IESBA International Ethics Standards Board for Accountants®

Agenda Item 10-A

Long Association Post-Implementation Review Phase 1

IESBA Meeting – September 17, 2021



Richard Fleck

Working Group Chair, former IESBA Deputy Chair

1) To receive analysis of comments and key issues

2) To provide input to WG responses





Scope of Long Association PIR Phases 1 & 2

Phase 1

Commenced Q1 2021

- Review the implementation status of the 5-year cooling-off requirement for EPs on audits of PIEs, and any issues arising from the implementation of such requirement before the expiry of the transition period for the jurisdictional provision.



Phase 2

To commence Q2 2023

- Review how effectively the other revised LA provisions are being implemented in practice, taking into account
  - ❖ local legislative or regulatory rules that address LA, e.g., mandatory firm rotation (MFR) and mandatory retendering (MRT)
- To achieve synergies, the LAPIR Phase 2 will be undertaken in conjunction with the restructured Code PIR.

Phase 1 - Activities since March 2021


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Long Association
Post-Implementation Review - Phase 1

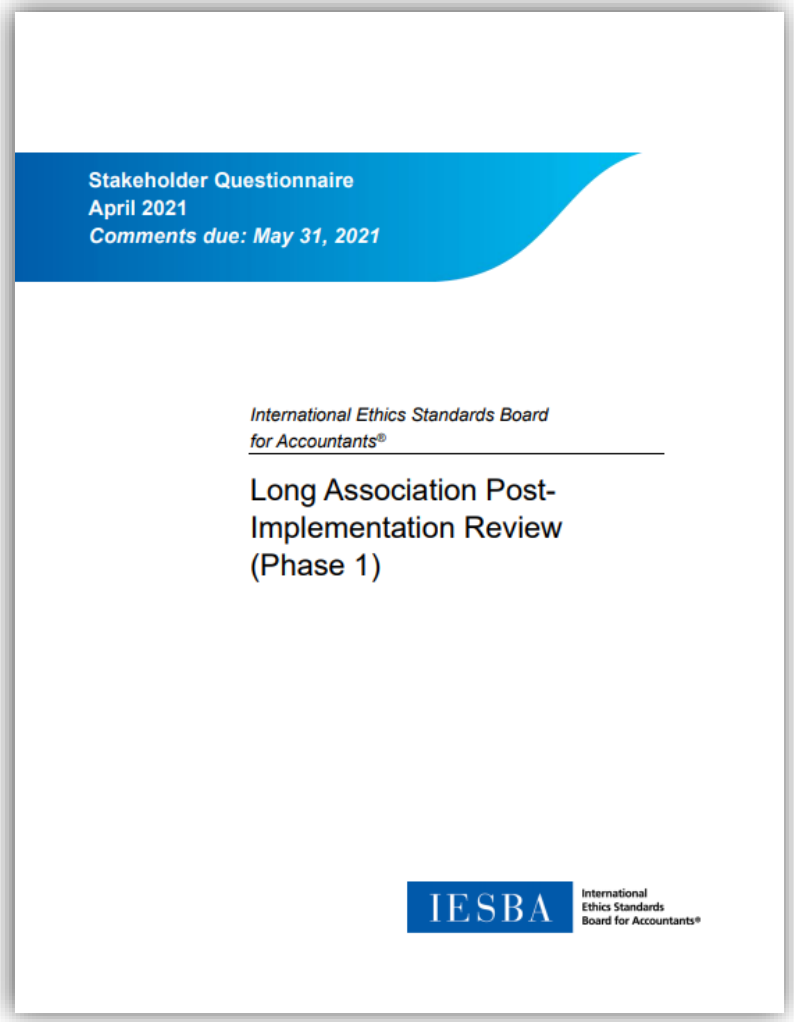
Update - April 2021

In accordance with the commitment it made, the International Ethics Standards Board for Accountants (IESBA) has commenced phase one of its post-implementation review ('LAPIR') of the revisions to the long-association provisions in section 540 of the IESBA Code issued in January 2017 and effective from December 15, 2018.

www.ethicsboard.org

For more information about the IESBA's LAPIR, or if you have any comments, please contact:

Geoff Kwan (geoffkwan@ethicsboard.org) IESBA Principal


Stakeholder Questionnaire
April 2021
Comments due: May 31, 2021

International Ethics Standards Board for Accountants®

Long Association Post-Implementation Review (Phase 1)

