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ED 99-2

Exposure Draft

Employment with Audit Clients

December 1999

Independence
Standards
Board

Independence
Standards
Board

Exposure Draft

(ED 99-2)

Employment with Audit Clients

December 1999

Comments should be received by February 29, 2000, and may be sent via:

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Please reference ED 99-2 in your correspondence.

Independence Standards Board

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Date: December 1999

To: Interested Parties

From: William T. Allen, Chairman

The mission of the Independence Standards Board (ISB or Board) is to establish independence standards applicable to the audits of public entities in order to serve the public interest and to protect and promote investors' confidence in the securities markets. Two of the founding precepts of the ISB are that (1) while many factors may affect the functioning of the capital markets, those markets will not function effectively unless investors have confidence in the information they use to make investment decisions, and (2) an independent audit is essential to providing that sense of confidence. If knowledgeable and reasonable investors believed that the independent auditor placed the interests of the accounting firm, the audit client, or any other person, over the interests of investors, then the value of the audit function would be impaired.

With this mission in mind, and while working concurrently on its project to establish a conceptual framework for auditor independence to serve as a foundation for principles-based independence standards, the Board has studied certain independence concerns related to audit firm personnel going to work for firm audit clients. The Board seeks comment on its proposal, as described in this Exposure Draft (ED), that firms implement certain policies and procedures to follow (safeguards) when a firm professional goes to work for an audit client shortly after leaving the firm.

The operating policies of the ISB are designed to permit timely, thorough and open study of issues involving auditor independence, and to encourage broad public participation in the process of establishing and improving independence standards. All of the ISB's constituencies, including members of the public, are

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encouraged to express their views on matters under consideration in order to stimulate constructive public dialogue.

The ISB is seeking specific input on the questions posed at the end of this ED. In addition, we welcome comments and suggestions on any other aspects of this proposal.

Any individual or organization may obtain one copy of this Exposure Draft (ED 99-2), without charge, by contacting the ISB. The ED is also available on the ISB website at www.cpaindependence.org.

Your responses, which must be received by February 29, 2000, may be sent via:

1. mail	Independence Standards Board 6th Floor 1211 Avenue of the Americas New York, NY 10036-8775
2. fax	(212) 596-6137
3. e-mail	isb@cpaindependence.org

Please reference ED 99-2 in your correspondence.

All responses will be available for public inspection and copying for one year at the offices of the Independence Standards Board and also at the library of the American Institute of Certified Public Accountants (AICPA), Harborside Financial Center, 201 Plaza Three, Jersey City, New Jersey.

Independence Standards Board

Proposed Independence Standard

Employment with Audit Clients

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Proposed Independence Standard

Employment with Audit Clients

BACKGROUND

1. The Board began to study the independence implications of audit firm professionals going to work for the firm's audit clients shortly after its formation. After determining that guidance was needed in these situations, the Board began the process of developing a standard concurrent with its work on a conceptual framework for auditor independence.

2. A Discussion Memorandum (DM 99-1, *Employment with Audit Clients*) covering the issues was prepared by the Staff with the assistance of a broad-based project task force consisting of representatives from the investor, preparer, academic, and regulator communities, in addition to members of the profession. The DM was released in March for a 90-day comment period. Comment from investors was specifically sought; the DM was mailed to several investor organizations and to 370 institutional investors in an effort to encourage responses from that constituency. Twenty-eight comment letters were received. After considering these letters, and with further assistance from the project task force, the Board developed this proposed standard for public comment.

THREATS TO INDEPENDENCE

3. The concerns expressed when professionals leave firms to join audit clients are generally threefold:

   a. That members of the audit team, who may have been friendly with, or respectful of a former partner or professional when he or she was with the firm, would be reluctant to challenge the decisions of the former partner or professional and, as a result, might accept the client's proposed accounting without exercising appropriate skepticism or maintaining proper objectivity.

   b. In situations where partners or other audit team members resign to accept positions with audit clients, questions may be raised regarding whether the individuals exercised an appropriate level of skepticism during the audit process prior to their departure.

   c. That the departing partner or professional may be familiar enough with the audit approach and testing strategy so as to be able to circumvent its design.

