

# Definitions of Listed Entity and Public Interest Entity

## IAASB-IESBA Joint CAG Session - Sept 2021

**Mike Ashley** IESBA PIE Task Force Chair, IESBA Member

**Josephine Jackson** IAASB PIE Working Group Chair, IAASB Member

# Agenda

1. To receive a high-level summary of significant ED comments;
2. Update on IAASB discussions and initiative; and
3. To provide input to IESBA TF responses and proposals:
  - ❑ Overarching objective
  - ❑ Broad approach
  - ❑ Publicly traded entity & other PIE categories
  - ❑ Role of firms
  - ❑ Effective date





# Background

**Project proposal  
approved by  
IESBA**

**IESBA  
deliberations  
IAASB and CAG  
discussions**

**Proposed text  
approved by  
IESBA for  
exposure**

**ED released  
with 90 days  
comment period**

**69 comment  
letters received  
by end of  
comment period**

**Dec. 2019**

**Jan.–Dec.  
2020**

**Dec. 2020**

**Jan. 2021**

**May 2021**

# Background

## Key proposals include

- Introduce an overarching objective for additional independence requirements for entities that are PIEs
- Provide guidance on factors for consideration when determining the level of public interest in an entity
- Expand the extant definition of PIE to a list of categories of entities that should be treated as PIEs, subject to refinement by the relevant local bodies
- Replace the term “listed entity” with a new PIE category, “publicly traded entity”
- Elevate the extant application material that encourages firms to determine whether to treat additional entities as PIEs to a requirement and include enhanced guidance on factors for consideration by firms
- Require firms to disclose if an audit client has been treated as a PIE.

Exposure Draft  
January 2021  
Comments due: May 3, 2021

International Ethics Standards Board  
for Accountants®

Proposed Revisions to the  
Definitions of Listed Entity  
and Public Interest Entity in  
the Code

**IESBA** International  
Ethics Standards  
Board for Accountants®

## IAASB-related Matters

The PIE ED also sought preliminary views from the IAASB's stakeholders on those matters affecting the IAASB Standards

- Use of common overarching objective in establishing differential requirements for certain entities for both Boards' Standards (Q.15a)
- Case by case approach for determining whether differential requirements for listed entities should be more broadly applied to other PIE categories (Q.15b)
- Disclosure within the auditor's report that the firm has treated an entity as a PIE (Q.15c)

Exposure Draft  
January 2021  
Comments due: May 3, 2021

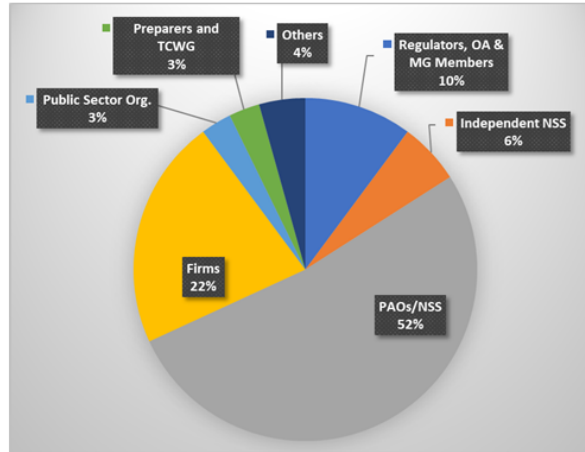
International Ethics Standards Board  
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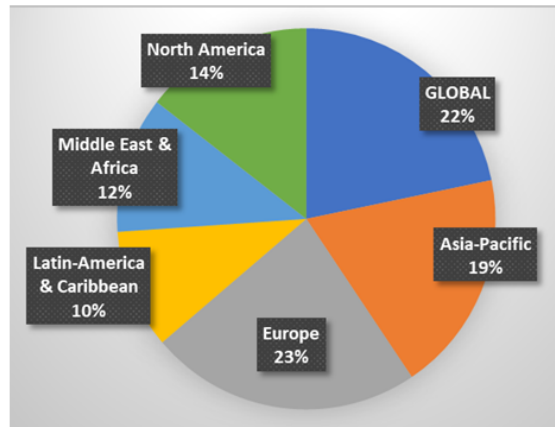
IESBA International  
Ethics Standards  
Board for Accountants®

