

Definitions of Listed Entity & Public Interest Entity

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Task Force Chair, IESBA Member

Joint IAASB-IESBA CAG Meeting

October 13, 2020

Virtual

Objectives of Session

To discuss issues
and Task Force
views

To provide feedback
on 1st read of
proposed text

OBJECTIVE

Recap and Information Gathering

Overarching Objective

PIE Definition

Local Body Capacity & Questionnaire

Firms & Transparency Disclosure

Other Matters

March 2020 IESBA CAG Recap



- Generally supportive of the project & direction of travel
- A few comments about the proposed high-level categories of PIE including:
 - Comparison with the IFRS' public accountability entity
 - Whether public utilities should be included
- Most comments and queries relate to the role of firms
- Some concerns about the suggestion of changing the term from PIE to SPIE
- PIOB is keen to ensure convergence or common position between IESBA and IAASB on the PIE definition

Information Gathering Since March 2020

Stakeholder Discussions

- IAASB meeting
- IFIAR SCWG
- FoF meeting & questionnaire
- Joint IESBA-IAASB NSS meeting
- PAO meetings & survey



NAS Exposure Draft

Exposure Draft
January 2020
Comments due: May 4, 2020

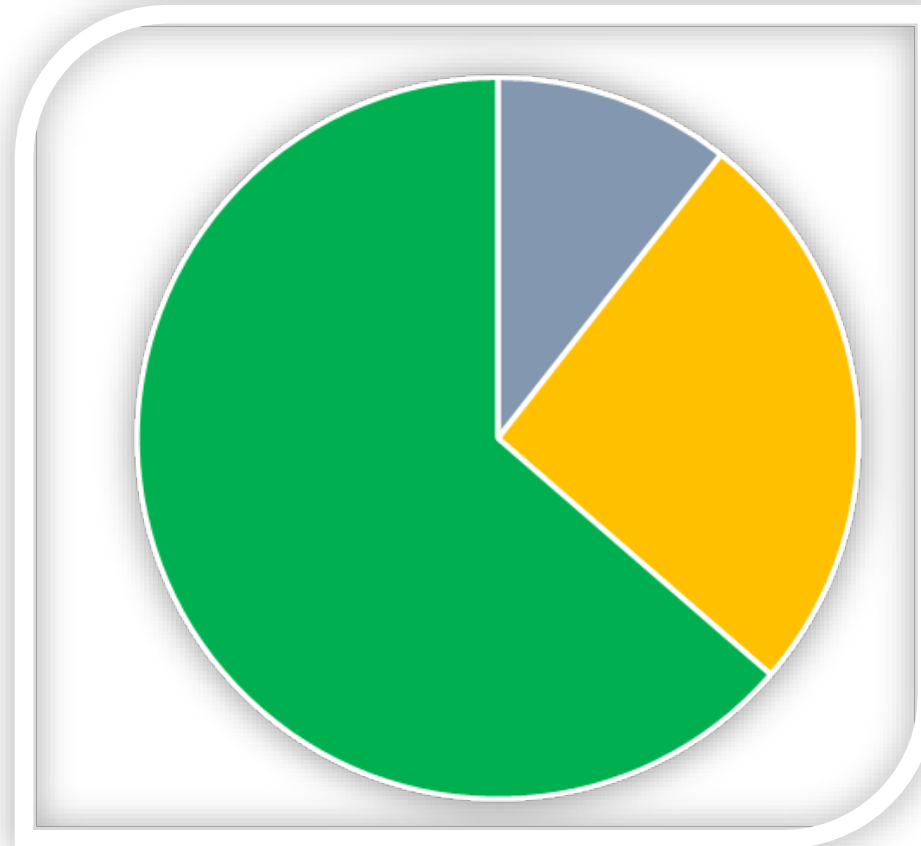
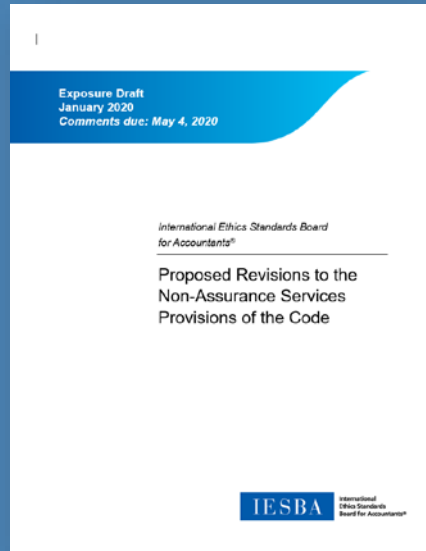
International Ethics Standards Board
for Accountants®