4. The perceived threats to auditor independence when the former partner or professional has retirement benefits or a capital account with the accounting firm are that such a financial interest:

a. May create the appearance that ties between the audit firm and the partner / professional have not been severed – that the firm has placed its "own man" (or woman) at the client, functioning as management, and is in effect auditing the results of its own work.

b. If the former partner or professional's retirement benefits vary based on the firm's profits, then the former partner or professional may be inclined to pay the firm higher fees to inflate his or her retirement benefits (or to increase the likelihood of receiving benefits in unfunded plans). As a result, the firm may be less rigorous in its scrutiny of the client's accounting policies because its fees are overly rich.

c. If the former partner or professional's unfunded retirement benefits or other monies held by the firm are material to the firm, and / or the firm is experiencing cash flow problems, and the former partner or professional has the right to call for settlement of these balances, the firm may be less rigorous in its scrutiny of the client's accounting policies in exchange for forbearance on the amounts owed to the former partner or professional.

PROPOSED STANDARD

Applicability

5. The provisions of this standard apply to a firm when one or more of its professionals joins an audit client. This standard does not apply when a former firm professional joins the board of directors of a firm audit client as a non-executive director.

Standard

6. To maintain its independence with respect to an audit client subject to the auditor independence requirements of the Securities and Exchange Commission (SEC), a firm must employ the following policies and procedures (safeguards) when a firm professional joins such an audit client within one year of leaving the firm. These policies and procedures would be adapted as described below depending on:

a. the position of the departing professional at the audit firm;
b. the circumstances surrounding the professional's departure from the firm (i.e., retirement, versus termination, or voluntary withdrawal);
c. the position he or she is taking at the client;
d. the length of time that has elapsed since the professional left the firm;

e. whether the professional served as a member of the audit team, and the length of time that has elapsed since the professional performed services related to the audit engagement; and

f. other facts and circumstances that would heighten or mitigate threats to audit independence.

Required Safeguards

7. Firms shall have formal policies requiring firm professionals participating in an audit engagement to immediately notify the managing partner (or his or her designee) in any situation involving potential employment considerations or negotiations with the audit client, and the individual must immediately be removed from the engagement. Any audit procedures performed prior to this time shall be promptly documented in a separate memorandum, if not already evident in the working papers. Firms shall periodically remind professionals of these independence requirements concerning job negotiations.

8. When a professional accepts employment with an audit client after participating in the current or the prior year audit, the engagement partner or his or her designee shall ensure that the audit work performed by such a professional in the most current audit was performed with objectivity and impartiality by having someone at least one level higher than the departing professional review such work. If the professional joining the client is the engagement partner, the managing partner or his or her designee shall assign a partner not involved with the engagement team to perform an in-depth review of the previously issued audit report, financial statements, and working papers together with all audit work for the current year either performed or reviewed by the departing partner (an "in-depth review"). This review shall take place as soon as possible after the individual announces the intention to join the audit client.

9. Firms shall address the concern that there may be situations where the departing partner or professional is familiar enough with the firm's general audit approach, or the planned audit approach and testing strategy for the particular company, so as to be able to circumvent their design, if desired. For example, specific locations for inventory counts or other test work may have already been selected, or areas of audit emphasis may have already been decided, prior to the professional's departure. The new engagement team shall review the audit plan and strategy to determine the risk of circumvention, make modifications as deemed necessary, and maintain a heightened sense of awareness during the audit for the threat of circumvention.

10. Firms shall also address the concern that the remaining audit team members, because of their past relationship with the professional now in a position of responsibility with the client, may be reluctant to challenge the decisions or positions taken by the former partner or other professional. The magnitude of these concerns will depend upon the position of the departing professional, the nature of the relationship the person had with remaining audit team members, the nature of the position being assumed at the client, and the degree of interaction the former partner or professional is expected to have with

the remaining engagement team. The managing partner (or his or her designee) shall review the relationships between the former partner or professional and the remaining engagement members, and replace engagement team members who may have too close a relationship with the former partner or professional accepting a responsible position at the client where he or she will interact with the audit team.

11. Similarly, in situations where a prominent partner joins an audit client in a position where he or she will interact with the auditors, the managing partner shall review the appropriateness of the assigned engagement and concurring review partners, and consider the need to involve other partners with appropriate experience and stature to ensure that the necessary level of professional skepticism is maintained. The concern here is that a less experienced engagement team may be unduly influenced by the statements of, for example, a former industry leader or senior technical partner of their firm.

