COUNCIL OF
THE EUROPEAN UNION

Brussels, 11 July 2013

Interinstitutional File:
2011/0359 (COD)

11120/13

LIMITE

DRS 120
CODEC 1505

NOTE

from:	General Secretariat
to:	Company Law Attachés
on:	11 July 2013
No. prev. doc.:	11908/13 DRS 132 CODEC 1667
No. Cion prop.:	16972/11 DRS 122 CODEC 2040
Subject:	Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities - Presidency compromise text

Delegations will find in Annex I a revised Presidency compromise text on Articles 33 and 70.

Article 33

Duration of the audit engagement

1. A public-interest entity shall appoint a statutory auditor or audit firm for an initial engagement of at least one year which can be renewed.

   The maximum duration of the combined engagements shall not exceed ten years.

1A By way of derogation from paragraph 1 Member States may

   (a) require an initial engagement period of in excess of one year;

   (b) permit more than one renewal subject to the overall maximum duration of combined engagements set out at paragraph 1 subparagraph 2 or as appropriate in paragraph (c) of this paragraph; and

   (c) prescribe a maximum duration of combined engagements set out at paragraph 1 sub paragraph 2 lower than that set out at paragraph 1 sub paragraph 2.

2. After the expiry of the maximum duration of the engagement referred to in paragraph 1 subparagraph 2 or in paragraph 1A(c) as appropriate, the statutory auditor or audit firm or any members of its network within the Union, where applicable, shall not undertake the statutory audit of the public-interest entity concerned until a period of at least four years has elapsed.

3. By way of derogation from paragraphs 1 and 2, Member States may provide that where:

[…]

(a) a public tendering process for the statutory audit is conducted, in accordance with paragraphs 2 to 6 of Article 32; or

(b) where throughout the the continuous engagement of the maximum duration period referred to in paragraph 1 subparagraph 2 or paragraph 1A(c) more than one auditor or audit firm has been appointed

the maximum duration period **of the combined engagements** referred to in paragraph 1 subparagraph 2 or paragraph 1A (c) be extended to:

(i) thirteen years in case of statutory audit of the public interest entities referred in the Article 2(13) (b) and (c) of Directive 2006/43/EC, where the requirement in subpargraph (a) is satisfied; and

(ii) sixteen years in case of statutory audit of the public interest entities referred in the Article 2(13) (b) and (c) of Directive 2006/43/EC, where the requirement in subparagraph (b) is satisfied;

(iii) sixteen years in case of statutory audit of public interest entities other than those referred in Article 2(13) (b) and (c) of Directive 2006/43/EC, where at least one of the requirement set out in subparagraph (i)(a) or (i)(b) is satisfied

Member States may prescribe a lower maximum duration period of additional engagement permitted in this paragraph than that set out in this paragraph.

The maximum duration periods referred to in paragraph 1 subparagraph 2 or paragraph 1A(c) shall only be extended if, upon a recommendation of the audit committee, the administrative or supervisory board in accordance with national law proposes to the general meeting of shareholders to renew the engagement and the proposal meets its approval.

3a After the expiry of the maximum duration of the engagement referred to in paragraph 1 subparagraph 2, paragraph 1A(c) , or paragraph 3(ii) as appropriate, on an exceptional basis the public interest entity may request the competent authority referred to in Article 35(1) to grant an extension to re-appoint the statutory auditor or audit firm for an additional engagement. In case of appointment of more than one statutory auditor or audit firm, this third engagement shall not exceed three years. In case of appointment of one statutory auditor or audit firm, this third engagement shall not exceed two years.

4. The key audit partner(s) responsible for carrying out a statutory audit shall cease his, her or their participation in the statutory audit of the audited entity after a period of not more than seven years from the date of appointment has elapsed. He, she or they may participate in the statutory audit of the audited entity again after a period of at least three years.

The statutory auditor or audit firm shall establish an appropriate gradual rotation mechanism with regard to the most senior personnel involved in the statutory audit, including at least the persons who are registered as statutory auditors. The gradual rotation mechanism shall be undertaken in phases on the basis of individuals rather than of a complete team. It shall be proportionate in view of the scale and the dimension of the activity of the statutory auditor or audit firm.

The statutory auditor or audit firm shall be able to demonstrate to the competent authority that such mechanism is effectively applied and adapted to the scale and the dimension of the activity of the statutory auditor or audit firm.

Article 70

Transitional provision

1. By derogation from Articles 32 and 33, the following requirements shall apply to contracts for the provision of statutory audit to public-interest entities which are in force at [date of entry into force of this Regulation]:

(a) any audit contract entered into before XX/XX/XXXX [*the date of adoption of the Commission proposal*] which is still in force on [*the date of entry into force of this Regulation*] shall remain applicable for a maximum period of four accounting years after [*the date of entry into force of this Regulation*];

(b) any audit contract entered into after XX/XX/XXX [*the adoption of the Commission proposal*] but before XX/XX/XXXX [*the date of entry into force of this Regulation*] and which is still in force shall remain applicable for a maximum period of five accounting years after XX/XX/XXXX [*the date of entry into force of this Regulation*];

(c) when an audit contract referred to in points (a) or (b) of this paragraph expires or is terminated, the public-interest entity may renew such contract once with the same audit statutory auditor or audit firm, without the provisions Article 32(3) being applicable. Such renewed contract shall be subject to the following maximum duration:

(i) 1 year: if the auditor has been providing services to the audited entity for a consecutive period exceeding 100 years;

(ii) 2 years: if the auditor has been providing services to the audited entity for a consecutive period between 51 and 100 years;

(iv) 3 years: if the auditor has been providing services to the audited entity for a consecutive period between 21 and 50 years;

(v) 4 years: if the auditor has been providing services to the audited entity for a consecutive period between 11 and 20 years;

(vi) 5 years: if the auditor has been providing services to the audited entity for a consecutive period not exceeding 10 years.

By derogation from the criteria set out in point (c), the audit contract may remain applicable until the end of the first accounting year ending after [*2 years after the entry into force of this Regulation*].

By derogation from points (a) to (c), when national rules establish a maximum duration of the contractual relationship between the statutory auditor or the audit firm and the audited entity which does not exceed <u>maximum audit engagement period, referred to in Article 33(3)</u> and require the audited entity to select a different statutory auditor or audit firm when such maximum duration is reached, the audit contract may remain applicable until the end of that maximum duration period.

2. Article 33 shall apply to any audit contract entered into after […] [*the date of the entry into force of this Regulation*] but before […] [[*2 years after the entry into force of this Regulation*]. Article 32(3) shall only apply to such contract after the expiration <u>of the period referred to in Article 33(1) subparagraph 2.</u>

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