

When the implementation guide for the Model was drafted, it was acknowledged that some of the rotation Q&As were more restrictive than required by the SEC and PCAOB. However, some of the auditing firms and companies have subsequently identified a scenario in which an exemption is probably warranted for a Lead Audit Partner who would be required to rotate after signing a SEC registrant's financial statements for only 4 years, due to the MAR rotation requirements. The following is one example of such a scenario:

As part of the required SEC partner rotation, a partner was relocated to a city to serve a public company client (Parent or Registrant). The partner was transferred during 2006 and was considered an "other significant partner" for SEC purposes which carries a 7 year rotation requirement (the engagement has multiple audit partners assigned to it). Since the partner was already relocated, he/she began doing the audit of a few of the insurance company subsidiaries (Insurance Subs) for 2006 that needed to be filed by May 31, 2007. The signing of such Insurance Subsidiary reports comes under the "other significant partner" classification. Logistically this transition is preferable as the previous Lead Audit Partner whose five years ended with the signing of the Registrant's 2006 financial statements, must already move onto the next engagement (SEC registrant) to perform required March 2007 quarterly procedures. The relocated partner then became the Lead Audit Partner in 2007 which is a SEC 5 year rotation requirement. The chart below summarizes the relocated partner's timeline.

	2006	2007	2008	2009	2010	2011
Parent-Registrant		X	X	X	X	X
Certain Insurance Subsidiaries	X	X	X	X	X	

While the above is acceptable to the SEC, there is a conflict with the Q&A to the MAR. The Q&As for partner rotations indicates that the 5 year rotation requirement begins the first year an insurance entity is audited by the partner. After that year, it does not matter whether subsequent audits are insurance or non insurance entities, as they both count towards the five years. As such, per the Q&A the partner could not serve as the Parent Company's signing partner for 2011 (thus only 4 years at the registrant level).

While it is always costly to rotate partners, more importantly there is additional work in ensuring appropriate knowledge transfer between partners occurs. Currently, knowledge transfer is even more critical due to companies' economic challenges combined with the complexity of new accounting rules. Thus, we are submitting the following limited modification to Q&A 5 which would still maintain the 5 year rotation requirement on insurance subsidiaries.

5. During the five-year break in service, can a partner serve as lead audit partner on an insurance company affiliate of that company?

No, except for as outlined in exception below for 2010 and 2011 ("transitional period"). The Model specifies a "person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of five (5) consecutive years." The phrase "insurance subsidiaries or affiliates" is interpreted to mean any subsidiaries and affiliates (whether insurance or non insurance).

There is, however, an exemption for the non-insurance parent or ultimate parent which is an SEC registrant during the transitional period. Where the current lead audit partner on such SEC registrant previously served as an “other significant audit partner” or “other audit partner” (as defined by the SEC) on insurance company subsidiaries of the SEC registrant, such lead audit partner may continue as lead audit partner on the SEC registrant as long as he/she no longer acts in the capacity of a lead audit partner for the insurance subsidiaries for greater than 5 years beginning in 2010.