ENTITIES OF SIGNIFICANT PUBLIC INTEREST – DETAILED COMMENTS

1.	SPIEs	We agree to the proposal to extend the application of all of the rules covering listed corporations to entities of significant public interest. We find no problem in the extension of exemplified entities to entities of significant public interest. Exemplified non-profit organizations, however, include a wide range of entities; consideration should be given, therefore, in determining the extent of significance.	JICPA	
2.	SPIEs	We are of the view that it is appropriate to extend the listed entity provisions to entities of significant public interest, and agree with the IESBA's interpretation of "significant public interest".	ICPAS	
3.	SPIEs	Yes (though see our comments above on whether all of those provisions should apply even to listed entities). See comments under item 2.1 above. We agree with the extension of specific listed entity requirements to other entities of significant public interest (ESPIs). We also agree that it would be inappropriate for the IESBA to provide a detailed definition of what sort of entity should be regarded as an ESPI, to any greater extent than is included in the ED. We support the proposal to extend the requirements relating to listed entities to entities with significant public interest. We agree that the definition of such entities is best left to the national regulator or the national IFAC member body, as appropriate. We also note that the provisions present certain changes of a practical nature from the current Code in addition to the proposed change of terminology from listed to public interest entities. However, with the exception of matters that impact on SMP services, as explained in our comments below, we believe these to be generally acceptable	FEE	
4.	SPIEs	Like FEE, NRF has noted with satisfaction that IESBA has refrained from providing a detailed definition of what sort of entities should be regarded as an ESPI. NRF believes that the definition should be narrow and that only entities of real significant public interest shall be considered as such.	NRF	

5.	SPIEs	We can agree to the proposed extension of the requirements for quoted companies to also cover other companies of significant public interest in the future. In the Danish legislation on auditors we already have the same requirements for auditor's independence for quoted companies and other companies of significant public interest including regulated financial institutions and government owned businesses.	FSR	
6.	SPIEs	Yes. Our response assumes that local regulators will arrive at a reasonable definition of what is a "significant public interest entity".	ICAS	
7.	SPIEs	We believe the rationale for the application of additional requirements for the audit of listed entities is that in such entities, there is a wider range of financial stakeholders than for most entities and that therefore safeguards needed to address perception issues take greater precedence. By their very nature, entities of significant public interest share the characteristic of a wide range of financial stakeholders so in principle we agree with the proposal. We also agree that it would be inappropriate for IFAC to seek to promulgate a detailed international definition and that this should be done by national regulators or, in their absence, member bodies: national differences will be too great for a detailed IFAC definition to apply sensibly.	ICAEW	
8.	SPIEs	With some exceptions, I believe the requirements that currently apply to listed entities should also apply to other significant public interest entities (SPIEs). Conceptually, it is difficult to justify that the safeguards applying to listed entities should not also apply to other SPIEs. The challenge lies in defining these other entities. I agree that the Code should provide a generic (i.e., conceptual) description of what constitutes a SPIE but that IFAC Member Bodies should determine the specific interpretation of SPIE in their jurisdictions. Regulatory regimes differ significantly from country to country and it would be impracticable, I think, for the International Ethics Standards Board for Accountants (IESBA or the Board) to attempt to define them.	AC	

9.	SPIEs	We agree to the proposed extension of the requirements for the auditor's independence for listed companies to other entities of significant public interest. In our opinion such an extension is reasonable since there are no good explanations for maintaining different independence provisions for auditors in listed companies and auditors in other companies with a large number and wide range of stakeholders. We also agree with the IESBA conclusion that it should be determined in each jurisdiction what type of entities that are of significant public interest.	DnR	
10.	SPIEs	The APB believes that conceptually it is desirable to extend all of the listed entity provisions to entities of significant public interest. It is important that entities with a high level of visibility or which are socially or economically important within a jurisdiction have more stringent auditor independence requirements attached to them due to the higher level of public interest in their operations and financial reporting processes. However, there are problems in defining such entities. We support the approach of the IESBA to rely on member bodies to determine the types of entities that are of significant public interest where there is no legal definition in place. The guidance that is provided by the IESBA in paragraph 290.23 is considered helpful and appropriate in this regard.	APB	
11.	SPIEs	NIVRA agrees with the definition of ESPI, because this largely corresponds with the definition of public interest entity from the EU Statutory Audit Directive and also offers the possibility to keep using any definition of this term in national legislation or regulations. Not applicable. The Netherlands and NIVRA continue to use the definition of public interest entity taken from the EU Statutory Audit Directive See above item 2.1. For the rest, it is undesirable that the IESBA further expands upon the definition of ESPI, in order to avoid creating more differences with a possible definition in national legislation or regulations.	NIVRA	

12.	SPIEs	We refer to our comment no. 2.1 above in which, in particular, we support the Board's stipulating that the definition of an entity of significant public interest should be a national issue. … We support the extension of the requirements for listed entities to entities of significant public interest. We agree with the Board that, as long as entities of significant public interest are defined for independence purposes by law or regulation, these national requirements should be applied in connection with the proposed Section 290. Regarding the question whether all specific provisions should be extended we refer to our general comments above.	IDW	
13.	SPIEs	We support the IESBA's approach to extend all of the listed entity provisions to entities of significant public interest. We agree that it is appropriate depending on the facts and circumstances for regulated financial institutions to normally be entities of significant public interest. We also agree pension funds, government agencies, government owned entities and not-for-profit entities may be entities of significant public interest. We believe criteria should be specified by which government agencies and government owned entities would be determined to be 'entities of significant public interest'. There would be a number of public sector entities, on a size basis at least, where the full array of audit provisions (eg second partner review) would not be warranted from a cost benefit perspective. Whilst we agree it is appropriate to extend most of the listed entity provisions to entities of significant public interest, some flexibility and further guidance is required with regard to 'client acceptance', 'partner rotation' and the definition of 'firm' in relation to auditing public sector entities as detailed below.	ACAG	

14.	SPIEs	We believe that public interest entities should always include credit institutions, even when some of these 'credit institutions would not have a large and a wide range of stakeholders'. The fact that a credit institution accepts money from the public and has a pivotal role in the economy (e.g. payments services - loans) justifies that it should be considered as being an entity of public interest. We strongly recommend the Board to take the same approach as the European Union has taken. We also note that the definition of 'entities of significant public interest' in the Code is not the same as that covered in the 8th Directive. We would encourage the Board to harmonise the Code's definition with that in the 8th Directive to maximise the possibility of the Code's acceptance in the EU.	CEBS	
15.	SPIEs	We agree that auditor independence is an important issue especially in light of the proposed amendments to the Companies Act and the Corporate Law Reform which is currently underway in South Africa. It is our opinion that it would be appropriate and in the public's interest to extend the provisions to all the stated entities.	IRBA	
16.	SPIEs	We agree with the extension of the requirements applicable to assurance engagements in listed companies to other entities with a significant public interest that are mentioned in the exposure draft. However we think that at this stage, it is not necessary to provide for the criteria meant to identify a significant public interest entity.	CSOEC	
17.	SPIEs	We agree with the IESBA that it would be impossible to define such entities in a global context and that the regulators /member bodies should define the types of entities that are of significant public interest in their jurisdiction. However we believe that it would be helpful if it were made clear by the IESBA that significance should be measured at national rather than local level thereby ensuring that small entities are not included. This is of particular importance given the extension of the provisions relating to listed entities to SPIE's and the likely significant cost implications.	CARB	
18.	SPIEs	We agree with the proposals in this respect.	IRBA	

19.	SPIEs	We support in principle the extension of the listed entity provisions to all entities of significant public interest. However, we believe that the Code should clarify that only those larger entities of widespread public interest are to be regarded as entities of significant public interest. As currently drafted, paragraph 290.22, with its reference to business, size or number of employees, taken together with paragraph 290.23 ("normally include regulated financial institutions such as banks and insurance companies, and may include pension funds, government agencies, government-controlled entities and not-for-profit entities"), might suggest that the nature of its business alone might be sufficient to qualify an entity as a significant public interest entity. We support the extension of the listed entity provisions to entities of significant public interest with the clarifications suggested in Part A	KPMG	
20.	SPIEs	1° As to whether it is appropriate to extend all of the listed entity provisions to entities of significant public interest, we do not see any objection to this approach. 2° As to whether pension funds, government agencies, government-owned entities and not-for-profit entities may be entities of significant public interest, we believe that this question should be decided on the basis of criteria such as size, resources and the applicable governance rules. For example, the factors to be considered might include, in the case of pension funds, the amount of managed assets and of members; in the case of not-for-profit entities, the amount of public contributions or government grants; in the case of government agencies and government-owned entities, the degree of governance exercised by the applicable oversight bodies.	Mazars	
21.	SPIEs	CGA-Canada agrees that the provisions for listed entities should be extended to "entities of significant public interest." It seems apparent to us that regulated financial institutions, certain private businesses, government agencies, and controlled entities and *certain* not-for-profit organizations affect significant numbers of stakeholders by virtue of their economic or social impact on significant stakeholder groups. Those that do should be included in the category of entities of significant public interest. We concur, in the interests of simplicity, efficiency, and equitability that, generally speaking, <u>all</u> of the listed entity provisions should be applied to all entities of significant public interest – not just listed companies. Contd	CGA	

