EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ AUDITING AND ASSURANCE STANDARDS BOARD

NZAUASB LATE PAPERS

10 February 2021

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NZ AUDITING AND ASSURANCE STANDARDS BOARD

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.1
Meeting date:	10 February 2021
Subject:	Public interest entity definition
Date:	2 February 2021
Prepared by:	Misha Pieters

[x] **Action Required**	[ ] **For Information Purposes Only**

Agenda Item Objectives

1. For the Board to CONSIDER and DISCUSS issues in response to the IESBA's exposure draft to amend the definition of a public interest entity (PIE).

Background

2. The IESBA approved an exposure draft at the December 2020 meeting, and is seeking a response by 30 April 2020. This is an important exposure draft given the recently approved changes to the International Independence Standards dealing with non-assurance services and fees and the implications for the scope of those changes.
3. Historically the IESBA's Code had a focus on listed entities. As part of its Independence project during late 2000, the IESBA extended the independence requirements for audits of listed entities to audits of entities of significant public interest. The PIE concept was established in 2008. At this time, the IESBA did not specify any types of entities, such as banks or insurance undertakings as PIEs, other than listed entities, leaving the decision for determining what should be treated as a PIE to local regulators and authorities, while encouraging the firms to consider an audit client as a PIE. Numerous jurisdictions have identified types of entities to be PIEs, more broadly than listed entities. There have been numerous calls for the IESBA to review the PIE definition to ensure that the right types of entities are being scoped in or scoped out, as well as calls to clarify the definition of listed entity, in conjunction with the IAASB.
4. The IESBA is now proposing to expand the PIE definition but continues to recognise the important role of national standard setters in tailoring the international approach for local conditions.
5. Internationally. there is the need for and focus on alignment and close co-ordination with the IAASB as they also continue to deliberate on requirements that apply to entities of significant public interest.
6. The PIOB has a strong interest in the PIE definition, and has expressed the view that it is crucial to determine the categories of entities (e.g., financial institutions, listed companies, significant utility companies) and any other entities that could pose a threat to financial stability to ensure the definition achieves the objective with no evident gaps.

7. The proposed revisions:

   a. Introduce an overarching objective for additional independence requirements for entities that are PIEs.

   b. Provide guidance on factors for consideration when determining the level of public interest in an entity.

   c. Expand the extant definition of PIE to a list of categories of entities that should be treated as PIEs, subject to refinement by the relevant local bodies responsible for standard setting as part of the adoption and implementation process.

   d. Replace the term "listed entity" with one of the new PIE categories, "publicly traded entity."

   e. Elevate the extant application material that encourages firms to determine whether to treat additional entities as PIEs to a requirement and include enhanced guidance on factors for consideration by firms.

   f. Require firms to disclose if an audit client has been treated as a PIE.

New Zealand approach

8. In New Zealand, the NZAuASB has historically amended the PIE definition, to include FMC reporting entities considered to have a higher level of public accountability and all entities that are required to apply the tier 1 reporting framework (i.e., across all sectors). For a summary of the types of entities captured by the NZ definition, refer to the Auditor Rotation FAQ on PIEs.

9. The proposed new IESBA approach would be to include many of the types of entities which are currently caught by the NZAuASB's definition, but there are some differences, expanded on in the issues paper. Staff seek views of the Board as to whether the current New Zealand approach is still considered fit for purpose, in order to plan for outreach on this topic.

10. We plan to run an interactive webinar on this topic early in March, prior to the April NZAuASB meeting, in order to obtain New Zealand stakeholder views. Staff consider that New Zealand stakeholders will be most interested in the implications of these proposals for New Zealand.

Matters to Consider

11. Board members are asked to provide indicative thoughts around the IESBA proposals, including feedback on:

    a. the rationale or objective for defining a PIE.

       i. What are your thoughts on the stated objective of defining a class of entity which requires additional independence requirements?

       ii. What are your thoughts on the IESBA's conclusions not to propose any amendments to Part 4B?

    b. the types of entities caught by the proposed IESBA definition;

       i. What are your thoughts on the proposed categories from a global perspective?

       ii. What are your thoughts on the term, "publicly traded"?

    c. the implications of these proposals for the New Zealand approach to defining a PIE. Views are sought in order to plan for outreach on the New Zealand definition;

d. What are your thoughts on the proposal that the firm shall publicly disclose if an audit client has been treated as a public interest entity;

e. matters arising for IAASB and IESBA co-ordination.

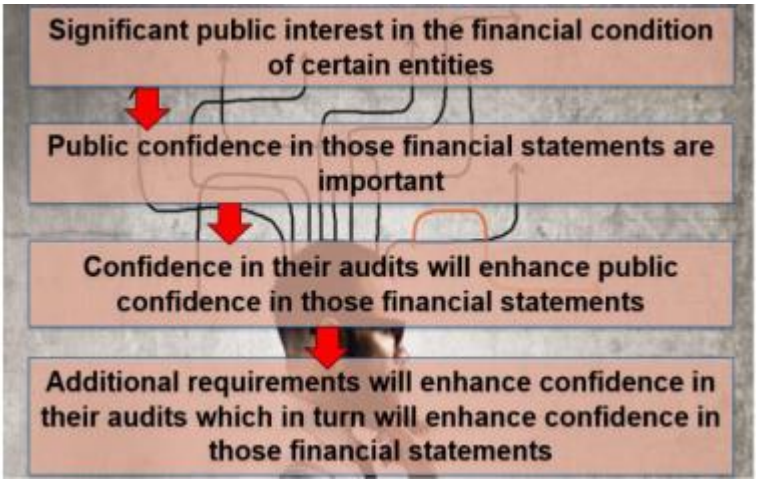
Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Issues paper
Agenda item 5.3	IESBA exposure draft

Public Interest Entity (PIE) definition issues paper

Objective of defining a class of entities which require additional audit and independence requirements (400.8 and 400.9)

1. The proposed objective is summarised in the factors in the diagram below and are expected to assist local bodies to adopt the definition as appropriate in their jurisdiction:



2. The amendments to the extant approach are as follows:

Public Interest Entities

400.8 Some of the requirements and application material set out in this Part ~~reflect the extent of public interest in certain entities which are defined to be~~ are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities. ~~Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders.~~ **[Moved to R400.17]** The extent of public interest will depend on ~~F~~factors ~~to be considered~~ includinge:

- The nature of the business or activities, such as ~~the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds~~ taking on financial obligations to the public as part of an entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and~~of~~ employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.9 The purpose of these requirements and application material for public interest entities is to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements.

3. The New Zealand Auditor General's response to the IESBA's non-assurance services (NAS) proposals disagreed with the approach of having different independence requirements for PIEs and non-PIEs.

4. The IESBA has previously articulated the rationale for distinguishing independence requirements for listed entities, in a 2006 paper, as follows:

   "*The rationale for applying differential requirements to listed entities is in terms of the perceived threats to independence, actual threats being addressed by the core requirements applicable to all audits. Listed entities have a much higher visibility and a wider range of stakeholders than privately owned entities, and it is more difficult to communicate on a direct basis to deal with perception concerns. The IFAC guidance has therefore required specific extra safeguards to be applied when auditing listed entities, to address the perception threats that would cause concern to a reasonable and informed third party… A rationale can be constructed for a degree of differentiation on the grounds that the public is in practice most interested in listed companies because there is a very widespread direct or indirect ownership interest in listed entities, which is a factor not typically present with other PIEs".*

5. The IESBA has recognised that there are other types of entities, in addition to listed entities, for which there is significant and wide public interest. As such additional and more stringent independence requirements (together with additional quality management measures as specified by the IAASB) would serve to enhance the confidence in such audits. I.e., it is not about having a different level of independence but increasing confidence in that independence.

6. Staff agree that an objective of enhancing confidence in audits of PIEs is important. However, have concern that enhancing confidence in PIE audits should not be to the detriment of any confidence in non-PIE audits. Staff also consider the statement that it is "not about having a different level of independence" to be at odds with the explicit statement that PIE audits will be "enhanced by additional independence requirements".

7. Staff consider that the objective as proposed in 400.9 seems to apply equally to all audit engagements, i.e., the objective of any audit is to enhance confidence in the financial statements, and it is important that users of any audit report have confidence in the audit.

8. Linking the category of entity to this objective therefore might lack clarity. The rationale comes through more clearly, with a focus on perception, wider and higher visibility and a wider range of stakeholders, i.e., the factors described in paragraph 400.8.

9. What is the Board's view on the stated objective of defining a class of entity which requires additional independence requirements?

10. Historically, IESBA's rationale for tighter PIE requirements is linked to enhancing confidence in an entity's financial statements. Based on this focus, the PIE definition has been applicable to Part 4A[1] rather than Part 4B[2]. We note that the factors in 400.8 have been broadened with reference to the public interest in the "financial condition" of these entities, while paragraph 400.9 still has a focus on financial statements.

11. IESBA reflected on the application of the PIE definition for Part 4B. The IESBA considers that while there may be some assurance engagements of greater public interest than others, this is

[1] Part 4A, *Independence for Audit and Review Engagements*

[2] Part 4B, *Independence for Assurance Engagements Other than Audit and Review Engagements*

at least as much to do with the nature of the engagement as with the nature of the entity. The IESBA acknowledges that it may be possible to define a class of public interest assurance engagements but considers that this is outside the scope of this project.

12. Staff remain of the view that confidence in the independence of any assurance engagement (not just in the independence of the auditor performing the audit of the financial statements), applies equally for PIE entities. E.g., EER information and EER assurance engagements are likely to become increasingly important over time. Confidence in the independence of the practitioner performing the EER assurance engagement for a bank will be as important as confidence in the independence of the auditor opining on the financial statements. Other assurance engagements, that are not EER assurance engagements, are often performed by the audit firm. If a firm performs both an assurance engagement and an audit engagement for the same client, the requirements in Part 4A continue to apply to the firm, the network firm and the audit team members[3].

