

Auditor Rotation Becomes Mandatory in the EU

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A preliminary [agreement](#) reached between the European Parliament and EU Member States will require audit firms to rotate every 10 years, with extensions for up to 14 additional years if there is a joint audit, which is required in some EU nations and not uncommon in others, or 10 more years if the work is put out for bid. The original proposal sought mandatory rotation every six years. Listed companies, banks and insurance companies will reportedly be affected.

Other reforms are expected, including prohibition of certain non-audit services such as tax advice and services linked to the financial and investment strategy of the audit clients. A cap of 70% on fees generated for non-audit services based on a three-year average will also be imposed. Audit reports are expected to contain more information although the details were not clear, and third parties can no longer require that only the “Big Four” be used.

The text is subject to final approval and a reasonable transitional period, six years according to some accounts, is expected. One [article](#) argues that with the transition time period and the allowable extensions, it may be as long as 30 years before some companies will be required to switch auditors.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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