Proposed Revisions to the
Non-Assurance Services
Provisions of the Code

IESBA International
Ethics Standards
Board for Accountants

Responses to NAS ED Question 4

Respondents were asked to share views on whether the IESBA should consider in undertaking its project to review the definition of a PIE



17 no comments,
42 support, 7 do
not support

No new
significant issues
raised by
respondents

IAASB July 2020 PIE Session



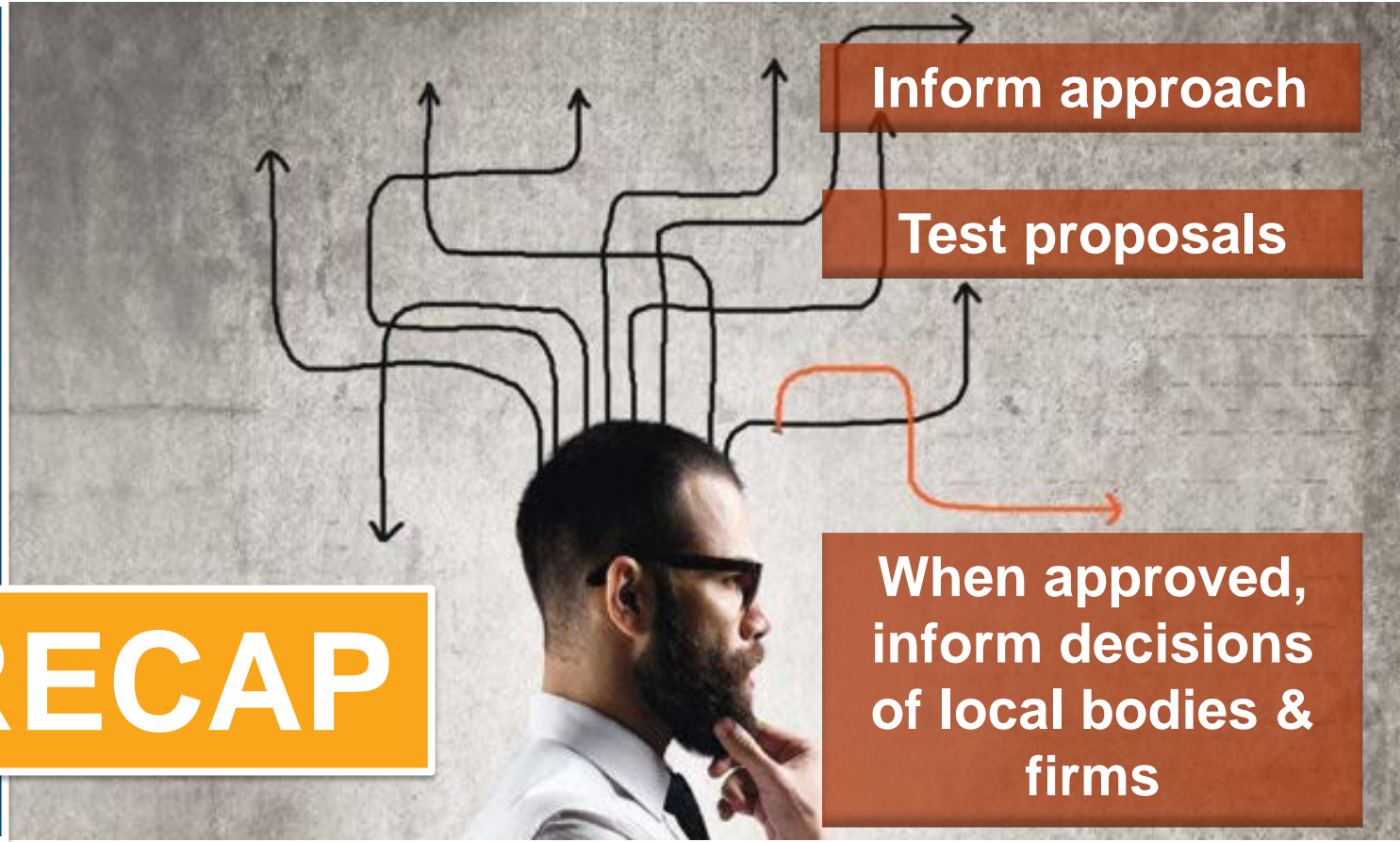
- First opportunity for IAASB to discuss as a Board
- General support for shared overarching objective for additional independence and audit quality related requirements
- Support-in-principle for replacing “listed entity” with PIE, but need to consider on a case by case basis
- General support for proposed list of PIEs
- Similar concerns about local body capacity to refine the high-level PIE definition
- Mixed views about suggested transparency disclosure requirement in ISAs