22.	SPIEs	In our view, it is appropriate that, depending on the facts and circumstances, regulated financial institutions would normally be entities of significant public interest. We also agree that pension funds, government agencies, government-owned entities, and not-for-profit entities may be entities of significant public interest. However, it cannot be emphasized enough that there is a wide variation within these categories. Pension funds may include as few as one person and as many as several hundred thousand. Not-for-profit organizations may have fiduciary responsibilities affecting a significant part of the population (e.g., a national charity organization) or virtually no such responsibilities and only a small number of stakeholders (e.g., a group of parents organizing a children's neighborhood sporting league.) Government-owned entities may be as small as a village football field or as large as a major national electrical power utility.	CGA	
23.	SPIEs	Proportions must be guarded here, especially in light of the proposed changes regarding partner rotation (290.147), bookkeeping services (290.166), tax calculations (290.173), and material valuations (290.178) to be applied to entities of significant public entities. Large numbers of smaller agencies, not-for-profit organizations, and the like simply do not have in-house resources to perform calculations of deferred tax assets and liabilities, prepare all the year-end adjustments and disclosures to comply with IFRS, or perform material valuations. It is not reasonable in many cases that they should engage several firms to perform these functions; the inefficiencies should be apparent. Moreover, smaller audit firms who may not be able to meet the rotation requirements set out in the ED, may, in fact, be better suited to serve such smaller entities by virtue of their flatter organizational structure, experience, and expertise in providing assurance services to them. Safeguards such as those suggested by way of example at 290.165 for bookkeeping, 290.170 for valuations, and 290.177 for taxation services should be sufficient for such smaller entities. Contd	CGA	
24.	SPIEs	The matter comes down to the meaning of "significant public interest." We recommend further guidance be provided regarding the interpretation of "significant" in this context. Perhaps "significance" for this purpose should be understood to mean national or regional economic or social impact. Further, it should be made very clear that there is no intention to include all pension funds, government agencies, or not-for-profit organizations in the category of entities with significant public interest	CGA	

25.	SPIEs	The International Ethics Standards Board for Accountants states that all listed entities will always be Entities of Significant Public Interest; however, there is no rationale associated with his statement. We note that some listed entities are relatively small in a number of countries. The all-inclusive scope automatically captures all listed entities, regardless of size. The International Ethics Standards Board for Accountants believes that no safeguards effectively counter the familiarity threat with respect to the partner rotation rules and therefore requires rotation of key audit partners after seven years on all audits for entities of significant public interest. Cont'd	CMA	
26.	SPIEs	The combination of the above two proposed changes may lead to the following consequences which are not in the public interest: • The lack of availability and choice of audit firms in some jurisdictions. • Small entities that are classified as Entities of Significant Public Interest may be forced to have multiple suppliers of services. This may not be possible in some jurisdictions due to the number of firms or it may not be in the entity's interest. • If an existing audit firm does not have the requisite number of partners, entities will be forced to rotate the firm, not the partner within the firm. Cont'd	CMA	

27.	SPIEs	The following alternatives are suggested to address the consequences: • A threshold for an entity's size should be established in collaboration with the regulator in each jurisdiction. The threshold can address the specific parameter issues in the jurisdiction. This threshold will apply to all entities, including listed entities. • In the event that a jurisdiction does not wish to apply the threshold to all entities, consideration may be given for the jurisdiction to retain the existing rule. The existing rule provides for an exception to the partner rotation rule when an audit firm only has a small number of partners; however, appropriate safeguards must be established. Cont'd	CMA	
28.	SPIEs	It is critical to emphasize that the above alternatives would be implemented in collaboration with the appropriate regulators in the jurisdiction. Canada has a large number of very small listed entities. In response to this, listed entities with a market capitalization of under $10 million Canadian are exempt from the additional existing listed entity restrictions in Canada. This has been developed and agreed to with the regulators. We believe that the first alternative solution can effectively be implemented in Canada. We believe that there should be some flexibility in the application of the rules for Entities of Significant Public Interest in order to address the possible consequences. By acknowledging that jurisdictions will require varying degrees of flexibility and identifying appropriate alternatives, we are confident that the rules will be more effective and meet the needs of all jurisdictions	CMA	

29.	SPIEs	The IESBA has proposed extending the listed-entity independence provisions to auditors of entities of "significant public interest." The proposed standard states, "Entities of significant public interest will always include listed entities, and will normally include regulated financial institutions such as banks and insurance companies, and may include pension funds, government agencies, government-controlled entities, and not-for-profit entities." (emphasis added) The proposed changes would allow some flexibility for IFAC member bodies to determine, based on the facts and circumstances, which entities should be considered of significant public interest within their respective jurisdictions. In the United States, the American Institute of Certified Public Accountants (AICPA) serves as the IFAC member body.	GAO	
30.	SPIEs	The proposal sets forth the following hierarchy for determining whether entities are of "significant public interest" and, therefore, whether these entities are subject to the same enhanced auditor independence safeguards as listed entities. Where law or regulation defines the entities that are to be considered of significant public interest for independence purposes, the IESBA concluded that IFAC member bodies should use those definitions for applying the independence standards of Section 290. In the absence of such a legislative or regulatory definition, the proposed standard states that the appropriate IFAC member body should determine which entities in addition to listed entities will be treated as entities of significant public interest. Table 1 illustrates the IESBA proposal. [See Appendix 2 to this agenda paper] Cont'd	GAO	

31.	SPIEs	Our concern is that IFAC member bodies that are national auditing standard setters are generally not the appropriate parties for determining independence requirements for auditors of regulated financial institutions, pension funds, government agencies, government-controlled entities, and not-for-profit entities. In addition, the conclusions reached under the proposed hierarchy and the resulting implementation of the standard likely would be inconsistent, depending on the context and the facts and circumstances. For example, a municipal water treatment plant likely would be considered of significant public interest within the context of the municipal environment. However, that same water authority would not be considered of significant public interest within a state or national context. Auditors in the first instance would be required to apply enhanced independence safeguards, while auditors in the second instance would not. We agree with the Board's conclusion that it is impracticable to develop a single definition of an entity of significant public interest that would have global application and be suitable in all jurisdictions. We also agree that in jurisdictions where law or regulation defines entities that are of significant public interest for auditor independence purposes, IFAC member bodies should use those same laws or regulations in determining the appropriate auditor independence standards. Cont'd	GAO	

32.	SPIEs	However, in the absence of such a law or regulation, an appropriate government entity, such as the national or state audit office, and not IFAC member bodies that are national auditing standard setters, should determine applicable enhanced independence safeguards for auditors of government agencies, government-controlled entities, and certain government-funded not-for-profit organizations. For regulated financial institutions and pension funds, the agency that regulates these institutions should make the decision. We also believe that in both of these situations the party making the decision should coordinate with the appropriate IFAC member body. Our proposed model is illustrated in table 2. [See Appendix 2 to this agenda paper] In the United States, U.S. *Government Auditing Standards 1* provide the model for how the national audit office should determine independence requirements for government agencies, government-controlled entities, and certain not-for-profit organizations that receive government funding. In the United States, auditors of government entities and entities that receive government awards are required to follow U.S. *Government Auditing Standards*. These standards include independence requirements that differ from national standards in that they are more stringent in a number of respects and are tailored to address the unique aspects and risks of government audits. U.S. *Government Auditing Standards* emphasize the importance of independence for both auditors and audit organizations in audits of government entities and entities that receive government awards. In establishing and promoting adherence to these standards, GAO regularly coordinates and communicates with the AICPA; federal, state, and local government auditors; CPA firms that audit government entities and government-funded programs; and other stakeholders Cont'd	GAO	
33.	SPIEs	The enhanced auditor independence requirements for audits of government entities that are included in U.S. *Government Auditing Standards* were developed following extensive due process, including deliberations by the Comptroller General's Advisory Council on U.S. *Government Auditing Standards* and public exposure and comment. Based on U.S. *Government Auditing Standards*, we agree that auditors of government-agencies, government controlled entities, and not-for-profit entities should apply enhanced safeguards in certain circumstances in order to maintain their independence both in fact and in appearance. For example, U.S. *Government Auditing Standards* includes safeguards similar to those proposed by the IESBA to protect against threats to independence when auditors provide nonassurance services to audit clients. However, some of IESBA's proposed enhanced safeguards are not appropriate and necessary for auditors of government agencies, government-controlled entities, and not-for-profit entities Cont'd	GAO	

1 U.S. *Government Auditing Standards* may be accessed at http://www.gao.gov/govaud/ybk01.htm. The independence standards are in paragraphs 3.02-3.30.

34.	SPIEs	Specifically, the enhanced safeguards related to an audit team member joining an audit client are not appropriate and necessary in audits of public sector entities. Because of different motivations, circumstances, and issues in government entities, the self-interest, familiarity, and intimidation threats created by such employment would be much less for auditors of public entities than for auditors of listed entities Cont'd	GAO	
35.	SPIEs	Partner rotation offers another example of how government entities, such as national audit offices, can best determine the applicable enhanced independence safeguards that are most appropriate based on the relevant facts, circumstances, and regulatory context for auditors of government agencies, government-controlled entities, and certain not-for-profit organizations. The proposed provisions related to the threats that may arise from using the same senior audit personnel on an engagement over a long period of time are inappropriate and unnecessary for public entity auditors. In audits of entities of significant public interest, the IESBA's provisions state that "an individual should not be a key audit partner for more than seven years. After such a time, the individual should not return to the engagement team or be a key audit partner for the client for two years. During that period the individual should not participate in the audit of the entity." Cont'd	GAO	
36.	SPIEs	After passage of the Sarbanes-Oxley Act of 2002 (the Act) in the United States, GAO analyzed whether the partner rotation requirements of the Act would be appropriate in the government audit environment. The Act makes it unlawful for a firm to provide audit services to a publicly traded company if the lead audit partner having primary responsibility for the audit or the audit partner responsible for reviewing the audit has performed audit services for the entity in each of the five previous fiscal years. Cont'd	GAO	
37.	SPIEs	We concluded that these requirements are not necessary in the government environment, although some audit organizations may choose to follow them. For many government audit organizations, law mandates the performance of an audit by the individual who holds a specified office, such as the auditor general or the comptroller general. For instance, in the United States in order to preserve independence and to protect the office from political pressure, the Comptroller General serves a 15-year term, cannot be reappointed, and is subject to removal only by a joint resolution of the U.S. Congress for specified causes. Cont'd	GAO	

