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Sent by email:

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

Dear Sir or Madam,

The Federation of European Accountants (The Federation) is pleased to provide you with its comments on the IESBA Exposure Draft *Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client* (the ED) proposing amendments to the *IESBA Code of Ethics for Professional Accountants* (the Code).

In our response to IESBA Exposure Draft: *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client* dated 10 November 2014, we presented the following general comments:

- IESBA should take the audit reform in the European Union (EU) into account by taking a holistic approach based on an analysis of the interaction of the different approaches that exist to mitigate the familiarity threat.
- The Federation would expect this analysis to address the impact on audit quality that an overly complex system of internal and external rotation requirements may have.
- Some flexibility in the Code is necessary to take into account the different systems in place to achieve the appropriate mix of safeguards. A high level international Code of Ethics should have the objective of striving for the application of high level ethical principles at an international level.
- The implementation of a different length of cooling-off period depending on the category of the Key Audit Partners (KAPs) involved is difficult to monitor in practice.
- IESBA should seek to assess the potential impact on SMPs (small- and medium-sized practices) that perform audits of Public Interest Entities (PIEs), and not disadvantage this group.

These comments were later reinforced in our letter to IESBA's Chairman, Mr Stavros Thomadakis, dated 21 May 2015, especially the fact that a holistic approach should be taken in order not to undermine provisions that are already in place at jurisdictional level to address long association in the context of the EU.

The Federation's responses to the questions set out in the ED can be found in the appendix to this letter.

### General comments

A high level international Code of Ethics should have the objective of striving for the application of high level ethical principles at an international level, as opposed to a Code representing another layer of requirements that may not always be appropriate or compatible with national or regional requirements. Generally speaking, the Federation thinks that by adding these restrictive requirements, the Code becomes rules-based and very complex, leading to problems of application at an international level. The Code should emphasise much more the underlying principle: the professional accountant will need to be able to show that there is no threat resulting from long association.

Although IESBA has taken the audit reform in the EU into account to an extent, the Federation believes that a holistic approach should be taken based on an analysis of the interaction of the different approaches that exist to mitigate the familiarity threat. For example, the concept of joint audit, which has not been taken into account by the Board. In addition, an overly complex system of internal and external rotation requirements may have unintended consequences with respect to compliance without any contribution to audit quality.

We believe that a more strategic discussion needs to take place on the role of the Engagement Quality Control Review (EQCR). The IAASB recently released its *Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (the ITC); we think that the potential familiarity threat posed with the role of the EQCR would be better addressed within the remit of the revision of the International Standard on Quality Control 1 (ISQC 1). The consideration of a cooling-off period for the EQCR should be carefully re-assessed, taking into account the differences between the role of engagement partners and EQCR across jurisdictions and only after the discussion on ISQC 1.

The implementation of a different length of cooling-off period depending on the category of KAPs involved is difficult to monitor in practice, adding more complexity to an "already complex area". Such complex requirements could lead to inadvertent violations from professionals – which would not be in the public interest. Furthermore, the two subsets of PIEs (listed versus non-listed) are not aligned with the applicable European framework. Differentiation between PIEs may solely be acceptable with respect to the size of the entity, but not on whether they are listed or not. We also question the rationale underlying the decision of having different independence requirements for auditors of listed and non-listed PIEs.

In addition, we draw your attention to the fact that the proposed amendment would in many EU jurisdictions imply, regardless of the category of the entity, shorter cooling-off periods for KAPs in comparison with the EQCR.

We are most grateful for this opportunity to provide further input and hope that IESBA will find our comments helpful when amending the Code.

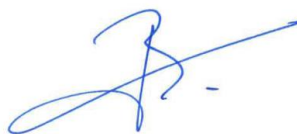
For further information on this letter, please contact Noémi Robert on +32 2 893 33 80 or via email at [noemi.robert@fee.be](mailto:noemi.robert@fee.be) or Tiago Mateus on +32 2 893 33 76 or via email at [tiago.mateus@fee.be](mailto:tiago.mateus@fee.be).

Kind regards,

On behalf of the Federation of European Accountants,

A handwritten signature in black ink, appearing to be 'Petr Kriz', written in a cursive style.

Petr Kriz  
President

A handwritten signature in blue ink, appearing to be 'Olivier Boutellis-Taft', written in a cursive style.

