

**Stakeholder Questionnaire**

**April 2021**

***Comments due: May 31, 2021***

*International Ethics Standards Board  
for Accountants®*

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## Long Association Post- Implementation Review (Phase 1)

**IESBA**

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## About the IESBA

The [International Ethics Standards Board for Accountants](#)® (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

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## REQUEST FOR INPUT

The IESBA's Long Association Post-Implementation Review (LAPIR) Working Group has developed this questionnaire to inform its consideration of the implications of the expiration of the transitional provision contained in paragraph R540.19 of the long association provisions of the Code (Phase 1 of the LAPIR).

Respondents are asked to submit their responses to this questionnaire electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Geoff Kwan, IESBA Principal, at [geoffkwan@ethicsboard.org](mailto:geoffkwan@ethicsboard.org).

All responses to this questionnaire, whether complete or partial, once submitted will be accepted and considered as input by the Working Group as part of phase 1 of the LAPIR.

Responses are requested by **May 31, 2021**.

# LONG ASSOCIATION POST-IMPLEMENTATION REVIEW (PHASE 1) – STAKEHOLDER QUESTIONNAIRE

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# STAKEHOLDER QUESTIONNAIRE

## Section 1 Introduction

### Background

1. In January 2017, the IESBA issued the Close-Off Document, [Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client](#). Those changes strengthened the provisions of the Code dealing with long association of personnel with an audit or assurance client ('long association').
2. With respect to audits of public interest entities (PIEs), the revisions in the Close-Off Document, among other things:
  - Retained the time-on period for key audit partners (KAPs) at seven years;
  - Extended the mandatory cooling-off period for engagement partners (EPs) from two years to five years; and
  - Introduced a provision that allows a jurisdiction to substitute the cooling-off period of five years for EPs with a shorter cooling-off period established by law or regulation or by a body authorized or recognized by law or regulation but not less than three years, provided that the time-on period in that jurisdiction does not exceed seven years (the "jurisdictional provision").
3. The jurisdictional provision as approved by the IESBA (paragraph 290.163 in the Close-Off Document), subsequently became paragraph R540.19 in the current Code following completion of the IESBA's Restructuring the Code Project in December 2017.

#### **Extract from the IESBA Code**

##### Shorter Cooling-off Period Established by Law or Regulation

**R540.19** Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.

4. The IESBA agreed that the jurisdictional provision should have a transitional period of five years from when the revised long association provisions became effective, i.e., for audits of financial statements for periods beginning on or after December 15, 2018. The jurisdictional provision is, therefore, due to expire for audits of financial statements for periods beginning on or after December 15, 2023.
5. Please refer to the Appendix to this questionnaire for background information about the development of the jurisdictional provision.

### Long Association Post-Implementation Review (Phase 1)

6. When finalizing the Long Association project, the IESBA committed to review the revised provisions to take account of, among other matters:
- Other legislative or regulatory developments implemented by regimes around the world to address long association; and
  - Matters arising from the practical application of the revisions to the Code.

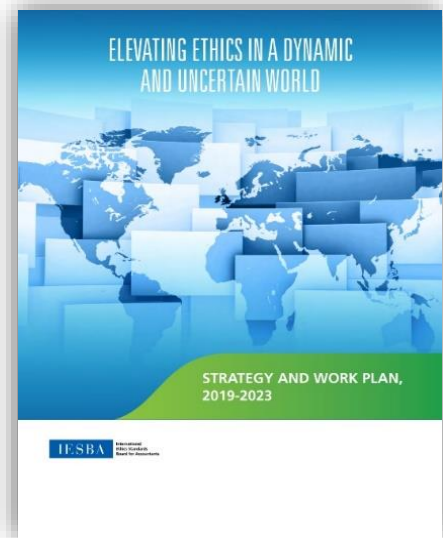
7. As set out in the IESBA's Strategy & Work Plan 2019-2023 (SWP), the LAPIR is to be carried out in two phases:

#### Phase 1

Phase 1 will review the implementation status of the five-year cooling-off requirement for EPs on audits of PIEs, and any issues arising from the implementation of such requirement before the expiry of the transition period for the jurisdictional provision. This phase commenced in Q1 2021.