38.	SPIEs	Other safeguards ordinarily found in U.S. public sector audit offices include formal mandates establishing the audit offices' powers and duties; public availability of most government audit reports; the enhanced accountability of most government audit offices; and the required use of U.S. *Government Auditing Standards,* established specifically to address the unique aspects of government audits, for audits of U.S. federal government entities and for audits of other entities that receive federal funding. In addition, some government entities are required to regularly re-bid their audit contracts. We believe that these safeguards in place in the U.S. government audit arena are sufficient to help audit offices and firms mitigate the self review and self interest threats.	GAO	
39.	SPIEs	The Board is proposing to strengthen the guidance on ESPI. The proposal will extend the listed entity independence provisions to all entities of significant public interest. Such entities are described in the proposed revised Section 290 as listed entities and certain other entities which, because of their business, size or number of employees have a large number and wide range of stakeholders. We support the Board's proposal: (a) To extend all of the listed entity provisions to ESPI. (b)That, depending on the facts and circumstances, regulated financial institutions would normally be ESPI and pension funds, government-agencies, government owned entities and not-for-profit entities may be ESPI	PAOC	

40.	SPIEs	EFAA strongly disagrees that it is appropriate to extend all of the listed entity provisions to entities of significant public interest. We believe that, while well-intentioned, this extension could, in some jurisdictions, have severely detrimental consequences for small and sole practitioners. We believe that the IESBA probably has in mind, when considering an entity of significant public interest, a large non-listed entity, especially those in the financial and similar sectors. It is entirely proper that the listed entity provisions should be extended to such entities; in practice such entities are likely to be audited by larger audit firms used to auditing listed entities in any case. Problems may well arise, however, in situations where national governments define entities of significant public interest much more broadly. These could and do include small companies in the water and waste management industries, and non-profit making entities. It is feasible (particularly in developing countries) that such entities may be audited by small, local audit firms, and even in some cases by sole practitioners. Extending listed entity provisions in such circumstances would be highly disproportionate. EFAA recognizes that the decision to classify such entities as being of significant public interest is for national governments, but given the increasing (and welcome) international acceptance of ISAs and of the Code, we believe that the IESBA should consider providing additional guidance in the Code to try and avoid disproportionate regulation. Disproportionate regulation is not in the public interest. Extending listed entity provisions in the circumstances outlined above (especially a requirement for partner rotation) is likely to lead to a further decline in the number of small audit practitioners, reducing choice and quality for those entities requiring or requesting an audit.	EFAA	

41.	SPIEs	On the question whether pension funds, government agencies, government owned entities and non-for-profit entities may be considered as entities involving public interest, one should note that the CNCC does not support an extensive definition of the scope of public interest entities, although this issue in France as in all EU countries, is not in the hands of the profession and is addressed by legislation. On the question whether it is appropriate to extend all the listed entity provisions to entities involving public interest, we see no objection in principle impeding the provisions of the IFAC Code applicable to listed entity from being extended to entities of significant public interest, although we believe that the concept of significant public interest should be clarified.	CNCC	
42.	SPIEs	We believe that it is appropriate to include listed entities in the definition of ESPIs. However we do not believe that the definition the IESBA provides should go beyond listed entities. We are concerned that the public interest is not served by having individual jurisdictions determine what they believe to be an ESPI, based on the examples provided by the IESBA – as this will inevitably lead to such entities being interpreted as "mandatory ESPIs", rather than providing helpful guidance. The IESBA may forestall confusion by providing some indicative guidance regarding the overall characteristics of an ESPI, which jurisdictions will use in determining what is to be an ESPI in that jurisdiction. Given the range and number of stakeholders in entities of significant public interest, it is appropriate to suggest that a "threats and safeguards" approach be adopted in terms of which firms consider extending the listed entity provisions to entities of significant public interest (ESPIs) on a case by case basis, depending on the facts and circumstances and using the "threats and safeguards" principles. We propose deleting the examples from Para 290.23 at a minimum. Further, we do not agree with the proposal to mandate the application of the listed entity provisions to all ESPIs. We are concerned that the costs associated with partner rotation and cooling off requirements for non-listed ESPIs will outweigh the intended benefits, especially with respect to the audits of small entities	Australia	

43.	SPIEs	In our view, it is appropriate <u>in theory</u> to extend the additional listed entity requirements to other entities of significant public interest. If (1) an entity is really of significant public interest because of, among other things, the number and range of its stakeholders, and (2) the more restrictive provisions of the Code pertinent to listed entities are in fact appropriate, then those provisions should be applicable to all entities where the public interest is significant, regardless whether the entity is listed. The critical question, though, is what is an entity of significant public interest? Our response to the question posed in the ED presumes that there is agreement on that question. In drafting the new proposal and describing, without defining, what constitutes an entity of significant public interest, the Board seems willing to accept the potentially significant complexity and confusion that will arise as a result of having to apply different definitions when clients and networks operate across borders. No doubt that in many jurisdictions, entities of significant public interest are defined by law or regulations; but where not so defined, member bodies are instructed to develop a definition for their jurisdiction. This approach will lead to a lack of uniformity in addition to very significant compliance challenges. Cont'd	DTT	
44.	SPIEs	We appreciate the difficulty in developing a definition of entity of significant public interest that would make sense in all countries. We believe it would be desirable nevertheless for the Code to include such a definition rather than leaving the determination to member bodies. We recommend that the Code contain more detailed and expanded guidance on the factors to be considered in determining if an entity is of significant public interest, including: • Who are the entity's stakeholders, including what is meant by a "stakeholder"; • The size of the entity (measured in terms such as total assets, total revenue, market capitalization and/or the number of stakeholders); • The degree of reliance placed by the stakeholders on the audited financial statements; and • The potential impact on the stakeholders of an audit failure caused by a lack of auditor independence.	DTT	

45.	SPIEs	This approach would represent a substantive change from the current Code. Rather than merely describing the types of entities that might be classified as entities of significant public interest, such as financial institutions, pension funds, etc., the Code would detail the characteristics common to entities of significant public interest. In effect, this would result in an articulation of the characteristics analyzed by the Board in reaching its conclusion that these entities generally had such characteristics. Entities with these identified characteristics would be subject to the additional provisions. The burden would fall on engagement teams to analyze each audit client in terms of the detailed characteristics provided in the Code and to document their conclusions. A clear presumption would exist that any audit client satisfying the criteria in the Code would be considered an entity of significant public interest. Cont'd	DTT	
46.	SPIEs	If the IESBA were to adopt the approach suggested, we believe there would be a number of benefits. First, with the Code including a definition rather than abdicating to member bodies, greater consistency on a global basis could be achieved. Second, applying the additional and more stringent independence requirements to entities that meet the criteria is more justified, rather than subjecting audit clients to such requirements merely because they happen to be certain types of entities. Third, the complexities arising from having to apply different rules to multi-national audit clients is greatly reduced. Including a definition in the Code also benefits those charged with governance of such audit clients as they assess the auditor's independence and the application of the relevant independence standards. Cont'd	DTT	
47.	SPIEs	Although we generally believe that the more stringent independence requirements are appropriate for entities of significant public interest, that view is based on identifying each entity that would be subject to such provisions as being one that is really of significant public interest. We are concerned that if the ED is adopted as proposed, the scope of entities that are likely to be classified as entities of significant public interest will be too broad in many jurisdictions. For example, there are entities in some countries that clearly do not have the characteristics noted above, but would nevertheless be considered entities of significant public interest under the guidance provided in the ED. We believe one could point to examples in a number of jurisdictions where all of the cited examples of entities of significant public interest contained in the ED (i.e., listed entities, regulated financial institutions, pension funds, government-agencies, government-controlled entities and not-for-profit entities) do not meet the criteria set forth above. Cont'd	DTT	

48.	SPIEs	We realize that under the proposal, member bodies can opt for adopting a definition that limits the entities based on the facts and circumstances in their country. However, for the reasons stated above, we do not believe it is desirable to have a plethora of definitions. Moreover, some member bodies may choose to adopt the IFAC Code as drafted, or may be required to do so. Unless the approach described under 1(a) is adopted, which leaves the conclusion as to whether an entity is of significant public interest in the hands of the firm and engagement team (and in some cases, those charged with governance who may oversee auditor independence matters), we strongly recommend that the IESBA not mandate that all of the provisions applicable to listed entities apply to other entities of significant public interest. Because we are concerned that many entities will be subject to these provisions because they fall within the definition of entity of significant public interest while not necessarily evidencing the typical characteristics of such entities, the impact on these entities and smaller firms could be quite significant. This is particularly true with respect to the partner rotation requirements and some of the limitations on non-assurance services. Small companies with more limited resources often use their auditors to provide non-assurance services. The Code recognizes the public policy arguments for greater leniency when it comes to non-listed entities Cont'd	DTT	
49.	SPIEs	In our view, it is not appropriate to pre-judge the types of entities that would be considered entities of significant public interest. It appears that the ED is intentionally drawing a distinction between regulated financial institutions on the one hand and pension funds, government agencies, government-owned entities and not-for-profit entities on the other. Yet the basis for the distinction is unclear. Rather than presume based on unclear criteria that certain entities are more likely to be considered entities of significant public interest than others, we suggest, as noted above, that the characteristics of such entities be described so that engagement teams are able to evaluate any particular entity. Cont'd	DTT	

50.	SPIEs	Among the additional requirements applicable to entities of significant public interest is the provision in paragraph 290.24 of the ED that generally requires auditor independence with respect to such entities' related entities. While this may make sense in some instances, it does not in all cases. For example, in some countries, the number of government-owned entities is significant and the auditors of such entities differ. If the related entity rules are applied in such circumstances, it is likely that the entities will have difficulty finding auditors because many firms will be required to be independent of their clients' related entities. This raises a question as to who is responsible for making the judgment whether independence is required of the audit client's related entities. Since member bodies are not directed to include in their definition the rules governing application of related entity concepts, we presume that the engagement team is required to make such a determination. It seems to us that if the Board leaves the definition in the hands of member bodies, then member bodies should be responsible for providing guidance on the related entities that also need to be treated as entities of significant public interest.	DTT	
51.	SPIEs	We support the general proposition that the independence provisions for listed entities be extended to Entities of Significant Public Interest (ESPI) but would like to see more clarity in the way ESPIs are defined and identified. Cont'd	E&Y	
52.	SPIEs	Regarding the categories of entities that ESPI would include under the new guidance, we believe that the Code would benefit from some alignment with the terminology used in the definition of "publicly accountable entities" made by the IASB in its exposure draft of an IFRS for Small and Medium-sized Entities. In particular, the IFRS exposure draft defines a publicly accountable entity as follows: "*An entity has public accountability if: (a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or (b) it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance entity, securities broker/dealer, pension fund, mutual fund or investment banking entity*". These two categories are similar to the first two categories that are "always included" and "generally included" in the Exposure draft definition of an ESPI. On the other hand, regarding other ESPIs, it would be helpful to clarify that it is also acceptable for member bodies to scope out certain small entities, such as small not-for-profit, from their definition of ESPIs Cont'd	E&Y	