# Breakdown by Respondents

Stakeholders	No. of responses
Regulators, Oversight Authorities incl. Monitoring Group Members	7
Public Sector Organizations	2
Preparers and TCWG	2
Independent NSS	4
PAOs/ NSS	36
Firms	15
Others	3
<b>Grand Total</b>	<b>69</b>



Region	No. of responses
GLOBAL	15
Asia-Pacific	13
Europe	16
Latin America & Caribbean	7
Middle East & Africa	8
North America	10
<b>Grand Total</b>	<b>69</b>



Regulator,  
OA and  
Independent  
NSS

IOSCO

Others from  
EU, MEA, NA  
and AP

PAOs/NSS

Represented  
by all regions

EU (13)  
AP (9) MEA  
(6) LA/C (5)

Firms

Mostly global  
firms (12)

Others

TCWG (2)

# Overarching Objective (Q1-2)

- Strong support for proposed overarching objective to explain the need for independence requirements for audits of PIEs in Part 4A
- IOSCO fully supported the proposed overarching purpose in paragraph 400.9
- Only a few suggested focus of public interest should be extended to non-financial information
- Key comments:
  - ❑ Clarify meaning of “financial condition” in para. 400.8
  - ❑ Reference to enhancing confidence in the audit of financial statements of PIEs in para. 400.9 perceived as implying different levels of independence/audit quality for PIE and non-PIE audits
- General support for the proposed list of factors for assessing the level of public interest in the financial condition of an entity with refinement suggestions





# Common Overarching Objective (Q15a)

- Respondents to PIE ED: Broad support for common overarching objective for both Boards' standards
- IAASB July 2021 discussion: IAASB agreed on the following approach in going forward:
  - ❑ Agree on common objective used by both Boards (e.g., proposed para. 400.8)
  - ❑ Some caution expressed on financial condition
  - ❑ Develop a more tailored objective for the IAASB's Standards (e.g., tailoring para. 400.9 of the PIE ED)
  - ❑ Consider further how the list of factors can be relevant to the IAASB
  - ❑ Caution that many differential requirements creates complexity

## IAASB PIE WG

- Established in mid-2021
- Consider the implications of the IESBA PIE project on IAASB standards
- Explore the scope of a narrow-scope amendments project

## IAASB July 2021 discussion

- Respondents' feedback on Q.15(a), (b) and (c) of PIE ED
- Initial views and way forward



# Overarching Objective (Q1-2)

## TF Responses & Proposals

- Retain the focus on financial condition of an entity given support received
- Retain and clarify the term “financial condition”:
  - ☐ Added “due to the potential impact of their financial well-being on stakeholders” to explain the term (para. 400.8)
  - ☐ The term is broader than financial statements and is a broadly understood term by public
  - ☐ Clarified that financial statements can be used by stakeholders when assessing the financial condition of entities to address expectation gap concern (para. 400.10)
- Perception of 2 levels of independence or audit quality
  - ☐ Removed reference to “enhancing confidence in the audit of those financial statements”
  - ☐ Clarified that the PIE independence requirements are to meet stakeholders’ heightened expectations regarding independence of PIE auditors because of public interest in financial condition of PIEs (para. 400.10)
- By moving the list of factors to a new para (400.9), para. 400.8 is more suitable as a possible common objective by both Boards
- No proposed revisions to the list of factors



# *Overarching Objective (Q1-2)*

## **TF Responses & Proposals**

### **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.

### **400.10**

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



# *Overarching Objective (Q1-2)*

## **CAG Representatives are asked for views on:**

- The IESBA Task Force's recommendation to retain the focus of public interest on the financial condition of an entity as part of the overarching objective in para. 400.8
- The use of a common overarching objective by both the IESBA and IAASB in establishing differential requirements for certain entities in each Board's standards



# *Approach to Revising the PIE Definition (Q3, 7)*

## **More overall support for broad approach (high-level definitions)**

- Incl. respondents from regulatory community, independent NSSs
- Developing jurisdictions also generally supportive
- To address concerns of inconsistency and local bodies' capacity etc, more education/outreach, additional guidance, monitoring of implementation/ post-implementation review

## **Significant proportion preferred narrow approach (baseline definitions)**

- Incl. IOSCO, most firms and respondents from EU
- Concerns of broad approach:
  - ☐ Inconsistencies of treatments and confusion amongst firms and users
  - ☐ Too dependent on local bodies' ability/appetite to make refinements, a particular issue for FoF
  - ☐ Risk of allowing local bodies to exclude an entire category
  - ☐ Challenge of existing robust legal PIE definition (e.g., EU) or customized independence standards
- Prefer baseline definitions to which relevant local bodies can add