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Breakdown of Respondents

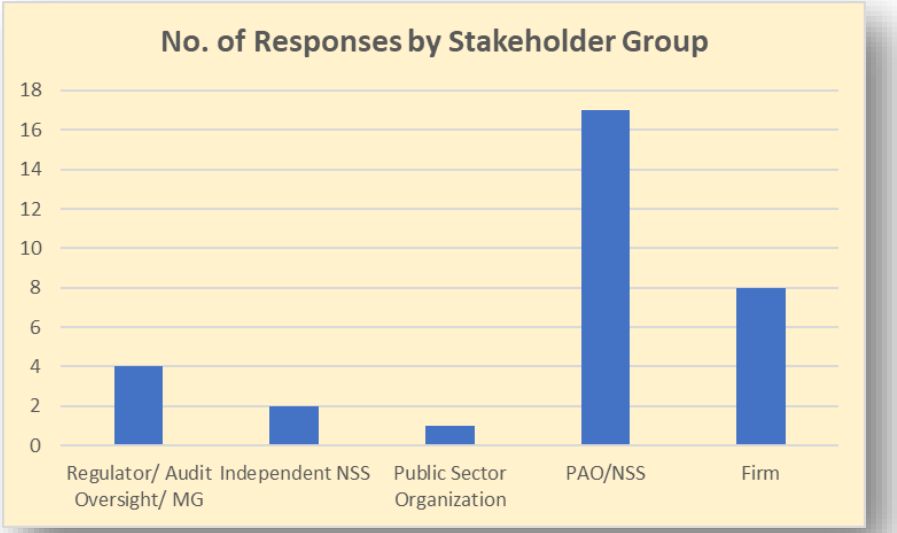
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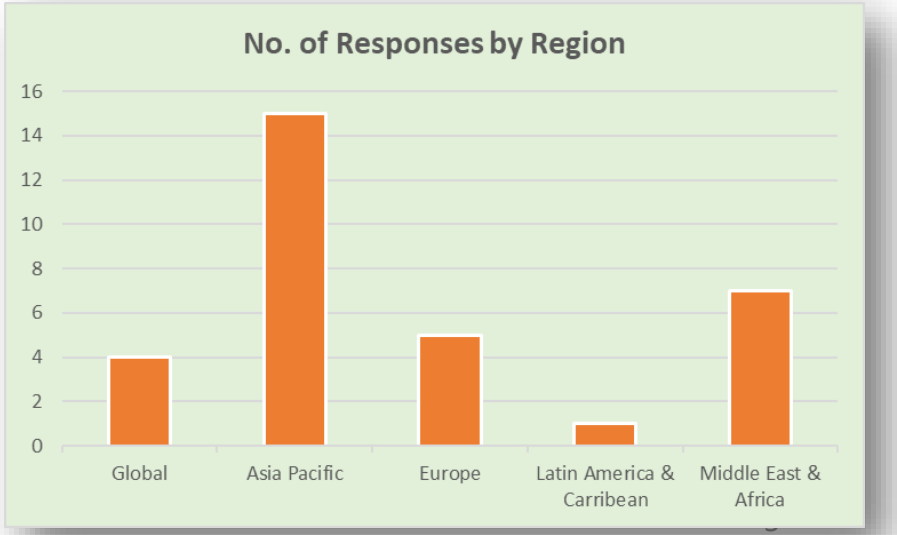
responses received

Most respondents did not raise any issues

A few key issues raised

Stakeholder Group	No. of Responses
Regulator/ Audit Oversight/ MG	**4**
Asia Pacific	1
Europe	1
Middle East & Africa	2
Independent NSS	**2**
Asia Pacific	2
Public Sector Organization	**1**
Asia Pacific	1
PAO/NSS	**17**
Asia Pacific	8
Europe	4
Latin America & Carribean	1
Middle East & Africa	4
Firm	**8**
Global	4
Asia Pacific	3
Middle East & Africa	1
Total	**32**





Relevant provisions

Para. R540.5

Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the "time-on" period):

(a) The engagement partner;

(b) The individual appointed as responsible for the engagement quality control review; or

(c) Any other key audit partner role.

After the time-on period, the individual shall serve a "cooling-off" period in accordance with the provisions in paragraphs R540.11 to R540.19.

