

**PIOB Monitoring of Comment Letters submitted by MG/IFIAR/EAIG Members  
to the re-ED of Long Association (published in February 2016)**

**As of January, 2017**

#	Respondent	Group	Issue	MAIN Issues/Recommendations Description	SSB's Disposition of Comment
1	Securities Commission Malaysia	IFIAR Member	Cooling-off period	Certain jurisdictions may not have sufficient resources to accommodate the extended cooling-off period under paragraphs 290.150A and 290.150B. For example, in a situation where there is a limited number of audit partners with expertise in a specialized industry, there may not be sufficient resources to perform the role of an engagement quality control reviewer or provide consultation should the need arise.	Par. 290.168 of the closed-off document allows firms to adopt alternative safeguards, when there are only few people with the necessary knowledge and experience within the audit firm, provided that an independent regulator has specified other requirements to be applied.
2	UK FRC	IFIAR Member	Cooling-off period for EQCR - PIEs	The cooling-off period for the EQCR should be five years for all PIEs. The approach proposed reflects a position where all non-listed PIEs are in effect deemed to be of less public interest than listed PIEs - this is inconsistent with the definition of a PIE and is likely to be confusing for stakeholders.	The distinction of cooling-off for EQCR between listed and non-listed PIEs has been eliminated. EQCR need to cool-off for 3 years (par. 290.156).
3	UK FRC	IFIAR Member	Jurisdictional Safeguards	We do not agree that the condition of an independent regulatory inspection regime and either a mandated time on period shorter than seven years or mandatory firm rotation/retendering at least every ten years - justifies reducing the cooling-off period for key audit partners. One of the significant threats that rotation of key audit partners is intended to address is the familiarity threat, where close personal relationships are developed with the audited entity's personnel. Rotation of firms does not address that threat at the level of the individual partner unless it serves to reduce the partner's involvement with the entity to the same extent as the requirements imposed directly on individuals. Also, mandatory retendering without mandatory rotation, as would be possible under 290.150D, may provide no additional safeguard in relation to threats related to individual KAPs. An independent regulatory inspection regime contributes to general oversight and quality control but could not, in our view, be relied upon to help mitigate threats such as familiarity, particularly given that several years can elapse between inspections of audits of a particular entity.	The "jurisdictional clause" has been reformulated (par. 290.163) and will be valid only for audits for periods beginning prior to December 15, 2023 (5 years later than the effective date), to facilitate the transition to the required cooling-off period of five consecutive years for EP in those jurisdictions where the regulator has established a cooling-off period of less than five consecutive years.
4	UK FRC	IFIAR Member	Service in a combination of roles during the seven-year time-on period	A partner who has served the maximum permitted time-on period, including as the EP, EQCR or combination of those roles should be required to cool-off for the full five year period. The familiarity threat that arises is not diminished by the partner serving part of the time-on period as a key audit partner other than EP or EQCR.	The combination of roles paragraphs have been retained (parr. 290.158-160) and still allow a cooling-off period lesser than 5 years under certain conditions.
5	IRBA	IFIAR Member	General	The proposed amendments suggest a rule-based approach. We believe that ultimately a Code with strong principles and salient rules would be the correct approach for the IESBA.	The LA project has retained a rules-based approach in the Code.
6	IRBA	IFIAR Member	Complexity of provisions	The re-exposed amendments may create complexity by introducing different cooling-off periods for differing levels of PIEs and KAPs. This could lead to unnecessary complexity and might be too difficult, time-consuming and costly to manage.	A layer of complexity has been eliminated (distinction between listed and non-listed PIEs). A differentiation of cooling-off requirements, depending on the role of the KAP, has been maintained.
7	IRBA	IFIAR Member	Joint Audit Engagements	The IESBA may have to consider including a general statement regarding joint audit engagements.	A "joint audit" element was introduced in the "jurisdictional clause", during the course of the project, and then eliminated.
8	IRBA	IFIAR Member	Cooling-off period for EQCR - PIEs	This section of the Code has resulted in amendments that are unduly complicated and clearly not in the public interest. The introduction of three types of KAPs (EP, EQCR and other KAP) is within the scope of the project. However, the introduction of the two levels of PIEs (listed and unlisted) may fall outside the scope of this project, and will have extensive unnecessary regulatory consequences. ... We question why a listed PIE should be differentiated from an unlisted PIE in the IESBA Code...	The distinction of cooling-off for EQCR between listed and non-listed PIEs has been eliminated. EQCR need to cool-off for 3 years (par. 290.156).
9	IRBA	IFIAR Member	EQCR	We agree that an EQCR is required to be independent of the financial information and that the familiarity threat needs to be addressed. If independence requirements need to be clarified, we would argue that the Code would be the appropriate guide rather than ISQC1. The IESBA may wish to suggest to the IAASB that independence and the familiarity threat need to be addressed within ISQC1.	The IESBA liases with the IAASB on common themes that need to be addressed, including the review of ISQC1.

