



EUROPEAN COMMISSION
Directorate General Internal Market and Services

Director General

Brussels, 2 September 2014
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Subject: Mandatory Rotation of Statutory Auditors and Audit Firms & Transitional Provisions

Dear Sir/Madam,

Following the entry into force of the new Regulation 537/2014/EU on specific requirements regarding statutory audit of public-interest entities (hereinafter "the Regulation") and of Directive 2014/56/EU amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, Member States have two years to implement the new EU legal framework on statutory audit. The new rules will apply as of 17 June 2016.

At national level, the audit oversight bodies will play a key role as the primary enforcers of the new texts. Your contribution in supporting a consistent and effective implementation will be essential. I am pleased to highlight that the Commission has committed to facilitating this process and to providing assistance to ensure a level playing field across the EU for the audit market.

With this in mind, and as part of a preliminary exchange of views with national regulators, supervisors and stakeholders, we have received practical questions on the implementation of the texts that may require further clarification. They will be addressed in the various fora devoted to the transposition of the new legal framework. Ahead of the first specific workshop, this letter clarifies a particular aspect relating to the transitional provisions for the mandatory rotation of audit firms and statutory auditors.

The Regulation introduces the requirement for public-interest entities to rotate their statutory auditors or audit firms after a certain period of time. There are specific transitional rules for audit engagements concluded before the entry into force of the Regulation. In this context, some questions relating to Article 41 of the Regulation have arisen. The Article, titled "Transitional provisions", contains the following:

- Article 41(1) sets out exceptional transitional provisions for an auditor that has been in place for more than 20 years at the entry into force of the Regulation – the public-interest entity cannot enter into or renew an audit engagement with this auditor beyond 6 years after the date of entry into force of this Regulation;
- Article 41(2) sets out exceptional transitional provisions for an auditor that has been in place for more than 11 but less than 20 years – the public-interest entity cannot enter into or renew an audit engagement with this auditor beyond 9 years after the date of entry into force of this Regulation;

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- Article 41(3) applies to audit engagements not covered by Article 41(1) and (2), which were concluded before the Regulation entered into force, and are still in place when the Regulation becomes applicable two years later.

The question focuses on the calculation of the duration of the audit engagement. The Commission services take the view that the general rule governing the maximum duration of any audit engagements is set out in Article 17(8) of the Regulation. This means that, to calculate by when a public-interest entity has to change its auditors, the date of reference is the first financial year covered in the audit engagement letter in which a given statutory auditor or audit firm has been appointed for the first time to carry out consecutive statutory audits of the same public-interest entity. As a result and in practice, when the date of the first financial year covered in the audit engagement is:

- Prior to, or on, 16 June 1994: public-interest entities will not be allowed to renew or enter into an audit engagement with the given audit firm or statutory auditor as of 16 June 2020;
- Between 17 June 1994 and 16 June 2003: public-interest entities will not be allowed to renew or enter into an audit engagement with the given audit firm or statutory auditor as of 16 June 2023, and
- Between 16 June 2003 and 17 June 2006: public-interest entities will need to change their given audit firm or statutory auditors by 16 June 2016, i.e. by the date of applicability of the Regulation.

A consistent and thorough implementation is critical to the successful implementation of the reform and the Commission will remain vigilant that the spirit of the law is properly transposed, with the European Court of Justice having the final say on the interpretation of a Union act. We look forward to continue working together to pave the way in the next two years for the transposition of the Directive and the direct application of the Regulation.

Yours sincerely,

Jonathan Faull

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