53.	SPIEs	Paragraph 290.24 clearly states that references to an audit client that is a listed entity include related entities of the client while in the case of non-listed entities of significant public interest, references to audit client will, unless otherwise stated, generally include its related entities. It also states that depending on the nature and structure of the client's organization, it may not be necessary to apply the enhanced safeguards referred to above to all related entities of a non-listed ESPI. However, we believe that the Exposure draft does not provide sufficient guidance regarding the factors to be considered when determining when not to apply these enhanced safeguards. Further, we believe that it may be appropriate to explicitly include related entities in certain circumstances, but not in others, for example when considering the complexities of related government entities explained in the paragraph below. Considering the variety of situations and the possible complexity of practical implementation, we recommend that IFAC allows experience to be gained by dealing with non-listed ESPIs on a facts and circumstance basis, and after experience has been gained and best practice identified, issue additional interpretive guidance or an update to the Code of Ethics. Cont'd	E&Y	

54.	SPIEs	Regarding government-agencies and government-controlled entities, it would be useful to have more clarity about how governments (including regional or local governments), ministries, agencies, departments or other companies they control are to be considered in the context of identifying related entities for the purposes of defining the Audit Client. There are a number of practical difficulties that are associated with identifying the related entities of a government-controlled audit client. Firstly, control by a government can be exercised through various structures. For example, it is not unusual in certain jurisdictions to have all government investments being held by one agency or ministry, and the governance and management of such investments directed from another agency. Secondly, materiality measures required in the definition of Related Entity could often be inappropriate or not measurable in this context; in particular, government departments may not publish financial data that is comparable to the financial statements of the audit client. Thirdly, in jurisdictions with a large number of government-controlled entities it can also be onerous to identify other entities controlled by the government. Accordingly, including a government or other entities it controls as related entities may broaden unnecessarily the intended scope of independence requirements and place an excessive burden on the audit firm and the audit client. Paragraph 290.24 already acknowledges that in the audit of a government-controlled entity it may not be necessary to apply the enhanced safeguards to all related entities to maintain independence. We would recommend that the IFAC Code be more specific and state that when a listed or non-listed ESPI audit client has a government or government-controlled related entity, the independence safeguards should only apply to those entities that are directly and actively controlling the audited ESPI, and not to other related government entities that are under common control with the audited ESPI. Cont'd	E&Y	
55.	SPIEs	We understand the role that Member Bodies should have to determine the types of entities that are of significant public interest in their particular jurisdictions. Pending such determination by Member Bodies, we recommend that the Code clarify that accounting firms working with their clients in each country should, in any case, comply with the provisions of this section and make some interim judgment by applying the principles set out in this Section. Cont'd	E&Y	

56.	SPIEs	Another issue to consider in relation to ESPIs, is when an entity which was not previously considered an ESPI becomes of significant public interest. Unlike the situation of a privately held entity that becomes listed at an identified date, the change of status to ESPI could be progressive. It would be very helpful to provide more flexible transition provisions to allow the accounting firm and the audit client to address all areas with stricter independence requirements.	E&Y	
57.	SPIEs	The ED proposes to extend new and existing listed entity independence provisions to all "entities of significant public interest" (ESPI). Rather than specifically defining ESPIs, the IESBA has opted to outline general criteria that might reasonably be expected to characterise an ESPI, while deferring to member bodies to develop detailed definitions (in the absence of an existing local regulatory definition). We recognise the difficulties associated with adopting a single "global" definition but note that the proposed approach might result in disparities in application across the globe, depending on each territory's facts and circumstances. Certainly the existence of numerous definitions of ESPIs, that will likely differ in scope, creates a risk of misunderstanding on the part of relevant stakeholders – audit networks with global reach that must comply with differing cross-border definitions and differing application to client's "related entities", as well as users of audited financial statements who, without uniformity in the definition, will lack a clear understanding of the standards by which accountants maintain their independence in this regard. Further, the proposed approach runs counter to the generally held view that convergence and harmonisation of independence rules/requirements is an important goal that facilitates compliance, enhances understanding on the part of financial statement users, and ultimately best serves the public interest Cont'd	PwC	

58.	SPIEs	We also note the very real possibility that for the sake of simplicity member bodies may apply the additional requirements for ESPI to all entities of public interest, whether significant or not, contrary to the intent of the IESBA, leading to disproportionate regulation. We also observe that presently various territories define ESPI differently and there is no assurance that the IESBA's proposal will bring their definitions closer. On the other hand, we recognise that what is of significant public interest will inevitably vary by jurisdiction and we believe that would be appropriate. Therefore, we recommend that greater emphasis be placed on the importance of "significance," perhaps by additional emphasis on "size" as an important criterion, to limit the extent to which smaller entities are considered to be ESPI. We also recommend that the Board delete the examples (i.e., pension funds, government-agencies, government-controlled entities, and not-for-profit entities) of possible ESPI. The risk in including examples is that they could function as rules that member bodies will feel compelled to follow, or for the sake of simplicity will follow without giving sufficient thought to whether those are the right entities or whether additional entities should be included. Thus, including such examples could result in member bodies exercising less judgment rather than more, which is contrary to the type of behaviour that a principles-based Code should encourage. Further, we are not of a view that the Code should seek to determine, beyond listed and regulated financial institutions, what may be of significant public interest at a local level, nor impose regulation thereon. This is the responsibility of the local jurisdiction. Cont'd	PwC	
59.	SPIEs	Finally, to ascertain that the two objectives we have discussed in this section, that of obtaining as much consistency as possible and giving consideration to country-specific circumstances, have been dealt with by countries in a way that fulfils the objectives of the Code, we recommend that the Board conduct a review of application by member bodies, and the implications thereof, in, say, two to three years and then consider whether further guidance is needed.	PwC	

60.	SPIEs	We believe that it is appropriate for audits of listed entities and those deemed to be entities of significant public interest to be subject to a more demanding standard of ethical behavior as contemplated in the ED. However, we recommend amending the proposed definition of "entities of significant public interest" to specific criteria that clearly indicate direct stakeholder reliance on the financial statements. In order to have a robust principles-based requirement that will be readily understood by the International Federation of Accountants ("IFAC") member bodies in their own deliberations, the wide-range of stakeholders criteria should limit consideration to those who make investing, lending, or other financial decisions based on the audited financial statements. While there are other stakeholders who rely on financial statements, including employees, citizens, suppliers, and others, we believe that IFAC would place an insurmountable implementation burden on its member bodies and professional accountants in practice if the criteria remain all encompassing or loosely defined. Cont'd	Grant Thornton	
61.	SPIEs	The current discussion in the ED of entities of significant public interest includes various terms that need to be better clarified. The term "significant" has too many ongoing ramifications in every member body's jurisdiction so it needs to be clearly developed with terms that are more precise and understandable. Also the phrase "large number and wide range of stakeholders" as well as "stakeholders" should be defined. The ambiguity and lack of clarity in these terms will lead to inconsistent interpretation and ultimately application of the definition and related requirements throughout international member organizations. Cont'd	Grant Thornton	
62.	SPIEs	As stated above, Grant Thornton International does not believe interests that are beyond the financial statements should have any influence on the ethical standards that should apply to an audit of financial statements and would like consideration to be given to amending the criteria set forth in Paragraph 290.22 "that, because of their business, size or number of employees, have a large number and wide range of stakeholders. The extent of the public interest in these entities is significant." We do not agree that a large number or wide range of "stakeholders" necessarily means that "the public" has a significant interest in financial reporting by the entity. For example, an employer-sponsored pension fund may have a large membership yet the financial statements will only be of interest to the fund members and prospective fund members who represent a defined sub-set of the public. Similarly the financial statements of a family-owned company with a large workforce will not be applicable to the public at large, so the enhanced safeguards proposed by the Code will not be necessary or appropriate Cont'd	Grant Thornton	

63.	SPIEs	We suggest the following criteria could be used to identify a reliance on financial statements by the public: • The entity receives and invests money from the general public, which has an interest in its security and/or financial return and has a reasonable expectation that the auditor is independent in fact and in appearance. • The entity receives money from the general public and although a financial return is not expected, those paying money have an interest in how it is utilized. While these criteria could include charities and similar non-for-profit entities and government funded bodies/agencies, the intent would again be to direct reliance on the audited financial statements. Unless one of these entities was national in scope, it would be difficult to assume that there would be a wide range or diverse group of stakeholders who have a reasonable expectation that the auditor is independent in fact and in appearance prior to making a charitable donation. Cont'd	Grant Thornton	
64.	SPIEs	It would be ideal for IFAC 's ethics criteria to be consistent with other existing or proposed standards or regulations. We believe that this will greatly enhance the understanding of the IFAC member bodies in applying these rules. For example, when considering the proposed definition of entities of significant public interest, the Board should reflect on the ongoing initiative of standard setters throughout the world to converge national and global standards. Currently the International Accounting Standards Board's exposure draft titled: *IFRS for Small and Medium - Sized Entities*, defines an entity as having public accountability if: • it has filed, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or • it holds assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity Cont'd	Grant Thornton	
65.	SPIEs	Grant Thornton International believes that certain requirements proposed in the ED are appropriate; however, we think that greater discussion and consideration by the Board is needed regarding the proposed partner rotation requirements and the proposed definition of "key audit partners". Our comments on the specific requirements for entities of significant public interest and key audit partners are discussed in detail in the "Primary issues" section of our comment letter.	Grant Thornton	