12. In addition, if the departing professional will have significant interaction with the audit team, the next annual audit following the professional's acceptance of employment shall be subjected to review either prior to report issuance, or under the firm's next annual inspection procedures, with a view towards monitoring compliance with policies related to independence, integrity, objectivity, and engagement performance. The purpose of this review is to determine whether the remaining engagement team maintained the requisite skepticism when evaluating the representations of a former firm professional.

13. The safeguards outlined above shall be adapted to fit the facts and circumstances. For example, if the tax partner assigned to the engagement left to join the client, another tax partner should review the former tax partner's work; the entire engagement would not have to be reviewed. If the departing firm professional was not involved in providing audit services to the client, then of course there is no audit work performed by the professional to review; however, procedures related to assessing the departing professional's relationship with the audit team, or his or her familiarity with the audit process, may be applicable.

14. Firms that are members of an established peer review program, such as that offered by the AICPA's SEC Practice Section, shall ensure that the scope of the peer review performed includes an evaluation of the firm's compliance with the provisions of this Standard. This would also require an assessment of the effectiveness with which safeguards were implemented by reviewing all or, if agreed to by an independent party overseeing the peer review program (such as the Public Oversight Board), a sample of the audit engagements subject to this Standard. Firms whose audit practices are not subject to at least tri-annual peer review must, at least every three years, engage an independent practitioner to assess compliance with these requirements and to issue a report on the results of that assessment.

15. When a former firm *partner* joins a firm audit client, all capital balances and similar financial interests between the firm and the former partner [1] must be settled in full regardless of the amount of time that has elapsed since the partner left the firm. In addition, retirement benefits must be settled in full [2] whenever:

a. a *partner* joins an audit client within two years of his or her departure from the firm; or
b. when benefits are not both de minimus to the firm and fixed as to amount due and expected timing of payment.

These requirements apply regardless of whether the former firm partner was previously involved in the audit engagement.

16. When a *firm professional other than a partner* leaves to join a firm audit client, all retirement balances and other financial interests that are not both de minimus to the firm, and fixed as to amount and timing of payment, must be fully settled. In addition, the firm shall also consider whether retirement benefits and other financial interests should be settled when a former firm professional (non-partner) joins an audit client within two years of leaving the firm, based on the position that the professional has accepted at the client. This analysis shall include an assessment of the level of responsibility that the former firm professional is assuming, and the degree of involvement the former professional will have with the audit team and the audit engagement. These requirements apply regardless of whether the former firm professional was previously involved in the audit engagement.

17. Finally, firms shall consider, depending on such factors as the level of the professional while he or she was with the firm, the degree of involvement he or she had with the audit engagement, and the position taken at the client, whether the employment situation should be discussed with the audit committee in accordance with ISB Standard No. 1, *Independence Discussions with Audit Committees.*

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[1] a partner's equity interest in the firm or contribution to working capital; loans to or from the firm; loans guaranteed by the firm on behalf of the partner and vice versa; etc.

[2] In the United States, the payment of retirement benefits to the individual would immediately subject such benefits to income taxes. In some cases, this tax liability can be deferred by transferring retirement benefits to an Individual Retirement Account or similar vehicle, in which case the amounts become taxable only when paid to the beneficiary. In other cases, the amount can be transferred to a "Rabbi Trust" which also serves to defer such income taxes. A Rabbi Trust is an irrevocable trust whose assets are not accessible to the company until all benefit obligations have been met; however, such assets are subject to the claims of creditors in the event of the company's bankruptcy or insolvency. To meet the requirements of this standard regarding settlement of retirement balances, such a trust can only be used if the amounts are not material to the firm, they are fixed as to amount and timing of payment (i.e., the benefits do not fluctuate based on firm results, and the present value of benefits due to the departing professional can be calculated and placed in the trust), and the bankruptcy of the firm is considered remote.

Effective Date

18. The above requirements are effective when former firm professionals join audit clients after June 30, 2000, with earlier application encouraged.

BASIS FOR CONCLUSIONS

19. The Board's desire is to provide clear guidance that will protect the quality and integrity of audited financial statements for the ultimate benefit of investors and other users of those statements. To accomplish this goal, the Board weighed a variety of factors, some of which are described below, in determining the best approach to address the threats to auditor independence posed by situations where firm professionals join audit clients.