# *Approach to Revising the PIE Definition (Q3, 7)*

## **Role of local bodies**

- Support for local bodies to refine the PIE definition subject to concerns raised about dependency on local bodies etc

## **Other comments:**

- Local bodies needs to have the ability to add entities on the PIE definition
- The number of PIEs in a jurisdiction need to remain reasonable and manageable
- Queries about how to deal with group situations



# *Approach to Revising the PIE Definition (Q3, 7)*

## **TF Responses & Proposals**

- Retain the broad approach
  - ❑ Expanded PIE list with high-level definition that requires refinement at local level
- Rationale:
  - ❑ Recognize the significant level of support received for the broad approach
  - ❑ Meeting with IOSCO C1 members in July – IOSCO acknowledged IESBA's conclusion to rely on broad approach may be result of thinking that is more advanced than IOSCO's and does not necessarily mean there is fatal flaw
  - ❑ Narrow approach with baseline definitions cannot be practically achieved at global level if definition to be expanded beyond listed entity
  - ❑ A level of inconsistency already exists and should be expected given difference in local contexts
  - ❑ By developing an overall objective and expanding the PIE categories it should help to bring some global consistency as to which categories of entities should be PIEs.
  - ❑ IESBA is committed to develop the necessary outreach program as part of its rollout strategy



# *Approach to Revising the PIE Definition (Q3, 7)*

## **TF Responses & Proposals**

- Role of local bodies
  - ☐ Address the concern about excluding an entire category by removing the phrase “the Code also provides for such bodies to exclude entities...”
  - ☐ Clarify that local bodies can also add entities to the PIE definition
- Other views:
  - ☐ TF acknowledged challenges in jurisdiction with existing robust legal definition
  - ☐ Responsibility of local bodies to manage the number of PIEs in their jurisdictions
  - ☐ If the audit of an entity requires the PIE independence standards to be applied, that will prevail.



# *Approach to Revising the PIE Definition (Q3, 7)*

## **CAG Representatives are asked for views on:**

The IESBA Task Force's recommendation to retain the broad approach to develop the revised PIE definition





# PIE Definition – Publicly Traded Entity (Q4)

- Substantial proportion of respondents supported the new proposed PIE category, “publicly traded entity”, as replacement for “listed entity”, including many respondents that preferred the narrow/baseline approach
- Suggested more clarity and refinement to the term, including meaning of “financial instruments” and “publicly traded”
  - ❑ At July IOSCO meeting, IOSCO C1 members agreed that “financial instruments” is a helpful term but suggested IESBA not to develop its own definition
- Other comments/suggestions:
  - ❑ “Listed entity” should continue to be considered as publicly traded under new term
  - ❑ New term should align with EU definition of “regulated market”
- IOSCO and a few others preferred to retain “listed entity” – well used term
- IAASB and IESBA encouraged to work closely together to ensure new term can be applied consistently across both Boards’ Standards

*IAS 32 definition of  
“financial instrument”*

*“Any contract that gives  
rise to a financial asset of  
one entity and a financial  
liability or equity  
instrument of another  
entity”*

# PIE Definition – Publicly Traded Entity (Q4)

## Incorporating listed entity

- ED highlighted
  - ❑ Concerns about meaning of “recognized stock exchange” in extant definition including whether it is the same as “regulated market”
  - ❑ “Publicly traded entity” is intended to be broader
- Additional views from IOSCO C1 members at July 2021 IOSCO meeting:
  - ❑ It might be difficult for some jurisdictions to change from listed entity to publicly traded entity
  - ❑ If “listed entity” is incorporated into the new term, IOSCO concern would be largely addressed

## Definition of “listed entity” in the Code and ISAs

*“An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body”*

# Listed Entities in IAASB Standards (Q15b)

- Respondents to PIE ED: Overall support for the case-by-case approach on assessing whether differential requirements for listed entities should be more broadly applied to other PIE categories
  - ❑ Some caution expressed
- IAASB July 2021 discussion:
  - ❑ IAASB supported the case-by-case approach
  - ❑ Also consider certain application material in IAASB Standards for alignment with categories of entities in PIE definition
- In Oct 2021, IAASB will discuss the IESBA's proposed definition of “publicly traded entity”