66.	SPIEs	We support the extension of the listed entity provisions to entities of significant public interest, provided that sufficient distinguishing criteria are used to prevent smaller and/or insignificant entities being unduly burdened. Less emphasis should be placed on the size of the entity, and more focus should be made on the impact of the entity and who is involved therewith.	SAICA	
67.	SPIEs	We have a very significant concern with the Exposure Draft that the independence provisions for listed entities be extended to Entities of Significant Public Interest (ESPIs). This is very difficult to implement in developing countries. We agree with the fact that the definition should be broadened when considering financial institutions, insurance companies and pension funds, given that the characteristics of these entities justify it, but we consider that the implementation in not-for-profit organizations and government agencies would be extremely difficult. In the case of not-for-profit entities, because most of these entities are small and do not have the sophistication to be able to produce quality financial statements without some level of assistance that would otherwise be prohibited for auditors to provide for listed entities. A very significant concern, aside from services, related to partner rotation, where the firms simply don't have the resources in the relevant market to be able to rotate as proposed. In the case of government agencies and government-controlled entities, we detect difficulties of a practical nature due to the different levels of control which tend to exist and the lack of information or lack of objectivity thereof. Even when the scope of 'significant public interest' is defined by each country may lead to lack of uniformity and arbitrary considerations.	FACPE	

68.	SPIEs	The Explanatory Memorandum states, *"Member bodies may find it useful to consult with those who regulate entities that might be considered to be entities of significant public interest to determine which particular entities should be categorized as such for independence purposes."* We suggest that the language be changed from "may find it useful to consult with those who regulate" to "should consult with those who regulate" in order to avoid potential regulatory nullification. The Explanatory Memorandum also states, *"The IESBA view is that because of the significant public interest associated with listed entities, such entities should always be considered to be entities of significant public interest. Therefore, audits of such entities should always be subject to the enhanced safeguards contained in Section 290."* However, the standards proposed in the Exposure Draft have already been considered by regulators. We repeat our suggestion that the IESBA consider a requirement that the member body consult with the regulator prior to adoption of an independence standard in order to avoid potential regulatory nullification.	NASBA	

69.	SPIEs	The examples of entities of significant public interest should be deleted We appreciate the IESBA's desire to provide member bodies with examples of entities that, depending on the facts and circumstances," are presumed to be, or "may be entities of significant public interest. However, we recommend a more principles-based approach to developing guidance in this area. Under such an approach, the Code should provide the objective that users should aim to achieve and should refrain from providing specific examples, because the examples can too easily be viewed as tantamount to rules that apply despite any qualifying language. In this case, the objective is to identify entities that have "a large number and wide range of stakeholders" and as a result, "the extent of public interest in these entities is significant." The examples, on the other hand, have the potential to reduce the extent to which member bodies will give thoughtful consideration to determining which entities should be included in the scope of the definition. Thus, some member bodies might include all of the entities listed in the examples because they will believe it must be the intent of the IESBA that such entities be included, since they were specifically mentioned as examples. Alternatively, some member bodies might view those examples as absolutes, to the exclusion of any other types of entities that in their jurisdictions fit the description. Either way, critical analysis and thoughtful deliberation is lost. Accordingly, rather than stifling such analysis and deliberation, we recommend deleting the specific examples (e.g., pension funds, government-agencies, government-controlled entities and not-for-profit entities) and inserting additional guidance that emphasizes that the public significance of such entities may differ greatly depending on the regulatory structure and business environment in a particular jurisdiction. Cont'd	AICPA	
70.	SPIEs	If the IESBA decides not to exclude the specific examples, we believe further clarification is needed that makes clear that it is not the intent of the IESBA that the definition of significant public interest entity adopted by member bodies capture small pension funds, small government controlled entities, small government agencies, and small not-for-profit entities, but rather the intent is to capture entities that generally are national in size and scope and thus have a large number and wide range of stakeholders. Many are interpreting the proposal as scoping in smaller entities and because that is not the IESBA's intent, we believe this is an important clarification to make to reduce the extent of confusion over this proposal.	AIPCA	

71.	SPIEs	Our concerns flow primarily from the rules-based approach to defining "entities of significant public interest." By providing specific examples, the proposed standard may introduce problems in application. The examples in the Exposure Draft may have the effect of reducing thoughtful consideration as to whether an entity is one of significant public interest just because it is, or is not, mentioned as an example. If the IESBA decides not to exclude the specific examples, we believe further clarification is needed that makes clear that it is not the intent of the IESBA that the definition of significant public interest entity adopted by member bodies capture small entities. For example, banking regulators in the United States have already determined that the size of an entity is relevant to the independence requirements for banking institutions. As a result, independence requirements of listed entities generally apply only to those institutions with assets in excess of $500 million. We believe the proposed standard should describe the attributes that would cause an entity to be of "significant public interest" rather than list the examples as done in the Exposure Draft.	Wolf	

72.	SPIEs	With regard to the proposals striking a balance between costs to implement and the benefits of objectivity, we believe that you need to consider the following three significant comments that need attention: (A) The definition of Significant Public Interest Entities should be established by each member body at least one year prior to this revision becoming effective in order for auditors and their audit clients to make changes where appropriate and for your organization to determine any significant diversity that may need to be addressed. We strongly disagree with the inclusion of all financial institutions, all pension finds, all Government entities and all not-for-profit entities in such definition. We do not believe that the number of employees is a real indicator of inclusion in the definition of Significant Public Interest entities, and should not be the sole factor of determining inclusion in such definition. Also, stakeholders as described in the exposure draft should not include lenders and others who have the ability to negotiate terms and information to be provided directly with the entity. We recommend that member bodies be given guidelines for including significant entities falling within the categories of financial institutions, pension funds, government entities and not-for-profit entities to be considered of Significant Public Interest. For example (A) highly developed countries may use the following size tests to determine inclusion or exclusion in the definition: (a) Financial Institutions: Assets > $ 500,000,000 are to be included; (b) Pension Funds: Participants > 5,000 and Assets >$100,000.000 are to be included; (c) Government Entities: Assets >$ 100,000,000 are to be included; (d) Not-for-profit entities: The definition should include (1) National not-for-profit organizations within a country who have chapters or local organizations located in the principal cities of that country; (2) Educational Institutions such as colleges and universities that have enrollment of full and part - time students > 5,000; (3) Other not for profit entities having annual revenue >$ 100,000,000. Cont'd	CoCPA	

73.	SPIEs	(B) If the definition of Significant Public Interest Entities is kept at levels approximating those described above we fully support the Rotation of Key Audit Partner (see "other matters"). If the definition includes all financial institutions, all government entities, and all pension funds, then we can not support this rotation since it is unworkable for auditing firms with a limited number of partners and fails to recognize existing safeguards such as the aforementioned pre-issuance concurring review. Many small government entities, pension funds and not-for-profit organizations are currently audited by competent small auditing firms who have placed in operation many safeguards, but will be unable to meet the proposed rotation requirements. We believe these firms should not be compelled to resign from these small clients. We further believe that the client's best interest is not served by being required to be audited by larger firms. We believe that the Board needs to consider the recent history in the United States relating to the imposition of the Sarbanes-Oxley Act. This has resulted in eliminating many small firms from providing needed services to their listed smaller clients and the smaller clients not being able to afford the fees charged by the very large firms or not being considered as an acceptable client to the large firms. This result is an unintended consequence but has caused a severe disruption to smaller clients complying with the provisions of this Act. Several extensions of time to comply with Section 404 (Internal Controls Audit) have been granted but this continues to be a source of concern to the SEC. We hope the IFAC can avoid similar results in the implementation of these new provisions. Cont'd	CoCPA	
74.	SPIEs	(C) We believe that unintended consequences will result from requiring the definition of Significant Public Interest Entities to become effective at too low a threshold. This could have the unintended consequence of forcing all smaller accounting firms in a given country to consider resigning from all audit clients since they cannot comply with this new IFAC Standard. The cost of this unintended consequence might be immeasurable, but definitely expensive to the client companies because of the higher fees that would have to be paid to larger firms and the cost of disrupting the continuity of service. In addition, if smaller audit firms discontinue their audit practice and large firms take over these clients; these clients will not receive the same quality of attention from the larger firm.	CoCPA	

75.	SPIEs	The public significance of entities may vary greatly depending upon regulatory structures and business environments in differing jurisdictions. Accordingly, we support the AICPA recommendation to replace the specific examples of entities of significant public interest with more principles-based guidance on how such an entity is defined. The specificity of a rules-based approach would encompass entities not intended by the Board (such as entities of smaller size,) and could permit the threat of the creation of structures for the sole purpose of avoidance of the rules The decision to extend listed entity requirements to non-listed regulated entities should be evaluated on a cost/benefit basis. Cost factors and threats to independence may differ in different jurisdictions and based upon differing regulatory structures; therefore, we support the AICPA recommendation to allow member bodies, working with their regulators, to determine whether such requirements would be appropriate in their jurisdictions and achieve an appropriate cost/benefit balance. Partner rotation requirements should not be mandated for non-listed entities. We cannot emphasize strongly enough the disruptive effects to clients, and the resulting decrease in audit quality. By effectively requiring firm rotation for smaller firms, the costs of disruption would be magnified. In addition to the added costs and likely quality reduction resulting from this provision, it would also lead to further constriction in the marketplace of firms eligible to audit public interest entities. We wholeheartedly support the AICPA recommendations to provide for the use of alternative safeguards to partner rotation.	OCPA	
76.	SPIEs	Our concerns flow primarily from the rules-based approach to defining "entities of significant public interest" By providing specific examples, such as "government agencies" and "not-for-profit entities," the proposed standard may introduce problems in application. These examples may have the effect of reducing thoughtful consideration as to whether an entity is one of significant public interest just because it is, or is not, mentioned as an example. An entity may still have a large number and wide range of stakeholders and not be included in the list of covered entities. Another problem may arise as practitioners view the list of examples as all-inclusive or applicable to all entities within the categories set forth without regard to size. We believe the proposed standard should describe the attributes that would cause an entity to be of "significant public interest" rather than list the examples as done in the Exposure Draft.	MaCPA2	

