can perform this role and so this may not be an option in practice. The EQCR fundamentally has familiarity with the accounting and auditing issues, rather than with client management, and we believe that less time is required to cool-off from those issues. It does not require five years. • The Board indicates that, in part, the objective of setting a longer cooling-off period for the EQCR is to allow the incoming engagement partner time to have a “fresh look” at the audit. We are concerned with such a rationale as it implies that after two years that audit engagement partner may not have had the opportunity to take a fresh look at the audit. This would imply there are weaknesses either in the transition process or the competence and due care that the incoming engagement partner has brought to the engagement. <p>For these reasons we do not support an increase in the cooling off period for the EQCR. We do not believe that an increase in the cooling-off period to five years, for listed entities, appreciable increases the protection to the public interest, given other safeguards, and that this would be outweighed by the negative impact this would have.</p> <p>We are not persuaded that there is any strong reason to differentiate between listed and non-listed PIEs, given the role of the EQCR partner and our views set out above. This adds to the complexity in the overall proposals.</p> <p>However, we recognise that there are other stakeholders who are strongly of the view that the cooling off period for the EQCR should be longer than two years. If the Board is not persuaded by the arguments above, taking into account the views of other respondents, we recommend that the Board considers an increase in the cooling off period to three years for EQCRs on the audit of all public interest entities. This would be responsive to the concerns raised, would reduce the complexity of the overall provisions and be consistent with the position</p>

#	Source	Comment
		the Board is proposing to take regarding different jurisdictional safeguards (see below).
28.	RSM	<p>In our response to the Exposure Draft we agreed with the reasons given within the explanatory memorandum to the Exposure Draft for not extending the cooling-off period for EQCR beyond two years. In particular, we agreed that the EQCR does not participate in the engagement or make decisions for the engagement team, and in practice, the EQCR does not meet the client. Our view remains that these observations remain true. However, we note the extensive further consultation performed with respect to this matter and agree that if a “fresh look” is paramount, that may not always be achievable within a two year period and therefore a three year period may be more effective to achieve that goal. Only by way of compromise we can see limited merit in extending the cooling-off period for the EQCR for Listed PIE to five years and for Non-Listed PIE to three years. The memorandum does not adequately evidence, evaluate or explain the need for this different treatment.</p>
29.	SAICA	<p>Response to 1(a):</p> <p>SAICA agrees that the balance is addressed in an appropriate way and takes the vital factors of “public interest” and a firm’s capacity into account. The concept of a “fresh look” is really at the substance of the issue and the concern of regulators and legislators is adequately addressed by the proposed cooling-off period of five years. It also addresses the issue of perceived lack of independence of the firm.</p> <p>Response to 1(b):</p> <p>SAICA is of the view that there are a limited number of people with the requisite skills. This would lead to an increase in demand for EQCR skills and an increase in their resultant salaries.</p> <p>Affordability issues for the smaller firm will increase and lead to negative pressures and competition to retain the work. The risk of the role is also increasing which may well exacerbate the problem. With tighter and increased legislative and regulatory demands, sourcing these skills will become even more difficult and the resultant impact on the smaller firms will mean less likelihood of them servicing PIE’s and a decline in their current work. On the positive side, it may give rise to external experienced consultants filling the gap where smaller firms co-source these skills as a collective.</p>
30.	SMPC	<p>We maintain our view that the role of the EQCR is quite distinct from the role of the EP such that the independence and familiarity threats created by long association of the EQCR are significantly less. Therefore, the cooling-off period for the EQCR does not need to be subject to same restrictions as the EP for listed PIEs or increased to three years with respect to non-listed PIEs.</p> <p>In our view, 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. We believe that a combined loss of knowledge of a client and the in-depth understanding of the risks for an audit will compromise audit quality, which is clearly not in the public interest.</p> <p>We are concerned that the extension of the cooling-off period for the EQCR may create a competitive disadvantage for SMPs that audit PIEs</p>

#	Source	Comment
		<p>and listed entities, which is more prevalent in some jurisdictions than in others. As noted in the Explanatory Memorandum, many national definitions of PIEs encompass small non-listed entities³, which are often audited by SMPs, who therefore may be disproportionately affected by the proposals due to the practical challenges of having more limited availability of individuals able to perform the EQCR role.</p> <p>There is a risk that the proposals could further exacerbate the market dominance of the largest accounting firms and lead to further erosion of competition and choice in the audit market for listed entities. Competition and choice tend to drive quality and innovation in audit market, and as such are in the public interest.</p> <p>The SMP Committee is also concerned about the added degree of complexity in applying the provisions given the resulting different cooling-off periods applicable to the EP, EQCR and Other KAPs on the audits of listed PIE entities and PIEs that are not listed entities. Determining which individual audit partners are subject to the provisions of the Code is likely to be challenging in practice.</p> <p>The Explanatory Memorandum notes that a “substantial body” of respondents to the original ED supported the proposal that the cooling-off period remain at two years for the EQCR on the audit of PIEs and only “some respondents” were of the view that the cooling-off period should be longer than two years. It is important the proposals are practical, do not impose undue complexity and that any changes to the Code are based on a thorough impact analysis and are supported by robust evidence and research.</p> <p>We strongly encourage the Board to re-consider the combined impact on SMPs of the proposed cooling-off period for the EQCR with the matters already agreed and that are not subject to re-exposure.</p>
31.	UKFRC	<p>No. We believe that the cooling-off period for the EQCR should be five years for all PIEs. Under the IESBA definition, non-listed PIEs include those entities that are defined by regulation or legislation as a PIE, and those entities for which the audit is required by regulation or legislation to be <u>conducted in compliance with the same independence requirements that apply to the audit of listed entities</u>. The approach proposed 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. There may, for example, be many credit institutions that are non-listed PIEs that could be considered to be of greater public interest than many small listed entities.</p> <p>In jurisdictions where the IESBA Code is adopted, this approach will require legislators and regulators to determine whether they agree that non-listed entities they have designated as PIEs are to be treated differently to listed PIEs and, if not, to introduce law or regulation to override the IESBA position. This is unhelpful for national legislators and regulators and also risks undermining confidence in the Code.</p> <p>We appreciate that the large numbers of small entities defined as PIEs can give rise to practical issues, particularly for smaller firms with few partners. However, the reliefs that IESBA is proposing are unnecessary as these concerns have already been recognized in the auditing standards. The IAASB recognises this in the International Standard on Quality Control 1 and addresses it in paragraph A50 of the application</p>

³ Please see the Federation of European Accountants (FEE) survey [Definition of Public Interest Entities \(PIEs\) in Europe](#) which demonstrates the wide diversity of definitions of PIEs applicable across European Countries.

#	Source	Comment
		<p>material for that standard.</p> <p><i>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.</i></p>
32.	WPK	<p>Response to 1(a):</p> <p>No. We basically questions the necessity of imposing the same or similar rules on the EQCR, i. e., cooling-off periods that are similar to those applicable to the EP and other KAPs. Whilst we do agree that the EQCR plays an important role on the audit engagement, we note, as described above, that the role of the EP is distinctly different from that of the EQCR. Due to his or her different role, the EQCR is not exposed to the same familiarity threats as other KAPs might be, nor to any other level of threat that would come close or be comparable to the threats faced by other KAPs. Hence, in our view an extension of the cooling-off period for the EQCR could hardly be justified.</p> <p>In addition, we would like to point out that the proposed extension of the period to five years for the EQCR of a listed entity would result in an increase by 150%, which in our view is absolutely disproportionate. The proposed extension will create challenges for audit firms to find suitable individuals to take on the EQCR role which may then unintentionally bear on audit quality. In particular, for small and medium sized audit firms it might become nearly impossible to cope with these challenges.</p> <p>Also, we would like to point out that, after many years of discussions, the EU legislator apparently did not see any need for the EQCR to rotate as the new EU Audit Legislation did not change the concept of KAP that had been introduced in 2006 by extending its scope to the EQCR.</p> <p>Furthermore, the present discussion about the precise role and responsibilities of the EQCR may likely be enriched by the outcome of the IAASB's new project on ISQC1. Therefore we would appreciate it if IESBA deferred its considerations to extend the cooling-off period for the EQCR until the comprehensive examination of the role of the EQCR has been completed by the IAASB.</p> <p>Response to 1(b):</p> <p>No. The approach taken by IESBA seems highly problematic. In our view, any approach in this area should primarily be driven by the consideration of audit quality. This aspect of audit quality does equally apply for listed and non-listed PIEs.</p> <p>As stated above, the distinct role of the EQCR does neither require nor justify to apply for the EQCR the same or even stricter cooling-off provisions than for the EP.</p> <p>Overall, as already explained in our general comments, we believe that, as currently drafted, the provisions in paragraphs 290.150A and 290.150B are overly complex and will prove extremely difficult for firms of all sizes to apply in practice.</p>