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10	IRBA	IFIAR Member	Cooling-off period for EQCR - PIEs	We see no significant difference between the two-year cooling-off period currently being applied and the proposed three years in terms of the strenght of safeguard. Consequently, we are not convinced that it is necessary to incur the implementation costs of moving from a two-year to a three-year cooling-off period for the marginal improvement in safeguard for non-listed PIEs. We suggest that the EQCR partner for non-listed entities remains within a cooling-off period of two years. An EQCR partner for a listed PIE would be subject to the same rotation requirements of an engagement partner.	The distinction of cooling-off for EQCR between listed and non-listed PIEs has been eliminated. EQCR need to cool-off for 3 years (par. 290.156). A differentiation of cooling-off requirements, depending on the role of the KAP, has been maintained.
11	IRBA	IFIAR Member	Jurisdictional Safeguards (Reduction in cooling-off period under conditions in par. 290.150D)	This addition will create greater complexity to the cooling-off period attached to a rotation schedule.	The "jurisdictional clause" has been reformulated (par. 290.163) and will be valid only for audits for periods beginning prior to December 15, 2023 (5 years later than the effective date), to facilitate the transition to the required cooling-off period of five consecutive years for EP in those jurisdictions where the regulator has established a cooling-off period of less than five consecutive years.
12	IOSCO	MG Member	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 it in the circumstances... We suggest that the Board... makes 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.	The provisions do not specify the cases where rotation is not a possible safeguards. They only propose other possible safeguards (i.e. performing regular independent or external reviews of the engagement). The possibility of resignation is not foreseen.
13	IOSCO	MG Member	Compliance with Laws and Regulations	... The Board's NOCLAR language included reference to compliance with laws and regulations... It would be useful to include similar language in the Paper tailored for long association of personnel with an audit client.	Language on compliance with laws and regulations has not been included.
14	IOSCO	MG Member	Cooling-off period for listed entities and PIEs	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 EQCR on a PIE as it is on a listed entity.	The distinction of cooling-off for EQCR between listed and non-listed PIEs has been eliminated. EQCR need to cool-off for 3 years (par. 290.156).
15	IOSCO	MG Member	Exceptions to Proposed Rotation and Cooling-Off Period Requirements	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... mandatory firm rotation or mandatory re-tendering of the audit appointment at least every ten years"... 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.	The "jurisdictional clause" has been reformulated (par. 290.163) and will be valid only for audits for periods beginning prior to December 15, 2023 (5 years later than the effective date), to facilitate the transition to the required cooling-off period of five consecutive years for EP in those jurisdictions where the regulator has established a cooling-off period of less than five consecutive years.
16	IOSCO	MG Member	Exceptions to Proposed Rotation and Cooling-Off Period Requirements	Par. 290.151 states: "... 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 TCWG, be permitted to serve an additional year as a KAP 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... The Board should avoid including exceptions or alternatively enhance the provision by better defining what is considered "rare" or "unforeseen".	The closed-off document embeds that concept in par. 290.166, which reads: "... The firm shall discuss with TCWG the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created". The terms "rare" and "unforeseen" have not been better defined nor eliminated from the text.
17	IOSCO	MG Member	Exceptions to Proposed Rotation and Cooling-Off Period Requirements	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 that familiarity threat still remains, we believe paragraph 290.153 could provide an amenable solution for those circumstances that justify its use.	Par. 290.168 of the closed-off document allows firms to adopt alternative safeguards, when there are only few people with the necessary knowledge and experience within the audit firm, provided that an independent regulator has specified other requirements to be applied.