Overarching Objective for Additional Requirements

Overarching Objective

for additional requirements

RECAP



Overarching Objective for Additional Requirements

Overarching Objective

for additional requirements
(Proposed 400.8 and 400.9)

Significant public interest in the financial condition of certain entities



Public confidence in those financial statements are important



Confidence in their audits will enhance public confidence in those financial statements



Additional requirements will enhance confidence in their audits which in turn will enhance confidence in those financial statements

Overarching Objective for Additional Requirements

Overarching Objective

**for additional
requirements**
(Proposed 400.8 and 400.9)

IESBA (June 2020)

- General support
- Key queries about
 - ❖ ESG reporting requirement
 - ❖ Market operators, stock/commodity exchanges
 - ❖ Entities subject to financial and prudential regulation
 - ❖ Proposed factor relating to potential systemic impact

IAASB (July 2020)

- General support for common overarching objective
- In-principle support for replacing listed entity with PIE in ISAs but needs consideration on case by case basis
- Key queries about
 - ❖ Perception of two tiers of audit quality
 - ❖ Meaning of “financial condition”
 - ❖ Minor differences in how it is expressed might be needed

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. The extent of public interest 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 markets-sector in which it operates including whether it is easily replaceable in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other entities-sectors and the economy as a whole in the event of financial failure of the entity.

400.9

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

Task Force Views

400.8 lead-in paragraph:

- Retain the term “financial condition”
- No changes re ESG disclosure

Bullet #2

- Response to about entities subject to financial and prudential regulatory supervision

Bullet #4

- Captures a characteristic common to some public utility entities and FMI entities

Bullet #6

- Retained as factor for consideration

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400.9

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Task Force Views

400.9

- Remove “additional” in to address IAASB concerns about perception of 2 tiers of audit quality
- No changes needed to reflect minor differences in how the overarching objective should be expressed in the two Boards' standards

Exposure Draft

- TF will coordinate with IAASB representatives to include a question with respect to replacing “listed entity” in ISAs with PIE

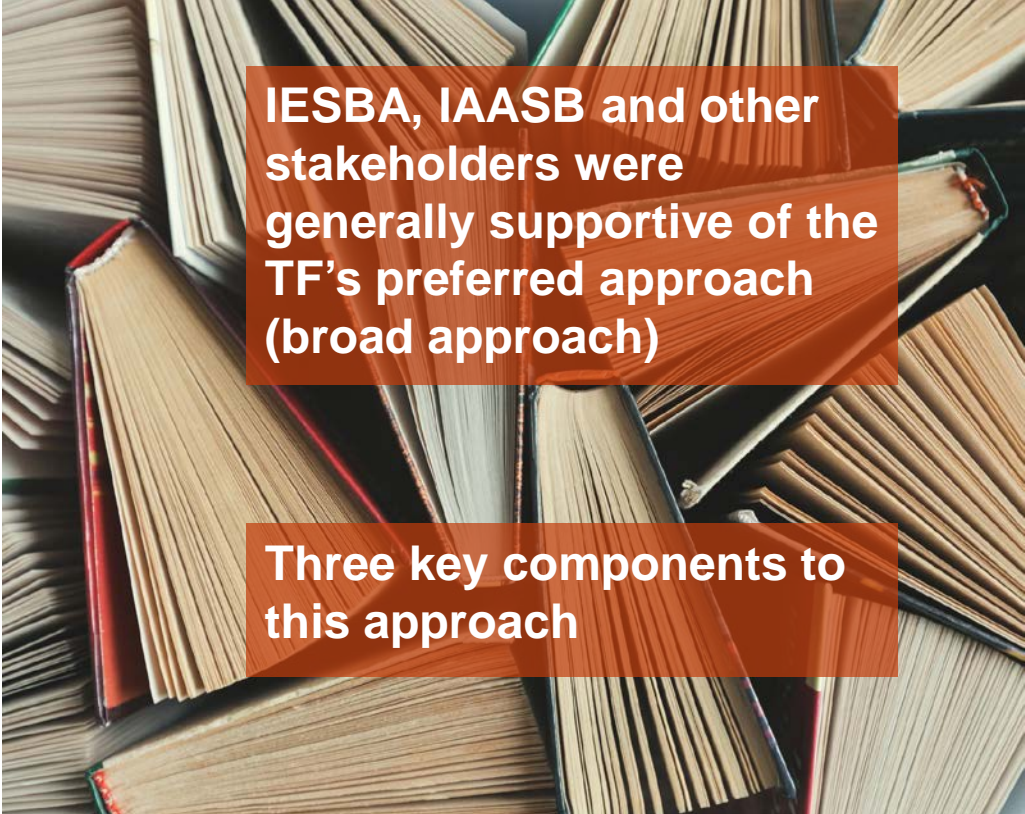
Matter for CAG Representatives Consideration