13. **What is the Board's view on IESBA's conclusions not to propose any amendments to Part 4B?**

List of PIE categories

14. The IESBA is proposing to expand the list of PIE categories to require that firms treat an entity as a PIE when it falls within any of the following categories:

    a. A publicly traded entity; <<as opposed to a listed entity>>
    b. An entity one of whose main functions is to take deposits from the public;
    c. An entity one of whose main functions is to provide insurance to the public;
    d. An entity whose function is to provide post-employment benefits; <<one board member cautioned that this is a broad category but the IESBA noted that national regulators would further refine this category>>;
    e. An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
    f. An entity specified as such by law or regulation to meet the objective set on it paragraph 400.9.

    The IESBA has purposefully avoided the use of jurisdiction specific terms in this approach.

15. The IESBA's ED is developed to provide a list of common PIE categories. The ED recognizes the important role of local bodies to refine the list by tightening the definition, setting size criteria and adding or exempting particular types of entities. In addition, the ED recognizes the role of the firms to determine if any additional entities should be treated as PIEs.

16. The IESBA is proposing to replace the term "listed entity" with a "publicly traded entity". Stakeholders have questioned the meaning of the term "recognized stock exchange" in the definition of a listed entity, i.e., is the term the same as or broader than the concept of a regulated market, and whether the term will remain fit for purpose as development is capital raising, e.g., crowd funding, evolves. The new term is intended to scope in more entities.

[3] Paragraph 900.13 of the International Independence Standards

17. Internationally the firms are interpreting the term recognised stock exchange to have a broader application than "regulated market" and do not generally exclude entities traded in less regulated markets, including over-the-counter type markets.

18. In New Zealand, the NZAuASB has replaced all instances of listed entity in the auditing and assurance standards. The New Zealand approach references FMC reported entities with higher levels of public accountability, which captures regulated markets. When introducing the transitional requirements for reporting of key audit matters, the NZAuASB introduced a definition of listed issuer which was defined as "a person that is party to a listing agreement with a licensed market operator that has financial products quoted on its own licensed market as defined by the Financial Markets Conduct Act 2013".

19. The IESBA continues to recognise the role of the firm in identifying PIEs in order to enhance confidence in their audits, taking into account factors such as whether the entity has the necessary governance arrangements to ensure independence requirements will work. Firms therefore determine whether to add to the list of PIEs.

20. **What is the Board's view on the IESBA proposed categories from a global perspective?**

21. **What are your thoughts on the term "publicly traded" rather than listed entity?**

22. Staff seek examples of any difficulties in applying the definition of a listed entity in the context of the New Zealand market or whether the approach proposed internationally would differ for the local context.

23. Questions have also arisen regarding entities that are in the process of being listed. This is proposed to be dealt with in the criteria to be considered by a firm in determining whether to treat an entity as a PIE.

Role of local bodies and firms

24. The proposed approach would bring the international definition of a PIE closer to the definition adopted in New Zealand by the NZAuASB that links the PIE definition to the tier 1 reporting requirements based on public accountability. However, it does not explicitly include large public sector or not-for-profit entities and remains more focussed on capital markets. The IESBA is unable to establish size criteria globally and considers that these would continue to be considered by individual jurisdictions.

25. A more detailed comparison of how the proposed IESBA definition compares to the types of entities captured by the New Zealand definition follows:

Proposed IESBA category	**NZAuASB categories**
FMC reporting entities considered to have higher level of public accountability (FMC HLPA) (staff will engage specifically with the FMA to explore whether it remains fit for purpose for all FMC HLPA should be subject to the more stringent independence requirements):	
Publicly traded entity	Listed issuers
Function is to take deposits from the public	Registered banks Non-bank financial institutions including building societies and Credit unions
Provide insurance to the public	Licensed insurers
Provide post-employment benefits	Licensed MIS managers (for the financial statements of the MIS they manage)

Collective investment vehicle who issues redeemable financial instruments	Equity issuer (more than 50 shareholders) Debt issuer Licensed derivative issuer Licensed MIS managers (for the financial statements of the MIS they manage)
Entity specified by law to meet objective set in 400.9	
	Recipient of money from a conduit issuer
Other entities not regulated by the FMA	
	XRB A1 also refers to the IASB's definition of public accountability. An entity would have public accountability (even if not a FMC reporting entity) if its instruments are traded in a public market or it holds assets in a fiduciary capacity.
	Determined to apply tier one based on size
	Large public sector entities that are not FMC reporting entities
	Large charities

26. The FMA determines which FMC reporting entities to designate as having higher levels of public accountability. Generally, FMC reporting entities which investors have a direct investment in, have higher public accountability.

27. At the IESBA meetings, the Board discussed whether custodians, an entity that maintains assets on behalf of third-party clients, should be included. Custodians roles may vary – providing such services to also advising or investment management services. Generally, third party assets, held by a custodian do not feature as part of the custodians own financial statements, although some operational cash balances may be shown offset by an equivalent liability to the client. There is a clear public interest in ensuring the proper maintenance and integrity of the system of control and report on the client's assets held by the custodian, but the role of the auditor in the custodian's own financial statements may vary.

28. In addition, the IESBA discussed thoughts on charities, noting that the level of public interest in these entities vary depending on the nature of the operations and services and size, especially the number and types of donors and beneficiaries, and number of employees. The IESBA noted that in both Singapore and New Zealand, large charities (where size is determined in law) are included in local PIE requirements. The APESB has also recently issued an illustrative example of a large charity, as an example of a PIE. The IESBA however agreed that it is not appropriate for a global code to include charities as a separate category.

29. The IESBA also considered public utility entities, entities that provide essential services such as electricity, gas, water and postal service. There is significant public interest in the continuing operations of the public utility entity due to the nature of the services, but the level of interest in the financial condition of the entity will depend on a number of factors, including the source of funding and whether the services can be readily replaced by others. The IESBA agreed not to include public utility entities in the definition of a PIE, as it is unclear which aspect of the provision of an essential service would render a public utility entity as a PIE.

30. Similarly, the IESBA determined not to include public sector entities as a separate PIE category. While there is significant public interest in the continuing operations of a public sector entity, the level of interest in the financial condition of the public sector entity would

depend on a number of factors and are mostly audited by other arms of government rather than by professional accountants.

31. In terms of large private companies, the IESBA determined that it is not in a position to define large at a global level.

32. In terms of private equity funds, the IESBA noted that these funds only receive investments from institutional investors, not from the public directly. The extent of public interest in such funds will depend on the factors proposed in paragraph 400.8.

33. In terms of aligning with the IFRS definition of public accountability, there are two arms to the definition:

    a. if its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for training in a public market; or

    b. if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

    The Task Force was of the view that these entities are already sufficiently included in the proposed revised categories of a PIE.

34. The IESBA has specifically noted that the important role of local standard setters in defining the specifics of the PIE definition, and has provided some examples of specific issues that may arise that would be best answered at a local level:

    a. Whether entities whose financial instruments are traded on a particular secondary market or other public forum should be included in subparagraph R400.14 (a)?

    b. Whether smaller companies should be excluded from any or all of the categories of PIE and what threshold should be set taking into account the need to balance the public interest and the burden of additional requirements imposed on the auditors of PIEs?

    c. Whether certain types of financial institutions such as credit unions or other mutual societies should be excluded from the definition in subparagraph R400.14 (b)?

    d. What types of specialized insurance entities, such as reinsurers, mutual captives or health insurers should be captured by subparagraph R400.14 (c)?

    e. What types of post-employment benefits, for example one-off or regular pensions payments, defined benefit or defined contribution plans or medical benefits, should be included under subparagraph R400.14 (d)?

    f. Whether there are other entities that are outside the IESBA's PIE categories but whose size or nature of operations might attract significant public interest in the event of financial failure, such as large private companies, large private sector utilities or charities providing services to a large number of beneficiaries or raising significant funds from the public?

35. Staff consider that in New Zealand we need to consult with stakeholders to understand whether to continue with the extant definition of a PIE in New Zealand. The summarized rationale for tying the definition to the reporting tiers was to both acknowledge the work already done in New Zealand to define entities that have public accountability, match the assurance requirements with the reporting requirements and to simplify and streamline, or

avoid the introduction of further definitions and analysis, separate from the reporting tier requirements.

36. As noted above, in principle we consider that the extant New Zealand approach is already largely in line with the expanded IESBA proposals, but may still catch more entities than the IESBA approach.

37. We acknowledge that following the extant New Zealand approach may continue to raise some concern with stakeholders, i.e., there may continue to be some pockets of entities, or very specific scenarios, that are caught by the NZ definition that are not caught by the global definition.

38. We wish to better understand the specific instances where NZ stakeholders concerns lie as part of our outreach. However, on balance, staff consider that the IESBA proposals will more explicitly bring the international requirements in line with what is already required by the New Zealand independence requirements.

39. **What are your thoughts on the implications for the New Zealand definition of a PIE?**

Disclosure

40. The IESBA is proposing to require transparency by the firms as to whether an entity has been treated as a PIE by adding a new requirement:

> **R400.17** A firm shall publicly disclose if an audit client has been treated as a public interest entity.

41. The rationale is that the effect of the proposal may be increased uncertainty as to whether an entity has been treated as a PIE. The IESBA task force has explored the question of whether the auditor's report should disclose if the client was treated as a PIE with the IAASB. There were mixed views, some IAASB members felt that such disclosure would be unnecessary while other were supportive and option to exploring the option. The IAASB has a strong preference to explore this matter as part of its post implementation review of the revised auditors report.