#	Source	Comment
33.	XRB	<p>The NZAuASB agrees that the Code should create robust safeguards to maintain the independence of the EQCR, noting the importance of the role of the EQCR. The NZAuASB, as articulated in response to the 2014 IESBA exposure draft, while not underestimating the role of the EQCR and other key audit partners (KAP), is of the view that the EQCR and other KAP roles differs from the engagement partner and that the IESBA should consider the appropriate and balanced response to the threats created by each role separately.</p> <p>The NZAuASB considers that the most appropriate safeguard to ensuring a ‘fresh look’ from the EQCR is the requirement to rotate off after 7 years. The NZAuASB considers that the familiarity threats are lower for the EQCR partner as compared to the engagement partner for the following reasons:</p> <ul style="list-style-type: none"> • The EQCR does not participate in the engagement but is part of the firm’s quality control processes and is not the final decision maker on an engagement. • The EQCR will spend less hours on the engagement than the engagement partner. The EQCR therefore does not have the same level of familiarity threat as the engagement partner. • The EQCR role is to provide an independent view and challenge the engagement team’s judgements and conclusions. The role of the EQCR does not create the same level of connection with the engagement and the engagement issues as the engagement partner. • The EQCR has no contact with the client. In New Zealand, the EQCR is not generally known to the audit client and has no contact with client management. Local regulations have not previously imposed more stringent rotation requirements on the EQCR whereas they have done so for the engagement partner. Local regulators have not cited any need to amend the existing cooling off period of two years. The NZAuASB notes that the EU regulation does not address the EQCR role either. The NZAuASB understands that the International Auditing and Assurance Standards Board is exploring the merits of the EQCR meeting with the client, this is not done presently. • When the cooling off periods for the EQCR and engagement partner differ, there will be a different engagement leader when the EQCR rotates back on. This reduces the familiarity threat since the role of the EQCR is to perform an objective evaluation of the significant judgements made by the engagement team and the engagement leader will have changed, meaning the EQCR is evaluating the judgements of a different team. Two years away from the engagement team is sufficient time to enable a fresh look when the EQCR returns. <p>Given that the familiarity threat is considered to be lower, the NZAuASB considers that a 2 year cooling off period is a sufficiently robust safeguard to address the familiarity threat for the EQCR and remains a balanced response when alternative safeguards are considered, bearing in mind the practical difficulties that a longer cooling off period could create, as explored in response to part b below.</p> <p>The NZAuASB therefore does not agree with the proposal to extend the cooling off period of an EQCR and does not consider that the current rotation requirements for the EQCR pose a perception problem. Rather the NZAuASB continues to support retaining the same</p>

#	Source	Comment
		<p>cooling off period for the EQCR and other KAPs, and retaining the extant requirements of a 2 year cooling off period, because the NZAuASB considers that 2 years is an appropriate safeguard for the familiarity threat posed.</p> <p>As outlined in the explanatory memorandum, the IESBA received support from a substantial body of respondents to retain the 2 year cooling off period for the EQCR. The NZAuASB has similarly had support from all constituents with whom the matter has been raised for retaining a 2 year cooling off period for the EQCR. The NZAuASB understands that the driver for the revised proposals is therefore stemming from support within the CAG (although the CAG has mixed views on the need for change) for the EQCR to be subject to the same five-year cooling off period as the engagement partner. But it is not clear as to why this proposal is needed, or what the problem with the 2 year cooling off period is. Concern has been raised by some inspection reports that inspection findings could or should have been found by the EQCR. There is no empirical data to show that the EQCR's failure to make those findings was as a result of the cooling off period being too short.</p> <p>The NZAuASB does not consider that having a shorter cooling off period for the EQCR is indicative that the role of the EQCR is unimportant, rather it recognises that the familiarity threats differ. The NZAuASB also queries the need for such a change given the lack of empirical evidence to justify it. The explanatory memorandum notes that there may be a perception problem that an effective fresh look cannot occur without a longer cooling off period. However, it is not clear if this is actually a problem, given that the role of the EQCR is as part of the firm's quality control processes rather than as a second opinion. The familiarity threat will differ as the EQCR's role is to debate the issues on the audit engagement with the engagement partner rather than with the client. While the cooling off period differs for the engagement partner and the EQCR, the EQCR will be having that debate with different engagement partners. If the cooling off period aligns and the same engagement partner and EQCR are used in similar rotation cycles, then potentially the same people will be debating the same client matters on each rotation.</p> <p>All key audit partners, by definition, are those who make key decisions or judgements on significant matters with respect to the audit. The IESBA is not however proposing to extend the cooling off period for other key audit partners. The NZAuASB is supportive of retaining the two year cooling off period for other key audit partners, in recognition of the different familiarity threat that exist, however queries why there is a focus on the EQCR. The NZAuASB considers that the familiarity threats for the EQCR are more similar to those of other key audit partners than to the engagement partner.</p> <p>The NZAuASB considers that extending the cooling off period may have unintended consequences for audit quality, as it will add additional supply pressure to the number of EQCRs available. The IESBA has acknowledged this concern in the explanatory memorandum. This is a significant issue for a smaller jurisdiction like New Zealand, where there are a number of PIEs, given the New Zealand definition of a PIE which captures many unlisted entities. The issue is of concern to the NZAuASB as the standard setting body for New Zealand.</p> <p>The unintended consequence of increasing supply pressures is that firms will be forced to require more junior partners to perform the EQCR. A possible outcome is that this will result in a more junior partner becoming the EQCR for a more senior partner. Firms take care to match</p>

#	Source	Comment
		<p>the EQCR to the engagement partner to enable an effective challenge or evaluation of the decisions made by the engagement partner. The NZAuASB is concerned that the effectiveness of the EQCR role will be diminished if the review is not performed by a suitably experienced engagement partner with appropriate authority to objectively evaluate significant judgements and conclusions made by the engagement team. Requiring less experienced partners without the relevant industry knowledge to perform the review increases the risk of reducing the quality of the review, with a negative impact on audit quality and appears to be in conflict with the IAASB's drive to enhance audit quality.</p> <p>Some practical repercussions of extending the cooling off period that have been raised include:</p> <ul style="list-style-type: none"> • Requiring partners to move around more in order to meet the requirements. Not all partners would be able or willing to relocate in order to meet rotation requirements and this may ultimately impact on the attractiveness of the profession. • Tighter rotation rules for engagement partners and the EQCR in combination, will be challenging for all firms. In a relatively small market such as New Zealand, even the larger firms are continually dealing with perceived conflicts of interest. For example, an engagement partner and in some cases an EQCR cannot work on more than one client in the same industry. Extending the cooling off period for both the engagement partner and the EQCR will compound this problem. <p><u>The IAASB's work on enhancing audit quality</u></p> <p>The NZAuASB is concerned with how the proposals to extend the cooling off period of the EQCR interrelate to the audit quality matters that the IAASB are considering in the <i>Invitation to Comment, Enhancing Audit Quality in the Public Interest</i>, and what actions the IAASB should take with respect to quality control, including exploring actions related to the EQCR. One aspect being considered is the qualifications and experience required to perform the EQCR role. If the EQCR is to be effective, it must be performed by suitably experienced individuals. If suitably experienced individuals are key to the effectiveness of the EQCR role as part of the firm's internal quality process, adding additional supply pressure by requiring extended cooling off time frames will not enhance the quality of the EQCR.</p> <p>The NZAuASB urges that the IESBA works closely with the IAASB in establishing the cooling off period for the EQCR to ensure that the right balance is achieved in terms of improving the effectiveness of the EQCR function within the firms. This requires a balance between ensuring that the EQCR is performed by suitably experienced individuals as well as requirements to ensure that the EQCR is performed by an independent practitioner, with sufficient safeguards to protect against familiarity threats. The NZAuASB does not consider that extending the cooling off period to 5 years for the EQCR of listed entities will achieve the correct balance. In fact, even extending the cooling off period from 2 to 3 years for non-listed public interest entities will add supply pressures.</p> <p><u>Distinction between listed and non-listed PIEs</u></p> <p>The NZAuASB is strongly opposed to creating a distinction between listed and non-listed PIEs, even though in the New Zealand context, PIEs include a large number of unlisted entities. Whilst the NZAuASB understands that this distinction is being made to compensate for practical supply challenges and was developed as a compromise solution, it is strongly of the view that creating sub-levels and inconsistencies for PIE engagements is adding unnecessary complexity, and that alternative options should be explored. There was</p>