#### Phase 2

Phase 2 is due to commence in Q2 2023. It will review how effectively the other revised long association provisions in the Code are being implemented in practice, taking into account legislative or regulatory developments implemented by other regimes around the world to address long association, such as mandatory firm rotation (MFR) and mandatory retendering (MRT). To achieve synergies, the LAPIR Phase 2 will be undertaken in conjunction with the post-implementation review of the restructured Code.



8. Under Phase 1 of LAPIR, the IESBA will consider all relevant information received in relation to the expiration of the jurisdictional provision for audits of financial statements for periods beginning on or after on December 15 2023 and any issues arising therefrom.
9. The IESBA will not seek or analyze information about the efficacy of the five-year cooling-off requirement under Phase 1 as:
- It would be premature to review the requirement as only two years have elapsed since the provision became effective and the first full five-year period has not yet been completed.
  - Such a matter should not be addressed in isolation of the remaining long association provisions in Section 540 and, therefore, would be best addressed as part of the broader review under Phase 2 of the LAPIR.

LONG ASSOCIATION POST-IMPLEMENTATION REVIEW (PHASE 1)  
STAKEHOLDER QUESTIONNAIRE

10. The timeline and milestones of Phase 1 of LAPIR are as follows:

March 2021	IESBA confirmation of Phase 1 scope and approach
April 2021	Release of stakeholder update and stakeholder questionnaire
May – September 2021	Targeted stakeholder outreach
September 2021	Working Group recommendations to the IESBA
December 2021	Final recommendations and IESBA determination

**Purpose of Stakeholder Questionnaire**

11. This questionnaire forms part of the IESBA's information gathering under Phase 1. Among other things, this questionnaire aims to establish:
- The level of adoption of the five-year cooling-off period by jurisdictions and firms as required by Section 540 of the Code;
  - The extent to which those jurisdictions and firms that have not adopted a five-year cooling-off period have done so in reliance upon the jurisdictional provision (paragraph R540.19);
  - Whether jurisdictions that have not adopted a five-year cooling-off period in reliance upon the jurisdictional provision intend to adopt a five-year cooling-off period on the expiration of the jurisdictional provision on December 15 2023; and
  - Whether transition to the five-year cooling-off requirement is expected to give rise to any potential issues or concerns when the jurisdictional provision expires for audits of financial statements for periods beginning on or after December 15, 2023.
12. All responses to this questionnaire, whether complete or partial, once submitted will be accepted and considered as input to the work of the LAPIR Working Group. The responses received will be summarized (in various ways, including for example by stakeholder group) for purposes of progressing the LAPIR workstream, including providing feedback to the IESBA and in developing recommendations for possible further actions. Although the results of the questionnaire may be made public through issues papers and related materials for the IESBA's consideration in plenary session, there will be no attribution of responses to any individual respondent.

## Section 2 Questionnaire

### Format of Questionnaire

This questionnaire includes questions targeted at various stakeholder groups. Respondents to the questionnaire are asked to provide their responses only on the questions applicable to the stakeholder group to which they belong.

## Part A – Demographic Information

### Question 1

Please indicate the geographical profile which best represents your situation, i.e., from which geographical perspective are you providing your responses?

- Global
- Regional (Please specify)
- Multiple jurisdictions (Please specify)
- Single jurisdiction (Please specify)

### Question 2

Please indicate the stakeholder group to which you belong, i.e., from which perspective are you providing your responses?

- National Standard Setters or Professional Accountancy Organizations ([Complete Part B](#))
- Regulators or Audit Oversight Bodies ([Complete Part C](#))
- Auditors or Audit Firms ([Complete Part D](#))
- Others (e.g., investors or other users of financial statements, those charged with governance, preparers, academics) ([Complete Part E](#))

### Question 3

Please provide the following information about your organization (if applicable) and other contact information:

- Your organization's name (or leave blank if you are completing the questionnaire in your personal capacity)
- Your name and job title/role
- Your email address