Effectiveness of Safeguards

20. The Board believes that the safeguards mandated by this standard will effectively protect auditor independence in situations where firm professionals go to work for their audit clients. A requirement to review an individual's work after the announcement that he or she is joining the audit client, and, when appropriate, of reviewing the engagement team's work on the subsequent audit, is expected to have a deterrent effect. The expectation is that professionals who are broadly evaluating their career options will be more careful to ensure that the work performed and the decisions made during the audit engagement are above criticism, if they know that the work will be subject to a special review if they leave the firm and join the client. In addition, the skepticism of the remaining engagement team when evaluating the statements of a former colleague or leader may be higher if a special review of the current engagement were certain; knowing that their work will be reviewed, individuals will most likely be more sensitive or aware of appearing to have acquiesced to a client's aggressive or incorrect accounting, and will be more likely to refrain from doing so.

21. Open discussion of employment of audit firm professionals situations with the audit committee or board of directors can also serve as an effective safeguard. Airing, "in the sunshine," the potential threats to independence posed by these situations, and the safeguards employed by the firm to protect auditor independence, is likely to sensitize those involved (both the former firm professional now with the company and the remaining audit team) to these issues, and make independence impairments less likely. In addition, while auditors are responsible for upholding their own professional standards, including those related to independence, the audit committee can "set the tone at the top," and emphasize the proper separation between management and the auditor. The Board believes that effective corporate governance can play an important role in protecting auditor independence.

22. In developing the standard, the Board allowed for flexibility in adapting the safeguards to the facts and circumstances of the employment situation. The Board believes, for example, that the concerns one would have when a partner

leaves a firm to join a client would exist, but to a lesser extent, when professionals with lower levels of responsibility leave and go to clients. These concerns would also presumably vary depending on the nature and level of new responsibilities assumed by the departing professional at the client. In addition, the issues may vary for active versus retired partners and other professionals, those leaving the firm voluntarily versus those terminated, and *engagement* professionals versus firm professionals having little or no direct prior professional relationship with the client. Therefore, the Board believes that an effective standard must be sufficiently flexible to contemplate a variety of situations, especially as the structure of the firms change, and more professionals are given new responsible, non-partner roles in firms.

23. The proposed requirements call for a review in some circumstances, prior to report issuance or under the firm's annual inspection procedures, of the next annual audit following the professional's acceptance of employment. Some questioned whether such a review, meant to determine whether the engagement team had an appropriate level of skepticism, might be more effective if performed prior to the firm's "sign-off" on the audit. The Board believes that the primary benefit of the review is its deterrent effect. That is, members of the audit team, knowing that their work will be subject to an additional in-depth review, will be less likely to acquiesce to questionable client proposals. It also believes that mandating such an in-depth review prior to issuance of the audit report would often result in deferring for a significant period of time release of the audited financial statements. Such a delay could impose a significant cost to users of financial statements and the Board did not consider the additional benefits, if any, of a pre-issuance review to justify such costs.

Settlement of Financial Interests

24. With regard to the settlement of financial interests between the firm and the departing professional, the Board considered the necessity of a "full-payout" requirement in situations where capital account and retirement balances are de minimus to the firm, and fixed as to amount and timing of payment. It concluded that the nature of capital accounts is different from retirement obligations, and that the firm prior to the employment of the professional by the audit client must liquidate all capital accounts. The Board believes that a former partner of the audit firm who is employed by an audit client should not remain an equity investee in the firm.

25. With respect to retirement obligations, the Board concluded that such obligations must also be liquidated prior to employment when partners join audit clients within two years of their departure from the firm, and in all situations where the benefits are not de minimus to the firm, and fixed as to amount and timing of payment. However, because they are of a different character, the Board concluded that liquidation of retirement balances could be done through a "Rabbi Trust" or similar vehicle (certain funded retirement obligations could also be settled by transferring the funds to another retirement fund not associated with the firm, such as an Individual Retirement Account).

26. Some expressed concern that a former firm partner could join a large, multinational audit client several years after leaving the firm, perhaps at a subsidiary outside of the U.S. In these circumstances, it is possible that the firm would not be aware of the former partner's new position at the audit client, and may not have settled capital balances. The Board does not intend that an inadvertent and isolated failure to comply with the "full pay-out" provision be deemed an impairment of independence. It does expect, however, that firms will impose conditions on former partners and other professionals who have remaining capital accounts with the firm. One of those conditions should be to advise the firm when they are contemplating a change in employment, to ensure that if the new employer is an audit client, the firm will be able to comply with the provisions of this standard. Furthermore, any inadvertent failures to comply must be corrected as soon as identified.