The CAG 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



Definition of Public Interest Entity



IESBA, IAASB and other stakeholders were generally supportive of the TF's preferred approach (broad approach)

Three key components to this approach

Broad Approach

A longer and more broadly defined list which local regulators and authorities can modify by tightening definitions, setting size criteria and adding or exempting particular types of entities

Role of Code

List of common
PIE categories

Role of Local
Bodies

Refine the list as
appropriate

Role of
Firms

Determine to
add to the list

Expanded List of PIE Categories

Role of
Code



Role of
Local
Bodies



Role of
Firms

- (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 or debts; or
- (f) An entity specified as such by law or regulation.

R400.14 (June 2020 Version)

IESBA and IAASB comments:

- Both Boards supportive of the TF's rationale:
 - **"80/20" rule** – include categories that will are likely to adopted by most jurisdictions
 - **Include** categories if only excluded by local bodies because they are very small
 - **Exclude** categories that are only included by local bodies because they are very large
- General support for the proposed categories

Expanded List of PIE Categories

**Role of
Code**



**Role of
Local
Bodies**



**Role of
Firms**

- (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 or debts; or
- (f) An entity specified as such by law or regulation.

R400.14 (June 2020 Version)

IESBA and IAASB comments:

- Category (a)
 - Suggested “securities”, definition of “financial interest”
 - No strong views on whether to include the concept of “in the process of being publicly traded”
- Category (d)
 - Some suggested the language is too broad
- Category (f)
 - A few IAASB members queried if it is necessary or appropriate

Expanded List of PIE Categories

R400.14 (Mark-up from June 2020)

Role of
Code



Role of
Local
Bodies



Role of
Firms

(a) An entity whose ~~shares, stock or debt~~equity or debt instruments are publicly traded;

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

(e) An entity whose function is to issue redeemable equity or debt instruments to the public to pool funds to invest in the equity or debt instruments of other entities~~that pools money from the public to purchase shares, stock or debts~~; or

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

Better alignment with “financial interest” definition

No change; it should not include employers that provides such benefits as one of its functions only

More accurately describe investment funds available to the public

Expanded List of PIE Categories

400.16 A1 (Mark-up from June 2020)

When terms other than public interest entity (such as listed entity) are ~~used in~~applied to entities by law or regulation to achieve the objective set out in paragraph 400.98, such terms are regarded as equivalent terms. ~~However, if law or regulation designates entities as “public interest entities” for reasons unrelated to the objective set out in paragraph 400.9, that designation does not mean that such entities are public interest entities for the purposes of the Code.~~

Revisions made to 400.16 A1 to address concerns that entity being categorized by law or regulation as a PIE not for the purpose