## Part B – National Standard Setters or Professional Accountancy Organizations

1. (a) Has a cooling-off period of five years for engagement partners (EPs) on audits of public interest entities (PIEs) been implemented in your jurisdiction in accordance with Section 540 of the Code?  
(b) If so, were any substantial issues encountered as a result of its implementation?
2. (a) Has a cooling-off period of five or more years for EPs been implemented in your jurisdiction otherwise than by adoption of the Code, e.g., by law or regulation or through a different ethical framework?  
(b) If so, are there any significant differences between those requirements and the requirements of Section 540? For example, does the cooling-off period apply to EPs on audits of all PIEs or only listed entities?
3. If the cooling-off period for EPs on audits of PIEs in your jurisdiction is shorter than five years, is this because jurisdiction:  
(a) Has applied the jurisdictional provision (paragraph R540.19 of the Code)? or  
(b) Is required to comply with a different regime to address the threats created by long association that permits a cooling-off period that is shorter than five years? If so, please describe the regime.
4. If your jurisdiction has applied the jurisdictional provision in the Code (paragraph R540.19):  
(a) What cooling-off period is in effect?  
(b) Has consideration been given to the implications of the expiry of the jurisdictional provision for audits of financial statements for periods beginning on or after December 15, 2023?  
If so, does your jurisdiction intend that a five-year cooling-off period should apply from December 15 2023?  
(c) What potential issues, if any, are expected to arise from the five-year cooling-off period becoming effective?
5. If your jurisdiction does not intend to adopt a five-year cooling-off period for EPs on audits of PIEs, please set out the rationale for the approach proposed or considered. For instance:
  - Alternative measures are in place to address the threats created by long association and those measures are considered adequate (e.g., mandatory firm rotation). If so, please describe those measures; or
  - The circumstances particular to your jurisdiction give rise to issues that outweigh the benefits of implementing a five-year cooling-off period. If so, please describe those circumstances and the public interest considerations leading to that conclusion.
6. Are there any other issues or comments that the IESBA should consider under Phase 1 of the LAPIR in relation to the expiry of the jurisdictional provision and the implementation of a five-year cooling-off period for EPs on PIE audits?

## Part C – Regulators or Audit Oversight Bodies

1. (a) Has a cooling-off period of five or more years for engagement partners (EPs) on audits of public interest entities (PIEs) been implemented in the jurisdiction for which you have responsibility?  
(b) If yes, please provide details.
2. If a cooling-off period for EPs on audits of PIEs that is shorter than five years has been implemented in the jurisdiction for which you have responsibility, is this because:
  - (a) The jurisdictional provision (paragraph R540.19 of the Code) has been applied; or
  - (b) A different regime has been adopted to address the threats created by long association that permits a cooling-off period that is shorter than five years? If so, please describe the regime.
3. If the jurisdictional provision has been applied, is there an intention to let the five-year cooling-off period become effective when the jurisdictional provision expires for audits of financial statements for periods beginning on or after December 15, 2023?
4. If there is not an intention to adopt a five-year cooling-off period for EPs on audits of PIEs, please set out the rationale for the approach proposed. For instance, is that because:
  - Alternative measures are in place to address the threats created by long association and those measures are considered adequate (e.g., mandatory firm rotation)? If so, please describe those measures; or
  - The circumstances in the jurisdiction for which you have responsibility give rise to issues that outweigh the benefits of implementing a five-year cooling-off period? If so, please describe those circumstances and the public interest considerations leading to that conclusion.
5. Are there any other issues or comments that the IESBA should consider under Phase 1 of the LAPIR in relation to the expiry of the jurisdictional provision and the implementation of a five-year cooling-off period for EPs on PIE audits?

## Part D – Auditors or Audit Firms

1. Does your firm have a global or regional policy that requires engagement partners (EPs) on audits of public interest entities (PIEs) to observe a cooling-off period of five years or more?  
  
If so, does that policy apply irrespective of whether a shorter period is permissible under laws, regulations or other standards in a particular jurisdiction?
2. If your firm does not have such a global or regional policy, do you or any of your network firms apply a cooling-off period for EPs on audits of PIEs that is shorter than five years? If so, is that because the relevant jurisdiction:
  - (a) Has applied the jurisdictional provision (paragraph R540.19 of the Code); or
  - (b) Has complied with a different regime to address the threats created by long association that permits a cooling-off period that is shorter than five years? If so, please describe the regime.
3. Where the cooling-off period applied by your firm or any of your network firms is less than five years in reliance on the jurisdictional provision or local regulation, would the expiry of the jurisdictional provision for audits of financial statements for periods beginning on or after December 15, 2023 give rise to any issues or concerns that you think the IESBA should have regard to?  
  
