



Stavros Thomadakis
International Ethics Standards Board for
Accountants (IESBA) Chairman

Cc:
Marisa Orbea, IESBA Task Force Chair
Eddy Wymeersch, Public Interest
Oversight Board Chairman
Fayezul Choudhury, International
Federation of Accountants CEO

21 May 2015

Dear Mr Thomadakis,

Re: European concern re the IESBA project, Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client

We are writing in the context of the IESBA ongoing project on the proposed changes to certain provisions of the Code addressing the long association of personnel with an audit or assurance client. The final decision in this respect will have important repercussions, especially for Europe, and we greatly appreciate the time and efforts you are currently putting in this project.

The IESBA Code currently requires a 'cooling-off period' of two years and the proposed changes include a 'cooling-off period' of five years.

As you know, the European Union (EU) Regulation No 537/2014 on specific requirements regarding statutory audit of public-interest entities (the Regulation) states that "[...] the Key Audit Partners (KAP) responsible for carrying out a statutory audit shall cease their participation in the statutory audit of the audited entity not later than seven years from the date of their appointment. They shall not participate again in the statutory audit of the audited entity before three years have elapsed following that cessation. [...]"¹.

Furthermore, the Regulation requires the statutory auditor or the audit firm to "establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit [...]".

¹ Article 17 of the Regulation, revising as from 17 June 2016 the two-year 'cooling off period' provision included in Article 42 of the current Statutory Audit Directive (2006/43/EC), accessible at:
<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0537&from=EN>

As IESBA is aware, this Regulation has also introduced audit firm rotation for statutory audit of public interest entities which will become mandatory in the 31 jurisdictions of the European Economic Area (EEA). This requirement, resulted from long lasting legislative proceedings and negotiations, is regarded by our legislators as the main measure to address the familiarity threat to an auditor's independence that may arise from long association with an audit client.

Instead of seeking to strengthen existing provisions on internal rotation only, we urge IESBA to take these recent European developments into account in its efforts to strive for global convergence. A holistic approach should be taken, based on an analysis of the interaction of the different approaches and measures that exist to mitigate the familiarity threat, e.g. mandatory firm rotation, KAP rotation, and rotation of engagement partners and senior personnel.

This EU perspective is strategic for IESBA now that the final provisions on such matters have to be implemented in the EEA by mid-2016. The IESBA Board should not undermine provisions that are already in place at the jurisdictional level to address long association and which are seen by many as more demanding when combined. Therefore, a level of flexibility is needed in the Code to take into account the different systems in place to achieve the appropriate mix of safeguards to mitigate the familiarity threat.

We thank you for your consideration to this letter and hope our case is compelling enough to be taken into account by your Board in its final deliberations on this project. We remain at your disposal for continuing our dialogue on this subject and others and look forward to meeting you in Brussels at your convenience. Should you wish to discuss any of these points in more details, please contact Noémi Robert on +32 2 285 40 80 or via email at noemi.robert@fee.be from the FEE team.

Yours sincerely,

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

Petr Kriz
President

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

Olivier Boutellis-Taft
Chief Executive