Role of
Code

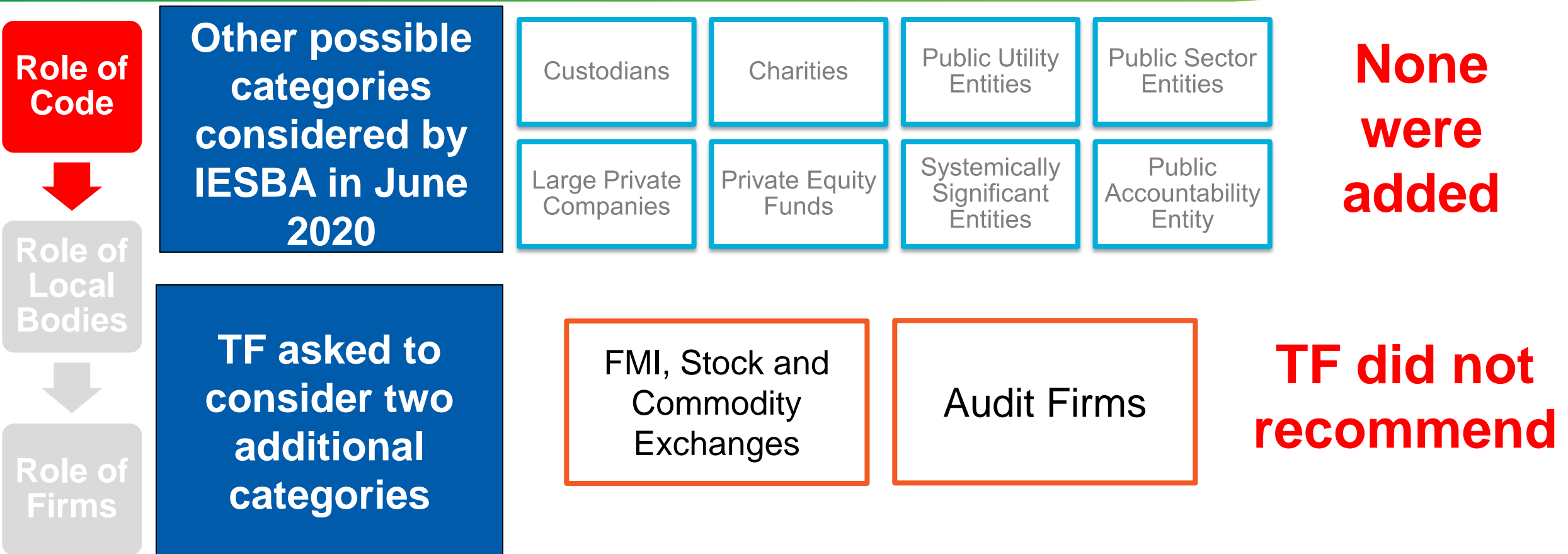


Role of
Local
Bodies



Role of
Firms

Expanded List of PIE Categories



Matters for CAG Representatives Consideration

Role of
Code



Role of
Local
Bodies



Role of
Firms

The CAG Representatives are asked to provide 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

Role of
Code



Role of
Local
Bodies



Role of
Firms

Current Approach

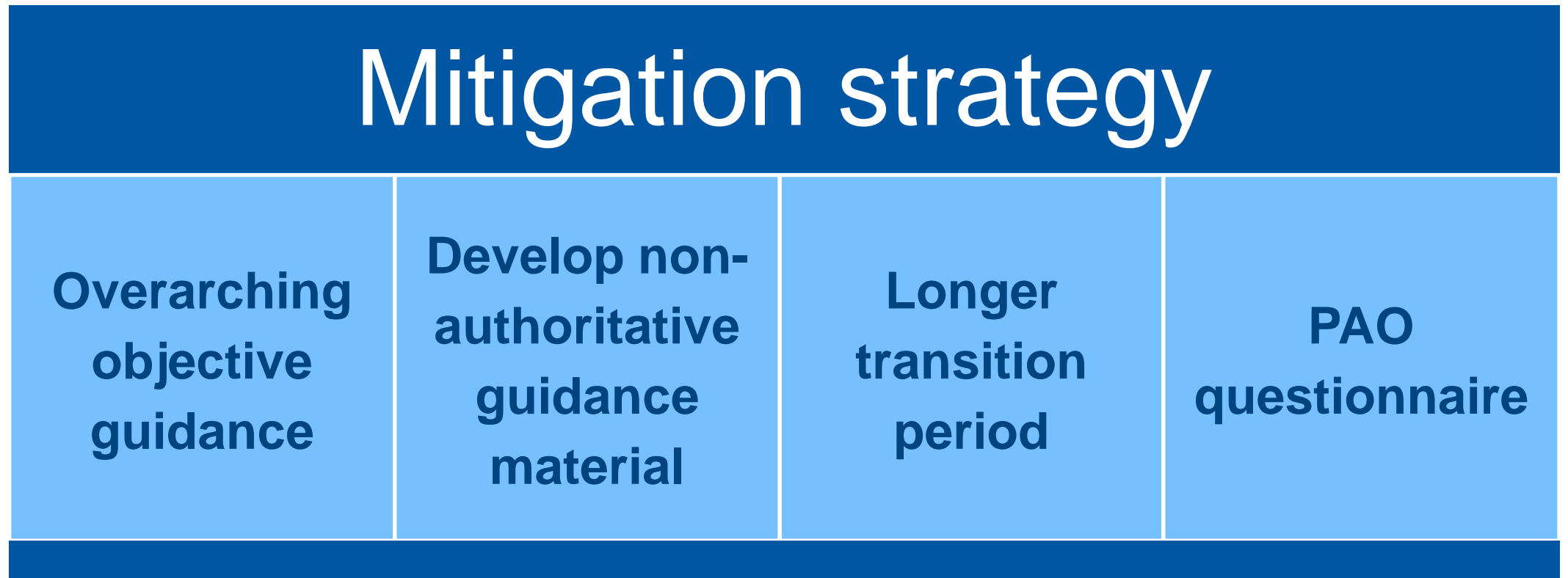
- Proposed definition needs to be refined as appropriate at local level because of its high-level nature
- If not, the new definition might inadvertently scope in the wrong entities or not scope in others where appropriate