#	Source	Comment
		<p>substantial support for applying the cooling off period for the engagement partner for all PIEs consistently. This approach supports the distinction throughout the extant code between requirements that apply to PIEs as compared to non-PIEs. All PIEs, by their nature, are entities of public interest, and there has been no previous distinction between listed and non-listed PIEs. Retaining a consistent approach to all PIEs is favourable as it provides clarity, consistency and stability. Distinguishing between the PIE requirements is conceptually problematic and will become very complicated to comply with in practice.</p> <p>Taken as a whole, the proposals that allow for variation between regulators, jurisdictions and type of PIEs, the NZAuASB is concerned that the proposals are becoming increasingly complex and rules driven. The focus on a bright line rule of time on and time off, that is entity specific, detracts from requiring the practitioner to stand back and assess whether familiarity threats have been mitigated for that engagement. The NZAuASB would much prefer to see a principled approach to addressing the familiarity threats with the onus on the practitioner to justify the time on time off ratio, based on the risks and circumstances of the engagement rather than overly complicated and possibly overly prescriptive rules.</p> <p><u>Alternative solution</u></p> <p>The NZAuASB is concerned at the overall approach proposed. The proposals appear overly rules-driven and unnecessarily complex with overall implications for the audit process, supply risks in a country such as New Zealand and other unintended consequences that we have identified from constituent's feedback.</p> <p>The NZAuASB encourages a more principles based approach that requires the firm's internal processes to consider whether the familiarity threat for the EQCR has been appropriately addressed rather than more complex and convoluted rules, that will become increasingly complex to apply, increasing the compliance costs to the firm, and potentially negatively impacting on the quality of the EQCR performed. The NZAuASB considers that there is justification for a shorter cooling off period for the EQCR than the engagement partner given that the familiarity threats for the EQCR are lower, because the EQCR is not usually known to the client, will spend less hours on the engagement than the engagement partner, does not participate in the engagement or make final decisions.</p>

Question 2

Do respondents support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D?

#	Source	Comment
1.	ACCA	<p>In our original response, we supported extending the cooling-off period to five years for an EP on the audit of all PIEs (listed and non-listed). However, we expressed concerns as to how the five-year cooling-off period for an EP might be implemented in some jurisdictions where alternative requirements may exist.</p> <p>We therefore welcome the recognition of 'jurisdictional safeguards' which allows a relaxation in the cooling-off period where alternative national or regional requirements exist. We support the proposal to allow a reduction in the cooling-off period for EPs on the audit of PIEs to three years where an independent standard setter, regulator or legislative body has evaluated the specific threats and determined alternative safeguards are more appropriate.</p> <p>With regard to EQCRs, we refer to our response to Question 1 above in which we advocate a cooling-off period of two or three years, so long as the requirements for EQCRs are aligned with the requirements for KAPs.</p>
2.	AICPA	<p>We support the IESBA's proposal to reduce the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the specified conditions. We agree that there are a significant number of jurisdictions that have more restrictive rotation requirements for these KAPs as well as jurisdictions that require mandatory firm rotation that should be taken into account. We believe it is appropriate for the Code to recognize these alternative robust safeguards implemented in other jurisdictions so that the requirements are not over-complicated and burdensome.</p>
3.	APESB	<p>APESB is strongly supportive of the proposal for a reduction in the cooling-off period under the conditions specified in 290.150D. We are cognizant that the IESBA has favourably considered our proposals to the 2014 Exposure Draft.</p>
4.	BDO	<p>We support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs under the conditions specified in 290.150D.</p>
5.	CAANZ	<p>We do not support extending the requirements to PIEs. However, if the requirements are extended to PIEs, then we believe a shorter cooling off period as determined by the local regulators, standard setters and legislators is appropriate.</p>
6.	CPAA	<p>We support the retention of the two year cooling off period in the absence of any evidence to the contrary. However, if IESBA is going to extend the cooling off period we support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D.</p>
7.	CPAC	<p>We generally support the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D.</p>

#	Source	Comment
8.	Crowe	We agree with this proposal.
9.	DTT	<p>We support this proposal and the Board's efforts in recognizing the punitive effect that the provisions could have in jurisdictions where the overlay of the Code on top of local regulations results in more restrictive requirements than intended under either the Code or local regulations and to permit a shorter time-off when the engagement partner is limited to serving a shorter time-on under local regulation.</p> <p>It is yet to be seen however whether, in practice, the proposal can be implemented in a consistent and useful manner. Depending on a jurisdiction's rules, the application of this alternative approach may still lead to disproportionate outcomes between non-listed and listed PIEs. For example, where a jurisdiction only requires a shorter time-on period for the engagement partner on the audit of a listed entity, the cooling-off period for that engagement partner would be three years, but five years for the engagement partner on the audit of a non-listed PIE.</p>
10.	EY	Yes. As noted in the response to question 1 above, we believe this should be the approach for key audit partners that served only as an EQCR during the permitted seven year period, and thus we support the proposal set out in paragraph 290.150D which allows for the reduction of the cooling-off period from five to three years in certain circumstances. We believe this proposed provision appropriately acknowledges the existing jurisdictional diversity in approaches in this area while at the same time establishing a reasonable ethical standard in jurisdictions that have not yet implemented regulatory safeguards.
11.	FAR	If the IESBA adopts the new regulations, FAR accepts the proposal to allow for a reduction in the cooling off period to three years. However, it must be made clear that the proposal does not solve the problems raised by the dual set of rules that would result from the introduction of these new IESBA-rules.
12.	FEE	<p>Given that our Federation is not supportive of an extension of a five-year cooling-off period, we think that this approach represents an improvement where it avoids setting another layer of requirements; especially in the EU where the current cooling-off period for KAPs is set to three years and is not applicable to EQCR, as mentioned above.</p> <p>Nevertheless, the introduction of jurisdictional safeguards represents a rules-based approach, adding more complexity to this area and therefore deviating from the overall purpose, which should be to improve the understandability and usability of the Code.</p> <p>That said, we refer to our general comment stating that 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.</p>
13.	FSR	Having in mind that we are not supportive of an extension of a five-year cooling off period, we think that this approach represents an improvement: It allows avoiding setting another layer of requirements, especially in the EU where the current cooling off period for key audit partners (KAPs) is set to three years.

