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9 May 2016

Mr. Ken Siong
Technical Director
International Ethics Standards Board
for Accountants
529 Fifth Avenue, 6th Floor
New York
NY 10017, USA

submitted electronically through the IESBA website

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

Dear Mr. Siong,

The IDW appreciates the opportunity to comment on the above mentioned Exposure Draft and proposed changes to the Code of Ethics for Professional Accountants hereinafter referred to as “the ED” and “the Code”, respectively. We submit general comments and then respond to the questions raised within the IESBA’s request for comments.

General Comments

As we have previously stated, ethical behavior, driven by globally applicable ethical standards of a high quality, is essential to the reputation of the entire accountancy profession. We recognize that it is common for regional (e.g., EU) or national laws and professional codes to establish certain requirements governing specific aspects of ethical behavior for certain groups of professional accountants within individual jurisdictions, but also agree there is a need for IESBA to strive for the application of ethical principles at an international level to provide a common basis and to facilitate harmonization.

We note IESBA’s decisions explained in the Basis for Conclusions and Explanatory Memorandum accompanying the ED and accordingly do not comment again on those issues upon which an IESBA decision has been

reached, except where relevant to the changed and new proposals within the ED.

The proposals foresee various different time periods in a variety of different situations, which makes this section rules-based, overly engineered and complex as well as extremely difficult to read. In particular we suggest the first bullet point in paragraph 290.150A is essentially unintelligible to readers without an understanding of the situation the IESBA is seeking to address (break in time-on period). We appreciate that restructuring of this section is yet to be effected, and trust that sufficient clarity can be introduced so as to alleviate readers' difficulties in understanding how to apply the specific parts of these provisions relevant to their own circumstances.

Alternative Safeguards

In our letter dated 12 November 2014 we had suggested that flexibility be provided in the IESBA Code to take into account the needs of different systems to achieve the appropriate mix of safeguards. We are pleased to note that the ED now proposes to address the fact that the EU has established alternative safeguards addressing long association.

However, rather than reflecting only these specific safeguards in paragraph 290.150D, we believe IESBA ought to recognize as a point of principle that alternative safeguards could fully replace certain specific provisions of the Code, provided they are sufficiently robust so as to eliminate or reduce the threat to an acceptable level. Only when this is not the case would additional measures (i.e., detailed provisions of the Code) have to replace or supplement the alternative jurisdictional measures. It seems counterintuitive to require additional watered down requirements of the Code to supplement alternatives that are sufficient in their own right.

We comment on this aspect of the proposals more fully in responding to IESBA's questions in the appendix to this letter.

Impact Analysis

Besides noting increased complexity in its Analysis of the Overall Impact of Proposals Subject Re-exposure (Section V. of the Explanatory Memorandum), the IESBA specifically recognizes that extending the cooling-off period for EQCRs for audits of listed entities (from 2 to 5 years) and for audits of PIEs other than listed entities (from 2 to 3 years) may create practical challenges for firms, particularly smaller firms that have fewer partners able to serve in an EQCR role. Trying to assess how these proposed changes fit in with the already complex provisions in the EU whereby certain listed entities do not fall under the

PIE definition (e.g., AIM) may also lead to nonsensical treatment for different entities and amongst firms and their networks and will constitute an administrative horror.

As in the 2014 ED, once again IESBA is not proposing to address the perceived problems faced by SMPs.

In responding to the specific question regarding the impact analysis in relation to the 2014 ED, the IDW commented on the lack of a proper analysis of the impact as follows:

> We do not believe that views provide a sufficient basis for an impact analysis. Indeed the text is a very disappointing read, as it points out significant problems (factual and practical) and does not justify "ignoring" these other than with the argument of perceived independence.
>
> The IESBA should seek firm numbers in order to assess, in particular, the potential impact on SMPs who perform audits of PIEs, and take steps not to disadvantage this group; in addition, in many cases the costs may exceed the benefits for larger audit firms auditing PIEs, given that there may be other safeguards that could be used beyond internal rotation and cooling-off …."

In our view, the IESBA ought to weigh the benefits to be attained by its current proposals against any potential adverse impact on threats to another fundamental principle (in the case of SMPs, professional competence and due care, if applying the Code forces less suitable individuals to assume the role of EQCR, or denies the firm access to the best internal consultation on technical issues). This also supports our argument that as a matter of principle, where alternative jurisdictional safeguards exist, these ought to replace rather than temper safeguards set forth in the Code.

Particular Complexities in the EU

The complexities in the Code will be magnified when applied in jurisdictions that have similar but different legal rotation requirements as well as definitions of PIEs in place. Specifically in the EU the PIE definition to which the EU Regulation applies (7 year on period and 3 year cooling-off) is subject to adaptation at Member State level. In contrast, the IESBA proposals distinguish between listed and non-listed PIEs.