42. The IESBA is interested on views as to ways in which such disclosure may be made.

43. Staff consider that there may be an unintended consequence of promoting transparency about the differences between the PIE and non-PIE independence requirements, many of which may be perceived to be more rules based than principles based. This may have the unintended consequence of widening the expectation gap and perception that auditors are required to be independent of their audit clients at all times.

44. In addition, staff consider that promoting transparency about the PIE independence requirements for an audit, but with reference to different independence requirements for other assurance engagements for the same client, runs the risk of decreasing confidence in other types of assurance.

45. What are your thoughts on the proposal to publicly disclose if an audit client has been treated as a PIE?

Collaboration between the IESBA and the IAASB

46. There has been close collaboration between the IESBA and the IAASB, and both Boards have expressed support for a shared overall objective for additional requirements of certain entities in both standards for use by both IESBA and the IAASB.

47. The IAASB is supportive of reviewing the use of "listed entity" in the ISAs, but on a case-by-case basis to determine if such alignment is warranted. Preliminary views from IAASB members was that there might be compelling reasons to retain the term "listed entity" in the ISAs without being inconsistent with the approach of a common overarching objective. The IAASB is supportive of seeking broader views on these matters through the IESBA ED.

48. As part of this outreach, views are sought to assist the IAASB on whether the differential requirements already established within the IAASB standards should be applied only to listed entities or more broadly to other categories of PIEs.

49. Historically in New Zealand, the NZAuASB has adopted a different approach to the scope of requirements in the auditing standards targeted at listed entities, broadening these to apply to FMC reporting entities considered to have a higher level of public accountability.

50. The New Zealand approach would appear to be supportive of the IAASB's preliminary view to seek consistency on a case-by-case basis, but continues to be broader than the IAASB's focus on listed entities.

51. What are your thoughts implications of this approach for the auditing standards?

Related entities

52. The related entity concept is currently under review in four of the IESBA's projects: NAS, Fees, engagement team group audits and PIE. The IESBA philosophically supported the view that there is no strong reason to not extend the definition of an audit client for listed entities in R400.20 to apply to all PIEs. However, the IESBA are cognizant of the complexity of the issue and the need for more research on this topic. For example, it may not be appropriate for private equity companies and sovereign wealth funds, due to their corporate structures and flow of information within those structures. The IESBA agreed the need to better understand these structures and the implications for extending the requirements of related entities for listed entities to all PIEs, and that this should be considered outside the scope of this project.

53. However, given the proposal to amend listed entity in R400.14(a) to refer to publicly traded entity, the IESBA is also proposing to amend R400.20 as follows:

> **R400.20** As defined, an audit client that is a ~~listed entity~~publicly traded entity (including any modifications made by laws and regulations) includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

54. In New Zealand, the NZAuASB has amended paragraph R400.20 to refer to a FMC reporting entity considered to have a higher level of public accountability, rather than a listed entity, but has not extended this to apply to all PIEs.

Exposure Draft
January 2021
Comments due: May 3, 2021

International Ethics Standards Board for Accountants®

Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

IESBA International Ethics Standards Board for Accountants®

About the IESBA

The International Ethics Standards Board for Accountants® (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the IESBA Consultative Advisory Group (CAG) and under the oversight of the Public Interest Oversight Board (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

REQUEST FOR COMMENTS

This Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*, was developed and approved by the IESBA.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **May 3, 2021.**

Respondents are asked to submit their comments electronically through the IESBA website, using the "Submit a Comment" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Senior Technical Director, at KenSiong@ethicsboard.org.

This publication may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

PROPOSED REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE CODE

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EXPLANATORY MEMORANDUM

I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed revisions to the definitions of listed entity and public interest entity (PIE) in the Code.

2. The IESBA approved these proposed changes for exposure at its November-December 2020 meeting.

II. Background and Overview

A. Drivers for the Project

3. The PIE concept was first introduced into the extant Code when the IESBA finalized its Independence project in early 2000. In adopting this concept, the IESBA concluded that other than for listed entities, determining which entities should be treated as PIEs should be largely left to local regulators or other authorities, although firms were also encouraged to consider whether additional entities should be treated as PIEs, taking into account guidance provided in the Code.

4. In recent years, some regulatory stakeholders such as the International Association of Insurance Supervisors (IAIS)[1] and the Basel Committee on Banking Supervision have suggested that the definition of a PIE be re-examined from the perspective of financial institutions, including banks.[2] Another regulatory stakeholder, the International Organization of Securities Commissions (IOSCO), has also commented that regulators in many jurisdictions do not have the power to set a definition.[3] Other stakeholders, particularly the small and medium practices (SMP) community, have expressed concern that the independence requirements in the Code are increasingly disproportionate in those circumstances where firms provide audit and review services to small entities that fall within the PIE definition.[4]

5. The IESBA also observed that various jurisdictions (including a number of major ones such as the EU, Australia and South Africa) have also taken different or more specific approaches to defining or scoping the concept of a PIE for their local purposes. There is therefore a need to understand the commonalities and differences between those jurisdictional approaches and the approach taken in the Code, and whether there would be merit in seeking a pathway to greater convergence at the global level.

6. With regards to the definition of "listed entity," some stakeholders have questioned the meaning of the term "recognized stock exchange" in the definition.[5] IESBA Staff has also received questions as to whether that term is intended to be the same as, or broader than, the concept of a "regulated market" in

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1 In its response to the IAASB's January 2015 Exposure Draft of proposed ISAs 800 (Revised) and 805 (Revised), the IAIS noted the following: "The IAIS believes it is noteworthy to reiterate two important points that have been consistently brought to the attention of the IAASB, in particular in its previous letters regarding auditor reporting: (a) The IAIS believes that the definition of "public interest entities" should be extended to financial institutions; and (b) … ."

2 See Summary of Significant Comments (paragraph 73) on the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2014-2018*.

3 See IOSCO's comment letter (page 4) to the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2019-2023*.

4 See, for example, comments (as summarized, paragraph 45) on the August 2014 Exposure Draft, *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*.

5 See Summary of Responses (paragraph 32) to the survey of stakeholders for purposes of developing the IESBA Strategy and Work Plan, 2019-2023 (strategy survey).

the definition of a PIE in the EU Directive 2006/43/EC (the Audit Directive).[6] In addition, developments in capital markets around the world and newer forms of capital raising such as crowd funding—and how these are regulated—have raised questions about the need to update the definition of a listed entity in the Code for clarity and continued relevance.[7]

7. Against this background, the IESBA committed in its Strategy and Work Plan, 2019-2023 (SWP) to explore whether the definitions of "listed entity" and "PIE" should be revised and to assess the implications of any changes, especially in relation to the International Independence Standards (IIS). The IESBA made it clear in its SWP that it appreciates the importance of maintaining a principles-based approach to the definitions and avoiding an overly prescriptive approach that would undermine the Code's global applicability. The IESBA also set a clear expectation that it would engage in coordination with the International Auditing and Assurance Standards Board (IAASB) on this initiative as the listed entity and PIE concepts are also relevant to IAASB standards.

8. Whilst this project was planned to commence only in Q2 2021, the IESBA agreed that it should be brought forward to provide clarity about the scope of entities that would be impacted by the proposed changes in both the Non-Assurance Services and Fees Exposure Drafts (EDs) released in January 2020.

9. Following deliberations, the IESBA duly approved a project proposal, "Definitions of Listed Entity and Public Interest Entity" (PIE project), at its December 2019 meeting.

B. PIE Project

10. As stated in the project proposal, the objectives of the PIE project are:

    (a) To review, in coordination with the IAASB, the definitions of the terms "listed entity" and "PIE" in the Code with a view to revising them as necessary so that they remain relevant and fit for purpose; and

    (b) In doing so, to:

        (i) Establish agreement between the IESBA and IAASB on a common revised definition of the term "listed entity" that would be operable for both Boards' standards; and

        (ii) Develop a pathway that would achieve convergence between the concepts underpinning the definition of a PIE in the Code and the description of an entity of significant public interest (ESPI) in the IAASB standards to the greatest extent possible.

11. Whilst the project is focused on Part 4A of the Code with respect to audits of financial statements and auditor independence, the IESBA agreed to take into account, and address as necessary, the implications for Part 4B of the Code (independence for other assurance engagements).

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[6] Article 2.13 of the EU Directive 2006/43/EC, amended by Directive 2014/56/EU, broadly sets out four categories of entity that fall within the meaning of a PIE:

(a) Entities with transferable securities listed on EU regulated markets and governed by the law of an EU Member State;

(b) Credit institutions authorized by EU Member States' authorities;

(c) Insurance undertakings authorized by EU Member State authorities; and

(d) Other entities that a Member State may choose to designate as a PIE.

[7] Calls to consider newer forms of capital raising like crowd funding were raised by a few respondents to the strategy survey (see Summary of Responses, paragraph 35).

C. Highlights of Proposals

12. The proposed revisions set out in this ED, amongst other matters:

- Introduce an overarching objective for additional independence requirements for entities that are PIEs.
- Provide guidance on factors for consideration when determining the level of public interest in an entity.
- Expand the extant definition of PIE to a list of categories of entities that should be treated as PIEs, subject to refinement by the relevant local bodies responsible for standard setting as part of the adoption and implementation process.
- Replace the term “listed entity” with one of the new PIE categories, “publicly traded entity.”
- Elevate the extant application material that encourages firms to determine whether to treat additional entities as PIEs to a requirement and include enhanced guidance on factors for consideration by firms.
- Require firms to disclose if an audit client has been treated as a PIE.

D. Coordination with IAASB

13. As highlighted in the project proposal, the Board recognized that coordination between the IESBA and IAASB is integral to the project achieving its objectives.

