

Meeting: IESBA CAG

Meeting Location: Virtual

Meeting Date: March 7 & 31, 2022

Agenda Item

D-4

Long Association Post-Implementation Review (Phase 1)

Objective of Agenda Item

1. To report back on the discussion at the September 2021 CAG meeting relating to Phase 1 of the Long Association Post-Implementation Review (LAPIR).

Initiative Status and Timeline

2. As set out in the IESBA's [Strategy & Work Plan 2019-2023](#) (SWP), the LAPIR is to be carried out in two phases:

Phase 1

Commenced in Q1 2021, Phase 1 reviewed the implementation status of the five-year cooling-off requirement for engagement partners (EPs) on audits of public interest entities, and any issues arising from the implementation of such a requirement before the expiry of the transition period for the jurisdictional provision.

Phase 2

Phase 2 is due to commence in Q2 2023. It will review how effectively the other revised long association provisions in the Code are being implemented in practice, taking into account legislative or regulatory developments implemented by other regimes around the world to address long association, such as mandatory firm rotation (MFR) and mandatory retendering (MRT). To achieve synergies, the LAPIR Phase 2 will be undertaken in conjunction with the post-implementation review of the restructured Code.

LAPIR Phase 1

3. At its December 2020 meeting, the IESBA established a Working group¹ to conduct Phase 1 of LAPIR, focusing on issues relating to the expiration of the jurisdictional provision² for audits of financial statements for periods beginning on or after on December 15, 2023.

¹ Members:

- Richard Fleck, Chair, former IESBA Deputy Chair
- Saadiya Adam, IESBA Member
- Sung-Nam Kim, IESBA Member
- Kristen Wydell, IESBA Technical Advisor

² Section 540, *Long Association of Personnel (Including Partner Rotation) with an Audit Client*, paragraph R540.19

4. In March 2021, the IESBA released an [update](#) on its LAPIR initiative. This was followed by the release of its [LAPIR Phase 1 questionnaire](#) in April 2021 with a total of 32 responses received at the closure of the comment period.
5. At the September 2021 meeting, the IESBA discussed the significant comments received, key issues raised in the responses to the questionnaire and the Working Group's responses.
6. At the November-December 2021 meeting, the IESBA discussed the Working Group's [LAPIR Phase 1 Report](#),³ taking into account feedback received from CAG representatives at the September 2021 CAG meeting and participants at the October 2021 IESBA–National Standards Setters (NSS) meeting.
7. The IESBA expressed support for the Working Group's conclusions. These include the recommendation that the IESBA should take no action to extend or otherwise vary the jurisdictional provision and that the jurisdictional provision should be allowed to expire for audits of financial statements for periods beginning on or after December 15, 2023 in accordance with the close-off document, [Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client](#).
8. The Working Group will finalize its report, taking into account refinements provided by the IESBA. The final report is due to be released by the end of Q1 2022.
9. No further deliberation or action will be required by the IESBA when the jurisdictional provision expires for audits of financial statements for periods on or after December 15, 2023.

Report Back on September 2021 CAG Discussion

10. Below are extracts from the draft minutes of the September 2021 CAG meeting⁴ and an indication of how the Working Group or the IESBA has responded to the CAG's comments.

Matters Raised	Working Group/IESBA Responses
Mr. Hansen supported the Working Group's preliminary view not to extend the term of the jurisdictional provision. He expressed the view that if a replacement engagement partner was brought in when an engagement partner who had served the maximum allowable time was rotated off, that replacement partner would likely stay on after the initial 3 years. Accordingly, he did not consider the extension of the cooling-off requirement to 5 years to be of significant concern.	Support noted.
Ms. Blomme suggested that the IESBA consider extending the term of the jurisdictional provision until the outcome of Phase 2 has been finalized. Ms. Blomme queried how practical or feasible it is	Point taken into consideration. The IESBA supported the Working Group's conclusion that there is insufficient reason to extend

³ Agenda Item 8A of the November-December 2021 IESBA meeting

⁴ The draft September 2021 minutes will be approved at the March 2022 IESBA CAG meeting.

Matters Raised	Working Group/IESBA Responses
<p>for smaller firms to seek an exemption from the local regulators in accordance with paragraph R540.9. She also pointed out that extending the cooling-off period for engagement partners to 5 years may lead to audit market concentration, an actual issue the EU is attempting to address. Given the potential impact the longer cooling-off requirement might have on smaller firms, this may cause more reluctance amongst some EU member states to adopt the Code. Mr. Fleck noted that the concerns are not new but that the Working Group will consider her feedback.</p>	<p>the availability of the jurisdictional provision for a further period. In reaching its view, the IESBA took into account the Working Group's rationale, including the following:</p> <ul style="list-style-type: none"> • The jurisdictional provision was set up only as a transitional arrangement so as to give local bodies sufficient time (five years) to implement the partner rotation requirement for EPs and for firms to plan their resources accordingly. • Whilst agreeing that the longer cooling-off period places additional pressure on a firm's resources, there is insufficient evidence to suggest that five years was not an adequate transition period. • Extending the term of the jurisdictional provision until after Phase 2 of LAPIR has concluded will mean that, in practice, the provision would be extended for at least another 5 years and this would not be in the public interest. • The additional challenges faced by smaller firms or firms in smaller jurisdictions should not be addressed by changes to the general principle. Instead, it should be addressed, as already provided for within the Code, through the exemption in paragraph R540.9.
<p>Mr. Yurdakul noted that in Turkey, firms have to comply with both the Code's partner rotation requirements and the local mandatory firm rotation (MFR) requirements. He observed that firms have at times objected to the combination of these two sets of requirements. He suggested that the jurisdictional provision should be further considered. He also encouraged the IESBA to consider MFR under Phase 2 of LAPIR.</p>	<p>Point noted.</p> <p>At the meeting, the Working Group Chair confirmed that other legislative or regulatory mechanisms that address long association such as MFR will be taken into consideration when the IESBA reviews the Code's long association provisions as a whole.</p>