#	Source	Comment
		The introduction of jurisdictional safeguards represents a rule-based approach, adding more complexity to this area and therefore deviating from the overall purpose that should be improving the understandability and usability of the Code. A high level inter-national 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.
14.	GT	Grant Thornton supports the proposal to allow for a reduction in the cooling-off period for EPs and EQCRs on audits of PIEs to three years under the conditions specified in paragraph 290.150D.
15.	HKICPA	In Hong Kong, we do not have local legislations or regulations that impose additional requirements to address threats created by long association with audit client. Therefore, we do not have direct responses to Questions 2 and 3.
16.	ICAEW	<p>One of the great strengths of a principles based approach is the recognition that in particular circumstances, there can be more than one way of achieving an objective. We are comfortable, therefore, with the notion of including allowances for jurisdictional equivalents (in essence a set of alternative safeguards) in the code. However, the detailed conditions specified to apply the jurisdictional equivalent make an already complicated set of rotation requirements even more complex and rules-based. These could at least be re-written more as a set of principles.</p> <p>It is unclear, for example, why an independent regulatory inspection regime is needed to take advantage of the alternative safeguards of a shorter on-period (ie 5 on, 3 off, rather than 7 on, 5 off, which is the default requirement).</p> <p>In the case of the EQCR the jurisdictional equivalent has undoubtedly been introduced as another attempt to mitigate the effect of the extension to of the off-period to 5 years, that we refer to in our response to Q1 above. This further complexity adds to the indication that the extension fully to 5 years is unnecessary.</p>
17.	ICAS	Although this may be viewed as increasing complexity we are supportive of this proposal given the introduction of the recent EU audit legislation.
18.	ICAZ	<p>We agree with the proposal.</p> <p>If the EP and EQCR has been involved for a period less than the stipulated seven years it is also justifiable for the cooling off period to be less than the proposed five years. We however are of the opinion that the period should only be for two years since we suggested a maximum of a three year cooling off period for listed PIEs.</p>
19.	ICPAK	<i>We are agreeable with the proposals as set-out in the ED.</i>
20.	IDW	As stated in the accompanying letter, whilst we support IESBA's initiative concerning the recognition of alternative safeguards, we believe IESBA ought to recognize that, provided they are sufficiently robust so as to eliminate or reduce the threat to an acceptable level, alternative

#	Source	Comment			
		<p>safeguards may fully replace certain specific provisions of the Code.</p> <p>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. It seems counterintuitive for IESBA to continue to require additional “diminished” requirements of its Code to supplement those jurisdictional alternatives that do address the threat sufficiently in their own right.</p> <p>We do however agree that the Code should maintain a minimum set of requirements to deal with threats not satisfactorily covered by national alternatives or equivalents.</p>			
21.	IRBA	<p>South Africa will be eligible for this provision. The South African Companies Act, 2008, (Act No. 71 of 2008) Section 92 already provides for a shorter period, as it requires the individual engagement partner on an audit to rotate after five years. This is followed by a two-year cooling-off period.</p> <p>These proposed amendments will be welcomed by registered auditors in South Africa as it would be a relief that the previously proposed Code rotation requirements take into consideration aligned to the local jurisdictional requirements.</p> <p>However, we note that this addition will create greater complexity to the cooling-off period attached to a rotation schedule.</p>			
22.	JICPA	We support the proposal.			
23.	KPMG	Yes, we support the proposal to reduce the cooling-off period as specified in the conditions in paragraph 290.150D.			
24.	MICPA	Yes, MICPA supports the proposal.			
25.	Nexia	<p>We commend the IESBA for recognising that jurisdictional legislative or regulatory requirements ("Jurisdictional Safeguards") exist. We generally support the proposal that the cooling-off period for EPs and EQCRs should be reduced where Jurisdictional Safeguards referred to in paragraph 290.150D exist.</p> <p>However, in our opinion, where Jurisdictional Safeguards exist, they should override, or take precedence over, the requirements of the Code. That is, we propose that the Code applies except where Jurisdictional Safeguards exist, in which case the local requirements would apply. We believe that local jurisdictions are best placed to assess and determine their own requirements relating to time-on and cooling-off periods. Such an approach would provide safeguards within the Code where jurisdictional safeguards do not exist but give primacy to legislative or regulatory requirements in those jurisdictions where they do exist.</p> <p>To illustrate for one jurisdiction - the current jurisdictional safeguards in Australia overlayed with the requirements of the Code would result in the following rotation outcomes:</p> <table border="1"> <tr> <td></td><td>Current AUS requirements</td><td>2016 Re-proposal outcome</td></tr> </table>		Current AUS requirements	2016 Re-proposal outcome
	Current AUS requirements	2016 Re-proposal outcome			

#	Source	Comment				
			Listed PIE	Non-Listed PIE	Listed PIE	Non-Listed PIE
		EP	52	72	53	75
		EQCR	52	72	53	73
		OtherKAPs	52	72	52	72
		<p>Based on the 2016 ED proposals, the overlay of legislative requirements would result in the cooling-off period extending from two years to three years for listed PIEs.</p> <p>However, we remain concerned that the proposal results in a significant extension of the cooling-off period for non-listed PICES when compared with the current requirements of the Code. We are also concerned that the onerous requirements relating to non-listed Piles may encourage some firms to reassess whether those entities are PIEs.</p>				
26.	NZAG	Please refer to our response to question 1.				
27.	PwC	<p>We support this proposal. It is appropriate that the Code recognises the overall safeguards that regulators in jurisdictions have put in place. Permitting (and requiring) a cooling off period of three years would be consistent with our view expressed above, should the Board decide to revise its proposals accordingly.</p> <p>We recognise, however, that this approach will inevitably fail to deal with all jurisdictional differences and that the proposals will have an impact on application of the partner rotation rules in jurisdictions.</p>				
28.	RSM	We agree with these proposals because they correctly recognise the actions in many jurisdictions to address familiarity risk by requiring a number of different safeguards be implemented, including firm rotation. In addition, this proposal does not relax the seven year limit, which we consider to be in place for sound reasons and has been generally accepted by the profession.				
29.	SAICA	<p>Yes, SAICA supports the proposals. The provisions are positive when aligning legislative requirements for rotation of the professional accountant with the requirements of the Code. A mismatch in those periods may lead to confusion and introduces unnecessary difficulties in complying with the law and the Code.</p> <p>In South Africa, the Companies Act, 2008 (Act No 71 of 2008) Chapter 3 Part C section 92 deals with the rotation of auditors and this together with our strong regulator IRBA the proposed provision will allow some reprieve. In our view this is a practical approach given the scarcity of experience and skills in the market discussed above.</p>				
30.	SMPC	The SMP Committee supports 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 agree that if a jurisdiction, after following appropriate due process, has reached a robust but different solution to				

#	Source	Comment
		<p>that reached in the Code, it would be reasonable and in the public interest for the Code to recognize an alternative, while maintaining a minimum set of requirements. This flexibility will foster acceptance of the Code as it will allow it to work in conjunction with, as opposed to in competition, to well-established national and/ or regional requirements.</p> <p>We suggest the IESBA minimize the risk of confusion by making it clearer that this particular requirement does not need to be implemented in all jurisdictions. A regulator may have determined a different set or combination of safeguards to those required in the Code and requirement 290.150D could be interpreted as an additional provision as it is currently worded.</p> <p>We agree with the conditions specified in subparagraphs 290.150D (a) and (b).</p>
31.	UKFRC	<p>No. We do not agree that the specified conditions - an independent regulatory inspection regime and either a mandated time on period shorter than seven years or mandatory firm rotation / retendering at least every ten years – justify reducing the cooling-off period for key audit partners.</p> <p>One of the significant threats that rotation of key audit partners is intended to address is the familiarity threat, where close personal relationships are developed with the audited entity's personnel. Rotation of firms does not address that 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 the requirements imposed directly on individuals. Also, mandatory retendering without mandatory rotation, as would be possible under 290.150D, may provide no additional safeguard in relation to threats related to individual key audit partners. An independent regulatory inspection regime contributes to general oversight and quality control but could not, in our view, 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.</p> <p>The IESBA should determine what, in principle, it believes is the appropriate cooling-off period required (we support five years) and implement that in the Code. We do not believe it would be appropriate to compromise that position in order to seek to obtain acceptance in jurisdictions that may view less stringent requirements as appropriate.</p>
32.	WPK	<p>Partially yes. We are pleased to note that IESBA has revisited this matter and now tries to take a more holistic approach as described in our introductory remarks. The revised proposals basically take into account that jurisdictions might have reached a robust and effective but different approach to that in the Code.</p> <p>Consequently, we appreciate the new approach stipulating provisions that allow for a reduction in the cooling-off period under certain circumstances. By means of this reduction, the substantial amount of extra work and additional economic burdens for all audit firms and auditors especially of SMPs, that otherwise would have been created, can be avoided.</p> <p>This new approach is also very important against the background that the EU audit reform will cause a significant increase in the number of entities that will be treated as PIEs (for further details, please cf. our comment letter of November 12, 2014).</p> <p>However, 290.150D of the Re-ED is not sufficiently clear, and may be interpreted in a way that the extension of the cooling-off period for the</p>