Concern

- Some local bodies do not have capacity to refine the high-level definition or simply adopt it as is



Expected Role of Local Bodies



Mitigation Strategy – PAO Questionnaire

Role of
Code



Role of
Local
Bodies



Role of
Firms

PAO Questionnaire

- In collaboration with IFAC's Quality & Development team
- Questionnaire circulated to about 40 PAOs in July/August
Mitigation strategy
 - ❖ Mostly smaller and less developed jurisdictions
- 22 responses received to date
- Anticipating to also reach francophone African jurisdictions in Q4
- TF will give an update in Q4

Mitigation Strategy – PAO Questionnaire

Role of
Code



Role of
Local
Bodies

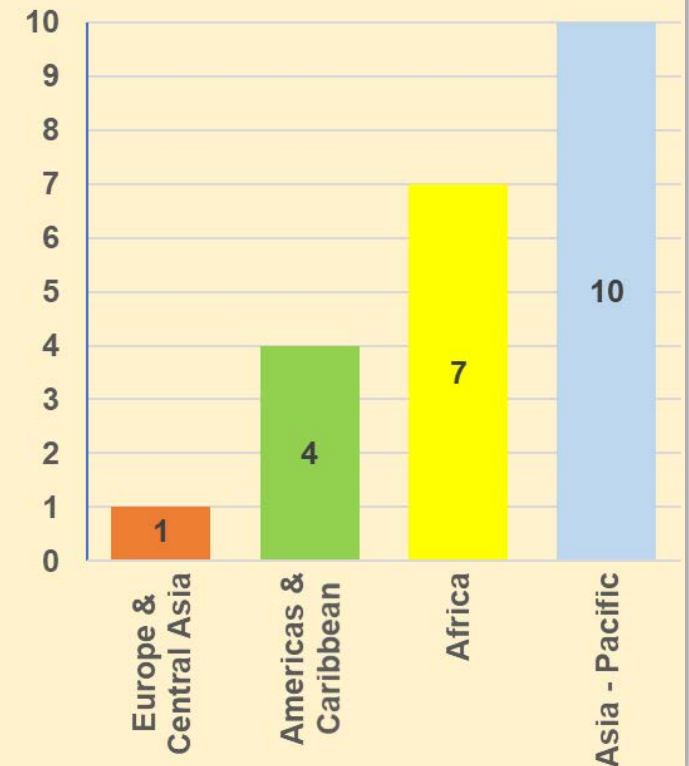


Role of
Firms

Picture so far...

- Responses from a mixture of PAOs with direct, shared or no authority to revise the PIE definition
- Majority already have local PIE definitions (incl. 6 of the 7 African jurisdictions)
- Strong indication from responses that refinement of the PIE definition can be achieved at these jurisdictions
 - ❖ Some expressed their view that the draft definition is sufficient to develop their local definitions
 - ❖ 1 PAO noted that substantial work needed to persuade local regulator to revise the local law

Responses by Region



Mitigation Strategy – Rebuttable Presumption

Role of
Code



Role of
Local
Bodies

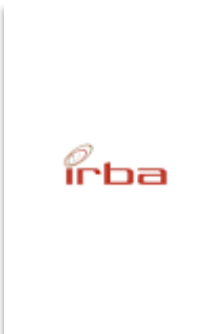


Role of
Firms



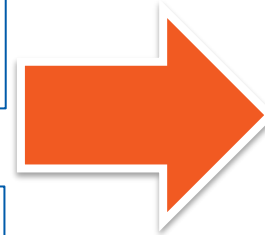
TF considered the use of *rebuttable presumption* in some circumstances to address the risk of:

- Local body not having the capacity to refine the list
- The list is adopted without local refinement



TF reviewed the South African Code that has a rebuttable presumption component:

- In addition to the extant Code definition, it has an extra list of PIE categories. The rebuttable presumption applies to this extra list



The Board ***did not*** support the proposed approach:

- Stepping into the role and authority of local bodies
- May lead to undue variability
- Some local bodies may not be motivated to make the refinement

Matter for CAG Representatives Consideration

Role of
Code



Role of
Local
Bodies



Role of
Firms

The CAG Representatives are asked to provide views on:

- Local body capacity to refine the high-level PIE categories in light of the mitigation strategy including responses to the PAO questionnaire



Role of Firms

Role of
Code



Role of
Local
Bodies



Role of
Firms



New Requirement (R400.17)

- Elevate AM to requirement
 - ❖ Firms required to determine if additional entities be treated as PIEs
 - ❖ General support from stakeholders
- List of additional factors for firm consideration
 - ❖ Include factor about entity likely to become PIE as no strong views from both boards to include as part of list of PIE category
 - ❖ TF will add a new factor following Sept 2020 IESBA discussions – whether an entity has previously been treated as a PIE and if so whether the circumstances have changed

Role of Firms

Role of
Code



Role of
Local
Bodies



Role of
Firms



R400.17

A firm shall determine whether to treat additional entities, or certain categories of entities, as 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 public interest entity. In addition to the factors listed in paragraph 400.8, factors to consider might 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 before the conclusion of the subsequent year's audit}
- Whether the entity or other stakeholders requested the firm to treat the entity as a public interest entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example whether those charged with governance are distinct from the owners or management.