14. Since approval of the project proposal in December 2019, the IESBA has worked closely with the IAASB to allow the IAASB full opportunity to discuss and provide feedback on the Task Force’s proposals as well as to develop the IAASB’s thinking on matters relating to its Standards.

15. The two Boards’ coordination activities have included:

- Participation of IAASB correspondent members in the Task Force, including the development of relevant Task Force proposals.
- IAASB virtual sessions in July and November 2020 to provide feedback on the proposals.
- Joint IAASB-IESBA National Standards Setters (NSS) and Consultative Advisory Group (CAG) sessions in May and October 2020 respectively.

16. In addition to the above, both Boards have also agreed to include specific questions in this ED to seek preliminary views from IAASB stakeholders on those matters relating to the IAASB Standards as part of the IAASB’s information gathering and consideration of possible further actions.

III. Significant Matters

A. Overarching Objective

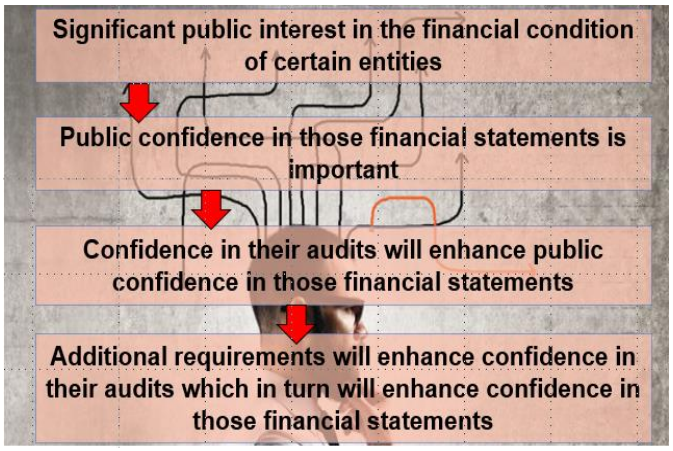
17. In considering if, and how, the definition of PIE should be enhanced, the IESBA took the view that it is important, at the outset, to have clarity about the objective of defining a class of entities for which the audits require additional independence requirements. Such an objective could then inform the approach and also provide a clear principle against which any proposals can be tested. The IESBA believes it is important to make clear that these additional independence requirements are not about having a

different "level" of independence (as all firms must be independent when performing an audit engagement) but rather about enhancing confidence in that independence.

18. Following deliberations, the IESBA agreed to the overarching objective as set out in proposed paragraphs 400.8 and 400.9 that encapsulates the following rationale:

- There are types of entities for which there is significant public interest in their financial condition and hence their financial statements;
- It is important, therefore, that there is public confidence in those financial statements. A major contributor to that confidence is in turn confidence in the audit of such financial statements; and
- Confidence in such audits will be enhanced by additional independence requirements.

19. The proposed overarching objective places the emphasis on the public interest in the financial well-being of entities due to the possible impact of that financial well-being on stakeholders. The IESBA acknowledges that there may be significant public interest in other aspects of an entity, such as the quality of the services it provides or the nature of the data it holds. However, given that Part 4A of the Code deals with audits and reviews of financial statements, the IESBA concluded that such other public interests should not form part of the overarching objective for additional independence requirements for the auditors of PIEs.



20. This means that, for instance, whilst there may be significant public interest in the provision of services by public hospitals, there might not be significant public interest in their financial condition.

21. As highlighted in the lead-in sentence in proposed paragraph 400.8, additional requirements for the audits of PIEs are a reflection of the "significant public interest in the financial condition of these entities." In this regard, the IESBA is proposing the more general term "financial condition" instead of narrower terms such as "financial statements," "financial performance" or "financial position" for the following reasons:

- The term "financial statements" might place too much emphasis on the financial statements alone as opposed to the role of financial statements in enhancing confidence in the overall financial well-being of an entity.
- The terms "financial performance" and "financial position" are closely linked with two of the primary statements in the financial statements whereas the public interest is in the broader financial well-being of the entity (recognizing that the auditor's work under the International Standards on Auditing (ISAs) extends to all the financial statements of the entity).
- The phrase "public interest in the financial statements" might be perceived as restricted to the interest of investors only.
- Paragraph 400.8 is only application material which sets up the context for the overarching objective in paragraph 400.9 and the list of PIE categories in paragraph R400.14. Therefore, it is

not necessary that the term "financial condition" be a defined term or used in international financial reporting or auditing standards.

22. The IAASB was broadly supportive of the idea of a common overarching objective for additional requirements to enhance confidence in the audit of financial statements of certain entities.

List of Factors for Consideration

23. The IESBA also agreed to provide further guidance on determining the level of public interest in the financial condition of entities by proposing a non-exhaustive list of factors. This list is drawn from the extant paragraph 400.8[8] and is intended to be used by relevant local bodies when refining the definition of PIE as part of their adoption and implementation process as well as by firms to determine if additional entities should be treated as PIEs.

24. Each of these proposed factors on its own may not amount to significant public interest in the financial condition of an entity and should not be considered in isolation.

25. The following provides further explanation to the proposed list of factors set out in paragraph 400.8:

- The first factor focuses on the nature of an entity's business or activities and covers those entities that take on financial obligations to the public as a key element of their business model.
- The second factor concerns whether an entity is subject to financial or prudential regulatory supervision designed to give confidence that the entity will meet its financial obligations. Such supervision is clearly relevant to entities providing financial services, but it is not intended to be restricted to such entities.
- The third factor relates to the size of an entity and is of particular importance when a relevant local body is determining if there should be a size threshold to any of its categories of PIEs at the local level.
- The fourth factor focuses on the impact of an entity on the sector in which it operates. This factor includes consideration of how easily replaceable the entity is in the event of financial failure and hence whether such failure will cause significant disruption to the supply of goods or services on which the public may depend.
- The fifth factor relates to the direct impact on an entity's stakeholders whilst the sixth factor relates to the indirect impact that the entity might have on the overall economic system.

B. Approach to Revising the PIE Definition

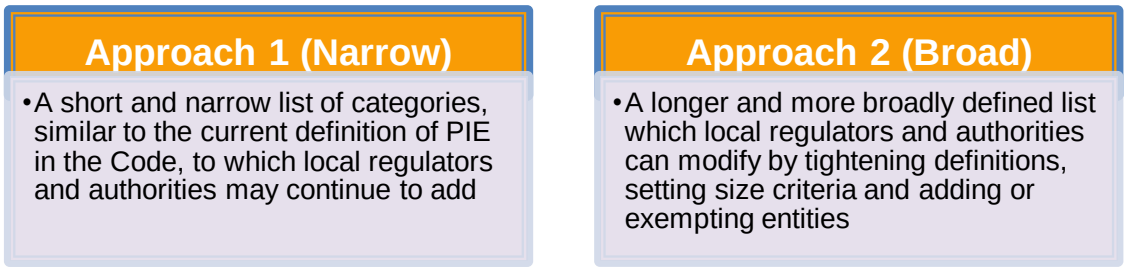
26. In developing its approach to revising the PIE definition in the Code, the IESBA took into account an initial review by the Task Force of the definitions of PIE or other equivalent terms used by a number of jurisdictions.

27. The IESBA observed that whilst many jurisdictions adopt the IESBA definition, some have made varying types of refinement to the PIE definition in their local codes or have defined their PIEs using terms defined in other laws or regulations. The IESBA further observed that in the EU, whilst the term "PIE" is defined in the Audit Directive, it has been subject to modification in its implementation (as permitted by the Directive) by the EU member states. Such modification further exemplifies the difficulty of

[8] Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

establishing a concise definition that can be universally adopted at the global level.

28. Against this background, the IESBA considered there are only two approaches that could be adopted in revising the PIE definition in the Code:

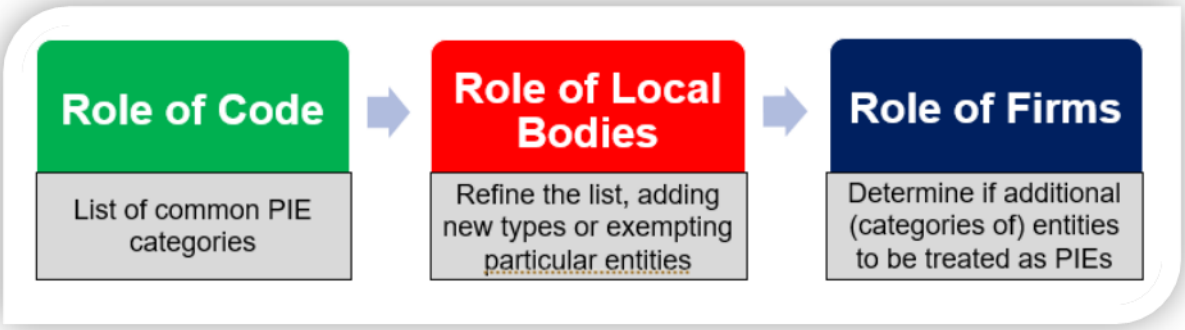


29. Following deliberation, the IESBA agreed to adopt a broad approach (Approach 2) that is made up of three key components:

(a) **Role of Code** – Development of a longer and broader list of high-level categories of entities as PIEs in the Code;

(b) **Role of Local Bodies** – Refinement of the IESBA's final revisions by the relevant local bodies (such as regulators or oversight bodies, national standard setters and professional accountancy bodies) through tightening definitions, setting size criteria and adding new types of entities or exempting particular entities; and

(c) **Role of Firms** – Determination by firms whether to treat any additional entities, or certain categories of entities, as PIEs.



30. The IESBA's rationale for adopting the broad approach is as follows:

- It would be difficult, if not impossible, to develop a single definition of PIE at a global level that can be consistently applied by all jurisdictions without modification and further refinement at a local level.
- It would be difficult to further refine the current PIE definition under the narrow approach (Approach 1), particularly given the principles-based nature of the Code.
- The narrow approach is also unlikely to meet the legitimate expectations of stakeholders who would wish the Code to better articulate the broader range of entities in respect of which the additional PIE independence provisions should be applied.