#	Source	Comment
		EQCR for listed entities may lead to odd results, e. g., as the EU legislation does not require the EQCR to rotate, it can be argued that for him or her 290.150D does not apply, and thus he or she may be subject to shorter time-on and longer cooling-off periods than the EP.
33.	XRB	<p>Yes, the NZAuASB considers that it is appropriate to reduce the cooling off period if the time-on period is reduced. The NZAuASB is supportive of a more flexible approach as proposed, allowing flexibility at a jurisdictional level and commends the IESBA for listening to the feedback received in response to the 2014 exposure draft. The NZAuASB previously recommended that the IESBA explore a more flexible approach and is therefore more supportive of a proposal that permits some flexibility. The NZAuASB considers that three years is an appropriate cooling off period where the time on period is reduced. Feedback received from New Zealand constituents in response to the IESBA's proposals is consistent with the NZAuASB's views expressed above.</p> <p>However, the NZAuASB has concerns about the conditions proposed as it seems inconsistent to limit the flexibility of time on time off to where the national standard setter or regulator imposes a restriction on the time on period. Where a firm decides to rotate an individual off an engagement after 6 years instead of 7, why should that partner be subject to a cooling off period of 5 years and not 3? This is explored in more detail in response to question 3 below.</p>

Question 3

If so, do Respondents agree with the conditions specified in subparagraphs 290.150D(a) and (b)? If not, why not, and what other conditions, if any, should be specified?

#	Source	Comment
1.	ACCA	We refer to our response to Question 2 above. If the cooling-off period for EQCRs was aligned to that of KAPs, paragraph 290.150D would only be relevant to EPs. We agree with the conditions specified in subparagraphs 290.150D (a) and (b), as they relate to an EP. Smaller firms may have resource issues when a need to rotate staff arises, but the length of the cooling-off period does not aggravate this to any great extent.
2.	AICPA	We agree with the conditions specified in subparagraphs 290.150D (a) and (b). We are not aware of any other conditions besides that of a shorter rotation period, mandatory firm rotation or retendering at least every ten years that would be appropriate for allowing a reduction in the cooling-off period.
3.	APESB	APESB agrees with the conditions specified in subparagraphs 290.150D (a) and (b). We acknowledge that the IESBA has recognised jurisdictional safeguards adopted in local jurisdictions (e.g. the shorter 5-year time-on period for listed entities imposed by the Australian Corporations Act).
4.	BDO	We agree with the conditions specified in subparagraphs 290.150D (a) and (b).
5.	CAANZ	We believe that the local regulators, standard setters and legislators should be able to develop requirements that they believe are appropriate to support audit quality in their jurisdictions. Therefore we believe that specific requirements to reduce the cooling off period should not be imposed by the code.
6.	CPAA	Yes we support the conditions, subject to our general comments above.
7.	CPAC	We generally agree with the conditions specified in subparagraphs 290.150D (a) and (b).
8.	Crowe	We agree with the conditions.
9.	DTT	We agree with the conditions specified in subparagraphs 290.150D(a) and (b).
10.	EY	Yes. We believe the conditions of an independent regulatory inspection regime; and either a time-on period shorter than seven years or mandatory firm rotation or re-tendering of the audit appointment at least every ten years are appropriate.
11.	FAR	FAR agrees to the conditions specified.
12.	FEE	We refer to our response to question 2. As stated above, IESBA did not include joint audits in the proposal as it would add unnecessary

#	Source	Comment
		complexity, while acknowledging that it “could lead to inconsistency in application of the alternative provision in the EU”. The reduction in complexity does not outweigh the inconsistency that it creates and therefore joint audit should be mentioned as a condition if the jurisdictional safeguards are to be maintained.
13.	FSR	We refer to our response to question 2. However, as stated in the Explanatory Memo-randum, IESBA did not include joint audits in the proposal as it would add unnecessary complexity, while acknowledging that it “could lead to inconsistency in application of the alternative provision in the EU”. We are of the view that the reduction in complexity does not outweigh the inconsistency that it creates and therefore joint audit should be mentioned as a condition if the jurisdictional safeguards are to be maintained.
14.	GT	Grant Thornton agrees with the conditions specified in subparagraphs 290.150D (a) and (b).
15.	ICAS	We agree with the conditions specified in these subparagraphs.
16.	ICAZ	We also agree with conditions specified in subparagraphs 290.150D (a) and (b).
17.	ICPAK	<i>We are agreeable with the proposals as set-out in the ED.</i>
18.	IDW	In our view a principles-based approach would be better suited to dealing with the issue of alternative safeguards. The conditions in subparagraphs 290.150D (a) and (b) reflect the key measures introduced recently under EU legislation, but – in being rules-based – do not provide flexibility, for situations in which joint auditors are used in the EU, nor allow for any further jurisdictional alternatives be introduced in the future.
19.	IRBA	While we do not have an objection to these provisions, we note that this is the first time that the IESBA has introduced the requirement to implement “an independent regulatory inspection regime”. We question if criteria for a regulatory inspection regime should be provided in the IESBA Code or whether there is an intention to use the work of the <i>International Forum of Independent Audit Regulators</i> (IFIAR).
20.	JICPA	We agree with the conditions.
21.	KPMG	Yes, we agree with the conditions specified related to the applicability of jurisdictional safeguards.
22.	MICPA	The Institute agrees with the conditions specified in subparagraphs 290.150D(a) and (b).
23.	Nexia	We have no concerns regarding the proposal.
24.	NZAG	Please refer to our response to question 1.
25.	PwC	See response to Q2.