R400.18

A firm shall publicly disclose in the auditor's report that an audit client was treated as a public interest entity [To be discussed with IAASB].

Role of Firms

Role of
Code



Role of
Local
Bodies



Role of
Firms



Transparency Disclosure (R400.18)

- Proposed new requirements for firms to publicly disclose if an audit client was treated as PIE

***R400.18** A firm shall publicly disclose in the auditor's report that an audit client was treated as a public interest entity [to be discussed with IAASB]*
- At July IAASB PIE session, mixed views from IAASB members
- Following discussions with TF representatives, IAASB representatives developed 3 options for IAASB to consider in future meetings

Transparency Disclosure

Role of
Code



Role of
Local
Bodies



Role of
Firms



For consideration by IAASB:

Option 1

- No change to auditor's reports

Option 2

- IAASB to consider this as part of its Auditor Reporting Post-Implementation Review (survey due October 2020)

Option 3

- IAASB to consider revisions to ISA 700.28 (c)

Matters for CAG Representatives Consideration

Role of
Code



Role of
Local
Bodies



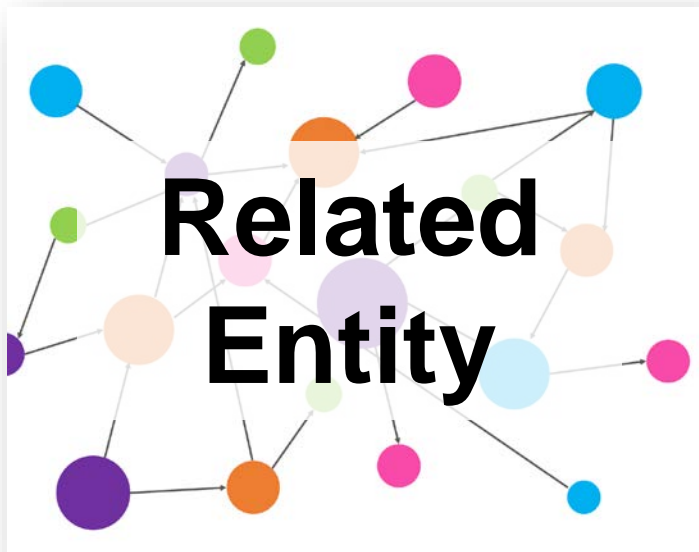
Role of
Firms

The CAG Representatives are asked to provide views on:

- (a) The list of additional factors for a firm's consideration in proposed paragraph R400.17 (Agenda Item J-2);
- (b) The 3 options on transparency disclosure for consideration by IAASB

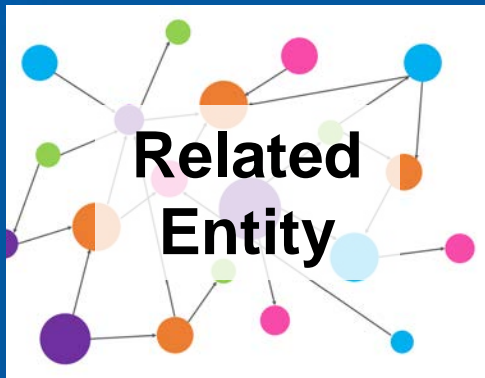


Other Matters



Related Entity

Whether the full set of related entity applicable to a listed entity audit client in paragraph R400.20 should be extended to all PIE audit clients as well?