# PIE Definition – Publicly Traded Entity (Q4)

## TF Responses & Proposals

- Retain the term “publicly traded entity” as a PIE category in paragraph R400.15(a) of **Agenda 2-B**
- Definition of publicly traded entity:
  - ☐ Replace “publicly traded” with “traded through a publicly accessible market mechanism”
- “Financial instrument”:
  - ☐ TF’s view - IAS 32 definition might not be suitable for the Code
  - ☐ Considered other options including cross-reference IAS 32; use term as defined under applicable financial reporting framework; or no further explanation
  - ☐ Board’s input to be sought on which option in September
- “Listed entity” and in response to IOSCO’s views:
  - ☐ Include phrase “including through listing on a stock exchange” in the definition of publicly traded entity
  - ☐ Add listed entity as defined by relevant securities law or regulation as example.

## Proposed Definition of Publicly Traded Entity

An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

*A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.*





# *PIE Definition – Publicly Traded Entity (Q4)*

## **CAG Representatives are asked for views on:**

The IESBA PIE TF's proposed revisions to the definition of “publicly traded entity” (category (a)), including:

- Whether “financial interests” should be defined; and
- TF's recommendation to retain the term “listed entity” as an example of publicly traded entity



# PIE Definition – Other Categories (Q5-6)

- Regulators, NSS & PAOs more supportive of all categories
- Strongest support for (a), (b) and (c)
- Categories (d) and (e):
  - ❖ Less support than the other categories
  - ❖ Least overall support for (d)
  - ❖ Less support for (d) and (e) from firms and EU respondents
  - ❖ Received most significant comments/issues
  - ❖ Key concern - large number of entities would be scoped in and issues with FoF if local bodies do not refine the definition
- Most regulators, PAOs and firms that preferred the narrow approach were supportive of adding categories, particularly (b) and/or (c)
- Little support for adding new category to scope in entities fundraising via ICOs and other less conventional forms
- A few suggestions only for additional 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

**(e)** An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public

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

**(f)** An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9

# *PIE Definition – Other Categories (Q5-6)*

## **TF Responses & Proposals**

- Retain (b) and (c) in light of support received; also, these two categories already in PIE definitions of a number of jurisdictions
- Remove (d) and (e) for the following reasons:
  - ☐ These two proposed categories, without refinement, would scope significantly more entities than (b) and (c) that are very small with only a small number of stakeholders
  - ☐ Removing the categories will minimize potential unintended consequences if local jurisdictions do not properly refine the Code and reduce risk of category removal
  - ☐ Noted that the EU Audit Directive did not include post-employment benefits and mutual funds as PIEs in its definition
  - ☐ Additional non-authoritative guidance material will assist local bodies to assess whether these categories and others should be added to their PIE definition
- IESBA will be asked also to consider whether to include examples of other possible categories in the proposals
- No new categories be added to the proposed PIE definition



# PIE Definition – Other Categories (Q5-6)

## CAG Representatives are asked for views on:

- The IESBA PIE Task Force's recommendation to *retain* categories (b) and (c); and to *remove* categories (d) and (e) proposed in the ED
- Whether to include examples of other possible categories in the proposals (para. 400.16 A2)





# *Firm Requirement to determine additional PIEs (Q9-10)*

## Proposed requirement for firms to determine if additional entities should be treated as PIEs

- Most regulators/OAs/NSS including IOSCO were supportive vs most firms not supportive; PAOs were split in their views
- Reasons for not supporting the proposed requirement include:
  - ☐ Firm's determination is subjective and will create divergence/inconsistencies, undermining the confidence the Board is seeing to enhance
  - ☐ Responsibility to classify entities as PIEs should be primarily that of IESBA/ local bodies
  - ☐ TCWG and not firms should determine if the entity should be subject to additional PIE requirements
  - ☐ Firms will bear disproportionate responsibility and burden, particularly SMPs
  - ☐ Firms should be free to apply the additional PIE requirements if they believe it is more advantageous to do so due to stakeholder requests or for risk management purpose
- Other comments:
  - ☐ Queries about relevance of reasonable and informed third party test in the proposed requirement
  - ☐ Practical difficulties if management/TCWG did not agree the entity should be treated as PIE
  - ☐ Treatment as PIE may come to be viewed as “gold standard”
- General support for at least one or more of the factors for consideration by firms