77.	SPIEs	There is support for the provisions for listed entities to be extended to include 'entities of significant public interest'. All of the listed entity provisions should be applied to all entities of significant public interest – not just listed companies. CGA Alberta membership has voiced concerns about including all Not-for-Profit organizations as entities of significant public interest. Not-for-Profit organizations range in their fiduciary responsibilities. In Alberta we have both the national charity organizations and the small neighborhood sporting leagues. The one size-fits-all approach would result in undue hardship to some of these organizations. There are large numbers of small agencies, Not-for Profit, etc who do not have the in-house resources to deal with their own calculations, preparation of year-end entries and disclosures; these entities should not be unduly burdened with having to retain additional professionals in order to satisfy the independence requirements. Since the IESBA has concluded that member bodies should determine the types of entities that are of significant public interest in their particular jurisdiction there is still a need for some guidance. It should be made very clear that there is no intention to include all Not-for-Profit, government agencies and pension funds.	CGA - Alberta	

78.	SPIEs	On behalf of our firm, Hogan - Hansen, PC and as the managing partner of the firm, I am submitting our absolute disagreement with and overwhelming concern with the proposed independence proposal with respect to rotation of audit partners on audits of "significant public interest". Our firm consists of several partners, but each has a specific skill set and expertise. This proposal, if passed, would have a significant adverse effect on our practice and the local governments, not for profit entities and employee benefit plans that we audit since we would not be able to rotate in and out different partners with the expertise to oversee the conduct of these audits. Implementation of this proposal in its current form would have a significant financial impact on our firm, as well. I find it very troubling that rule setting bodies in our profession continue to move closer and closer to removing all judgment from those of us in the profession who are actually doing the work, and moving it to those that make the rules from a theoretical perch somewhere removed from the real world. If there is a problem with independence in this specific situation, fix it with improved peer review or other quality controls and stop assuming that the work of a few practitioners who shouldn't be in the profession in the first place are indicative of the work being done by the vast majority of us who are professionals, who take the ethics rules very seriously and are doing our best to serve our clients and the public, where applicable.	Hogan Hansen	
79.	SPIEs	We have been proactive in promoting high ethical standards amongst our members in performing audits. In our opinion, audit independence is very important among all ethical standards. However, there must be separate considerations when applying such standards to auditing of entities that are small, medium and large in size. One of the critical factors for independence determination is whether the entity is of significant public interest. Section 290.22 of the exposure draft indicates that "Entities of significant interest are listed entities and certain other entities that, because of their business, size or number of employees, have a large number and wide range of stakeholders." We have no objection to the point that listed entities are of significant public interest. We agree the observations and suggestions in the explanatory memorandum that in jurisdictions where entities are governed by local laws and regulations, the determination of significant public interest should be dependent on the requirements of the local laws and regulations. However we consider that determination of whether other entities would have significant public interest could be subject to controversy. Nevertheless, please refer to the attached Appendix on our comments on the term "Significant Public Interest". Cont'd	SCAA	

80.	SPIEs	It is not appropriate. In particular, the International Accounting Standard Board ("IASB") also concluded that it is "pre-mature" to define some similar concepts at that stage. a. There is no international consensus on whether the entities to be covered by "significant public interest" should be referred to by using this term or another term, say "public accountability", which is the term being discussed by the IASB. The terms of "significant public interest" and "public accountability" seems to refer to the same concept but the terms are not the same. • Should ethical requirements refer to the same term as the one of the accounting standard has proposed? • Should ethical requirements refer to "public accountability" instead of "significant public interest"? Cont'd	SCAA	
81.	SPIEs	Further discussion, clarification and definition of "significant public interest" are required. While the IASB is studying the term "public accountability" under its project on small and medium-sized entities (SMEs), such term should share the similar scope and definition of "significant public interest". However, the IASB had stated in its IFRS 8 (issued in November 2006) that it was pre-mature to adopt the proposed definition of "public accountability" that is being considered in such separate project. For details, please refer to IFRS 8.BC18 to IFRS 8.BC23. In other words, the IASB with extensive study has even not able to define "public accountability" so far. • Is there the same situation for "significant public interest"? • Is it also pre-mature to adopt the proposed definition of "significant public interest"? • Should the IESBA determine and conclude even before the IASB has hesitation to have such conclusion yet? • If the IASB finally adopts the term "public accountability", in order to achieve consistency, should the IESBA adopt a different term to cover some similar entities? Cont'd	SCAA	
82.	SPIEs	Instead, while there is no international consensus, "size" as compared to its business, size or no. of employees and range of stakeholders should be considered as the most critical issues in determining the "significant public interests" (if criteria must be set). However, it is not considered and emphasized in the proposal. The term "significant" should refer to "size" precisely.	SCAA	

83.	SPIEs	However, having considered the proposals as drafted, our principle concern is that we are determining the independence requirements relating to "Entities of Significant Public Interest" (ESPIs) before we fully understand what is meant by ESPIs. Entities that might be classified as ESPIs can range from entities that are clearly of significant public interest such as listed companies to entities where the public has an interest, such as charities and schools, but the public interest may not be classified as significant Cont'd	HKICPA	
84.	SPIEs	If ESPIs are limited to listed entities and regulated financial institutions such as banks and insurance companies, the proposals as drafted appear acceptable. At the other end of the spectrum, if ESPIs are extended to include all regulated entities such as charities, schools and accounts of owners' corporation of buildings, there are concerns as to whether the proposals as drafted would be in the public interest and provide benefits to the public when compared with the additional costs to such entities. By way of background, all companies incorporated in Hong Kong are subject to a statutory audit and there are currently approximately 600,000 such companies with approximately 1000 being listed companies and the rest primarily private SMEs. Furthermore, approximately 83% of the accounting firms in Hong Kong are sole practitioners with another 13% having only two partners. Cont'd	HKICPA	
85.	SPIEs	The process in the present Exposure Draft requires that we should consider the independence requirements first without clarifying the application of the proposed definition of ESPIs. The consequence of this is that the HKICPA will need to develop a consultation paper (which will take at least twelve months to complete the due process) to identify those entities that should be classified as ESPIs in Hong Kong. We are of the view that determining independence requirements first may distort the later determination of ESPIs. For example, extensive requirements imposed on ESPIs may encourage misclassification of "real" ESPIs as non-ESPIs. Cont'd	HKICPA	

86.	SPIEs	We understand that the significant modifications to the Code in the proposed Exposure Draft that are expected to affect accountants in Hong Kong include: • Introducing a new term - "key audit partner" which is to include lead partners on significant subsidiaries or divisions who are responsible for key decisions or judgements on the financial statements on which the firm will express an opinion; • Extending the partner rotation requirements to all key audit partners on an audit of an ESPI; and • Updating requirements related to the provision of non-assurance services, including setting out additional guidance on the provision of tax services to audit clients. Without a clear understanding of which entities are ESPIs, it is difficult to determine all the practical consequences of the proposals. Concerns have been raised as to the ongoing divergence from a principles-based system towards a more rules-based approach by the impact of forced rotation of key audit partner (which would lead to firm rotation for smaller firms), and also the delineation of tax and audit services, in areas where this may substantially raise the costs to the entity receiving such services. Cont'd	HKICPA	
87.	SPIEs	We would also, without prejudging the outcome of our consultation paper on what should be an ESPIs, request IESBA to consider carefully the practical business and economic consequences of a more rules-based regime on small businesses and not-for-profit enterprises if a strict definition of ESPIs is to be applied to entities such as charities and schools. We are reluctant to support increases in the costs to such entities unless the benefits can be clearly seen to outweigh the costs.	HKICPA	
88.	SPIEs	Yes, generally in principle it is appropriate to extend all of the listed entity provisions to regulated financial institutions such as banks and insurance companies. However, we consider that it is premature to comment on extending the listed entity provisions to ESPIs until ESPIs are clearly defined. Whilst we understand that each jurisdiction will decide on what it considers to be an ESPI, we find it difficult and impractical to fully consider the proposals in the Exposure Draft and determine all the practical consequences without an agreed understanding of what is an ESPI. The HKICPA will need to develop a consultation paper (which will take at least twelve months to complete the due process) to identify those entities that should be classified as ESPIs in Hong Kong. Cont'd	HKICPA	

89.	SPIEs	Furthermore, we note that the International Accounting Standards Board (IASB) has recently introduced a term "public accountability" in its Exposure Draft of IFRS for Small and Medium-sized Entities (SMEs). An entity has public accountability if: • It has issued debt or equity securities in a public market; or • It holds assets in a fiduciary capacity for a broad group of outsiders, such as bank, insurance company, securities broker/dealer, pension fund, mutual fund, or investment bank. We would strongly recommend that all international standard setters – IESBA, International Auditing and Assurance Standards Board and IASB work closely together and develop a consistent definition of what is an ESPI and what is an entity with public accountability. In the basis of conclusions in IFRS 8 *Operating Segments*, the IASB indicated that it was premature to adopt the proposed definition of public accountability that is being considered in the exposure draft of IFRS for SMEs. Cont'd	HKICPA	
90.	SPIEs	Rather than introducing the notion of ESPI at this time, we recommend that the IASB align the "significant public interest" notion with the "public accountability" notion of IASB. Once the appropriate term and its scope have been developed, it can then be promulgated consistently through all the standard-setting literature. It is extremely hard to comment on the term ESPI, and its implications, before there is a common and well-understood term in place. In addition, we would recommend that IESBA makes some positive statements as to which entities are not ESPIs so that regulators can more clearly distinguish ESPIs and other entities. This could be achieved by providing some guiding principles for the development of more specific criteria. Central to this is deriving a suitable "public interest" test to be applied when considering the requirements. We are particularly concerned that the ESPI concept risks embracing many smaller not-for-profit entities and burdening them with inappropriate compliance costs.	HKICPA	