31. In adopting the broad approach, the IESBA acknowledged that the categories included as PIEs will inevitably be defined at quite a high level and could therefore scope in entities in whose financial condition the public interest is not significant. The IESBA therefore believes it is appropriate under these circumstances that the Code should deviate from its normal practice and allow the relevant local bodies to tighten those broad categories to exclude entities that the Code would otherwise include. This is expanded on in section E below – "Expected Role of Local Bodies."

C. Expanded list of PIE categories

32. Paragraph R400.14 sets out the IESBA's proposed revised PIE definition with:

- Subparagraphs (a) to (e) which set out five specific categories; and
- Subparagraph (f) which includes any other entity that has been so categorized by law or regulation for the purposes of achieving the overarching objective in paragraph 400.9.

33. The IESBA developed its proposals for the five specific categories by:

- Considering initially those categories already identified as PIEs by a number of major jurisdictions and including only categories that it considered would be adopted by most jurisdictions, and equally, excluding entities that would only likely be regarded as necessary by a minority;
- Including those entities that should in principle be included in this global list because of the nature of their activities; and
- Not including those entities that would be included merely because of their size (e.g., large private companies).

34. Given that the Code is global in scope, the IESBA is not able to define any of the PIE categories by reference to specific laws or regulations. Hence, the categories in its proposed PIE definition are broadly defined and are also described in such a way as to avoid the use of terms, as for example "mutual funds", that are jurisdiction-specific.

35. In addition, the IESBA recognized that as the proposed definition does not have any size criteria, it will potentially scope in some very small entities that would not objectively be considered to be PIEs as there would not be significant public interest in their financial condition. However, the IESBA concluded that it was not practicable to define a size threshold that would be suitable for global application and that the relevant local bodies are best placed to consider such thresholds as part of their local adoption and implementation process. Proposed paragraph 400.15 A1 therefore makes clear that the IESBA list does not give any recognition to size and that the Code allows for the relevant local bodies to further refine these categories, including the exclusion of specific entities. If these categories were adopted by the relevant local bodies "as is" without any refinement, they will likely scope in entities that do not have significant public interest.

36. For further explanation of the IESBA's approach on how relevant local bodies are expected to refine the PIE definition, see section E below – "Expected Role of Local Bodies."

Publicly Traded Entity

37. The IESBA proposes a new term "publicly traded entity" to replace "listed entity" in the extant Code. The proposed new term is intended to scope in more entities as it is not confined to shares, stock or debt traded only in formal exchanges but also encompasses those in second-tier markets or over-the-

counter trading platforms. The new term also aims to remove the confusion created by the term "recognized stock exchange" in the extant definition of listed entity.

38. The IESBA also notes the following key elements of the proposed new term:

- Whilst not restricted to trading on "exchanges," the new term does assume there is a facilitated trading mechanism which aims to match buyers and sellers. The new term is not intended to capture entities for which the only way to trade their financial instruments is through privately negotiated agreements.
- The term "financial instruments" is intended to be broadly applied, covering "shares, stock or debt" (the term currently used in the extant definition of "listed entity"), securities, equity or debt instruments or other types of instruments such as warrants or hybrid securities.
- The term "publicly traded" is used instead of "publicly listed" as some financial instruments might only be listed and are not intended to be traded. Such situations can arise for example within groups where the relevant instruments are held entirely intra-group. The IESBA is also aware of the issue of shares in small "start-up" or new venture entities which are subscribed for by the public because of the tax breaks provided and where any exit will be only through a disposal managed by the professional advisers promoting the entity. The IESBA is therefore of the view that entities whose financial instruments are only listed or issued to the public with no trading do not necessarily attract significant public interest in their financial condition.
- Within the definition of publicly traded entity, it is made clear that the focus is on the entity which "issues" the financial instruments. This was made explicit to avoid capturing those situations where instruments which may be linked to an entity are traded without its approval or knowledge. For example, traded debt issued by Company A with returns linked to the shares of Company B would not automatically make Company B a PIE.
- The IESBA considered whether an entity that may be in the process of enabling its financial instruments to be publicly traded should be covered under the proposed new term. However, for the reasons explained in paragraph 65 below, the IESBA felt that it would be more appropriate to include such circumstances as a factor for consideration by firms when determining if additional entities should be treated as PIEs (see paragraph 400.16 A1).
- The question was raised as to whether entities that raise funds through initial coin offerings (ICOs) should also be regarded as PIEs. The IESBA would welcome views on this, bearing in mind that the form and nature of the obligations taken on by an entity through ICOs can vary significantly. In a staff paper prepared for the Interpretations Committee of the International Accounting Standards Board (IFRIC) for its meeting in September 2018, it was noted that the issue of ICOs might be accounted for as equity or otherwise as a financial instrument, as a non-financial instrument or as revenue. In some but not necessarily all cases, therefore, it would fall within the new definition of a publicly traded entity. Where it does not, consideration would need to be given to whether on an ongoing basis the financial condition of such entities (as opposed to the "value" of the cryptocurrency) would be of significant public interest.

Other PIE Categories

39. Subparagraphs (b) and (c):

- Entities with deposit-taking and insurance businesses take on significant financial obligations to the public (both individuals and corporate entities) and, as a consequence of both taking on those obligations and the interconnectedness of the role they play in the financial markets, are generally subject to significant financial and prudential regulation and supervision. Accordingly, the financial condition of these entities is of significant public interest.
- The term “one of whose main functions” is used in order to capture entities that have other main functions such as credit and lending but also to exclude those entities for which deposit-taking or insurance is not a main function.
- Banks and insurance companies are already included as examples of financial institutions holding assets in a fiduciary capacity within one of the factors for consideration by firms in the extant paragraph 400.8.
- The IESBA noted that in a number of jurisdictions certain types of banks or insurance companies, for example credit unions or local mutual insurers, are explicitly excluded from the relevant definitions of PIE. The IESBA did not believe it practicable to provide a global definition that would exclude such entities as this would depend partly on their size and partly on their relationship with their stakeholders/owners. Such issues are left therefore to be addressed at the local level as part of the adoption and implementation process.

40. Subparagraph (d):

- The entities used to provide for post-employment benefits, such as pension funds, usually hold significant investments over the medium to longer term often on behalf of large numbers of stakeholders. There is, therefore, significant public interest in the financial condition of these entities. Some, but not all such entities, may also be regarded in the relevant jurisdictions as providing insurance-type benefits (such as annuities or medical insurance) and hence fall within subparagraph (c).
- The proposals are intended to capture both pension funds available to the public and those that are restricted to the employees of specified entities.
- The term “whose function” is used instead of “one of whose main functions” in order not to include all employers that just contractually provide post-employment benefits to their employees.
- “Pension funds,” similar to banks and insurance companies, are also used as an example within one of the factors for consideration by firms in the extant paragraph 400.8.
- The IESBA notes that in common with other categories defined as PIEs, the broad definition of this category might include very small entities, particularly in the case of single employer-sponsored plans. Questions such as which types of post-employment funds should be included or whether there should be any size threshold are therefore left to be addressed at the local level as part of the adoption and implementation process.

41. Subparagraph (e):

- This proposed category is intended to cover those "fund vehicles" such as mutual funds, unit trusts or open-ended investment companies (OEICs) where an investor can only realize its investment by selling it back to the entity.
- If the financial instruments are not redeemable by the entity (for example in the case of investment trusts or closed end mutual funds), then the entities are likely to be included in the proposed new term "publicly traded entity" as that would be the only means for the public holders to readily "realize" their investment.
- In using the phrase "an entity that issues," the proposed category restricts the definition to only the "issuing" entity (i.e., the fund itself) but not the fund management company.

42. Subparagraph (f):

- This proposed category is drawn from the extant PIE definition and aims to capture those entities that have been defined by laws and regulations as PIEs for the objective set out in paragraph 400.9.
- To provide further guidance, paragraph 400.14 A1 clarifies that for the purposes of the Code:
  - If different terms are used by law or regulation to meet the objective set out in paragraph 400.9, such terms should be regarded as equivalent to the term PIE.
  - If, on the other hand, law or regulation designates entities as PIEs but not for the objective set out in paragraph 400.9, such terms in law or regulation should not be treated as equivalent to the PIE definition in the Code.

Other Categories Considered by IESBA

43. The IESBA considered a number of other possible categories during the development of its proposed PIE definition, including:

- Charities.
- Financial market infrastructures.
- Large private companies.
- Private equity funds.
- Public utilities.
- Public sector entities.
- Stock and commodity exchanges.
- Systemically significant entities.

44. Following deliberation, the IESBA concluded that whilst certain of the categories may have applicability in specific jurisdictions, they do not necessarily attract significant public interest in their financial condition across the majority of jurisdictions. As such, the IESBA concluded it was not appropriate to include them as categories in a global Code. Whilst these categories were not included, some of the entities in these categories may already fall under one of the proposed PIE categories in paragraph R400.14 (e.g., a stock exchange that is a publicly traded entity).

D. Use of "Listed Entity" in IAASB Standards

45. As part of its coordination with the IESBA and in light of the project objective, the IAASB held preliminary discussions, in July and November 2020, on whether to replace the term "listed entity" with the term "PIE" in its Standards.

46. The term "listed entity" in ISAs and the International Standards on Quality Management (ISQMs) shares the same definition as that of the extant Code. Currently, listed entity is the only class of entities that are subject to differential requirements with respect to the audits of their financial statements. With the exception of subparagraph 34(f) of ISQM 1,[9] the key focus of the relevant provisions is on enhanced transparency. The requirements in the ISAs and the ISQMs that only apply to audits of financial statements of listed entities (excluding the exception noted in ISQM 1) deal with enhancing transparency about aspects of the audit to those charged with governance or to intended users of the auditor's report through communication with those charged with governance or including specific statements or information in the auditor's report, respectively.