27. The Board also considered making several distinctions, suggested by respondents to the discussion memo, in determining when standards should require a full-payout of retirement benefits. These respondents suggested that a full payout requirement distinguish between defined contribution plan benefits and defined benefit plan benefits, fully funded benefits versus unfunded amounts, fixed benefits versus those that vary based on profits, and other criteria. The Board concluded that benefits which are other than de minimus to the firm, or that vary based on, for example, firm profitability, must always be settled when a former firm professional accepts a position at an audit client, regardless of the amount of time that has elapsed since his or her departure from the firm.

28. The Board does not believe that other retirement balances owed to a former partner, regardless of their nature, are likely to impinge on auditor independence, but recognizes that unsettled amounts may present an "appearance" concern when a partner has *recently* left the firm to join an audit client. Therefore, the Board concluded that standards should require full settlement of these retirement benefits when former partners join firm audit clients within two years of leaving the firm.

29. The Board believes that the appearance concern discussed above may also exist when other firm professionals join audit clients within a similar time frame in high-level positions, particularly where they will interact with the audit team. The Board concluded, however, that the standard should allow the firms to determine when retirement balances should be settled in these circumstances, as it would be difficult to specify the professionals and positions assumed at the client covered by a full-payout provision.

The Board's Consideration of a Mandated Cooling-Off Period

30. In studying these issues, the Board considered and rejected a mandated "cooling-off period" – a prohibition against companies hiring from their audit firms, or a rule deeming an impairment of the firm's independence when certain firm professionals join an audit client. The Board concluded that it would be difficult, from a legal standpoint, to prohibit a company from hiring someone, and in any event, it wasn't necessary to protect auditor independence. The

Board also rejected the second method of imposing a cooling-off period, concluding that the costs of a mandated independence impairment exceeded its benefits.

31. The Board considered the practicalities of implementing a cooling-off approach and was concerned about them. A cooling-off approach would mean either deeming independence to be impaired if any firm professional accepted an employment offer from an audit client, or specifying which types of persons would be included in such a rule and which would not. The former course seemed unnecessary, and the latter very complex or arbitrary, since the types of individuals who might represent threats would presumably depend upon their positions in the firm, their roles in the audit, and the positions they would be assuming at the audit client. Generalizing when that combination might constitute a threat to auditor independence and when it would not seemed to be a daunting task which should not be undertaken if an effective alternative were available.

32. The Board believes that with the appropriate safeguards in place, as called for by this Standard, the threats to auditor independence are slight. In addition, the Board believes that the benefits to society and the profession of allowing firm professionals to accept employment with audit clients, without fear of jeopardizing their former firm's independence, outweigh the costs. In reaching this conclusion, the Board recognizes that a mandatory cooling-off period may promote the appearance of independence more completely, and might *eliminate* the risk that the audit team could be unduly influenced by a former colleague, but it believes the differences in actual threats to independence under the two approaches are insignificant.

33. The Board recognizes that the attraction of future employment opportunities draws talented and ambitious recruits to the profession. Turnover at public accounting firms can be quite high, and many recruits do not intend to stay long enough to be promoted to partner. Furthermore, they join public accounting firms because of the broad experience they expect to gain at the firm, and the contacts they expect to make in industry. In addition, turnover within the partner ranks has increased in the last few years. If the future employment prospects of recruits and experienced auditors now working for audit firms were limited by a mandated cooling-off period, the Board was concerned that the caliber of professional attracted to public accounting might decline.

34. In addition, the Board agreed with several corporate officials and others responding to the discussion memo who argued that companies benefit from the ability to hire staff at all levels from their audit team. An auditor who has worked for several years on an engagement is often thoroughly familiar with the company's systems, and knows most of the company's key people and their responsibilities. Beyond familiarity with the hiring company, the auditor brings broad experience "to the table" from working at a variety of companies, and sometimes in a variety of industries. In addition, partners and professionals in public accounting firms are generally recognized as experts in accounting, financial reporting, and internal control matters – skills needed by companies with financial reporting responsibilities to investors.

35. A mandated cooling-off period might force a company to choose between its audit partner and its audit firm, knowing that if the partner were hired, the audit firm would have to be replaced. The Board recognizes that replacement of an audit firm carries costs to firms, companies, and investors. There is a learning curve on a first year audit; auditors spend significantly more time and resources on them (developing audit programs, familiarizing themselves with the system of internal controls, etc.), and company personnel spend more time answering the auditors' questions and producing documentation previously provided to the prior auditors. And because the Board believes that audits are strengthened by institutional continuity, rotation of auditors and the increased risk that the first-year audit poses carries a cost to investors.