#	Source	Comment
26.	RSM	We agree with the conditions specified and would not extend them to include Joint Audit.
27.	SAICA	<p>The code will now require an EQCR cooling off period of a maximum of five years and a minimum of at least three years, which is stricter than the current situation. This means it will impact the status quo but SAICA believes it is in the public interest to ensure an EQCR provides a fresh look, and the independence of mind required to carry out the role effectively.</p> <p>Please do note that in South Africa, the rotation of the auditor is mandatory for certain entities to rotate every five years, with a cooling off period for two years.</p> <p>The proposals will have an impact on non-mandated entities to a three years cool-off period which is longer than the mandated cool-off of 2 years, which in SA specifically could lead to confusion and unwillingness to comply.</p>
28.	SMPC	See response to Q3.
29.	UKFRC	See above – we do not agree with the proposal or with the conditions specified.
30.	WPK	<p>We agree only partly.</p> <p>As explained above, we regret that IESBA has not sufficiently taken the EU Audit Reform in-to account. Particularly joint audits are not included as an alternative safeguard. The Basis For Conclusions and Explanatory Memorandum states that IESBA decided not to include joint audits in the proposal because “it would add unnecessary complexity” (note 82).</p> <p>In our view, the consideration of joint audits would not add more complexity than the other alternatives of the new approach taken by IESBA. In addition, omitting joint audits would jeopardize the consistency with the EU Regulation.</p>
31.	XRB	<p>No, the NZAuASB does not agree with the conditions specified as this will result in overly restrictive cooling off requirements for a firm that elects to rotate an individual off after say 6 years as engagement partner (this partner would still be subject to the 5 year cooling off period) as opposed to a firm that is required by a regulator or some other regulatory body to rotate off after less than 7 years who could then cool off for 3 years. This could have the unintended consequence of encouraging national standard setters or regulators to reduce the time on period to allow for more flexibility. In theory, a firm only needs 3 partners (to cover the role of engagement partner and EQCR) per client to meet a 6-year time on 3-year time off rotation cycle, whereas this ratio increases for different combinations.</p> <p>This level of specificity removes the focus on whether the familiarity threats have been mitigated and places unnecessary focus on a number of years. If a firm could elect to rotate off after 6 years, there is no difference to the familiarity threats than if regulatory requirements impose this time on restriction. It therefore seems overly rules driven to allow more flexibility where regulation imposes a shorter time on period, than where time on restrictions are self-imposed by the firm or practitioner. Too rigid an approach may have unintended consequences.</p> <p>From a standard setting perspective, a more flexible approach that recognises that the firm may also reduce the time on period to accommodate for partners for taking maternity or paternity leave, or other practical examples of where partners are temporarily unavailable</p>

#	Source	Comment
		<p>(due to illness or secondment) would be more practical to apply and appropriately address the threat to familiarity. If the IESBA recognises that the time-on time-off period needs to be considered in conjunction, there is no justification in principle for distinguishing between a firm imposed time on period as compared to a regulatory imposed time on period.</p> <p>For these reasons, the NZAuASB recommends that the conditions in paragraph 290.150D need reconsideration and should allow for the application of professional judgement as to whether a shorter time on period justifies a shorter cooling off period.</p> <p>The NZAuASB urges the IESBA to consider an alternative condition, as outlined below:</p> <p>"290.150D An independent standard setter, regulator or legislative body <u>or the firm itself</u> may have evaluated the familiarity and self-interest threats to independence that arise from long association with an audit client and determined that a different set or combination of safeguards to those required in this Code are appropriate to reduce the threats to an acceptable level. 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:</p> <p>(a) An independent standard setter, regulator or legislative body has implemented an independent regulatory inspection regime; and</p> <p>(b) Established requirements for either:</p> <p>(i) TheA time-on period for the engagement partner or the individual responsible for the engagement quality control review is 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</p> <p>(ii) <u>there are established requirements for</u> Mandatory firm rotation or mandatory re-tendering of the audit appointment at least every ten years."</p> <p>If the IESBA pursues the option as proposed, the NZAuASB urges the IESBA to provide some additional guidance as to what is meant by "regulator or legislative body" and "independent inspection regime". For example, would this include requirements established by the listing rules of a stock exchange. Additional guidance to identify the types of additional regulatory safeguards that are expected to be in place in order for the conditions to be met would assist to promote consistency.</p> <p>The NZAuASB recommends that the IESBA consider ways to make it clearer within the text of the Code, that the cooling off period of the EQCR would not exceed that of the engagement partner where the conditions in 290.150D apply for the engagement partner. It was only apparent how this would work after reading the draft questions and answers, and therefore the NZAuASB does not consider that the requirements are sufficiently clear on their own.</p>

Question 4

Do respondents agree with the proposed principle "for either (a) four or more years or (b) at least two out of the last three years" to be used in determining whether the longer cooling-off period applies when a partner has served in a combination of roles, including that of EP or EQCR, during the seven-year time-on period (paragraphs 290.150A and 290.150B)?

#	Source	Comment
1.	ACCA	<p>The complexity within proposed paragraphs 290.150A and 290.150B highlights the problems that arise from an over-prescriptive approach to independence and objectivity, and the potential costs relating to a lack of clarity. If a KAP was EP at any time within the time-on period, he or she is likely to have a perceived status (with the client and within the firm), which makes the complicated provisions proposals irrelevant.</p> <p>In our original response we expressed concern that the requirement for an EP to cool-off for five years if they have served any time during the seven-year time-on period as a KAP seemed unreasonable. Instead, we advocated a default cooling-off period of five years for all audit partners in conjunction with a risk-based approach. If the IESBA were to adopt this approach, it would not be necessary to introduce complex requirements relating to service in a combination of roles during the seven-year time-on period.</p>
2.	AICPA	We agree with the proposed approach to be used in determining whether the longer cooling-off period should apply when the partner has served in a combination of roles.
3.	APESB	APESB is very supportive of the revised proposals as the IESBA has considered the length of the time served as an EP or EQCR when determining the circumstances in which the maximum cooling-off period for the EP or EQCR is triggered.
4.	BDO	We agree with the proposed principle to be used in determining whether the longer cooling-off period applies when the partner has served in a combination of roles, including that of EP or EQCR, during the seven-year time-on period.
5.	CAANZ	We agree that that the principle appears reasonable.
6.	CPAA	We are of the view that the added complexity is unlikely to provide a more robust safeguard and we have not identified any evidence to indicate that it would. In addition, the increased cooling off period may have negative consequences rather than improvements in audit quality. We therefore do not support the increase of the cooling off period for KAPs who may satisfy the stated criteria.
7.	CPAC	We generally agree with the proposed principle described above. However, we noted that making the rules easier to understand and apply was identified as particularly important for those areas that are inherently more complicated and that in the absence of empirical evidence, the distinguishing of the requirements where there had been a combination of roles was identified as arbitrarily increasing the complexity of the requirements.
8.	Crowe	We agree with the proposed principle.

#	Source	Comment
9.	DTT	We understand the rationale for including such a provision and we are appreciative of the Board's efforts to amend the original proposal which was overly restrictive. Nonetheless, this proposal, together with the other provisions, cumulatively results in a set of rules that is extremely confusing to understand and will be equally confusing to apply. In the interest of reducing complexity, the Board could consider applying either four years or more, or at least two out of the last three years, rather than both criteria.
10.	EY	Yes. We agree with the approach taken in paragraphs 290.150A and 290.150B and believe this is an improvement from the original proposal that a KAP who served as an EP at any time during the seven-year time-on period be required to cool off for a period of five years which we consider too restrictive and inappropriate.
11.	FAR	FAR agrees with the proposed principle, but would like to underscore that FAR is against different cooling-off periods as it adds to the complexity of the requirements, putting additional administrative burdens on the practitioners. FAR cannot see that how the benefits of the different cooling-off periods proposed would outweigh the disadvantages. As long as the cooling-off periods are not set to more than two-three years, they should all be the same.
12.	FEE	Although we understand the underlying reasoning, we are not convinced that this requirement is necessary. This proposal is rules-based and likely to be excessive in many circumstances. As stated in the covering letter, 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.
13.	FSR	Although we understand the underlying reasoning, we are not convinced that this re-quirement is necessary. This proposal is rule-based and likely to be excessive in many circumstances. 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.
14.	GT	<p>Grant Thornton agrees with the Board's proposed principle regarding "four or more years" to be used in determining whether the longer cooling-off period should apply when a partner has served in a combination of roles, including that of EP or EQCR during the seven-year time-on period.</p> <p>However, we do not support the proposed principle of "at least two out of the last three years" be used in determining whether the longer cooling-off period should apply when a partner has served in a combination of roles, including that of EP or EQCR during the seven-year time-on period.</p> <p>We do not believe serving two of the last three years as an EP, EQCR, or any combination thereof, increases the familiarity and self-interest threat that can arise from a KAP's long association with an audit or assurance client. We agree that familiarity poses a threat to auditor independence and therefore to audit quality. We also acknowledge the concern of many stakeholders, including the regulators, in</p>