91.	SPIEs	Extending requirements for audits of listed entities to audits of all entities of significant public interest is considered to be appropriate. At present, audits of entities considered to be significant public interest in Thailand, except listed entities, are under the supervision of related Thai government agencies, in addition to the requirements as indicated in the Code of Ethics for Thailand's professional accountants However, in our opinion, a clear definition of "entities of significant public interest" should be more elaborated, and if possible, certain criteria for defining entities of significant public interest should be established.	FAP	
92.	SPIEs	We agree with the IESBA's decision to extend all of the listed entity provisions to entities of significant public interest. We also agree with the IESBA's view that regulated financial institutions would normally be entities of significant public interest and pension funds, government agencies, government owned entities and not-for-profit entities may be entities of significant public interest. In addition, we fully support the flexibility in the ED for each jurisdiction to determine, based on the facts and circumstances, which entities should be considered to be entities of significant public interest in that particular jurisdiction.	KICPA	
93.	SPIEs	Our first main concern deals with the proposals for Entities of Significant Public Interest ("SPIES") and, in particular, the definition of SPIES and the application of certain rules, such as partner rotation, to all SPIES. The Concern: It is proposed that all listed entity provisions will apply to all SPIES. The definition of SPIES is left to member bodies, presumably in consultation with local regulators, where SPIES are not otherwise defined by law or regulation. However, the IESBA is of the view that, because of the significant public interest associated with listed entities, all listed entities will always be SPIES. Cont'd	CICA	

94.	SPIEs	In addition, the current Code provides an exception to the partner rotation rule when a firm has only a few people with the necessary experience and knowledge to do the audit. The IESBA believes there are no safeguards that could counter this familiarity threat. Accordingly, the exposure draft requires rotation of key audit partners after seven years on audits of all SPIES. The combination of the above two changes will lead to consequences which we believe are not in the public interest, as follows: • Enforced "firm" rotation (not partner rotation) if the existing audit firm does not have the requisite number of partners, with the negative consequences that firm rotation entails; • Increased concentration of audits of SPIES in larger firms; • Lack of availability/choice of audit firms in some markets; • Forcing small entities classified as SPIES to have multiple suppliers of services, which may not be possible or in their best interest. Cont'd	CICA	
95.	SPIEs	We noted that the Exposure Draft does not contain a definition of "public interest" and there is no explanation for the conclusion that all listed entities will be SPIES. We would suggest that "public interest" should not be exclusively defined at the global level. The final determination of what is in the public interest should be made locally having regard to the circumstances of the local capital market and the public whose interest is to be protected. The determination of what is in the public interest is ultimately the responsibility of elected local governments and the local regulators who act on their behalf. Cont'd	CICA	

96.	SPIEs	We noted that the Exposure Draft does not contain a definition of "public interest" and there is no explanation for the conclusion that all listed entities will be SPIES. We would suggest that "public interest" should not be exclusively defined at the global level. The final determination of what is in the public interest should be made locally having regard to the circumstances of the local capital market and the public whose interest is to be protected. The determination of what is in the public interest is ultimately the responsibility of elected local governments and the local regulators who act on their behalf. There are capital markets in the world, including Canada, where there are many very small listed entities. The Canadian CA profession in consultation with local regulators determined that it would be in the public interest to create a size test to exclude from the "listed entity" category those small listed entities. In doing so, it was noted that: 1. While over 90% of the listed entities in Canada are audited by the six largest firms, the balance is comprised largely of small entities that are typically audited by smaller local firms. Those small entities may be located in areas where the larger firms do not have the requisite presence. Further, and most importantly, these small entities do not have the sophistication to be able to produce quality financial statements without some levels of assistance that would otherwise be prohibited for auditors to provide for listed entities. A very significant concern, aside from services, relates to partner rotation, where the firms simply do not have the resources in the relevant market to be able to rotate as proposed. 2. With the smaller listed entities the accounting and auditing issues tend to be less complex with the result that threats to the auditor's independence will be fewer and less likely to be compromising.	CICA	

97.	SPIEs	Possible Solution: We would request that the IESBA consider the following solution to our concerns although, due to the views of local regulators, the application of the solution may vary by member country. Our solution would be for the IESBA to acknowledge that in defining SPIES in each member country, it is expected or understood that a size test geared to the specific parameters in that territory, and developed in conjunction with local regulators, would be acceptable. Such a size test would apply to all SPIES, not just unlisted SPIES. As noted above, this solution has been found to be viable in Canada. In addition, if a member country did not wish to apply a size test to all SPIES, it should be possible, with the agreement from local regulators, to exclude some of the specific additional restrictions from applying to SPIES. For example, member countries could be given the flexibility to retain the existing rule which provides an exception to the partner rotation rule when an audit firm has only a few people, provided there are appropriate safeguards in place. Cont'd	CICA	
98.	SPIEs	By acknowledging that some flexibility in the application of the rules to SPIES is expected and acceptable, and by acknowledging that different member countries will need different forms of flexibility (due to the make-up of the local market, the views of local regulators and the unique aspects of unlisted SPIES in the particular country), the provisions applying to SPIES will be effective, will meet the objectives of the IESBA and not have the consequences noted above. As a final comment on SPIES, a concern was brought to our attention that the wording of proposed paragraph 290.23 may not make it absolutely clear that all listed entities will always be considered to be SPIES in those situations where SPIES are defined locally by law or regulation. We would suggest that the wording style in the first sentence of the last full paragraph on page 9 of the Explanatory Memorandum is clearer in this regard.	CICA	
99.	SPIEs	Furthermore, we also believe that as regards small listed entities, which are very common in small or developing countries, the additional requirements are not proportional on a cost-benefit basis and a certain minimum of size has to be considered for qualifying as an ESPIs.	FACPE	

100.	SPIEs	APESB notes that ED 290/291 proposes to introduce the concept *of Entities with Significant Public Interest* and to extend the application of the independence provisions to these entities whereas previously it only applied to audits of listed entities. As this definition will capture government and government sector entities there will be country specific laws and regulations mandating who will perform audits of these entities. For example in Australia, most of the government sector audits are performed by the Commonwealth Auditor General or State Auditor Generals. The ED 290/291 does not provide guidance on how this may be applicable in the public sector where in most cases partner rotation may not be possible due to legislative requirements. APESB notes that in the absence of a country specific legislative definition, the IESBA has left it open for each member body to determine the entities that fall within the definition of "Entities with Significant Public Interest". However, the above issue would be common to most member countries and it may be worthwhile to consider a general exclusion for public sector entities, where there are legislative requirements.	APESB	
101.	SPIEs	In particular we support …recognition that the definition of significant public interest entities should be left to regulators and/or members bodies to define within their particular jurisdictions. We agree that significant public interest entities should always include listed entities. We trust that regulators/member bodies will ensure that significance is to be measured at a national, rather than a local level, to ensure that very small entities are not included.	ICAS	
102.	SPIEs	Yes, though see our comments under the heading Significant Proposals Identified in the Explanatory Memorandum on whether all of those provisions should apply to ESPIs.	ACCA	

103.	SPIEs	We agree with the extension of specific listed entity requirements to other entities of significant public interest (ESPIs). We also agree that it would be inappropriate for the IESBA to provide a detailed definition of what sort of entity should be regarded as an ESPI, to any greater extent than is included in the exposure draft. We are nevertheless concerned about the extent to which related entities may be brought in for non-listed ESPIs. More consistency in the definition of ESPIs is required in order to minimise member body differences. Failing that, dealing with an ESPI that is based in one country with a subsidiary in another country will be a challenge if it is not a ESPI in the parent country and vice versa.	ACCA	
104.	SPIEs	We agree with the extension of listed entity requirements to entities of significant public interest ("ESPI"), since there exists a wider range of stakeholders and it is reasonable to assume that threats to independence take on a higher significance. We agree that it would be impractical for this term to be tightly defined as an all-inclusive list and favour a principles-based approach. However, we do not believe that the construction of paragraph 290.23 is helpful. We believe that by including such a list of examples, there is a real danger that this will be interpreted by some bodies and regulators as rules. This could result in the unfortunate side effect of both including entities needlessly and potentially excluding entities that should rightly fall within the definition. This is particularly significant given the number of absolute prohibitions that relate to ESPIs. We recommend that the final sentence of paragraph 290.23 is deleted, leaving paragraphs 290.22 and 290.23 containing a description of attributes demonstrated by a significant public interest entity as the definition. We believe that the member professional accounting bodies are best able, with these described attributes, to establish the appropriate framework to adequately define ESPIs for each jurisdiction	BDO	

105.	SPIEs	Some members of our Board are uncomfortable with the concept that there could be differing levels of independence and feel that one is either independent or one is not. We note that there are three areas where there are differing requirements for these entities: ▪ Employment with audit clients In this section, the requirement is that there be a stand-down period before a key audit partner joins a client as a director or officer of an entity of significant public interest or in a position to exert significant influence over the preparation of the entity's accounting records. For other entities, safeguards such as modifying the audit plan or assigning an audit team that is of sufficient experience in relation to the individual who has joined the client or having an independent review are suggested (i.e. no stand-down). ▪ Long association of senior personnel Key audit partners are required to be rotated off the audit engagement after seven years in respect of the audit of entities of significant public interest. For other entities, the requirement is for the significance of the threat to be considered and safeguards applied when necessary. One of the safeguards mentioned is rotating the senior personnel off the engagement. The other safeguards are having another person, not a member of the audit team, review the work or having regular independent internal or external quality reviews of the engagement. ▪ Provision of certain non-assurance services For certain types of services, there are more stringent requirements in relation to entities of significant public interest. For example, a firm is not permitted to provide accounting and bookkeeping services or prepare financial statements on which the firm will express an opinion. In all of these cases, particularly the preparation of financial statements, it is difficult to see the justification for allowing it for one entity and not another Cont'd	ICANZ	

106.	SPIEs	However, if it is accepted that there should be an extension of some of the provisions, then we would support widening the application beyond listed entities. When the PPB adopted the previous section 290 of the International Code of Ethics, we extended the provisions to apply to "issuers" as defined under New Zealand legislation2. We can also see the merit in including certain public sector entities, but there may be practical difficulties in appropriately defining which. *Would the following normally be entities of significant public interest?* • *Regulated financial institutions* Yes • *Pension funds* Yes • *Government agencies* Yes • *Government owned entities* Not all. In New Zealand some government owned entities are extremely small, for example rural schools and it is unlikely that these entities could be said to be of *significant* public interest. • *Not-for-profit entities* Not all. Size may be a factor here as the not-for-profit sector is extremely diverse. For example, local sporting or cultural groups may have only a small number of members and small annual income. Again, such entities could not appropriately be described as having *significant* public interest.	ICANZ	

2 Section 4, Financial Reporting Act 1996 states:
(1) In this act, issuer means:
(a) Every person who has, whether before or after the commencement of this Act, allotted securities pursuant to—
(i) An offer for which, or for which but for an exemption granted by the Securities Commission pursuant to section 5 of the Securities Act 1978, an investment statement or a registered prospectus, or both, is or was required under that Act (other than an offer of a unit in a unit trust); or
(ii) An offer required to be contained in a prospectus required to be registered under the Companies Act 1955,—
whether or not the securities allotted are securities of the same type as the securities offered:
(b) Every manager of a unit trust (within the meaning of section 2 of the Unit Trusts Act 1960) in which securities have been allotted, whether before or after the commencement of this Act, pursuant to an offer of securities to the public within the meaning of the Securities Act 1978:
(c) Every person who is a party to a listing agreement with a stock exchange in New Zealand and who has issued securities which are quoted on such an exchange:
[[(d) every insurer to whom Part 10 of the Injury Prevention, Rehabilitation, and Compensation Act 2001 applies.]]

