

The Chairman  
Accounting Professional Standards & Ethical Standards Board  
Level 11  
99 William Street  
Melbourne, Victoria 3000

8 March 2017

Dear Ms Roxon,

**Exposure Draft 01/17 – Proposed Amendments to Long Association of Personnel with an Audit or Assurance Client requirements in APES 110.**

Ernst & Young Australia welcomes the opportunity to comment on the Exposure Draft. We fully support the principle of harmonisation of the Australian professional standard with the international standard. We note that the partner rotation requirements of the Corporations Act 2001 do prevent full harmonisation and we acknowledge the efforts of the APES board to contribute to an international standard that allows countries with specific legal provisions some relief from the core five-year cooling-off provision of the code.

We support the proposals in principle but we offer the following comments:

1. Transition of shorter cooling-off period established by legislation or regulation

The effect of the proposals is to create a framework where the core requirement for engagement partners serving on Australian listed companies is that they may serve five years on , and three years cooling-off until 2023, when the lapsing of the transitional provision will create a five on / five off regime. This compares with the international code requirement of seven on/ five off, and the legal requirement of five on /two off.

We believe that five on/ five off is too onerous and accordingly we recommend that the sunset provision on the transitional provision in 290.163 should be deleted in order to establish a five on / three off regime for the foreseeable future. We note that there continues to be no empirical data or authoritative research supporting a link between cooling-off and audit quality.

We do acknowledge that the extension provisions of the law that allow a listed entity to extend the engagement partner up to seven years do create the ability for a seven on/five off regime to apply , and in our view , this is acceptable , and consistent with the international standard. We note, however, that these extension provisions are intended for exceptional circumstances.

2. The application of paragraph 290.163 to extensions under the Corporations Act

The proposals make it clear that (until 2023 ) a partner serving as engagement partner will follow a five on/three off model, unless extended to seven years in which case a seven on/ five off model will apply. The provision is not explicit in stating what the requirement is for a partner who is extended to six years. A literal reading probably is that a partner in this position will be allowed to cool –off for three years but we believe that this should be clarified. We believe that four year cooling-off is appropriate for a partner serving six years. This follows the pattern of a cooling-off period of two years less than the time on period.

3. Entities becoming Public Interest Entities

The international provisions set out in 290.167 permit a partner who already has long association at the time of the entity becoming a PIE (for example through an Initial Public Offering ) to serve a further two years after listing. This is inconsistent with the Corporations Act which, in simple terms, includes all years before listing in the five years maximum allowed once listed. Under this provision of the law, a partner who has served five years or more as engagement partner of a private company prior to listing can do no more years, not the two years in 290.167. We note the footnote reference to the law in the Exposure Draft but we believe that this important difference should be more clearly brought out.

4. Transitional arrangements

We believe that there should be some clarification of how the transition applies to partners who are cooling-off when the standard comes into force on 15 December 2018. We understand that the intention is that 31 December 2017 / 30 June 2018 are the last audits that a partner can perform and still cool-off under the old provisions but we believe that it would be helpful to have a table as guidance setting this out.

We would be pleased to discuss this response further. Please contact me on 02 8295 6882.

Yours sincerely



Kathy Parsons  
Oceania Professional Practice Director- Assurance