



IFAC  
International Ethics Standards Board for  
Accountants (IESBA)

Submitted via the IESBA website

Stockholm 9 May 2016

## **Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client**

FAR, the Institute for the Accountancy Profession in Sweden, has been invited to comment on the IESBA's exposure draft *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client*. FAR welcomes this opportunity to comment on the exposure draft.

As a general comment, FAR would first like to declare that FAR does not find the proposed changes to the Code called for and is opposed to their introduction to the Code. FAR is firmly convinced that if the IESBA wishes to maintain the legitimacy and the authority of the Code of Ethics as a the leading international ethics standard for public accountants, it must remain principles-based and refrain from detailed, complicated regulation that unavoidably will conflict with national law and regulation. From a practitioner's point of view, there should not be more than one framework regulating the same set of circumstances, i.e. either IESBA rules or other regional or national legislation (eg. the EU Audit Reform). The benefit from the rules, i.e. securing the quality of the audit through ensuring the independence of the auditor, will not increase with two layers of rotation rules (see also the reasoning in paragraph 290.150D of the ED).

For those jurisdictions where no rules on rotation exist and the regulators and legislators depend on the IESBA to provide even specific rules, FAR recognizes that the IESBA sees a need for more detailed rules on rotation than those already provided by the Code. Such specific rules could, in FAR's opinion, be set up in standards separated from the Code, in order to maintain the Code principles-based and as free as possible from the risk of conflicting local regulations. The adoption of such standards could be optional for IFAC's members, depending on whether the particular matter has been dealt with by local regulators or not. This would avoid putting the practitioners in the extremely difficult situation of having to manoeuvre between different detailed rules on the same subject. Regulators, legislators and policy makers could thus choose if they would like to adopt the IESBA standard on a specific subject or make their own detailed rules on the subject.

FAR is, furthermore, of the opinion that the Code would benefit from a general clearance of overly detailed rules.



Keeping in mind that FAR is opposed to any changes on the subject, FAR has the following comments to the questions posed by the IESBA.

**FAR's response to IESBA's request for specific comments**

***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 (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?*

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:

"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."

- (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 rotated.
- (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.

***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?*



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.

*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?*

FAR agrees to the conditions specified.

***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)?*

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.

**FAR's response to IESBA's Request for General Comments**

***(a) Small and Medium Practices (SMPs) –The IESBA invites comments regarding the impact of the proposed changes for SMPs.***

The sets of rules, especially considering the extra layer with the EU Audit Reform rules, are getting more and more complex, which will limit the possibility for growth for SMPs with respect to the audit of PIEs and similar companies.

One particular concern regarding the impact for SMPs would be that because of a more limited number of partners at an SMP, the proposed changes might entail firm rotation rather than rotation of the engagement partner.

***(b) Preparers (including SMEs) and users (including Those Charged with Governance and Regulators)***

FAR has no particular comment.

***(c) Developing Nations – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.***

Not applicable.



*(d) Translations – Recognizing that many respondents may intend to translate the final pronouncements for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.*

For the moment, FAR has not noted any potential translation issues.

FAR

A handwritten signature in cursive script that reads "Sara Orback".

Sara Orback

Secretary, FAR Ethics Policy Group