47. The term "public interest entity" is not used in the IAASB Standards. Instead, the term "entity of significant public interest" was introduced into the ISAs[10] in response to the views of some stakeholders that it may be appropriate for some requirements in the ISAs that are designed to apply to listed entities to apply also to certain 'other entities'. It is understood that the IAASB's rationale for not using the term PIE was primarily because of the concern that the term remains difficult to interpret and apply, since it is very much a matter of jurisdictional definition and this could vary widely between jurisdictions. Therefore, owing to these challenges, the approach that is currently applied in the ISAs and ISQMs is to recognize, through application material, that in addition to certain differential requirements for audits of financial statements of listed entities, certain other entities could have characteristics that give rise to similar public interest issues as listed entities and, therefore, that it may be appropriate to apply a requirement to a broader range of entities (i.e., the application material to a particular 'listed entity requirement' is used to provide guidance for making a determination whether application may also be appropriate for other entities, including those that may be of significant public interest).[11]

48. Following deliberations in November 2020, the IAASB has reached the following preliminary views with regards to whether ad, if so, how to incorporate the term "PIE" into its Standards:

- There was strong support for a case-by-case approach when determining whether differential requirements already established within its Standards should be applied only to listed entities or more broadly to other categories of PIEs.
- The IAASB needs to assess the impact of expanding the differential requirements to all PIEs, taking into account the rationale for applying these requirements to listed entities in its current Standards. Upon review, the IAASB may conclude that differential requirements relating to the audit may be appropriate for a subset of PIEs, such as listed entities, instead of all categories of PIEs.

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9 ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

10 ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph A32; ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements,* paragraph A41

11 Examples of this approach were included in the agenda materials for the November 2020 IAASB meeting (see Appendix 1 of Agenda Item 1-B)

- If the IAASB maintains that differential requirements should only be restricted to listed entities in its Standards, the IAASB will need to consider further whether to align "listed entity" in the IAASB Standards with the equivalent term used in the final standard issued by the IESBA as a result of the PIE project.

49. As part of its initial information gathering, the IAASB supported using the IESBA's ED process to seek initial feedback from stakeholders in order to inform its case-by-case approach of reviewing the use of "listed entity" in the IAASB's standards.

E. Expected Role of Local Bodies

50. As mentioned above, the second key component to the IESBA's approach requires the relevant local bodies to refine the IESBA's PIE definition as part of the local adoption and implementation process.

51. Proposed paragraph 400.15 A1 aims to clarify the high-level nature of the Code's PIE definition and the role of the local bodies. Given the broad nature of the expanded list of PIEs in the proposed paragraph R400.14, these categories need to be further refined as appropriate for use within a local jurisdiction in order that the right entities are captured as PIEs by the local Code. As such, it is imperative that the relevant local bodies proactively determine what further refinements to the IESBA's list of PIE categories are necessary as part of the adoption and implementation process.

52. The IESBA is of the view that the relevant local bodies have the responsibility, and are also best placed, to assess and determine which entities or types of entities should be treated as PIEs for the purposes of additional independence requirements. As observed by the IESBA, a number of jurisdictions have already done so by taking into consideration issues, concerns and nuances specific to the local environment and how these impact the public interest in their jurisdictions.

53. The IESBA anticipates that some of its stakeholders' queries might be more suitably addressed at the local level. For instance, the IESBA is of the view that the following types of queries should be addressed by the relevant local bodies as they refine the IESBA PIE definition for local adoption:

- Whether entities whose financial instruments are traded on a particular second-tier market or other public forum should be excluded in subparagraph R400.14 (a)?
- Whether smaller companies should be excluded from any or all of the categories of PIE and what threshold should be set taking into account the need to balance the public interest and the burden of additional requirements imposed on the auditors of PIEs?
- Whether certain types of financial institutions such as credit unions or other mutual societies should be excluded from the definition in subparagraph R400.14 (b)?
- What types of specialized insurance entities, such as reinsurers, mutual captives or health insurers should be captured by subparagraph R400.14 (c)?
- What types of post-employment benefits, for example one-off or regular pensions payments, defined benefit or defined contribution plans or medical benefits, should be excluded under subparagraph R400.14 (d)?
- Whether there are other entities that are outside the IESBA's PIE categories but whose size or nature of operations might attract significant public interest in the event of financial failure, such as large private or public sector companies, large private sector utilities or charities providing services to a large number of beneficiaries or raising significant funds from the public?

54. The following scenario further explains the expectation on the relevant local bodies to revise the PIE definition under the IESBA's approach:

> An NSS, as the relevant local body, is responsible for adoption of the IESBA Code in its jurisdiction and is considering how to adopt the final revisions from the IESBA's PIE project.
>
> Proposed subparagraph R400.14 (b) provides that the following types of entities must be treated by firms as PIEs:
>
> *An entity one of whose main functions is to take deposits from the public"
>
> Under this proposed definition, deposit-taking financial institutions such as banks, credit unions and building societies would be captured as PIEs for the purposes of the Code.
>
> In considering proposed subparagraph R400.14 (b), the NSS must consider if all deposit-taking financial institutions within its jurisdiction will draw such level of public interest in their financial condition that they should be classified as PIEs in their local ethics code.
>
> In developing its view, the NSS:
>
> - Might wish to consider the list of factors set out in proposed paragraph 400.8 in determining if certain types of entities within this category do not attract significant public interest in their financial condition.
> - Should consult with the relevant stakeholders such as its local banking regulator.
>
> The NSS might, for instance, determine that only those entities that are deemed as "banks" under its local banking law should be treated as PIEs under subparagraph R400.14 (b) and that all other types of deposit-taking financial institutions do not attract sufficient public interest to be classified as PIEs.

55. Whilst this is not the typical approach adopted by the Code, the IESBA believes that this approach will encourage jurisdictions to reconsider any current list of PIEs and expand it to include, at a minimum, those categories set out in the IESBA's final revisions. The IESBA is confident that this approach will, with the appropriate assistance from the IESBA and strong engagement by relevant local bodies, result in greater consistency of PIE categories across jurisdictions whilst allowing for the necessary customization that best addresses the public interest issues at the local level.

Additional Support from IESBA

56. When developing its approach, the IESBA has considered the potential risk highlighted by some IESBA and IAASB members as well as other stakeholders with regards to the relevant local bodies' capacity. Their concern is that the relevant local bodies may not have the requisite capacity, in the sense of capability, knowledge and resources, or the authority to make the necessary assessment and refinements of a list of high-level PIE categories in their local codes. Further, the IESBA recognized that some jurisdictions might simply adopt the Code as is without much or any refinement, a situation which would undermine the IESBA's broader approach.

57. To better understand this potential risk, and with the assistance of IFAC's Quality and Development Team, a questionnaire was circulated to approximately 50 professional accountancy organizations (PAOs) in mostly smaller and less developed jurisdictions in Asia, the Middle East and Africa as well as Central and South America between July and October 2020. The purpose of the questionnaire was to seek preliminary feedback on the expected role and capacity of local bodies to refine the PIE definition

as part of the local adoption process. Based on the input received from a mixture of PAOs with direct, shared or no authority to revise the PIE definition, the IESBA observed that:

- There was strong indication that refinement of the PIE definition can be achieved in these jurisdictions.
- A number of jurisdictions already have local PIE definitions that encompass much of what the IESBA is proposing.
- Some expressed the view that the draft definition presented in the questionnaire[12] is sufficient to develop their local definitions.

58. The IESBA acknowledged that the process of refining the IESBA's revised definition of PIE, whilst achievable, is not a simple or quick process and will require significant effort and accumulation of experience from the relevant local bodies.

59. The IESBA has therefore agreed to develop an appropriate outreach and education program, commencing later in 2021 in order to achieve effective adoption of its revisions. In the first instance, the IESBA plans to release non-authoritative guidance material that provides additional explanation and information as a supplement to the explanatory memorandum in this ED. It aims to, amongst other things, assist the relevant local bodies in considering and planning how to revise the IESBA's definition as part of their adoption and implementation process. Other activities may include webinars and targeted stakeholder meetings. Upon approval of the final revisions, it is anticipated that a separate IESBA working group will be established to support the rollout of the revised PIE definition.

60. In addition, as highlighted in paragraph 89 below, the IESBA has also provisionally agreed to an extended effective date for the final revisions (December 15, 2024) which will give the relevant local bodies a longer transition period to assess, develop and finalize the necessary refinements.

F. Role of Firms

61. The third component of the IESBA's approach relates to an increased role for the firms and is made up of two new proposed requirements:

- Elevation of extant application material to a requirement for firms to determine if any additional entities should be treated as PIEs (paragraph R400.16)
- A new requirement for the firms relating to increasing the transparency of when an entity has been treated as a PIE (paragraph R400.17)

Determination to Treat Additional Entities as PIEs

62. The IESBA considers that it would be in the public interest if the extant application material that encourages firms to determine whether to treat additional entities, or certain categories of entities, as PIEs were elevated to a requirement.

63. The proposals also require firms, in making such determination, to apply the reasonable and informed third party test. The IESBA is of the view that such enhancement will help ensure that the right entities not otherwise scoped in under the IESBA definition or the local refinements are treated as PIEs.

[12] The version presented in the questionnaire was discussed by the IESBA in Agenda 8-C of the June 2020 IESBA meeting.

64. To be clear, the proposed paragraph R400.16 is not an exception to the requirement set out in paragraph R400.14 and firms can only add more entities as PIEs.

