

Mr Ken Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, NY 10017

6 May 2016

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

Dear Mr Siong,

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to have the opportunity to respond to your Exposure Draft: Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client.

As explained in our letter responding to the first Exposure Draft, we recognise that stakeholders have raised concerns with regard to the long association of personnel with an audit or other assurance client, particularly with respect to Public Interest Entities. We continue to support extending the cooling-off period from two to five years to signal to stakeholders the value the profession places on being, and being seen to be, independent from audit and assurance clients.

However, as explained below, in this re-exposure we consider that insufficient evidence has been provided to support important changes to the proposals and with respect to cooling-off periods we consider the revisions to the rules to be unnecessarily complex, which may result in inadvertent compliance failures.

**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 our response to the Exposure Draft we agreed with the reasons given within the explanatory memorandum to the Exposure Draft for not extending the cooling-off period for EQCR beyond two years. In particular, we agreed that the EQCR does not participate in the engagement or make decisions for the engagement team, and in practice, the EQCR does not meet the client. Our view remains that these observations remain true. However, we note the extensive further consultation performed with respect to this matter and agree that if a “fresh look” is paramount, that may not always be achievable within a two year period and therefore a three year period may be more effective to achieve that goal. Only by way of compromise we can see limited merit in extending the cooling-off period for the EQCR for Listed PIE to five years and for Non-Listed PIE to three years. The memorandum does not adequately evidence, evaluate or explain the need for this different treatment.

#### ***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 agree with these proposals because they correctly recognise the actions in many jurisdictions to address familiarity risk by requiring a number of different safeguards be implemented, including firm rotation. In addition, this proposal does not relax the seven year limit, which we consider to be in place for sound reasons and has been generally accepted by the profession.

**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 and would not extend them to include Joint Audit.

#### ***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 believe the proposed rules to calculate the cooling off period are now unnecessarily complex and that simplification of the rules would help.

We question the need for the following elements of the rules:

- 1) For Non-listed PIEs the inclusion of a three year cooling-off period was not explained adequately in the ED. No evidence is described to support the period, nor a strong rationale. In practice we do not consider there to be significant benefit in extending the cooling off period by one year and to the extent that this element of the rules makes application more complex, we consider that any marginal benefit in the field will be outweighed by problems in interpreting the rules or with acceptance.

- 2) For both Listed and Non-listed PIEs the inclusion of the service for two of the last three years was not explained adequately in the ED. Again, no evidence is described to support the period, nor a strong rationale. A rule to consider whether a KAP has acted as an EP or EQCR for the majority of the on-period does have a sound basis. However, restricting appointments further for recent service as an Engagement Partner or a EQCR is of marginal benefit and in practice it would be unlikely to occur frequently by design, due to the need for a cooling-off period.

On this basis we urge the Board to simplify the rules to remove the above criteria, which would result in the following amendments to the ED:

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*Audit Clients That Are Listed Entities*

290.150A

In respect of an audit of a listed entity, an individual shall not be a key audit partner for more than seven years (the “time-on” period), after which the individual shall serve a cooling-off period.

Subject to paragraph 290.150D the cooling-off period shall be:

- Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner or the individual responsible for the engagement quality control review, in either capacity or a combination of these roles, for ~~either (a) four or more years or (b) at least two out of the last three years.~~
- Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period.

*Audit Clients that are Public Interest Entities other than Listed Entities*

290.150B

In respect of an audit of a public interest entity that is not a listed entity, an individual shall not be a key audit partner for more than seven years (“the time-on period”), after which the individual shall serve a cooling-off period.

Subject to paragraph 290.150D, the cooling-off period shall be:

- Five consecutive years for a key audit partner who during the time-on period acted as the engagement partner for ~~either (a) four or more years or (b) at least two out of the last three years.~~
- ~~Three consecutive years for a key audit partner who during the time-on period was responsible for the engagement quality control review for either:~~
  - ~~(a) Four or more years; or~~
  - ~~(b) At least two out of the last three years; or~~

~~(c) Who acted in a combination of engagement partner and engagement quality control review roles for four years or more or at least two out of the last three years.~~

- Two consecutive years for a key audit partner who acted in any other combination of key audit partner roles during the time-on period.

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With respect to the above proposals we do not consider that the ED included sufficient evidence or rationale to support the changes proposed and that the ED was deficient in that respect. The rules regarding cooling off periods are important in practice and they will be more readily accepted by the profession if the evidence or rationale for the rules are more carefully explained.

We would be pleased to discuss our comments further with members of the IESBA or its staff. If you wish to do so, please contact Robert Dohrer (tel: +44 207 601 1080; email: robert.dohrer@rsm.global).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Robert Dohrer', with a long, sweeping flourish at the end.

**Robert Dohrer**  
**Global Leader - Quality and Risk**  
**RSM International**

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