



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

12 November 2014

Ref: 14/89

Mr. Ken Siong
Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Mr Siong,

RE: IESBA Exposure Draft (ED), *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the IESBA Exposure Draft: *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client* (the exposure draft). As this is a topic in the public interest, it is of significant interest to the IAIS.

In general, the IAIS believes that the IESBA has appropriately balanced the various considerations in proposing the changes in the *Code of Ethics for Professional Accountants* (the Code) to address perceived threats to independence that may be created by using the same personnel on an audit or assurance engagement over a long period of time (the long association provisions).

However it would be also necessary, as part of future improvements to be made to the Code, that the Board consider addressing the issue of rotation requirements for audit firms.

It is essential that members of audit and assurance teams and firms be independent, both of mind and appearance, of their audit and assurance clients. At the same time, the consideration of provisions that may better ensure this need to be appropriately balanced against practical issues, such as potential audit quality concerns with a significant loss of audit knowledge and specialist resources if some provisions are too onerous.

In addition, some requirements differ among various large jurisdictions, adding additional factors to consider when developing proposals for changing the Code provisions. The IAIS believes that differences in jurisdictional requirements should not necessarily drive the development of the proposed Code changes, as differences may be entirely appropriate for the circumstances within those jurisdictions. The Code provisions should not necessarily be based on the most onerous requirements amongst the jurisdictions, where it cannot otherwise also be justified as an appropriate minimum requirement for most other jurisdictions.

On the proposed changes to paragraph 290.150B, the IAIS believes that there needs to be a tightening of the proposed wording which allows former engagement partners to act as consultants to the engagement team on technical or industry specific issues after two years of their cooling-off period, "...provided that such consultation is in respect of issues, transactions or events that were not previously considered by that individual in the course of acting as engagement partner." In the context of the insurance industry, technical provisions typically reflect the material aggregation of transactions and events over many years, even many decades for some types of insurance contracts – and so we believe the proposed wording should take into consideration the influence that technical and industry specific consultations on more recent issues, transactions or events may have on the treatments, assumptions and other valuation judgments being made on the technical provisions as a whole. Consequently, we suggest adding appropriate wording to the end of paragraph 290.150B, first bullet, that says "...and provided such consultation is not expected to materially influence the audit considerations for the appropriate treatment of similar past issues, transactions and events that were considered by that individual in the course of acting as engagement partner."

Furthermore, in the context of a group audit, the IAIS believes that the cooling-off period required for KAP of group entities should be the same as the cooling-off period required for the lead engagement partner (at group level) when the group is a PIE (i.e. 5 years). Indeed a KAP may take on/have responsibility for auditing a significant group entity, based on the fact that they are generally members of the same network/firm and the relationship/contacts between these KAPs and the management of these entities may also be a reason for concern in the context of a group audit.

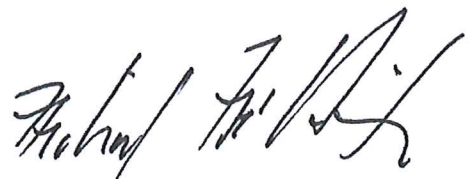
Additionally, the proposed wording in paragraph 290.150B, second sub-bullet to the third bullet point can be enhanced for better clarity for application. The focus on 'direct influence' allows former engagement partners to exert an indirect but material influence on the outcome of the audit engagement when acting in the capacity of a consultant on technical or industry specific issues, and raises definitional issues on the meaning of direct versus indirect influence. As a result, we suggest the wording be changed to "*Exerting material direct influence on the outcome of the audit engagement.*"

If you have further questions regarding this letter, please contact Mark Causevic at the IAIS Secretariat (tel: +41 61 280 8323; email: mark.causevic@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,



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Chair, Executive Committee



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