

Definitions of Listed Entity and Public Interest Entity – Proposed Revised Text (Mark-up from ED)

This Agenda Item should be read in conjunction with **Agenda Item J-2** which contains a summary of the significant comments received to the Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), and the Task Force's responses to these comments.

Changes made to the ED are in **track changes**.

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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Public Interest Entities

400.8 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

400.9 ~~Factors to consider in evaluating~~ the extent of public interest in the financial condition of an entity will depend on factors including:

- The nature of the business or activities, such as taking on financial obligations to the public as part of an entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.910 Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of

~~the public interest in the financial condition of the entity.~~ The purpose of these requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in their entity's financial statements ~~through enhancing confidence in the audit of those financial statements that can be used when assessing the entity's financial condition.~~

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Requirements and Application Material

General

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Public Interest Entities

R400.154 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public;
- ~~(d) An entity whose function is to provide post-employment benefits;~~
- ~~(e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or~~
- (d~~f~~)** An entity specified as such by law, ~~or~~ regulation or professional standards to meet the objective purpose set out in paragraph 400.109.

400.154 A1 When terms other than public interest entity ~~(such as listed entity)~~ are applied to entities by law, ~~or~~ regulation or professional standards to meet the objective purpose set out in paragraph 400.109, such terms are regarded as equivalent terms. However, if law, ~~or~~ regulation or professional standards designates entities as "public interest entities" for reasons unrelated to the objective purpose set out in paragraph 400.109, that designation ~~does not might~~ mean that such entities are not public interest entities for the purposes of the Code.

R400.165 In complying with the requirement in paragraph R400.15, Aa firm shall have regard to law, ~~or~~ regulation or professional standards which provides more explicit definitions of the categories ~~noted set out~~ in paragraphs R400.154 (a) to (c), ~~for example by reference to the legislation under which such functions are performed.~~

400.165 A1 The categories set out in paragraph R400.154 (a) to (c) are broadly defined and no recognition is given to any size or other ~~criteria~~ factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to ~~refine more explicitly define~~ these categories by, for example, ~~making reference to local law and regulation governing certain types of entities. Similarly, the Code also provides for such bodies to exclude entities that would otherwise be regarded as falling within one of the broad categories in paragraph R400.14 for reasons relating to, for example, size or particular organizational structure.~~

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, for example, credit unions or mutual insurers.
- Setting size criteria for certain types of entities.

400.16 A2 As set out in paragraph R400.15 (d), those bodies responsible for setting ethics standards for professional accountants might add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9.

R400.176 A1 A firm ~~shall~~ is encouraged to determine whether to apply the independence requirements for public interest entities to the audits of the financial statements of ~~treat additional other~~ entities, ~~or certain categories of entities, as public interest entities.~~ When making this determination in relation to the audit of the financial statements of an entity, the firm ~~shall~~ take into account whether a reasonable and informed third party would be likely to conclude such entities should be treated as public interest entities. ~~might consider the factors set out in paragraph 400.9 as well as the following factors:~~

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

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

Public Disclosure - Application of Independence Requirements for Public Interest Entities

R400.18 ~~7~~ When a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, ~~At~~ the firm shall publicly disclose ~~if an audit client has been treated as a public interest entity~~ that fact.

[Paragraphs 400.18 to 400.19 are is intentionally left blank]

R400.20 As defined, an audit client that is a publicly traded entity ~~(including any modifications made by law or regulation)~~ in accordance with paragraphs R400.15 and R400.16 includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS

PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Requirements and Application Material

Evaluating Threats

Consideration of New Information or Changes in Facts and Circumstances

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

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

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Audit *In Part 4A, the term "audit" applies equally to "review."*

Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity in accordance with paragraphs R400.15 and R400.16, audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. *(See also paragraph R400.20.)*

In Part 4A, the term "audit client" applies equally to "review client."

Key audit partner	The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.
May	<i>This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.</i>

Proposed accountant	A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).
Public interest entity	<p>For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:</p> <ul style="list-style-type: none">(a) A publicly traded entity;(b) An entity one of whose main functions is to take deposits from the public;(c) An entity one of whose main functions is to provide insurance to the public;(d) An entity whose function is to provide post-employment benefits;(e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or(fd) An entity specified as such by law, or regulation <u>or professional standards</u> to meet the objective purpose set out in paragraph 400.109. <p><i>The Code provides for the categories to be revised or entities to be excluded as described in paragraph 400.15 A1 more explicitly defined or added as described in paragraphs 400.16 A1 and 400.16 A2.</i></p>
Publicly traded entity	<p>An entity that issues financial instruments that are transferrable and publicly traded. <u>traded through a publicly accessible market mechanism, including through listing on a stock exchange.</u></p> <p><u><i>A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.</i></u></p>
Reasonable and informed third party	<i>The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable</i>

Reasonable and
informed third party
test

and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

These terms are described in paragraph R120.5 A4.