65. To guide firms in making their determination, the IESBA has included a number of factors in proposed paragraph 400.16 A1 for their consideration:

First factor

- It is not anticipated that a firm should treat an entity as a PIE when it has been explicitly specified as not being a PIE by law or regulation.

Second factor

- A number of stakeholders have suggested that the PIE definition should include those entities that are in the process of being traded publicly, similar to how this is approached in the definition of a "public accountability" entity in the International Financial Reporting Standard (IFRS) for Small and Medium-sized Entities (SMEs).
- However, the IESBA noted that the process of becoming "listed" or publicly traded varies considerably among jurisdictions as does the timetable for normally achieving this status. In addition, there did not appear to be any reason why such consideration should apply to only one of the proposed expanded categories of PIE. On balance, therefore, the IESBA concluded that it is more appropriate to extend this consideration to all PIEs and include it as a factor for firms' consideration as they will be in the best position (in discussion with the entity) to determine, based on the specific facts and circumstances, when it would be most appropriate to start treating a given entity as a PIE.
- The IESBA used the phrase "in the near future" to broadly describe the time element instead of prescribing a more definitive timeframe such as before the conclusion of the subsequent year's audit.

Third and fourth factor

- These two new factors are intended to cover the situations where in similar circumstances a firm or a predecessor firm has treated the same entity as a PIE, and where in similar circumstances the firm has treated other entities as PIEs. It is designed to reinforce consistency and mitigate against an entity switching auditors simply to achieve a different treatment.

Fifth factor

- This factor recognizes that a client or other relevant stakeholders such as a major shareholder might ask for the entity to be treated as a PIE in order to enhance the confidence in its audit and its financial statements. However, any such requests must be properly considered by the firm as the decision to treat additional entities as PIEs ultimately rests with the firm, taking into account the views of those charged with governance (TCWG) or the entity's stakeholders.

Sixth factor

- The IESBA is conscious that many of the additional independence requirements for PIE audits relate to increased communication with TCWG. Implicit in those requirements is that TCWG will respond appropriately which, in turn, relies on the entity having an appropriate governance framework. In considering therefore whether to treat an additional entity as PIE, it is appropriate to take into account factors such as whether the entity has the necessary governance

arrangements and whether its financial statements are subject to an appropriate level of accounting and financial reporting requirements.

Transparency Requirement

66. The IESBA recognized that one effect of its proposals may be increased uncertainty by the public as to whether an entity has been treated as a PIE by a firm given the local variations that might arise and the new requirement on firms in proposed paragraph R400.16.

67. To address this issue, the IESBA agreed to include a new disclosure requirement in proposed paragraph R400.17 and to explore with the IAASB in the first instance the option of adding a requirement in the ISAs for the auditor's report to disclose whether an entity was treated as a PIE.

68. In light of the feedback received from the IAASB (see section below), the IESBA is proposing a new general requirement for a firm to disclose whether an entity has been treated as a PIE without at this stage stating how that disclosure should be made.

69. The IESBA is seeking views from respondents to this ED about different ways in which such disclosure may be made (including within the auditor's report) and their views on the advantages and disadvantages of different approaches.

IAASB Discussions on Transparency Requirement

70. In November 2020, the IAASB considered three options with respect to requiring auditors to disclose in the auditor's report that a client was treated as a PIE (see Section II of Agenda Item 1-B for the November 2020 IAASB virtual meeting):

Option 1 – No change to the auditor's report

Option 2 – IAASB to pursue the possibility of enhanced transparency as part of its Auditor Reporting Post-Implementation Review (PIR)

Option 3 – IAASB to explore potential revisions to ISA 700.28(c).[13] As part of its consideration, the IAASB also reviewed two illustrated drafts.

71. Whilst there was some support for Options 1 and 3, the majority of the IAASB members preferred Option 2 on the basis that further analysis as part of IAASB's Auditor Reporting PIR will allow the Board to properly consider any potential impact and unintended consequences for auditor reporting, before deciding on an appropriate course of action. This also will provide an opportunity to further explore potential revisions such as those that were presented to the IAASB in November 2020 as part of Option 3.

72. As part of its initial information gathering, the IAASB supported using the IESBA's ED process to seek initial feedback from stakeholders with regards to the three options.

[13] ISA 700 (Revised), paragraph 28(c) requires that the auditor's report include a "statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements." It also requires that statement to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.

G. Other Matters

Consequential Amendment

73. The IESBA proposes to replace the term “listed entity” with “publicly traded entity” in extant paragraph 300.7 A7.

Related Entity

74. The extant Code contains only one reference to “listed entity” in the IIS that is separate from its treatment as a PIE. This reference, in extant paragraph R400.20, specifies which related entities are included in the definition of an audit client as follows:

- When an audit client is a listed entity, reference to audit client will always include all of its related entities (upstream, downstream and sister entities).
- When an audit client is not a listed entity, references to an audit client includes those related entities over which the client has direct or indirect control (downstream only).
- When an audit client is not a listed entity and when the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

75. In considering whether the reference of “listed entity” in extant paragraph 400.20 should be replaced with PIE, the IESBA:

- Noted the Task Force’s preliminary view that there is no strong philosophical reason for not extending the definition of audit client for listed entities in extant paragraph R400.20 to all PIEs.
- Discussed whether such an extension would be inappropriate or in the public interest for certain entities, such as private equity complexes and sovereign wealth funds (SWFs), due to their corporate structures and the flow of information within those structures. In this regard, the IESBA noted that whilst this issue exists today for those entities that are listed entities, it might be compounded by extending the definition of audit client for a listed entity to apply to all PIEs as it would encompass a wider range of entities.
- Acknowledged the complexity of the issue and agreed that further research on this topic, including the nature of the ownership structures of private equity companies and SWFs, is warranted in order that it can gain a better understanding of the ramifications of extending the whole universe of related entities for listed entities to apply to all PIEs.

76. Following deliberations, the IESBA agreed that the definition of audit client in extant paragraph R400.20 not to be further addressed as part of this project, except the IESBA is proposing that in paragraph R400.20, the term “listed entity” be replaced with the proposed new term “publicly traded entity” in subparagraph R400.14 (a).

Part 4B of the Code

77. Whilst the focus of the project is on audits of financial statements and auditor independence (i.e., Part 4A of the Code), the project scope provides that any implications for Part 4B of the Code will be taken into account and addressed as necessary.

78. Following its review of the revised Part 4B set out in the final pronouncement, *Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in International Standard on Assurance Engagements 3000 (revised)*, the IESBA concluded that changes to Part 4B are not necessary as part of the project.

79. The IESBA's rationale in reaching this conclusion is as follows:

- The term "assurance engagement" in Part 4B refers to an assurance engagement other than an audit or a review engagement. Under such an engagement, the firm expresses an opinion that is designed to enhance the confidence of the intended users about the subject matter information. Paragraph 900.1 of the revised Part 4B gives a number of examples such as assurance on an entity's key performance indicators, an entity's compliance with law or regulation, and the effectiveness of an entity's system of internal control.
- Whist there may be some assurance engagements that are of greater public interest than others, this is at least as much to do with the nature of the engagement as with the nature of the entity. As such, not all assurance engagements for a PIE (as defined by Part 4A) would be of significant public interest; equally, some assurance engagements for a non-PIE might be of significant public interest. Accordingly, the IESBA does not believe that developing a different definition of PIE in Part 4A has direct implications for Part 4B.
- The IESBA acknowledged that it may be possible to define a class of "public interest assurance engagements" but believes this is outside the scope of the current project. In considering whether to take forward another project to consider this, the IESBA is of the view that it would be helpful firstly to reflect on what additional independence requirements (if any) might be imposed on the providers of such engagements in order to enhance confidence in their performance.

IV. Analysis of Overall Impact of the Proposed Changes

80. The IESBA believes that the proposals, as refined at the local level, will capture as PIEs those entities whose financial condition draws significant public interest, thereby enhancing public confidence in the audits of their financial statements through additional independence requirements, including those recently approved by the IESBA under Non-assurance Services (NAS) and Fees projects in December 2020.[14]

81. Public interest will be served by:

- Bringing greater clarity to the various concepts within the definition of PIE and expanding the categories of PIE.
- Assisting the relevant local bodies to refine the PIE definition as part of their adoption and implementation process.

82. For relevant local bodies responsible for adoption and implementation of the Code, (e.g., regulators, audit oversight bodies, NSS and PAOs), the IESBA believes that there will be additional time and costs associated with refining the IESBA's final revisions. For instance, an NSS may need to hold a consultation process with the relevant regulators and oversight bodies and other stakeholders to determine the appropriate size and other thresholds in order to scope in the right entities as PIEs at the

[14] The revised NAS and Fees provisions are subject to the approval of the Public Interest Oversight Board (PIOB) at its April 2021 meeting before issuance as final pronouncements.

local level. As mentioned above, the IESBA will provide non-authoritative guidance material and other support to assist relevant local bodies with adoption and implementation.

83. Firms will incur some costs when revising their policies and procedures to ensure all their clients are correctly classified as either PIEs or non-PIEs under the revised definition of PIE. There will also be some additional costs in implementing the new proposed requirement for firms to determine if additional entities should be treated as PIEs. The associated costs of transiting non-PIE clients to PIE clients, including the nature and significance of such costs, will depend on the particular circumstances such as:

- Whether there is already an expanded list of PIE entities for the purposes of applying independence requirements in the local context.
- Whether a firm's existing policies and procedures already take a broad interpretation of what entities should be treated as PIEs under the relevant ethics standards, laws and regulations.
- The types of NAS provided to a client, some of which may need to be discontinued as they would be prohibited for PIEs under the IIS.
- Any additional requirements to communicate with TCWG and other disclosure requirements.

