



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

8 July 2016

Technical Director
International Ethics Standards Board for Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2016/JE/C1/IESBA/76

Subject Line: IESBA’s Exposure Draft, *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association with Personnel with an Audit Client*

Dear Sir:

The International Organization of Securities Commissions’ Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants’ (the IESBA or the Board) Exposure Draft, *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association with Personnel with an Audit Client*, (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO’s mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1. Our comments are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

Overall Comment

We thank the Board for re-exposing its proposed model for addressing the familiarity threats created by the long association of personnel with an audit client, in light of respondents' comments on the initial exposure draft. While we support a number of the proposals we have some comments that we believe would strengthen the effectiveness of the Code.

We have developed our comments in the context of the long association of personnel with an audit client (Code section 290), versus due to involvement with other assurance engagements (Code section 291); however, some of the points may apply to assurance engagements as well.

Scope

The Board's proposed model, as articulated in 290.149A, calls for an audit firm to evaluate the significance of the long association threat for each audit engagement and apply safeguards if *necessary* in the circumstances, without deference to whether it is *possible* to do so in the circumstances. If the Board retains the current scope, we think it will leave the users of the Code with a conundrum; either stretch the requirements or exceptions beyond their intent in an attempt to make it seemingly possible to comply with the Code, or do not comply with the Code. Neither of these outcomes seems like a good result.

We suggest that the Board address this matter by making it clear that the described safeguards are included in the Code only for situations in which it is possible for the audit firm to apply adequate safeguards in the circumstances. If due to resource constraints or otherwise it is not reasonably possible for the audit firm to implement safeguards, then the Code should require the audit firm to address the long association threat by resigning from the audit engagement.

Complying with Laws and Regulations

We have observed that the Board has taken a different approach than it did in its NOCLAR work with respect to accountants complying with associated laws and regulations. More



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

specifically, in the Board’s NOCLAR proposal language was included regarding laws and regulations as follows:

“In some jurisdictions, there are legal or regulatory provisions governing how professional accountants should address non-compliance or suspected non-compliance with laws and regulations. The professional accountant shall obtain an understanding of those provisions and comply with them...”

We believe it would be useful for the Board to include similar language in the Paper tailored for long association of personnel with an audit client. Inclusion of this point in the Code would accomplish two things:

First, it would give the Board the opportunity to make clear that the Code’s provisions on long association are not meant to supplant an auditor’s compliance with applicable legal and professional requirements; and

Second, it would give the Board the opportunity to make clear that compliance with such legal and professional requirements does not remove an auditor’s need to also comply with the long association provisions of the Code.

Length of the Proposed “Cooling Off” Period for Listed Entities and PIEs

We have observed that in many jurisdictions there are several PIEs which are not listed entities whose operations and economic impact may have greater public interest implications than that of some small listed entities. As such, we believe that the rotation and cooling-off requirements for audit clients that are listed entities and those that are PIEs other than listed entities should be the same. To this end, we recommend that the Board establish the same cooling-off period for the engagement quality control reviewer (EQCR) on a PIE as it is on a listed entity.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

Proposed Exceptions to Proposed Rotation and “Cooling Off” Period Requirements

We note that the Board has proposed a few exceptions to its proposed model for addressing long association threats via rotating the audit firm’s partner(s) who are responsible for a particular audit engagement. Our comments on these proposed exceptions are as follows:

Mandatory Re-Tendering of the Audit Appointment

In paragraph 290.150D, we are concerned with the proposed reduction of the cooling-off period from five to three years in instances in which “an independent standard setter, regulator or legislative body has established requirements for either...(b)(ii) Mandatory firm rotation or mandatory re-tendering of the audit appointment at least every ten years”. Particularly with respect to mandatory re-tendering, does this mean that if the audit firm continues to be appointed after a re-tendering that the familiarity threat has dissipated? Whereas mandatory rotation provides a break in service, mandatory re-tendering may not provide such a break and as such, the engagement team’s service and familiarity would continue uninterrupted.

Rare and Unforeseen Circumstances

Paragraph 290.151 of the Paper states that:

“Despite paragraph 290.150A and 290.150B, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level by applying safeguards.”

We are concerned that the exception provided by paragraph 290.151 could be subject to misuse by engagement teams wishing to delay the rotation of personnel. Even with the Board’s use of examples, we believe that engagement teams can justify their circumstances as “rare” or “unforeseen” based on their own biases. As such, we believe the Board should



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaç o Internacional das Comiss es de Valores
Organizaci n Internacional de Comisiones de Valores

avoid including exceptions or alternatively enhance the provision by better defining what is considered “rare” or “unforeseen”. If the Board continues to believe that such an exception continues to be necessary, we suggest adding a provision calling for soft consultation with an applicable regulatory body provided the regulator has the means to intake and process the related matter.

Additionally, we are having difficulty understanding the second aspect of this exception. Our concern is how the audit firm could have concluded that rotation of an individual is necessary since the threats are so significant (as per paragraph 290.149B) yet at the same time conclude that the threat to independence could be eliminated or reduced by applying other safeguards (as per paragraph 290.151 above).

No Partner(s) Available to Rotate onto the Engagement

Paragraph 290.153 states:

“When a firm has only a few people with the necessary knowledge and experience to serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners may not be an available safeguard. If an independent regulator in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such regulation, provided that the independent regulator has specified alternative safeguards which are applied, such as a regular independent external review.”

We recognize that there are small audit firms in which the availability of partners might be limited and therefore rotation may be more challenging for these constituents. While we believe the familiarity threat still remains, we believe paragraph 290.153 could provide an amenable solution for those circumstances that justify its use.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact either Nigel James or me at 202-551-5300.



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

Sincerely,

Julie A. Erhardt

Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commission