36. The Board acknowledges the counter-argument that a fresh look by a new audit team may carry some benefits that cannot be achieved with the same audit team and approach year after year. The consideration of a requirement that companies change audit firms periodically, however, is well beyond the scope of this project.

37. The Board also concluded that a restriction on hiring former engagement partners or other professionals may be a heavier burden to smaller corporations in need of the accounting expertise provided by someone familiar with their business and industry, and to smaller firms. Smaller corporations may be at a disadvantage in recruiting personnel when competing with larger companies with strong national or regional name-recognition. Restricting these smaller companies from hiring directly from their audit firm (from among those who know the company well) may hurt them disproportionately.

38. Personnel from smaller accounting firms may face the same difficulties when competing in the job market with people from large, well-known firms. A rule that impairs the ability to go from an audit firm directly to a client, where management knows you and you have had a chance to demonstrate your abilities, may be more of a burden if you work for a smaller firm.

39. Finally, the Board concluded that a mandatory cooling-off period would be ineffective in preventing fraud or collusion between the auditor and client. If the firm professional and company management were intent on committing fraud, the professional may remain with the firm rather than risk turning the engagement over to another individual who may uncover the conspiracy. In addition, if management wanted to compensate a firm professional for his or her role in a fraud, a ban on hiring the professional for a certain period of time may not prevent the company from providing payments to the professional, after he or she resigns from the firm, via consulting contracts or other means.

Other Matters

40. The Board concluded that the threats to auditor independence described in this standard are not normally relevant when former firm professionals assume positions as non-executive directors – members of the Board of Directors who do not also serve in a management capacity. Furthermore, such

directors are not employees; therefore, the requirements of this standard do not apply in these situations. Existing rules cover these situations and remain in effect.

QUESTIONS FOR RESPONDENTS

Q1. Rather than restricting the scope of the proposed standard to an arbitrary group of professionals joining audit clients in particular positions (e.g., partners joining audit clients in responsible financial reporting positions), the standard recognizes that the threats to auditor independence identified apply in differing degrees to a wide variety of professionals in a wide variety of situations. Therefore, the standard covers all firm professionals leaving to join firm audit clients, and provides criteria to use in adapting the specified safeguards to the facts and circumstances of the situation. Considering the need to apply judgment to comply with the Standard, are its requirements sufficiently clear?

Q2. The SEC Practice Section's membership, and therefore, its peer review program, do not include firms operating outside of the United States, even those affiliated with U.S. firms. And while peer review programs have been adopted in certain other countries, their use is not widespread. Consequently, under the proposed standard, many foreign firms auditing SEC registrants may have to engage an independent practitioner to assess and report on their compliance with these requirements. Some believe that imposing such a requirement on foreign firms, who may not have many SEC-registrant clients, would be burdensome. Should the standard make an exception to the peer review requirement for non-U.S. firms? Why or why not?

Q3. Are there other safeguards that would be effective in protecting independence when audit firm professionals go to work for an audit client? If so, please describe these safeguards.

Q4. The proposed standard calls for full settlement of all capital accounts when former firm partners join audit clients, regardless of the amount of time that has elapsed since their departure from the firm. The standard also requires settlement of retirement balances in these situations when the benefits are not both de minimus to the firm, and fixed as to amount and timing of payment. In addition, retirement benefits must also be settled when a partner joins an audit client within two years of leaving the firm.

When a *firm professional other than a partner* leaves to join a firm audit client, the proposed standard calls for settlement of all retirement balances and other financial interests that are not both de minimus to the firm, and fixed as to amount and timing of payment. In addition, the firm must also consider whether retirement benefits and other financial interests should be settled when a former firm professional (non-partner) joins an audit client within two years of leaving the firm, based on the position that the professional has accepted at the client.

Are the distinctions in the proposed standard between the treatment of capital accounts and retirement benefits appropriate? If not, why not? Are the distinctions between the treatment of professionals that have joined audit clients within two years of their departure from the firm, and those that join clients subsequently appropriate? If not, why not? Are the distinctions between the treatment of former firm partners and other professionals appropriate? If not, why not?

Q5. Is the proposed effective date of the standard appropriate? If not, why?

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