#	Source	Comment																											
		<p>developing partner rotation requirements that are sufficient to safeguard independence, objectivity, and professional scepticism. However, the Board's proposal creates a complex framework that adds complexity in implementation to an already complex area.</p> <p>Therefore, we are encouraging the Board to eliminate this provision from the proposal.</p>																											
15.	HKICPA	<p>We agree in principle that a key audit partner ("KAP") should be subject to the longer cooling-off period if he or she has served as the EP of an audit for a majority of the seven-year time-on period. We consider that "four or more years" fairly and reasonably represents a majority of the seven-year time-on period.</p> <p>However, we have reservation about the second criterion (i.e. at least two out of the last three years) to be used in determining which cooling-off period applies when a KAP has served in a combination of roles during the time-on period. We do not think that merely a two-year role as the EP in the last three years of the time-on period should warrant a much longer cooling-off period. We consider that this criterion adds unnecessary complexity to the rotation requirements.</p> <p>Consider the following scenarios in relation to the cooling-off period for the KAP of PIEs:</p> <table><tr><th>Scenario</th><th>Year 1</th><th>Year 2</th><th>Year 3</th><th>Year 4</th><th>Year 5</th><th>Year 6</th><th>Year 7</th><th>Cooling-off period</th></tr><tr><td>1</td><td>EP</td><td>KAP</td><td>KAP</td><td>EP</td><td>EP</td><td>KAP</td><td>KAP</td><td>2 consecutive years</td></tr><tr><td>2</td><td>EP</td><td>KAP</td><td>KAP</td><td>KAP</td><td>EP</td><td>EP</td><td>KAP</td><td>5 consecutive years</td></tr></table> <p>Both partners in the above scenarios served as the EPs for 3 years. Because the partner in the second scenario served as the EP for "two out of the last three years", he or she is subject to a cooling-off period which is 3 years more than the partner in the first scenario. However, there seems to have little justification for the longer cooling-off period for the partner in the second scenario.</p> <p>Accordingly, we recommend that the IESBA retains only the first criterion (i.e. four or more years) in determining whether longer cooling-off period applies when a KAP has served in a combination of roles during the time-on period. We also suggest to emphasis that firms are required to evaluate the significance of threats according to the general provisions and determine, based on firm's evaluation of threats, whether the longer cooling-off period applies even if the KAP has served less than 4 years as the EP during the time-on period.</p>	Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Cooling-off period	1	EP	KAP	KAP	EP	EP	KAP	KAP	2 consecutive years	2	EP	KAP	KAP	KAP	EP	EP	KAP	5 consecutive years
Scenario	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Cooling-off period																					
1	EP	KAP	KAP	EP	EP	KAP	KAP	2 consecutive years																					
2	EP	KAP	KAP	KAP	EP	EP	KAP	5 consecutive years																					
16.	ICAEW	<p>Again, the proposals seem to add complexity to complexity. In substance, the '4 years in last 7 or 2 years in last 3' rule could be rewritten as 'the majority of the period'. The latter would be more in keeping with a principles based code.</p>																											
17.	ICAS	<p>Whilst we understand what the IESBA is trying to achieve in this regard we believe this proposal will introduce unnecessary complexity.</p>																											

#	Source	Comment																											
		<p>Additionally, if one looks at the final examples on page 23 of the exposure draft, it is questionable, given the circumstances in each that the cooling off period on the latter should be shorter than the former, given the respective roles held in each.</p> <table><tr><th>Year 1</th><th>Year 2</th><th>Year 3</th><th>Year 4</th><th>Year 5</th><th>Year 6</th><th>Year 7</th><th>Cooling-off Period</th><th>NOTE</th></tr><tr><td>KAP</td><td>KAP</td><td>KAP</td><td>EQCR</td><td>EQCR</td><td>EQCR</td><td>EQCR</td><td>5 consecutive years</td><td>(2)</td></tr><tr><td>EP</td><td>KAP</td><td>KAP</td><td>EP</td><td>EP</td><td>KAP</td><td>KAP</td><td>2 consecutive years</td><td>(3)</td></tr></table>	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Cooling-off Period	NOTE	KAP	KAP	KAP	EQCR	EQCR	EQCR	EQCR	5 consecutive years	(2)	EP	KAP	KAP	EP	EP	KAP	KAP	2 consecutive years	(3)
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Cooling-off Period	NOTE																					
KAP	KAP	KAP	EQCR	EQCR	EQCR	EQCR	5 consecutive years	(2)																					
EP	KAP	KAP	EP	EP	KAP	KAP	2 consecutive years	(3)																					
18.	ICAZ	We agree with proposed principle.																											
19.	ICPAK	<i>We are agreeable with the proposals set out in the ED</i>																											
20.	IDW	<p>In our view, the provisions in paragraphs 290.150A and B are overly complex and will likely prove extremely difficult for firms of all sizes to apply in practice.</p> <p>Given that we do not support the proposed extension of the cooling-off period for a KAP who assumes the role of EQCR, we do not believe that the proposed arbitrary construct is appropriate in this context.</p>																											
21.	IRBA	We commend the IESBA for identifying the service in different roles in the seven-year period as a potential loophole. This provision will allow for the correct or the best cooling-off period to be applied.																											
22.	JICPA	<p>We agree with the proposal.</p> <p>It is considered, however, that the proposal has a great impact on SMPs.</p> <p>The Exposure Draft of August 2014 stipulated that a KAP who has served as an EP at any time during the seven-year time-on period be required to cool off for a period of five years.</p> <p>This proposal, however, stipulates that an individual who has acted as an EP or EQCR, in either capacity or a combination of these roles, for either four or more years, or for at least two out of the last three years be required to cool off for five years.</p> <p>SMPs have a limited number of partners as described in 1 and, therefore, consideration should be given for responding to practical circumstances that are likely to occur and may lead a KAP to serve as the EP or EQCR for a short period of time, such as to cover a sick leave taken by an EP or EQCR.</p> <p>For this reason, the approach for a determination should be practically applicable, but it is considered that the proposed approach is so</p>																											

Long Association – Supplement B – Compilation of Responses to ED Questions
IESBA Meeting (June 2016)

#	Source	Comment
		complicated that it will increase administrative burdens on SMPs. Therefore, we request for an approach which is simpler, more understandable and easier to apply.
23.	KPMG	Yes, we support this proposed principle related to determining a longer cooling-off period for a partner serving in a combination of roles during the seven-year time-on period.
24.	MICPA	Yes, MICPA agrees.
25.	Nexia	<p>As we submitted on the Board's 2014 ED, we are concerned that the proposals may have a negative impact on audit firms, particularly smaller audit firms which have fewer audit personnel available to them. The change in the cooling-off period for engagement partners was recognized by IESBA as being the change which overall will have the greatest impact.</p> <p>Although an improvement to the 2014 ED, in our view, the proposals continue to place an unreasonable burden on smaller and mid-tier firms that have less than five audit partners in an individual office.</p> <p>As discussed above, the impact of the proposed changes on SMPs are significant to the SMP sector and have the potential to:</p> <ul style="list-style-type: none"> effectively introduce mandatory audit firm rotation for practices with less than four audit partners; force SMPs out of the audit market for PIEs, thereby concentrating the audit of PIEs to the Big 4 audit firms and reducing competition in the audit services market. In our opinion, reducing the choice of audit firms for PIEs has the potential to reduce, rather than enhance, audit quality.
26.	NZAG	This proposal is reasonable.
27.	PwC	<p>Please see our comments above in response to question 1 regarding the length of the “longer” period.</p> <p>We appreciate that the Board's new proposal is responsive to the comments made in our response to the original ED, in which we recommended (at the time in relation to the audit engagement partner) that “some number of the seven years’ service as engagement partner should subject the partner to a five year cool-off. We recommend that four years, representing a majority of the seven year period, would be a reasonable measure of the combination of years as audit engagement partner and KAP that would trigger the five year cool-off”.</p> <p>We note, however, that the proposals go further than this and requires the longer cooling off period if the engagement partner (or EQCR) has fulfilled that role in two of the last three years (during a seven year time-on period). The Board indicates that this is because their close association with the client would be more recent.</p> <p>We believe that this adds unnecessary complexity to the application of the requirement. We recommend, to be responsive to the heightened threat at the end of the seven year period, that the requirement be amended to “or (b) the last three years” of the seven year period. We believe that this would be a more proportionate response to the threat and be more straightforward to understand and apply.</p>

