

Definitions of Listed Entity and Public Interest Entity – Strawman Draft

Note to IESBA CAG Representatives

This strawman draft is to illustrate how the Task Force's views might be incorporated in the Code and it is not intended that CAG Representatives provide drafting comments during the March 2020 meeting.

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

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400.8 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements in which there is a significant public interest. The purpose of these additional requirements and application material is to enhance confidence in such financial statements through enhancing confidence in the audit of those financial statements. ~~Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:~~

- ~~• The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.~~
- ~~• Size.~~
- ~~• Number of employees.~~

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Significant Public Interest Entities

R400.13 For the purposes of this Part, a firm shall treat an entity as a significant public interest entity when it falls within any of the following categories:

- (a) An entity whose shares, stock or debts are publicly traded
- (b) An entity one of whose main functions is to take deposits from the public
- (c) An entity one of whose main functions is to provide insurance to the public
- (d) An entity whose function is to provide post-employment benefits
- (e) An entity that pools money from the public to purchase shares, stock and debts

(f) An entity specified as such by law or regulation

R400.14 Firms shall have regard to law or regulation which provide more explicit definitions of the categories noted in paragraph R400.13 (b) to (e), for example by reference to the legislation under which such functions are performed.

R400.15 As an exception to paragraph R400.13, a firm shall not treat an entity as a significant public interest entity when in accordance with law or regulation:

- (a) The financial statements of that entity are not subject to audit;
- (b) The financial statements of that entity are not made available to [stakeholders]; or
- (c) That entity is specified not to be a significant public interest entity.

400.15 A1 When terms other than significant public interest entity (such as public interest entity or listed entity) are used in law or regulation to achieve the objective set out in paragraph 400.8, such terms are regarded as equivalent terms.

R400.16 A firm shall determine whether to treat additional entities as significant public interest entities. When making this determination, the firm shall take into account whether a reasonable and informed third party would be likely to conclude such entity should be treated as a significant public interest entity. Factors to consider might include:

- Whether the entity has been specified as not being a significant public interest entity by law or regulation
- The number and range of stakeholders impacted by the entity's financial condition
- Whether the entity or other stakeholders requested the firm to treat the entity as a significant public interest entity
- The entity's corporate governance arrangements, for example whether those charged with governance are distinct from the owners or management.

R400.17 A firm shall [publicly disclose in the audit report that an audit client was treated as a significant public interest entity **To be discussed with IAASB**].

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Related Entities

R400.20 As defined, an audit client that is a significant public interest entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Public interest entity	(a) A listed entity; or (b) An entity: (i) Defined by regulation or legislation as a public interest entity; or (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator. Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.
Significant public interest entity	This term is described in paragraphs R400.13 and R400.15