If so, please describe those issues or concerns and any steps that might be taken to address them.
4. Are there any other issues or comments that the IESBA should consider under Phase 1 of the LAPIR in relation to the expiry of the jurisdictional provision and the implementation of a five-year cooling-off period for EPs on PIE audits?

**Part E – Others (e.g., investors or other users of financial statements, those charged with governance, preparers, academics)**

1. Will the expiry of the jurisdictional provision for audits of financial statements for periods beginning on or after December 15, 2023 give rise to any issues or concerns that you think the IESBA should have regard to? If so, please describe those issues and any steps that might be taken to address them.
2. Are there any other issues or comments that the IESBA should consider under Phase 1 of the LAPIR in relation to the expiry of the jurisdictional provision and the implementation of a to the five-year cooling-off period for EPs on PIE audits?

## Additional Background and Information Regarding the Jurisdictional Provision

### Development of the Jurisdictional Provision

1. In the case of audit and assurance engagements, it is in the public interest and required by the Code that members of audit and assurance teams and firms be independent, both of mind and in appearance, of their audit and assurance clients.<sup>1</sup>
2. Long association of personnel on an audit engagement with an audit client can adversely impact objectivity and professional skepticism, which in turn are important contributors to audit quality. The independent auditor constitutes the principal external check on the integrity of financial statements. Hence, the length of an individual's relationship with the audit client becomes a visible factor when evaluating the auditor's independence of mind and independence in appearance.
3. The IESBA acknowledged that a perception issue existed with respect to the previous long association provisions of the Code, particularly as an individual could serve as a key audit partner (KAP) to an audit client that is a PIE for 14 out of a total of 16 consecutive years. Accordingly, the IESBA agreed that it was in the public interest to undertake a project to consider whether the provisions remained appropriate to address the threats to independence created by long association ([Long Association Project](#)).
4. In August 2014, the IESBA published its proposals in the exposure draft (ED), [Proposed Changes to the Code Addressing the Long Association of Personnel of an Audit or Assurance Client](#). In December 2015, the IESBA:
  - Concluded on many aspects of its proposals in the former Sections 290<sup>2</sup> and 291,<sup>3</sup> which included retaining the seven-year time on period for all KAPs and reaffirming that the cooling-off period for EPs auditing PIEs be extended from two to five years.
  - Determined there was a need to re-expose three key issues relating to the IESBA's proposals which, amongst other things, addressed circumstances where jurisdictions have established legislative or regulatory requirements addressing long association that were different from those proposed by the IESBA.
5. In February 2016, the IESBA issued a re-exposure draft (re-ED), [Limited Re-exposure of Proposed Changes to the Code Addressing the Long Association of Personnel with an Audit Client](#), which also included a Basis for Conclusions summarizing the significant issues raised by respondents on the proposals in the August 2014 ED that were addressed and finalized by the IESBA in December 2015.
6. In September 2016, the IESBA reached an agreement on provisions to address the three matters that were dealt with in the re-ED. Subsequently, in early November 2016, the Public Interest Oversight Board

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<sup>1</sup> **Independence of mind** is the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

**Independence in appearance** is the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances, that a firm's, or a member of the audit team's, integrity, objectivity or professional skepticism has been compromised.

<sup>2</sup> Former Section 290, *Independence – Audit and Review Engagements* (Part 4A in the extant restructured Code)

<sup>3</sup> Former Section 291, *Independence – Other Assurance Engagements* (Part 4B in the extant restructured Code)

(PIOB) expressed a number of concerns regarding the proposed revised provisions, primarily their perceived complexity and concerns about permitted exceptions. As a result of discussions between senior representatives of the IESBA and the PIOB, the PIOB's concerns were narrowed down to three key areas, namely:

- (a) The provision developed to address the position where legislative or regulatory requirements had been implemented in individual jurisdictions that were different to those proposed by the IESBA (the "jurisdictional provision");
- (b) The exception that would permit, under certain conditions, an audit engagement team for a PIE to consult with an individual who previously acted as EP or engagement quality reviewer<sup>4</sup> (EQR) on the audit engagement if they have taken on a primary role as a technical specialist in their firms; and
- (c) The need for transitional provisions relative to the effective date.