#	Source	Comment
28.	RSM	<p>We believe the proposed rules to calculate the cooling off period are now unnecessarily complex and that simplification of the rules would help.</p> <p>We question the need for the following elements of the rules:</p> <ol style="list-style-type: none"> 1) For Non-listed PIEs the inclusion of a three year cooling-off period was not explained adequately in the ED. No evidence is described to support the period, nor a strong rationale. In practice we do not consider there to be significant benefit in extending the cooling off period by one year and to the extent that this element of the rules makes application more complex, we consider that any marginal benefit in the field will be outweighed by problems in interpreting the rules or with acceptance. 2) For both Listed and Non-listed PIEs the inclusion of the service for two of the last three years was not explained adequately in the ED. Again, no evidence is described to support the period, nor a strong rationale. A rule to consider whether a KAP has acted as an EP or EQCR for the majority of the on-period does have a sound basis. However, restricting appointments further for recent service as an Engagement Partner or a EQCR is of marginal benefit and in practice it would be unlikely to occur frequently by design, due to the need for a cooling-off period. <p>On this basis we urge the Board to simplify the rules to remove the above criteria, which would result in the following amendments to the ED:</p> <p>.....</p> <p><i>Audit Clients That Are Listed Entities</i></p> <p>290.150A</p> <p>In respect of an audit of a listed entity, an individual shall not be a key audit partner for more than seven years (the “time-on” period), after which the individual shall serve a cooling-off period.</p> <p>Subject to paragraph 290.150D the cooling-off period shall be:</p> <ul style="list-style-type: none"> • Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner or the individual responsible for the engagement quality control review, in either capacity or a combination of these roles, for either (a) four or more years or (b) at least two out of the last three years. • Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period. <p><i>Audit Clients that are Public Interest Entities other than Listed Entities</i></p> <p>290.150B</p> <p>In respect of an audit of a public interest entity that is not a listed entity, an individual shall not be a key audit partner for more than seven years (“the time-on period”), after which the individual shall serve a cooling-off period.</p> <p>Subject to paragraph 290.150D, the cooling-off period shall be:</p>

#	Source	Comment
		<ul style="list-style-type: none"> Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner for either (a) four or more years or (b) at least two out of the last three years. Three consecutive years for a key audit partner who during the time-on period was responsible for the engagement quality control review for either: <ul style="list-style-type: none"> (a) Four or more years; or (b) At least two out of the last three years; or (c) Who acted in a combination of engagement partner and engagement quality control review roles for four years or more or at least two out of the last three years. Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period. <p>.....</p> <p>With respect to the above proposals we do not consider that the ED included sufficient evidence or rationale to support the changes proposed and that the ED was deficient in that respect. The rules regarding cooling off periods are important in practice and they will be more readily accepted by the profession if the evidence or rationale for the rules are more carefully explained.</p>
29.	SAICA	<p>In SAICA's view the rules are logical and speak to the need for a fresh look and the avoidance of familiarity.</p> <p>The "two out of the last three years" condition recognises correctly that the recent service as EP/EQCR in combination with acting as KAP over a period of seven years is more likely to be of relevance in assessing the severity of the threats mentioned. The "four years or more" requirement would seem to be appropriate when assessing the effectiveness of safeguards to reduce identified threats to an acceptable level or eliminate the threats identified all together. That requirement will most likely reduce a threat to objectivity to an acceptable level.</p>
30.	SMPC	<p>We agree with the proposed principle for either (a) four or more years or (b) at least two out of the last three years 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. The revised proposal is a more proportional response as it would not require a KAP to be subject to a longer cooling-off period just because the KAP had stepped into an EP or EQCR role for one year.</p> <p>However, we are concerned that the practical application of the provisions may not be straightforward. We therefore support the proposed IESBA Staff Questions & Answers (Q&A) publication, which will be helpful to be issued with the final pronouncement to facilitate implementation of the provisions. We recommend that this includes specific situations that might affect SMPs, to assist with the practical application of the requirements.</p>
31.	UKFRC	<p>No. We believe that a partner who has served the maximum permitted time-on period, including as the engagement partner, EQCR or combination of those roles should be required to cool-off for the full five year period. The familiarity threat that arises is not diminished by the</p>

#	Source	Comment
		partner serving part of the time-on period as a key audit partner other than engagement partner or EQCR.
32.	WPK	<p>We highly welcome IESBA's withdrawal of its initial restrictive approach according to which the EP would have been required to cool-off if he or she has served any time as the EP during the seven year period. This approach may be regarded as mere overregulation.</p> <p>On the other hand, the new approach is of such a regulatory density that is neither compatible with an international principles-based Code nor is it capable of conclusively covering the relevant cases.</p> <p>Against this background, we would prefer IESBA to set up general principles along with corresponding interpretations. In addition, we would once again like to refer to Art. 17 of the EU Regulation which is much less restrictive than the IESBA proposals with respect to both the EQCR (not required to rotate) and the seven-year time on period for the EP (e. g. the time-on period commences anew after a one-year interruption).</p>
33.	XRB	<p>The NZAuASB considers that the revised proposal is a more proportionate response which will lower the impact of extending the cooling off period to five years. The NZAuASB is supportive of including specific requirements to deal with the practical difficulties of applying the rotation requirements where the engagement partner or EQCR has been involved in a variety of roles for the seven-year time on period. The NZAuASB has no strong preference as to the number of years specified but again raises the concern that the proposals appear to be too rules based, lacking an emphasis on mitigating the threats, and providing opportunity for gaming.</p> <p>A New Zealand respondent raised concern whether a 5 year cooling off period is required when an individual has served only 2 out of the last 3 years as engagement partner or EQCR, querying whether the significant increase in the cooling off period is justified for only a minor period served in the capacity as engagement partner or EQCR.</p> <p>The NZAuASB considers that paragraph 290.150A could be misleading as it is drafted and recommends that this principle must be simplified and clarified. Feedback from New Zealand practitioners reflects the concern that the proposals could be misinterpreted. The NZAuASB understands that the bullet points are targeting the key audit partners who act in a variety of roles during the time on period, rather than the engagement partner who acts as the engagement partner for 7 years.</p> <p>The proposal is confusing because the definition of a key audit partner includes the engagement partner. As drafted, the first bullet point could be misunderstood to mean that after 4 years the engagement partner is required to cool off for 5 years. It is then also not clear why a partner who served as engagement partner for at least two of the three years should have to cool off at all.</p> <p>The NZAuASB recommends that the following option be explored:</p> <p>290.150A In respect of an audit of a listed entity, an individual shall not be <u>the engagement partner or the engagement quality control reviewer</u> a key audit partner for more than seven <u>cumulative</u> years (the "time on" period), after which the individual shall serve a cooling-off period <u>of at least 5 consecutive years, subject to paragraph 290.150D.</u></p> <p><i>{These changes make it clear how the rotation requirements work when there is no changing of roles or unusual situations to cater for. The</i></p>

#	Source	Comment
		<p><i>next bullet points can then cater for the non-consecutive service in a variety of roles.}</i></p> <p><u>Where a key audit partner serves in a variety of key audit partner roles during the time on period, that individual shall also serve a cooling off period of five consecutive years if during a cumulative seven year period that key audit partner acted as engagement partner or engagement quality control reviewer, or in a combination of these roles for:</u></p> <ul style="list-style-type: none"> a) <u>Four or more of the seven years; or</u> b) <u>At least two out of the last three of the seven year time on period.</u> <p><u>Where a key audit partner serves in any other combination of roles during the seven-year time-on period, the individual shall serve a cooling off period of two consecutive years.</u></p>