Exceptions to R540.5

- Para. R540.7 – R540.9
- Allow for longer **time-on period** if applicable

Jurisdictional Provision

- Para. R540.19
- Allow for shorter **cooling-off period**
- Expires December 15, 2023

Overarching Consideration

- Para. R540.5 applicable to PIEs only
- FoF firms will comply with the Code irrespective of the jurisdiction

Key Issues

Issues	Reg.	Ind. NSS	Public sector	PAO/ NSS	Firms
Total number of responses received	4	2	1	17	8
Number of respondents that raised issues	0	2	0	9	3

1.Long association (LA) requirements different to the Code's (e.g., EU, Korea)

Issues	Reg.	Ind. NSS	Public sector	PAO/ NSS	Firms
Some jurisdictions have different time on/time off period and some also rely on MFR				5	
Different requirements cause confusion, increase complexity, confusion and costs		1		3	
Some jurisdictions may not adopt the 5-year cooling off provisions				4	

Key Issues

2. Greater impact on smaller firms

Issues	Reg.	Ind. NSS	Public sector	PAO/ NSS	Firms
Lower number of suitable partners, particularly in smaller jurisdictions/ geographical areas		2		1	2
May lead to market concentration and reduced competition		1		1	
Smaller firms would be particularly impacted. This is a particular concern of global firms about their smaller network firms		1		3	3

3. Other comments

Issues	Reg.	Ind. NSS	Public sector	PAO/ NSS	Firms
Impact on availability of EPs and EQR partners particularly for specialized industries and therefore impact on audit quality		1		1	1
Impact of revised definition of PIE with proposed effective date only one year from expiry of jurisdictional provision				1	
Impact of the pandemic on staff movement and planning				1	
The 5-year cooling off period has only been effective for 3 years		1			

Respondents' Suggestions



- Extend the jurisdictional provision
- Convert the jurisdictional provision to a permanent requirement
- Consider adding a size exemption to para. R540.5 based on size, similar to para. R540.9
- There should be more flexibility and IESBA should consider allowing for other suitable safeguards (e.g., MFR) at local level
- Consider the implications of jurisdiction not moving to 5-year cooling off period

WG View – Different jurisdictional requirements

- If local PR requirements less stringent, NSSs/PAOs should implement the 5-year cooling off period when jurisdictional provision expires
- EU PR requirement:
  - ❖ Article 17(7) EU Regulation (537/2014)
  - ❖ Time-on period no longer than 7 years, then cooling-off period no less than 3 years
  - ❖ WG's view - EU member states can regulate a longer cooling-off period and so can local PAOs with their local ethics Code
  - ❖ WG acknowledged some EU stakeholders share a different view

WG conclusion

- Insufficient grounds for IESBA to extend the jurisdictional provision

EU Regulation (537/2014)

Article 17(7)

The key audit partners responsible for carrying out a statutory audit shall cease their participation in the statutory audit of the audited entity not later than seven years from the date of their appointment. They shall not participate again in the statutory audit of the audited entity **before three years** have elapsed following that cessation.

By way of derogation, Member States may require that key audit partners responsible for carrying out a statutory audit cease their participation in the statutory audit of the audited entity earlier than seven years from the date of their respective appointment.

WG View – Different jurisdictional requirements

- Another key issue relates to jurisdictions using a combination of PR and other measures, particularly MFR to address LA threats
- WG's view:
  - Partners rotation addresses individual threats (partners) whilst MFR addresses institutional threats (firms)
  - Interconnected but different LA safeguards measures
  - The link largely relates to matching PR cycles with MFR cycles to ensure effective use of eligible partners
  - LA measures such as MFR, MRT and joint audit be reviewed as part of Phase 2 as planned under SWP

WG conclusions

- Insufficient grounds for IESBA to extend the jurisdictional provision
- Other LA measures (e.g., MFR) to be reviewed as part of Phase 2

WG View – Small firms and other issues

Impact on small firms due to partners' availability

- Acknowledge the challenge faced by small firms and those in smaller jurisdictions
- Encourage small firms to seek exemption to para R540.5 from local independent regulatory body in accordance with para R540.9

Other comments

- Acknowledge the challenges of 5-year cooling off period (complexity and resource)
- Many of these issues had been debated during the previous ED process

WG conclusions

- The impact could be limited or managed given most PIE audits are performed by FoF firms that will comply with the Code
- Insufficient grounds to extend the jurisdictional provision
- Also, too early to review effectiveness of the 5-year cooling off period and consider other options such as more exemptions

Matters for IESBA Consideration



1. Do you agree that the jurisdictional provision (R540.19) should not be extended in light of the WG's responses to the key issues raised?
2. Do you agree that issues relating to other LA measures such as MFR/MRT/joint audit should only be addressed under Phase 2?
3. Any other matters the WG should consider before finalizing its report to the Board

Next Steps



Sept 2021	CAG meeting
Dec 2021	IESBA meeting WG presents final report for approval
Dec 2021/ Jan 2022	IESBA publishes decision