Parliamentary questions

3 June 2015

E-009001-15

Question for written answer
to the Commission
Rule 130
Kay Swinburne (ECR)

Subject: Audit Regulation

Answer(s)

Regulation (EU) No 537/2014 introduces a legal requirement for the statutory auditor of a Public Interest Entity (PIE) to rotate off the audit after a maximum period of 10 years. In order to avoid disruption of the EU capital markets, a special transitional regime has been introduced based on the principle that the longer the existing auditor/auditee relationship, the shorter the period by when an auditor must rotate (e.g. a company who has had the same auditor for 15 years cannot reappoint that auditor after 16 June 2023).

Owing to imprecise drafting of the regulation, companies with the shortest auditor relationships (i.e. less than 11 years on 16 June 2014) are being advised that they must change their auditors by 16 June 2016. This could impact over 20% of the PIE audit market of approximately 30 000 companies and cause substantial disruption with negative consequences for jobs and growth.

Can the Commission confirm that the requirements of Article 41(3) will, like the rest of Regulation (EU) No 537/2014, only apply to accounting periods beginning on or after 16 June 2016 and will not be applied retrospectively?

Last updated: 15 July 2015

Parliamentary questions

29 September 2015 **E-009001/2015**

Answer given by Lord Hill on behalf of the Commission

Regulation (EU) No 537/2014 sets out a maximum duration period for audit engagements. The regulation will become applicable as from 17 June 2016. In order to avoid massive rotation in the year of the applicability of the new rules, the co-legislators have set out specific provisions to ensure that the new rules do not cause a 'cliff' effect in the audit market.

As a result, the so-called mandatory rotation will start in three different stages: 2016 for audit engagements that began between 17 June 2003 and 17 June 2006, 2020 for audit engagements that began prior to 17 June 1994, and 2023 for audit engagements that began between 17 June 1994 and 16 June 2003. These arrangements reflect the view that companies which have changed their auditors in the 11 years before the reform are likely to be more flexible and ready to adapt to the new rules, while the others may need an additional period of time to accommodate some of the changes brought about by the new legal framework.

In order to support the co-legislators' intention of ensuring legal certainty and a smooth transition to the new regime, as stated in recital (32) of the aforementioned Regulation, the Commission has published in its website(1), less than three months after the entry into force of the new rules, a letter referring to these transitional provisions. This has helped raise awareness in the audit market and in companies at large of the need to put in place the necessary arrangements, during the two years between the entry into force and the applicability of the regulation, to comply with the new rules — including the need, for some public-interest entities(2), to change their auditors in the financial year starting on or after 17 June 2016.

(1) Available in http://ec.europa.eu/internal_market/auditing/docs/reform/140903-audit-rotation-letter_en.pdf

(2) Public-interest entities are credit institutions, listed companies, insurance undertakings, and other entities designated as such by Member States.

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