In our view, this is an entirely arbitrary differentiation. A large non-listed bank or insurance company may be of far greater significance in terms of the public interest than e.g., a small listed regionally active manufacturer at the bottom of

the SDAX. It certainly does not readily make sense for the internal rotation requirements applicable to the latter to be more stringent than for the former.

We trust that our comments will be received in the constructive manner in which they are intended. If you have any questions relating to our comments in this letter, we should be pleased to discuss matters further with you.

Yours truly,

Klaus-Peter Feld
Executive Director

Helmut Klaas
Director European Affairs

Appendix

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 previous letter we expressed our agreement that the cooling-off period for KAPs (i.e., also for EQCRs) should not be extended.

In any case, although we appreciate the Board's intention is to balance the diverging views expressed by various parties, we do not believe that inflexible time periods extending the cooling-off period(s) for an EQCR role (i.e. rules) can achieve a meaningful balance.

As stated previously, we have some sympathy with a differentiation based on the fact that the more influential a partner is, the more critically his or her objectivity will be perceived to be. However, we do not believe there is any justification behind the proposal to treat the respective roles of engagement partner and EQCR as equivalent in this context, and thus do not believe that the extensions of the cooling-off periods for the EQCR currently proposed is appropriate.

Our previous comments concerning the extension of the cooling-off period for the engagement partner are equally valid to the discussion on extending the

cooling-off period for the EQCR role. In our previous letter we had commented in relation to the impact analysis to the 2014 ED as follows:

> "…"No other jurisdictions currently apply a seven/five year approach solely for the engagement partner and only three jurisdictions that participated in the benchmarking survey have a five-year cooling-off period." The IESBA is charged with developing a Code for international application and should therefore perform an analysis of impact that takes into account not only the views of some jurisdictions that choose, for national reasons, to have different provisions, but also the reasons why a large majority of other jurisdictions choose not to follow the few that have different positions."

We believe that an (equivalent) analysis is still needed in regard to the EQCR role.

The circumstances of individual firms are likely to differ widely, as will the circumstances of each of their audit and assurance clients. For smaller firms in particular the availability of suitable individuals to perform EQC reviews can be a key issue. In particular, the detrimental impacts of having a less well-suited individual assume the role of EQCR could outweigh any additional benefit brought by an extension of the cooling-off period.

The IAASB is currently revisiting its standard ISQC 1 and is considering a Quality Management Approach that would involve a more tailored application of inter-related measures to support a firm's delivery of high quality services. In our view, the balance referred to above might be better achieved by drawing on such a principles-based approach rather than establishing rules.

In addition, as explained in the accompanying letter, we believe that, as currently drafted, the provisions in paragraphs 290.150A and B are overly complex and will likely prove extremely difficult for firms of all sizes to apply in practice.

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?*

As stated in the accompanying letter, whilst we support IESBA's initiative concerning the recognition of alternative safeguards, we believe IESBA ought to recognize that, provided they are sufficiently robust so as to eliminate or reduce

the threat to an acceptable level, alternative safeguards may fully replace certain specific provisions of the Code.

Only when such alternatives cannot eliminate or reduce the threat to an acceptable level would (other) provisions of the Code be needed to supplement (weaker) alternatives in place in a particular jurisdiction. It seems counterintuitive for IESBA to continue to require additional “diminished” requirements of its Code to supplement those jurisdictional alternatives that do address the threat sufficiently in their own right.

We do however agree that the Code should maintain a minimum set of requirements to deal with threats not satisfactorily covered by national alternatives or equivalents.

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?*

In our view a principles-based approach would be better suited to dealing with the issue of alternative safeguards.

The conditions in subparagraphs 290.150D (a) and (b) reflect the key measures introduced recently under EU legislation, but – in being rules-based – do not provide flexibility, for situations in which joint auditors are used in the EU, nor allow for any further jurisdictional alternatives be introduced in the future.

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)?*

In our view, the provisions in paragraphs 290.150A and B are overly complex and will likely prove extremely difficult for firms of all sizes to apply in practice.

Given that we do not support the proposed extension of the cooling-off period for a KAP who assumes the role of EQCR, we do not believe that the proposed arbitrary construct is appropriate in this context.

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.

We refer to our general comments as well as the responses to individual questions in which we have detailed our concerns in this regard.

All firms will be challenged to a larger or lesser extent by the need to maintain more extensive partner rotation plans, and SMPs in particular may find it impossible to comply with such rotation plans because they have a smaller number of partners upon which to draw.

(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.

N/A

(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.

N/A

(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.

We have not considered possible translation issues in detail, however in responding to the questions we have pointed out a number of passages where the text is potentially unclear, and which could thus prove difficult on translation.