

**Meeting:** Joint IESBA-IAASB CAG

**Meeting Location:** Virtual

**Meeting Date:** October 13, 2020

## Agenda Item

# J

### Definitions of Listed Entity and Public Interest Entity

#### Objectives of Agenda Item

1. To receive a report-back on the discussion at the March 2020 IESBA CAG meeting (see **Appendix 1** to this paper).
2. To provide views on the Task Force's<sup>1</sup> responses to the issues identified and first read of the proposed text.

#### Project Status and Timeline

3. At its December 2019 meeting, the IESBA unanimously approved the project proposal to revise the definitions of public interest entity (PIE) and listed entity in the Code. This work is being undertaken in coordination with the IAASB in order to achieve convergence of the relevant concepts and terms used in the two Boards' standards.
4. At the March 2020 IESBA CAG meeting, the Task Force presented its preliminary views on the issues and a strawman draft of the proposed text. Since March 2020, the IESBA has met on three occasions to discuss the Task Force's views and proposals, including a first read of the proposed text at its September-October 2020 virtual meeting.
5. As part of the project's coordination plan, the Task Force also sought input from the IAASB at its virtual PIE session in July 2020 and will again seek its feedback to the first read of the proposed text in November 2020.
6. In December 2020, the Task Force will present a second read of the proposed text to the Board, taking into account the comments received from the joint IESBA-IAASB CAG session, with a view to seeking approval of the proposed text for exposure.

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<sup>1</sup> Members:

- Michael Ashley, Chair, IESBA Member
- Liesbet Hausermans, IESBA Member
- Ian McPhee, IESBA Member
- Andrew Mintzer, IESBA Member

Correspondent members:

- Fiona Campbell, IAASB Deputy Chair
- Josephine Jackson, IAASB Member

7. Refer to **Appendix 2** for the project history to date.

## Materials for CAG Consideration

8. For the purposes of the joint IESBA-IAASB CAG discussion in October 2020, the following materials have been provided to the Representatives:
- *Presentation* – The presentation slides (**Agenda Item J-1**) include the key matters and questions for consideration by the Representatives and will be used by the Task Force Chair to guide the discussion during the joint session.
  - *Issues Paper* – The issues paper (**Agenda Item J-2**) is the same paper that was presented to the IESBA as **Agenda Item 6-A** at its September-October 2020 meeting. As the issues paper is an IESBA paper, when navigating it, Representatives are asked to ignore the questions that were presented to the IESBA for consideration. Instead, the matters for the joint IESBA-IAASB CAG consideration are included below and in the presentation.
  - *First Read* - This is a clean version of the first read of the proposed text (**Agenda Item J-3**) and was presented to the IESBA as **Agenda Item 6-C** at its September-October 2020 meeting.

### Matters for joint IESBA-IAASB CAG Consideration

#### *Overarching Objective for Additional Requirements for PIEs*

1. Representatives are asked:
- (a) Whether they support the proposed overarching objective as expressed in paragraph 400.9 for use by both the IESBA and IAASB in establishing additional requirements for PIEs; and
  - (b) For views on proposed paragraphs 400.8 and 400.9 in **Agenda Item J-2**.

#### *Proposed List of PIE Categories*

2. Representatives are asked for views on the proposed list of PIE categories in paragraph R400.14 (and the decision of the Task Force and IESBA not to include other possible categories), as well as proposed paragraph 400.16 (**Agenda Item J-2**).

#### *Expected Role of Local Bodies*

3. Representatives are asked for views on local body capacity to refine the high-level PIE categories in light of the proposed mitigation strategy, including responses to the PAO questionnaire.

#### *Role of Firms*

4. Representatives are asked for views on:
- (a) The list of additional factors for firms' consideration in proposed paragraph R400.17 (**Agenda Item J-2**); and
  - (b) The 3 options on transparency disclosure for consideration by the IAASB.

*Definition of Audit Client*

5. Representatives are asked for views on the Task Force's thinking regarding whether the definition of audit client for a listed entity in paragraph R400.20 of the extant Code and its extension to all PIEs (See slide 32 and **Agenda Item J-2**).
9. Other agenda papers on the PIE project presented to the Board during the September – October 2020 IESBA meeting are available at: <https://www.ethicsboard.org/meetings/september-14-21-29-october-1-2020-virtual-meeting>.

**Material Presented**

*For Discussion*

Agenda Item J-1	PIE Presentation
Agenda Item J-2	IESBA Agenda Item 6-A – PIE – Issues and TF Views
Agenda Item J-3	IESBA Agenda Item 6-C – PIE – 1 <sup>st</sup> Read (Clean)

## Appendix 1

### Report-Back of March 2020 IESBA CAG Discussions

The table below contains extracts from the March 2020 IESBA CAG meeting minutes and how the Task Force or IESBA has responded to the Representatives' comments.