84. The IESBA notes that a proposed effective date of December 15, 2024 for the PIE project's final revisions (see Section V below) will allow firms sufficient time to revise and implement the relevant policies and procedures for the revised NAS and Fees provisions and apply them to their PIE clients under the extant IESBA Code before they need to be applied to any new PIE clients captured under the revised PIE definition.

85. As with any changes to the Code, firms can expect implementation costs associated with awareness and training initiatives, and maintenance costs in updating their internal policies and methodologies.

V. Project Timetable and Effective Date

86. The remaining timeline for this project is as follows:

April 2021	• Closing date for comments to the ED
June 2021	• Highlights of significant comments to the IESBA
September 2021	• Discussion of significant issues arising on exposure with the IESBA CAG • Full IESBA review of comments and first read of revised proposals
December 2021	• IESBA approval of final pronouncement

87. The IESBA considered the effective date for the PIE project's final revisions in conjunction with those of the NAS and Fees projects given the impact of the revisions to the NAS and Fees provisions on the audit of PIE clients.

88. Whilst the IESBA's initial intention was for the three projects' final revisions to become effective on the same date, the IESBA acknowledged that it was unlikely that this can take place at least until December 2023 given that the PIE exposure draft was yet to be released.

89. Following approval of the NAS and Fees revisions at its November-December 2020 meeting, the IESBA considered three options and agreed to Option 3 below:

	NAS and Fees	PIE
OPTION 1	15 December 2022	15 December 2023
OPTION 2	15 December 2023	15 December 2023
OPTION 3	15 December 2022	15 December 2024

90. In agreeing to the effective dates in Option 3, the IESBA took into account the following:

- Under the PIE project's approach and proposals, the relevant local bodies will need time to refine the revised PIE definition as part of the adoption and implementation process.
- A longer transition period will provide more time for relevant local bodies to refine the new PIE definition and also allow the IESBA more time to develop non-authoritative guidance material to facilitate global adoption of the PIE definition.
- Whilst a later effective date is more suitable for the PIE project, the same considerations do not apply for the NAS and Fees projects.
- An earlier effective date for the NAS and Fees projects is likely to respond better to the expectations of the regulatory community for strengthened auditor independence requirements to come into effect as soon as reasonably practicable.
- The PIE proposals will in general lead to an expanded list of PIEs in most jurisdictions.
- Option 3 will give firms some time to develop experience with the application of the new NAS and Fees provisions for PIEs based on the extant PIE definition before these provisions become applicable to a broader group of PIEs (i.e., a "step change" approach rather than a "big bang" one).
- In the unforeseen event of a delay in completing the PIE project, this would not unduly withhold the NAS and Fees revisions coming into effect.

VI. Guide for Respondents

91. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

Request for Specific Comments

Overarching Objective

1. Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code?

2. Do you agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity? Accepting that this is a non-exhaustive list, are there key factors which you believe should be added?

Approach to Revising the PIE Definition

3. Do you support the broad approach adopted by the IESBA in developing its proposals for the PIE definition, including:

    - Replacing the extant PIE definition with a list of high-level categories of PIEs?
    - Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?

PIE Definition

4. Do you support the proposals for the new term "publicly traded entity" as set out in subparagraph R400.14(a) and the Glossary, replacing the term "listed entity"? Please provide explanatory comments on the definition and its description in this ED.

5. Do you agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f)?

6. Please provide your views on whether, bearing in mind the overarching objective, entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO) should be captured as a further PIE category in the IESBA Code. Please provide your views on how these could be defined for the purposes of the Code recognizing that local bodies would be expected to further refine the definition as appropriate.

Role of Local Bodies

7. Do you support proposed paragraph 400.15 A1 which explains the high-level nature of the list of PIE categories and the role of the relevant local bodies?

8. Please provide any feedback to the IESBA's proposed outreach and education support to relevant local bodies. In particular, what content and perspectives do you believe would be helpful from outreach and education perspectives?

Role of Firms

9. Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs?

10. Please provide any comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1.

Transparency Requirement for Firms

11. Do you support the proposal for firms to disclose if they treated an audit client as a PIE?

12. Please share any views on possible mechanisms (including whether the auditor's report is an appropriate mechanism) to achieve such disclosure, including the advantages and disadvantages of each. Also see question 15(c) below.

Other Matters

13. For the purposes of this project, do you support the IESBA's conclusions not to:

    (a) Review extant paragraph R400.20 with respect to extending the definition of "audit client" for listed entities to all PIEs and to review the issue through a separate future workstream?

    (b) Propose any amendments to Part 4B of the Code?

14. Do you support the proposed effective date of December 15, 2024?

Matters for IAASB consideration

15. To assist the IAASB in its deliberations, please provide your views on the following:

    (a) Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.

    (b) The proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to other categories of PIEs.

    (c) Considering IESBA's proposals relating to transparency as addressed by questions 11 and 12 above, and the further work to be undertaken as part of the IAASB's Auditor Reporting PIR, do you believe it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE? If so, how might this be approached in the auditor's report?

Request for General Comments

92. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

EXPOSURE DRAFT: PROPOSED REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE CODE

(MARK-UP FROM EXTANT CODE)

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

…

Public Interest Entities

400.8 Some of the requirements and application material set out in this Part ~~reflect the extent of public interest in certain entities which are defined to be~~ are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities. ~~Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders.~~ **[Moved to R400.17]** The extent of public interest will depend on ~~F~~factors ~~to be considered~~ includinge:

- The nature of the business or activities, such as ~~the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds~~ taking on financial obligations to the public as part of an entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and~~of~~ employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.9 The purpose of these requirements and application material for public interest entities is to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements.

Reports that Include a Restriction on Use and Distribution

400.10 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

Assurance Engagements other than Audit and Review Engagements

400.11 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

Requirements and Application Material

General

R400.12 A firm performing an audit engagement shall be independent.

R400.13 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Public Interest Entities

R400.14 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

(a) A publicly traded entity;

(b) An entity one of whose main functions is to take deposits from the public;

(c) An entity one of whose main functions is to provide insurance to the public;

(d) An entity whose function is to provide post-employment benefits;

(e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or

(f) An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9.

400.14 A1 When terms other than public interest entity (such as listed entity) are applied to entities by law or regulation to meet the objective set out in paragraph 400.9, such terms are regarded as equivalent terms. However, if law or regulation designates entities as "public interest entities" for reasons unrelated to the objective set out in paragraph 400.9, that designation does not mean that such entities are public interest entities for the purposes of the Code.

R400.15 A firm shall have regard to law or regulation which provides more explicit definitions of the categories noted in paragraph R400.14 (a) to (e), for example by reference to the legislation under which such functions are performed.

400.15 A1 The categories set out in paragraph R400.14 are broadly defined and no recognition is given to any size or other criteria that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to refine these categories by, for example, making reference to local law and regulation governing certain types of entities. Similarly, the Code also

provides for such bodies to exclude entities that would otherwise be regarded as falling within one of the broad categories in paragraph R400.14 for reasons relating to, for example, size or particular organizational structure.

R400.16 **[Moved from 400.8]** A ~~F~~firm~~s are encouraged~~shall ~~to~~ determine whether to treat additional entities, or certain categories of entities, as public interest entities ~~because they have a large number and wide range of stakeholders~~. When making this determination, the firm shall take into account whether a reasonable and informed third party would be likely to conclude such entities should be treated as public interest entities.

400.16 A1 In addition to the factors listed in paragraph 400.8, factors to consider when determining whether additional entities or certain categories of entities should be treated as public interest entities include:

- Whether the entity has been specified as not being a public interest entity by law or regulation.
- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances the firm or a predecessor firm has treated the entity as a public interest entity.
- Whether in similar circumstances the firm has treated other entities as a public interest entity.
- Whether the entity or other stakeholders requested the firm to treat the entity as a public interest entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example whether those charged with governance are distinct from the owners or management.

R400.17 A firm shall publicly disclose if an audit client has been treated as a public interest entity.

[Paragraphs 400.~~13~~18 to 400.19 are intentionally left blank]

R400.20 As defined, an audit client that is a ~~listed entity~~publicly traded entity (including any modifications made by law or regulation) includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS

(MARK-UP FROM EXTANT CODE)

PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Requirements and Application Material

Evaluating Threats

Consideration of New Information or Changes in Facts and Circumstances

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300.7 A7 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a ~~listed~~publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the professional accountant's personal or immediate family relationships.

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Audit	*In Part 4A, the term "audit" applies equally to "review."*
Audit client	An entity in respect of which a firm conducts an audit engagement. When the client is a ~~listed~~ publicly traded entity, audit client will always include its related entities. When the audit client is not a ~~listed~~ publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. *(See also paragraph R400.20.)* *In Part 4A, the term "audit client" applies equally to "review client."*

Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, "other audit partners" might include, for example, audit partners responsible for significant subsidiaries or divisions.
~~Listed Entity~~	~~An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.~~
May	*This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.*

Proposed accountant	A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).
Public interest entity	~~(a) A listed entity; or~~ ~~(b) An entity:~~ ~~(i) Defined by regulation or legislation as a public interest entity; or~~ ~~(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.~~ ~~*Other entities might also be considered to be public interest entities, as set out in paragraph 400.8*~~*.*

	For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories: **(a)** A publicly traded entity; **(b)** An entity one of whose main functions is to take deposits from the public; **(c)** An entity one of whose main functions is to provide insurance to the public; **(d)** An entity whose function is to provide post-employment benefits; **(e)** An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or **(f)** An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9. *The Code provides for the categories to be revised or entities to be excluded as described in paragraph 400.15 A1.*
Publicly traded entity	An entity that issues financial instruments that are transferrable and publicly traded.
Reasonable and informed third party Reasonable and informed third party test	*The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.* *These terms are described in paragraph R120.5 A4.*

Published by:

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