# *Transparency Requirement (Q11)*

## Proposed requirement for firms to disclose if audit client treated as PIE

- Response pattern of each stakeholder group similar to that of Q9 except for independent NSS
- Most common concerns/comments:
  - ☐ May cause confusion about the meaning of the disclosure (e.g., has the audit client also complied with other non-independence requirements on the client)
  - ☐ May cause misconception that there are different levels of independence and non-PIE audits are of lower quality
  - ☐ More information needs to be disclosed for the disclosure to be useful
- Other comments
  - ☐ What matters to stakeholders is whether auditor is independent as required by relevant ethical requirements
  - ☐ There may be confidentiality concerns



# Role of Firms (Q9-11)

## TF Responses & Proposals

- Revert the proposed firm requirement to determine if additional entities should be treated as PIE to application material
  - ☐ Encouragement for firm to determine if independence requirements for PIEs should be applied – different to extant application material
- Retain the transparency requirement
  - ☐ When PIE independence requirements have been applied, a firm shall publicly disclose that fact
  - ☐ The proposed text in para. R400.18 is intended to avoid any direction on how the disclosure should take place. This gives IAASB the room to explore whether disclosure in auditor's report is suitable

### 400.17 A1

A firm is encouraged to determine whether to apply the independence requirements for public interest entities to the audits of the financial statements of other entities. When making this determination in relation to the audit of the financial statements of an entity, the firm might consider the factors set out in paragraph 400.9 as well as the following factors...

### R400.18

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, the firm shall publicly disclose that fact.

# Role of Firms (Q9-11)

## TF Responses & Proposals

- TF rationale:
  - ☐ By retaining the transparency requirement, public interest will be served because of market force on firms to apply the PIE independence requirements if appropriate
  - ☐ Firm role should be limited if PIE definition is properly articulated at local level
  - ☐ Firms already need to make significant effort to adapt to new PIE definition, particularly in light of new NAS and Fees provisions
  - ☐ It is in public interest to disclose if PIE independence requirements have been applied because of heightened expectation on independence for PIEs
  - ☐ Disclosing if PIE independence requirements have been applied will address confusion about the meaning the disclosure or perception of two levels of independence
  - ☐ Disclosure should be public as the objective of the transparency requirement is disclosure to the public.
- Minor revisions made to list of factors for firm consideration, in light of TF recommendation to revert the requirement to application material





# Auditor's Report Disclosure (Q12, 15c)

- Feedback on Q12 and Q15(c) strongly related as addressing transparency in auditor's report
- Respondents to PIE ED: Lack of majority support for disclosure in auditor's report:
  - ☐ Perception of 2 levels of independence
  - ☐ Auditor's report already lengthy and complex
  - ☐ Confidentiality concerns
  - ☐ Other mechanisms should be explored
  - ☐ Some respondents supported disclosure in auditor's report if IESBA continues with its proposed transparency requirement
- IAASB July 2021 discussion: IAASB generally supportive of exploring transparency in the auditor's report as part of a possible narrow-scope project (IAASB needs to follow its own due process)
- IESBA TF:
  - Believes it should be left to IAASB to explore whether auditor's report is a suitable location for such disclosure
  - Will recommend to IESBA to continue with close coordination

# *Role of Firms (Q9-12)*

## **CAG Representatives are asked for views on:**

- The IESBA PIE Task Force's recommendation to revert the proposed requirement for firms to determine if additional entities should be treated as PIEs to application material (para. 400.17)
- The IESBA Task Force's recommendation on retaining the transparency requirement but amending it to focus on disclosure that the independence requirements applicable to PIEs have been applied (para. R400.18)
- Mechanisms other than the auditor's report for the proposed public disclosure