107.	SPIEs	(i) It is logical to include the provisions of listed entities to all entities of significant public interest. (ii) All listed entities and their subsidiaries also should be considered as significant public interest entities.	ICAIndia	
108.	SPIEs	Yes, it is appropriate to extend all of the listed entity provisions to entities of significant public interest as this ensures that regardless of size, the make up of stakeholders will ultimately be considered when determining the applicability of the code.	ICAP	
109.	SPIEs	The Institute supports the International Ethics Standards Board for Accountants (IESBA) proposal to extend all of the listed entity provisions to entities of significant public interest. The Institute is of the view that this move will promote and enhance objectivity and independence. However, it should be noted that in many jurisdictions, the government plays an active role in the economy and may have interest in many economic entities, such as state economic development corporations and investment agencies, etc. Where such government owned or controlled entities are regard as entities of significant public interest, the proposed extension of all the listed entities provisions to these entities would be overly restrictive for such entities. The general principle of independence in the IFAC Code of Ethics is sufficient to address any threats to independence in respect of such entities. Therefore, the Institute is of the view that reasonable flexibility should be given to government owned or controlled entities stated above. In most of the jurisdictions, regulated financial institutions are entities of significant public interest whereas other entities like government owned entities and agencies may be entities of significant public interest. The Institute is agreeable that the classification of these entities needs to be on a case to case basis and depending on the local environment of each jurisdiction.	MIA	

(2) Every registered bank (within the meaning of section 2(1) of the Reserve Bank of New Zealand Act 1989) that has allotted securities to the public within the meaning of the Securities Act 1978 is an issuer for the purposes of this Act.

110.	SPIEs	We disagree with IESBA's conclusion that it is impracticable to develop a single definition of an entity of significant public interest that would have global application and be suitable in all jurisdictions. One example of an existing definition of comparable term is the recently developed definition of 'public interest entities', which will be applied in the 27 different jurisdictions of the European Union. 2, 3 2 The European Commission 's (EC) definition is as follows: '"public-interest entities' means entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC, credit institutions as defined in point 1 of Article 1 of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions and insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC. Member States may also designate other entities as public interest entities, for instance entities that are of significant public relevance because of the nature of their business, their size or the number of their employees." 3' Per article 2.13 of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/ 660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC. Cont'd	Basel	
111.	SPIEs	A principle difference (ie of interest to banking supervisors) between the EC's definition and the one proposed in paragraphs 290.22 and 290.23 of the exposure draft is related to a regulated bank's status as an entity of significant public interest. The EC's definition always includes regulated banks as an entity of significant public interest; however, the IESBA's draft guidance states that banks will `normally' be considered as entities of significant public interest. The Committee believes that public interest entities should always include regulated banks even when some of these regulated banks would not have a large and a wide range of stakeholders' (see the EM). The fact that regulated banks accept money from the public and have a pivotal role in the economy (eg payments services and loans) justifies that these organisations should be considered entities of public interest. We strongly recommend that the IESBA take the same approach as the European Union.	Basel	

112.	SPIEs	We agree that it is appropriate to extend the key audit partner rotation provisions to entities of significant public interest. We also agree that engagement quality control review should be extended to entities of significant public interest. These are quality control measures and can be readily distinguished from the new differential independence provisions that are proposed in the Exposure Draft. We consider that it is inappropriate, as a matter of principle, for the Exposure Draft to establish different independence provisions - particularly in respect of the provision of non-assurance services to audit clients. Instead, we would prefer that the Exposure Draft emphasize that the standards of independence apply equally to all audits. We have also raised our concerns with the differential independence proposals in the Exposure Draft in the covering letter.	CAGNZ	

113.	SPIEs	We generally support the extension of the ESPI definition to include financial institutions but are concerned that smaller entities, especially not-for-profits, governmental organizations and pension funds, may be unduly burdened. For this reason, we welcome the addition of size criteria to the guidelines for determining whether an entity is ESPI or not. See paragraphs 36-42 above for more details…. We generally support the idea of introducing the notion of an ESPI and differentiating many of the requirements according to whether the client is an ESPI or not. While the threats are similar for all entities, their magnitude varies according to the nature of the client. Differentiation enables some degree of tailoring and devising appropriate safeguards and prohibitions to address them. We also concur with the IESBA in not providing specific 'bright-line' criteria for determining what constitutes an ESPI. We agree with IESBA that this is best left to national jurisdictions. The rationale for using a differential approach is based on the fundamental differences between ESPI and other entities. While we agree with a differential approach based on ESPI we have various suggestions. First, we note increased use of the public interest/accountability concept to differentiate entities and corresponding requirements in international standards. We would encourage all international standard setters – IESBA, IAASB and IASB3 – to adopt a common descriptor and supporting criteria for ESPI. There is considerable merit in harmonizing these concepts and their definitions since it should enhance consistency of reporting and assurance treatment for like entities. Cont'd	SMP/DNC	

3 In its proposed International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) the IASB is proposing to differentiate on the basis of public accountability, a concept which is presently defined in a similar, but not the same, way as ESPI.

114.	SPIEs	Second, while we recognize that precise scope definitions are best made at national level so as to ensure compatibility with the local circumstances, we wonder whether the IESBA should make some positive statements as to which entities are *not* ESPI so that regulators can more clearly distinguish ESPI and other entities. This could be achieved by providing some guiding principles for the development of more specific criteria at national level. Central to this is deriving a suitable "public interest" test to be applied when considering requirements. This test could comprise 4 basic criteria: ensure access to practitioners that have the requisite experience and knowledge, and are independent; preserve audit quality; avoid imposing unnecessary costs to the entities and wider society; and facilitate timely and accurate financial reporting. Third, in addition to, or as part of, providing a definition of a non-ESPI, the existing qualitative criteria for determining ESPI could be supplemented with some principle-based quantitative criteria. We interpret the ESPI principle in its broadest sense including the wider economic impact through, for example, the employment supported by the entity and the transaction with customers, rather than just the financial impact on capital market participants. The principle-based quantitative criteria could include a combination of size criteria based on, say, profit, assets and turnover, perhaps related to GDP per capita and/or other developmental indices, as well as employee numbers. Nevertheless, it is important that the Code only includes high level principles and that individual jurisdictions develop the detailed criteria. Cont'd	SMP/DNC	

115.	SPIEs	Such guidance for principle-based quantitative criteria should be designed so as to ensure that larger unlisted entities are captured within the scope of ESPI as well as ensure more consistent application of the public interest/accountability principle from country to country. The guidance could also be used to give certain jurisdictions, in particular, developing and emerging economies with large numbers of smaller listed entities, the flexibility to exclude smaller listed entities with few outside investors from the ESPI net, subject, perhaps, to fulfilling certain conditions, such as obtaining approval to do so from those charged with governance of the entity. One could differentiate listed entities on the basis of whether the entity is listed on a secondary or over the counter market rather than using size criteria. Fourth, we suggest the concept of differentiating on the basis of ESPI be applied more widely and consistently throughout so that there is differential treatment across more areas, especially in the provision of many non-assurance services, as explained below. In effect, this would amount to a "think small first" approach with certain basic requirements applicable to all circumstances and the application of additional provisions to ESPI. This should result in a favorable cost-benefit for clients of all sizes. Cont'd	SMP/DNC	
116.	SPIEs	Finally, we are concerned that the ESPI concept risks embracing many smaller not-for-profit entities and burdening them with unnecessary compliance costs. Non-governmental organizations (NGOs) as a large group of not-for-profit entities can be regarded as being of significant public interest, though this is more in terms of ensuring accountability to the general public than accountability to financial stakeholders. Many NGOs, especially smaller ones and/or those in developing nations, are run on extremely low overheads either by necessity in order to survive and/or by design so as to maximize public benefits. These organizations will face great difficulty paying for the increased cost of services likely to result from the proposed new rules. A more difficult environment for NGOs is clearly not in the public interest. Hence, size criteria could exempt smaller NGOs from the ESPI net. Alternatively, not-for-profit entities could be explicitly excluded from the definition. Similar arguments could be employed to exempt small charities, small pension funds and small government organizations from the ESPI.	SMP/DNC	

117.	SPIEs	Finally, we note that in respect of ESPI a number of approaches seem to be taken for different parts of S290 including outright prohibition, prohibition if material, prohibition if material and subjective, and the same provisions as for other entities. This raises many questions including whether there should be a general or category-by-category approach and whether there should be differential approaches to different sizes and types of client. We suggest consideration be given to weighing up the case for different approaches against the implications this has for understandability and clarity to the end user. A more consistent approach, while having some theoretical flaws, may ultimately deliver larger benefits	SMP/DNC	