### **Jurisdictional Provision**

7. Some respondents to the ED had raised concerns regarding the interaction of the proposals with local requirements, particularly in jurisdictions that had also implemented MFR or had a shorter time-on period for KAPs. The IESBA acknowledged that, in some cases, overlaying the ED proposals on existing regulatory requirements might have unintended consequences and make the requirements applicable in that jurisdiction stricter than those in the Code, or make it too complicated to interpret and apply the additional requirements. The IESBA felt that both these outcomes might detract from its goal of promoting widespread adoption and implementation of the Code. The IESBA also did not believe that it would be possible to deal with "equivalence" between the PIE requirements in the Code and different jurisdictional requirements to address the threats created by long association.
8. In response to these concerns, the IESBA considered whether the existence of regulatory safeguards, or a package of safeguards, set at the jurisdictional level to address threats created by long association might provide an alternative to elements of the PIE rotation requirements in the Code. The IESBA agreed that if a jurisdiction, after following appropriate due process, had reached a robust, but different, approach to that in the Code, it would be reasonable and in the public interest for the Code to recognize that alternative, provided that that approach met a minimum set of requirements.
9. Accordingly, the IESBA re-exposed this issue in the ED released in February 2016 and proposed that where an independent standard setter, regulator or legislative body had implemented an independent regulatory inspection regime and either (a) established requirements for a time-on period shorter than seven years, or (b) implemented MFR or MRT at least every ten years, the cooling-off periods of five consecutive years specified for the EP and EQR (in the latter case, as was proposed for audits of listed entities) could be reduced to three consecutive years.
10. Following consideration of the comments received, the IESBA agreed to some refinements to its proposal at its September 2016 meeting. However, subsequent to this meeting, the PIOB questioned whether the jurisdictional provision was necessary, in addition to its broader concerns about overall complexity. The PIOB noted that by allowing a reduction in the cooling-off period for EPs to three years, the jurisdictional

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<sup>4</sup> As part of an upcoming conforming amendments project, the Board will be asked to consider aligning the term "engagement quality control reviewer" in the extant Code to new term "engagement quality reviewer" in the IAASB's International Standards on Quality Management (ISQMs) 1 and 2, which were issued in December 2020.

provision would weaken the overall partner rotation regime in the Code. It noted that stricter rules in national legislation, such as MFR, would prevail and apply.

11. In light of the PIOB's concerns, the IESBA reconsidered the position regarding the jurisdictional provision and agreed to the following three changes:
  - Replacing the revised jurisdictional provision with a simpler formulation that would achieve the objective of the original provision, i.e., that where an appropriately qualified body has established a cooling-off period for an EP of less than five years, the higher of that period or three years may be substituted for the cooling-off period of five years. The only condition is that the applicable time-on period does not exceed seven years.
  - Clarifying that the appropriate national body, in addition to being a body authorized by a legislative body or regulator, might be a body recognized by such legislative body or regulator.
  - Permitting a transitional period of up to five years from the effective date of December 15, 2018 during which the jurisdictional provision would remain available. This transitional approach was intended to facilitate an eventual changeover to the cooling-off period of five years for EPs in those jurisdictions where the appropriate national body had currently specified a cooling-off period of less than five years. The IESBA believed that the revised formulation achieved the outcome desired under the original provision while being responsive to the public interest concerns raised by the PIOB.
12. In December 2016, the IESBA finalized changes to the revised provisions to respond to the PIOB's concerns. The final provisions included a revised jurisdictional provision and the corresponding transitional period of five years from the revisions' effective date of December 15, 2018. The IESBA released the Closed-Off Document in January 2017.
13. The jurisdictional provision as approved by the IESBA (paragraph 290.163 in the Close-Off Document, [Changes to the Code Addressing the Long Association of Personnel with an Audit or Assurance Client](#)) was subsequently restructured as paragraph R540.19 in the current Code as part of the IESBA's Structure of the Code Project:

**R540.19** *Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.*
14. The jurisdictional provision is due to expire for audits of financial statements for periods beginning on or after December 15, 2023.

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