# Other Matters

## *Outreach, Audit Client Definition & Part 4B (Q8, 13)*

### Outreach and Education Program (Q.8)

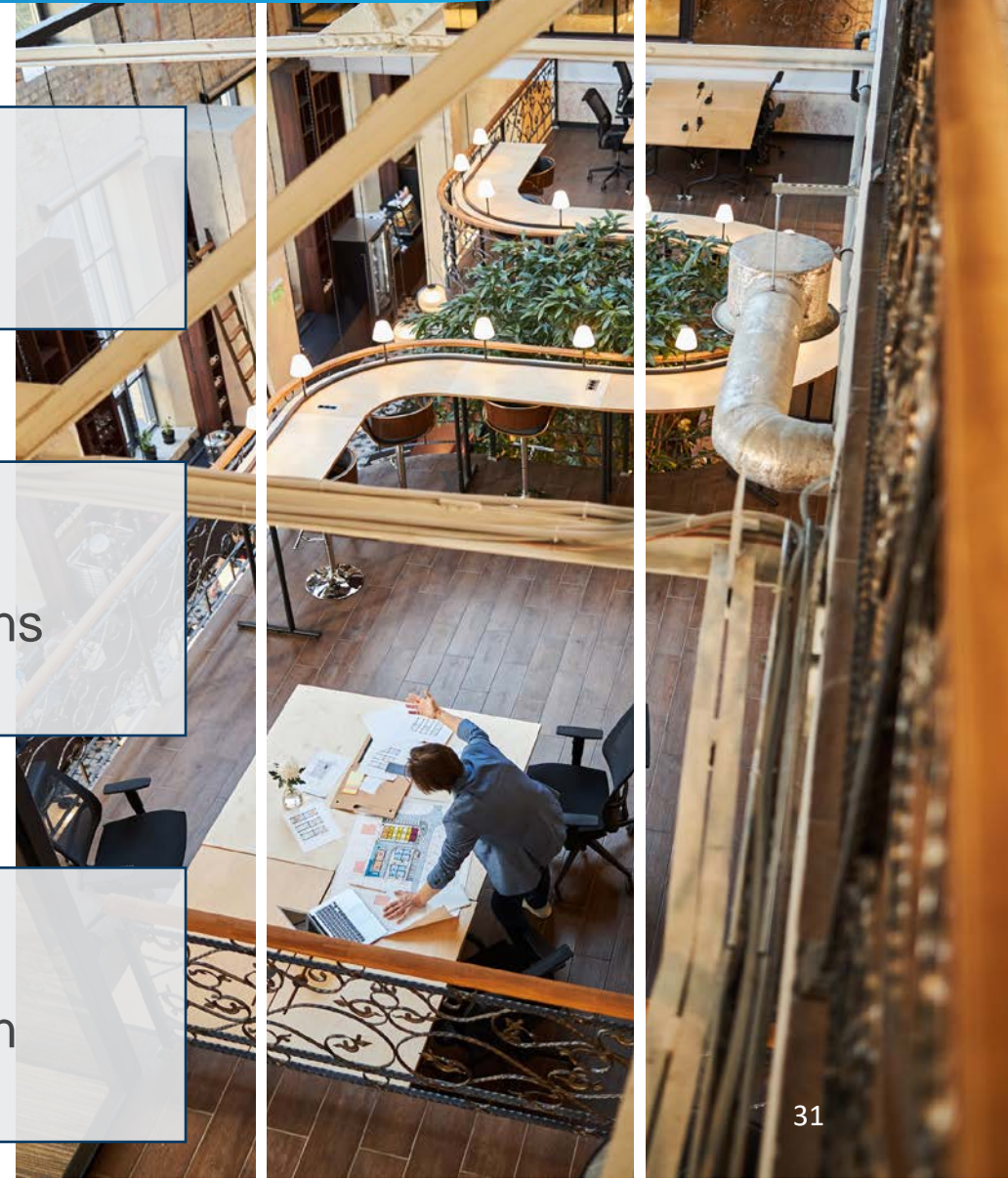
- Respondents are generally supportive

### Definition of Audit Client (Q.13a)

- Respondents generally supportive of IESBA conclusions not to review definition of “audit client” in R400.20

### Part 4B (Q.13b)

- Respondents generally supportive of IESBA conclusion not to propose any revisions to Part 4B

