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May 9, 2016

Chair
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017

Re: Exposure Draft, Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client

Dear Members of the International Ethics Standards Board for Accountants:

We appreciate the opportunity to provide comments on the exposure draft "*Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*" (the ED) issued February 2016 by the International Ethics Standards Board for Accountants (IESBA or Board).

General Comments

We recognize the continuing efforts of the Board to find the appropriate balance between addressing the familiarity and self-interest threats to independence created by long association, and the need to maintain relevant knowledge and experience to support audit quality. We fully support the Board's determination that the overriding objective in the public interest is to ensure an effective "fresh look" on the audit engagement by both the engagement partner and the engagement quality control reviewer (EQCR), the question is how this is best achieved.

The provisions in this ED, however, add several additional, and potentially incompatible, layers to an increasingly complex patchwork of audit partner rotation requirements around the world. We are a strong proponent of adoption of a global set of robust independence standards by regulatory authorities, member bodies of the International Federation of Accountants and others because we believe this will best serve the public interest. Changing the current cooling-off period for EQCRs on the audits of listed public interest entities (PIEs) from two to five years is too extreme of a measure and will only further exacerbate the global diversity in practice.

In addition, the complexity of the proposed two-tiered approach to the EQCR cooling-off provisions for the audits of PIEs seems unnecessary, especially considering that the Board recognizes that a fresh look can in fact be achieved in some circumstances by a three year time-out period. Together with the safeguards of a five year cooling-off period for the

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engagement partner and provisions that ensure individuals are away from the client and the audit during the cooling-off period, it is unclear whether there is any additional benefit gained by proposing a five year cooling-off period for the EQCR on the audits of listed PIEs.

It is paramount that auditors be able to understand, without excessive difficulty, what they should and shouldn't do. We are concerned that the overly complex set of prescriptive and overlapping audit partner rotation rules in the current proposals will lead to non-adoption by local regulators, or inadvertent non-compliance, both of which would lead to the erosion of public trust in the capital markets. Rules that are too complicated impose obligations that are disproportionate to the intended benefit, and we urge the Board to place more effort in avoiding unnecessary complexity, at a minimum, by deciding on one common time-off period for EQCRs on the audits of all PIEs.

Finally, we found the "Proposed IESBA Staff Questions and Answers" to be particularly useful. We urge the Board to include this guidance within the Code as part of the restructuring efforts that are underway.

Our comments to the questions raised in the ED are provided below.

<u>Specific Comments</u>

Cooling-Off Period for the EQCR on the Audit of a PIE

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 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?

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 the audits of PIEs.

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.

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.

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.

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 ECQR 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.

Jurisdictional Safeguards

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?

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.

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.

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?

We agree with the conditions specified in subparagraphs 290.150D(a) and (b).

Service in a Combination of Roles during the seven year Time-on Period

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)?

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.

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We would be pleased to discuss our comments with members of the IESBA or its staff. If you wish to do so, please feel free to contact Wally Gregory, Managing Director of Global Independence, via email (wgregory@deloitte.com) or at +1 203 761 3190.

Sincerely,

Deloitte Touche Tohmatsu Limited