Matters Raised	Task Force/IESBA Response
EXPANDED LIST OF PIE CATEGORIES	
Mr. Dalkin observed that with respect to the public sector, it is more challenging to determine what is of significant public interest.	<p>Point noted.</p> <p>At its June 2020 meeting, the IESBA determined that public sector entities should not be included as a category of PIE.</p> <p>The Task Force expects that the list of factors set out in proposed paragraph 400.8 will assist local authorities in determining if a public sector entity should be treated as a PIE.</p>
Mr. Hansen queried if, under category (a), any entity whose shares, stock or debts are publicly traded will be scoped in regardless of its size.	<p>Point taken into consideration.</p> <p>At the March 2020 CAG meeting, Messrs. Ashley and Siong clarified that whilst this is the case, the local regulator or authority can include a size threshold in their local code to exclude smaller listed entities, as is the case in Canada.</p>
He suggested that the Task Force consider replacing the term "recognized stock exchange" in the extant definition of PIE.	<p>Point taken into consideration.</p> <p>The term "recognized stock exchange" is not used in subparagraph R400.14 (a).</p>
Dr. Orth and Mr. Thompson queried if entities that are in the process of being publicly listed should be included in category (a). Mr. Thompson pointed out that the International Accounting Standards Board's (IASB's) concept of "public accountability" has the notion of an entity in the process of filing for an initial public offering.	<p>Point taken into consideration.</p> <p>At its September - October 2020 meeting, the Board supported the Task Force's recommendation to include as a factor for consideration by a firm whether an entity is likely to become a PIE or is in the process of becoming one.</p>
Mr. Sobel wondered whether the IESBA could require a local jurisdiction to comply or explain why its definition of PIE is less stringent than that of the IESBA Code.	<p>Point noted.</p> <p>At the March 2020 CAG meeting, Mr. Ashley explained that the Code cannot mandate what regulators can or cannot do.</p>

Matters Raised	Task Force/IESBA Response
<p>Mr. Pavas suggested that more guidance is needed to assist local jurisdictions better understand how a new PIE definition would be applied in light of the relevant terms used in the IAASB's International Standards on Auditing (ISAs) and International Financial Reporting Standards.</p>	<p>Point taken into consideration.</p> <p>The IESBA supported the Task Force's recommendation to develop guidance to assist jurisdictions in applying the new approach. Mr. Ashley noted that for some jurisdictions, it may not be appropriate to include certain entities as PIEs because these entities may not be required to produce audited financial statements.</p>
<p>Mr. Hansen wondered whether the Task Force will consider expanding the categories of PIEs and suggested that public utility entities should be included.</p>	<p>Point taken into consideration.</p> <p>At its June 2020 meeting, the IESBA determined that public utility entities should not be included as a category of PIE.</p>
<p>ROLE OF FIRMS</p>	
<p>Mr. Hansen raised his concern that firms should not be placed in a position to make bright-line determinations.</p>	<p>Point noted.</p> <p>At the March 2020 CAG meeting, Mr. Ashley suggested that it is conceivable that not all relevant entities would be scoped in under a local code and it would therefore be reasonable for firms to assess if other entities should be added.</p>
<p>Ms. Zietsman, Mr. Pavas and Dr. Orth queried how firms can make such a determination. Dr. Orth highlighted the potential for disagreement with the entity. Ms. Zietsman commented that firms could have different views as to whether an entity should be deemed to be a PIE given the range of variables that could be considered. She was therefore of the view that care should be taken in imposing an obligation on firms given the potential for inconsistency.</p>	<p>Point noted.</p> <p>At the March 2020 CAG meeting, Mr. Ashley pointed out that the ability of firms to determine if an entity should be treated as a PIE already exists in the extant Code and they should be given the opportunity to make that judgment.</p>
<p>OTHER MATTERS</p>	
<p>Mr. Hansen supported the Task Force's proposal to replace the term "PIE" with "significant public interest entity" (SPIE). However, Ms. Robert, Dr. Orth and Mr. Thompson preferred "PIE", noting that it is a well-established term and that the Task Force's proposed term may create undue complications at the local level.</p>	<p>Point accepted.</p> <p>At its March 2020 meeting, the IESBA agreed to retain the term "PIE."</p>

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Matters Raised	Task Force/IESBA Response
<p>Mr. Kashiwagi expressed the PIOB's view that the IESBA and the IAASB should aim to develop a common position for the definition of PIE, and that the PIOB was not overly concerned about which term should be used.</p>	<p>Point noted.</p> <p>At its July 2020 PIE session, the IAASB agreed in principle that the term "listed entity" in its standards should be replaced with PIE but that it would undertake a careful review on a case-by-case basis as it does so.</p>

## Appendix 2

### Project History

#### Project: Definitions of Listed Entity and Public Interest Entity

##### Summary

	CAG Meeting	IAASB	IESBA Meeting
Project commencement, including: <ul style="list-style-type: none"><li>Approval of project proposal</li></ul>	<a href="#">March 2020</a>		<a href="#">December 2019</a>
Development of proposed international pronouncement (up to exposure)	<a href="#">October 2020</a>	<a href="#">July 2020</a>	<a href="#">March 2020</a> <a href="#">June 2020</a> <a href="#">September 2020</a>