Olivier Boutellis-Taft  
Chief Executive

## Appendix

### Request for Specific Comments

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

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**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?*
- c) *If not, what alternative proposal might better address the need for this balance?*

As IESBA is aware, the EQCR is not encompassed within the cooling-off requirements applicable to KAPs in the EU legislation. We believe that a more strategic discussion needs to take place on the role of the EQCR. The IAASB recently released its *Invitation to Comment, Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*; we think that the potential familiarity threat posed with the role of the EQCR would be addressed better within the remit of the revision of the ISQC 1. The consideration of a cooling-off period for the EQCR should be carefully re-assessed, taking into account the differences between the role of engagement partners and EQCRs across jurisdictions and only after the discussion on ISQC 1.

On the other hand, as IESBA duly recognized in the Explanatory Memorandum, longer cooling-off period might lead to a reduction in the availability of people to perform the EQCR, with a potential adverse consequence for audit quality.

Regarding the proposed distinction between listed and non-listed PIEs we would like to stress that the implementation of a different length of cooling-off period depending on the category of the KAPs involved is difficult to monitor in practice, adding more complexity to an “already complex area”. In addition, these two subsets of PIEs (listed versus non-listed) are not aligned with the applicable European framework. Differentiation between PIEs may solely be acceptable with respect to the size of the entity, but not on whether they are listed or not. We also question the rationale underlying the decision of having different independence requirements for auditors of listed and auditors of non-listed PIEs; in particular when taking into account that some non-listed PIEs may have a much bigger impact on society at large than certain small listed PIEs.

On the other hand, we would also like to draw your attention to the fact that the proposed amendment would imply that in many EU jurisdictions, regardless of the category of the entity, for the EQCR a longer cooling-off period needs to be applied than for the other KAPs, namely the partner responsible for the conduct of the audit and partners signing the audit report.

In addition, especially for SMPs that may perform audits of smaller listed PIEs, five years is likely to be excessively restrictive and they may even find it impossible to comply with such rotation plans because they have a smaller number of partners to draw upon. A shorter minimum cooling-off period, two or three years, would be sufficient, the overruling principle being still applicable for those constituencies that want to go further.

In our view the need to ensure a “fresh look” is achieved with a two to three-year period and does not outweigh the potential effect on audit quality and the additional complexity.

## Jurisdictional Safeguards

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### **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?**

Given that our Federation is not supportive of an extension of a five-year cooling-off period, we think that this approach represents an improvement where it avoids setting another layer of requirements; especially in the EU where the current cooling-off period for KAPs is set to three years and is not applicable to EQCR, as mentioned above.

Nevertheless, the introduction of jurisdictional safeguards represents a rules-based approach, adding more complexity to this area and therefore deviating from the overall purpose, which should be to improve the understandability and usability of the Code.

That said, we refer to our general comment stating that a high level international Code of Ethics should have the objective of striving for the application of high level ethical principles at an international level, as opposed to a Code representing another layer of requirements that may not always be appropriate or compatible with national or regional requirements.

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### **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 refer to our response to question 2. As stated above, IESBA did not include joint audits in the proposal as it would add unnecessary complexity, while acknowledging that it “*could lead to inconsistency in application of the alternative provision in the EU*”. The reduction in complexity does not outweigh the inconsistency that it creates and therefore joint audit should be mentioned as a condition if the jurisdictional safeguards are to be maintained.

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

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### **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)?**

Although we understand the underlying reasoning, we are not convinced that this requirement is necessary. This proposal is rules-based and likely to be excessive in many circumstances. As stated in the covering letter, a high level international Code of Ethics should have the objective of striving for the application of high level ethical principles at an international level, as opposed to a Code representing another layer of requirements that may not always be appropriate or compatible with national or regional requirements.

## Request for General Comments

**In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:**

- a) Small and Medium Practices (SMPs) – The IESBA invites comments regarding the impact of the proposals subject to re-exposure for SMPs.*

In our view, the same rules should apply to SMPs. The public cannot accept different levels of independence that would depend on the size of a practice.

Having said that, IESBA should seek to assess the potential impact on SMPs that perform audits of small listed PIEs, and ensure not to disadvantage this group. For instance, with regard to the proposed cooling-off period, five years for listed PIEs is likely to be excessively restrictive, and SMPs may even find it impossible to comply with such rotation plans because they have a smaller number of partners to draw upon. The latter is also relevant for the proposed cooling-off period for EQCR.

- b) Preparers (including SMEs) and users (including Those Charged with Governance and Regulators) – The IESBA invites comments on the proposals subject to re-exposure from preparers, particularly with respect to the practical impact of those proposals, and users.*

The Federation has no comment on this specific question.

- 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 proposals subject to re-exposure, and in particular on any foreseeable difficulties in applying them in their environment.*

The Federation has no comment on this specific question.

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

The Federation has no comment on this specific question.