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Exposure Draft: Proposed Revisions to the Code Addressing the Objectivity of Engagement Quality Reviewers

Dear Ken

Dear Ladies and Gentlemen

The Wirtschaftsprüferkammer (WPK) is pleased to take this opportunity to comment on the above mentioned Exposure Draft (ED). We kindly ask for your understanding that we could not keep to the deadline of March 16, 2020 due the exceptional circumstances of the current pandemic.

We would like to highlight some general issues first and provide you with our specific responses to the ED questions subsequently.

General Comments

We generally support efforts aimed at safeguarding the objectivity of the EQR. However, regarding the specific proposals in the ED, we do have two major concerns as follows:

Firstly, the proposed threats and safeguards provisions might have **severe consequences especially for SMPs** with limited resources and might **lead to further market concentration**. This result **cannot be in the public interest**.

Secondly, we think that the interaction of a cooling-off requirement with the long association provisions of the Code would dramatically **increase the complexity of the Code** and be **unmanageable** for the profession.

Specific Comments

1. Do you support the proposed guidance addressing the topic of the objectivity of an EQR?

We are in general support of the rationale of the proposed guidance to safeguard the objectivity of the EQR.

However, we have some reservations towards the proposed threats (120.14 A2) and safeguards (120.14 A4) since they might be difficult to comply with by smaller firms. For example, when there is no other staff available within the firm other than the former engagement partner there is no other choice than getting back to the former engagement partner as the EQR (120.14 A2 (b)). This situation would even become more difficult to firms if extended to former engagement team members (120.14 A2 (b)). The proposals are therefore highly problematic for smaller firms and might make it difficult for them to choose an engagement quality reviewer. The same is true for 120.14 A2 (a) and (c). Likewise, it might be very difficult for SMPs to apply the proposed safeguards (120.14 A4).

Against this background, we are concerned that the proposals might particularly affect SMPs negatively, might bring about competitive disadvantages for them and lead to an increase of market concentration.

2. If so, do you support the location of the proposed guidance in Section 120 of the Code?

We support the location of the proposed guidance in Section 120 of the Code.

3. Do you agree with the IESBA that it would be more appropriate for the IAASB to determine whether a cooling-off requirement should be introduced in proposed ISQM 2 as discussed in Section III.C above, and that the Code should not be prescriptive in this regard?

We do not agree that it would be more appropriate for the IAASB to determine whether a cooling-off period should be introduced since this matter is linked to objectivity and therefore the Code.

We are also not in favour of introducing a specific cooling-off period. Introducing a cooling-off period would increase the complexity of the Code and make the interplay with the long associa-

tion provisions of the Code unmanageable. This would, again, particularly affect SMPs negatively.

Overall, we would like to encourage IESBA to more diligently take the unique needs of SMPs into consideration when issuing new proposals.

We hope that our comments are helpful. If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.

Kind regards

Handwritten signature of R. Veidt in blue ink.

Dr. Reiner Veidt
Chief Executive Officer

Handwritten signature of Heiko Spang in blue ink.

WP Heiko Spang
Head of Auditing and Accounting