Philosophical Reason

- No strong philosophical reason for not extending the definition of audit client for listed entities in 400.20 (which encompasses all related entities, including parent and sister entities) to all PIEs

One Key Issue

- Whether that definition (aimed primarily at conventional corporate group structures) is appropriate in all circumstances – particularly for some private equity structures and sovereign wealth funds.
- Whilst this question exists today, it might be compounded by extending the definition to all PIEs as it would encompass a wider range of entities

Further Research

- IESBA acknowledged the issue but felt that consideration of it might be beyond the scope of this project.
- The TF was asked to continue with fact finding and articulation of the issue in Q4, including consultation with the FoF
- TF proposal could be for the issue to be raised in the ED or a separate DP to ask for views
- One solution to allow finalization of the PIE project is to replace “listed entity” in 400.20 with Category (a) in proposed para. R400.14

Matter for CAG Representatives Consideration

The CAG Representatives are asked to provide 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)



Effective Date

Factors for Consideration

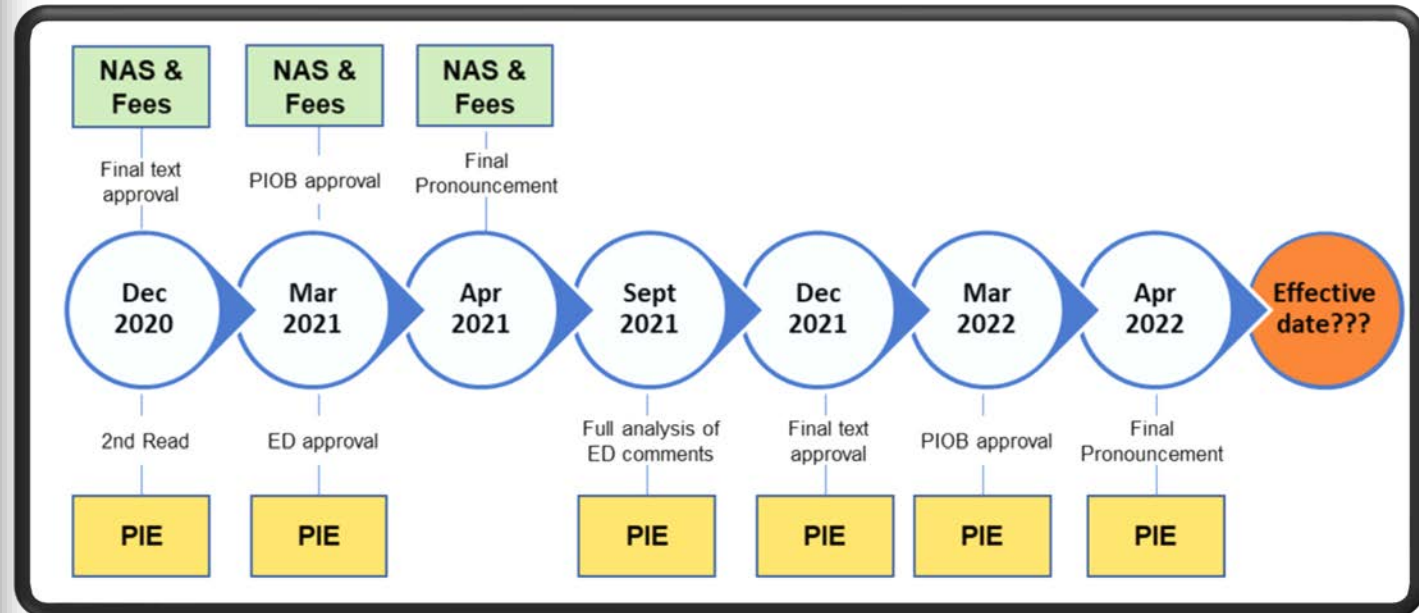
Timing of PIE ED

Need for long transition period as part of local adoption process

Transition period for firms, incl. FoF members pending refinement at local level

Board discussion on NAS and Fees effective dates

Possible timeline



Next Steps



Next Steps

OCT

PAO & FoF
Questionnaire

NOV

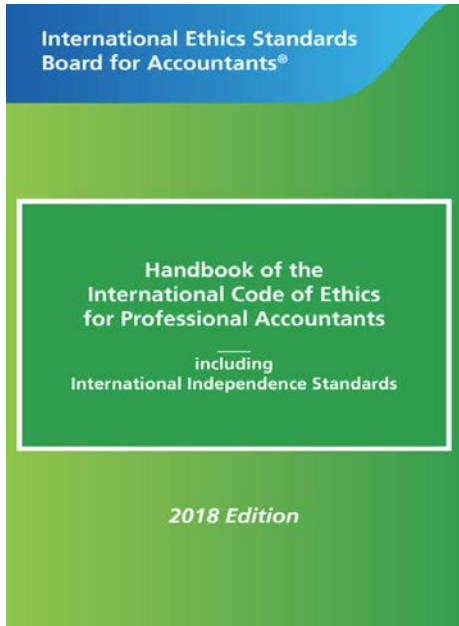
IAASB PIE Session
IFAC SMPAG Session

DEC

IESBA Meeting

Any Other Comments?





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