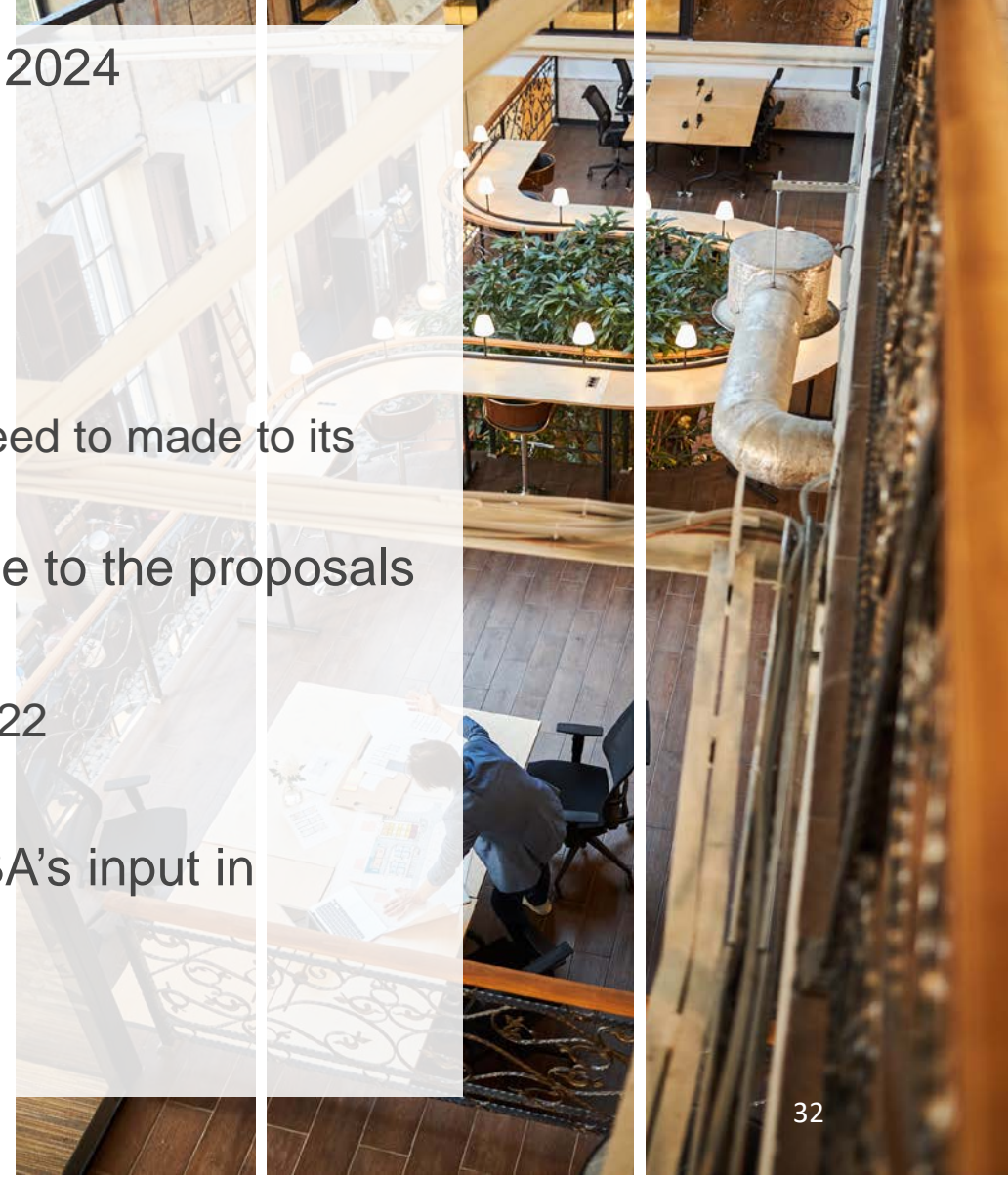




# Other Matters

## Effective Date (Q14)

- Over half supportive of proposed effective date of Dec 15, 2024
- Some recommended effective date be extended:
  - ☐ Amount of work can be extensive for local bodies
  - ☐ Potential increase in number of PIEs scoped in
  - ☐ Smaller firms might need more time
  - ☐ More time will allow IAASB to consider any revisions that need to be made to its Standards
- IOSCO suggested re-exposure if significant changes made to the proposals
- IAASB PIE initiative:
  - ☐ Anticipate approval of a “narrow-scope” project in March 2022
  - ☐ Work towards aligning the effective dates of both projects
- TF acknowledged the above views and will seek the IESBA’s input in September on whether to extend the effective date



# *Other Matters*

## *Effective Date (Q.14)*

### **CAG Representatives are asked for views on:**

The proposed effective date of December  
15, 2024





# Next Steps

A wooden clock and a calendar for 2021 are shown on a teal background. The clock is round and wooden, with black numbers and hands. The calendar is a spiral-bound desk calendar showing the months from January to December. A yellow pencil is lying on the calendar. A semi-transparent white box with the text 'Sept – Dec 2021' is overlaid on the calendar.

**Sept – Dec  
2021**

IESBA – Full  
analysis & 1st  
read post ED

IESBA - 2nd  
read &  
anticipated  
Board approval

**Oct**

**Sept**

**Dec**

IAASB PIE  
session



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