

Meeting: IESBA CAG

Meeting Location: Virtual

Meeting Date: March 10, 2021

Agenda Item

A-6

Definitions of Listed Entity and Public Interest Entity

Objective of Agenda Item

1. To report back on the discussion at the October 2021 joint IAASB-IESBA CAG session relating to the Task Force's proposals to revise the definitions of listed entity and public interest entity (PIE) in the Code.

Project Status and Timeline

2. At its December 2019 meeting, the IESBA unanimously approved the project proposal to revise the definitions of listed entity and PIE in the Code.
3. 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 four occasions to discuss the Task Force's views and proposals.
4. This work is also being undertaken in coordination with the IAASB in order to achieve convergence of the relevant concepts and terms used in the two Boards' standards. In this regard, the Task Force has sought input from the IAASB at its virtual PIE sessions in July and November 2020.
5. At the December 2020 meeting, the IESBA approved for exposure proposed revisions to revise the definitions of listed entity and PIE in the Code. In January 2021, the IESBA released the Exposure Draft (ED), [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), which will be open for public comment until May 3, 2021.
6. The Task Force will present its full analysis of significant issues raised by respondents and revised proposals at the September 2021 CAG and IESBA meetings.

Report Back on October 2020 CAG Discussion

7. Below are extracts from the draft minutes of the October 2020 joint IAASB-IESBA CAG session¹ and an indication of how the Task Force or the IESBA has responded to the CAG's comments.

¹ The draft October 2020 joint IAASB-IESBA PIE session minutes will be approved at the March 2021 IAASB and IESBA CAG meetings.

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Matters Raised	Task Force/IESBA Response
OVERARCHING OBJECTIVE	
<p>Mr. Hansen agreed with the Task Force's conclusion that public utility entities should not be added as a new PIE category. He noted that in the US, larger public utility entities tend to be listed. Those that are unlisted are generally small and therefore tend to be replaced if they run into difficulties.</p>	<p>Points and support noted.</p> <p>Public utilities and other potential PIE categories considered by IESBA will be highlighted in supplementary guidance material, due to be released in March 2021, as possible PIE categories for consideration by the relevant authorities at the local level.</p>
<p>Mr. Dalkin agreed that with entities such as public utility entities, it is difficult to draw a bright line. Hence, the use of a list of factors in the proposed paragraph 400.8 is a more effective way to determine if certain types of industry groups should be included at the local level.</p>	
<p>Ms. Robert queried if it is appropriate to include size as a factor for consideration in a global Code.</p>	<p>Point taken into account.</p> <p>At the October 2020 joint CAGs session, Mr. Ashley noted that size is influenced by the market in which the entity is operating. As such, local regulators will have different views of what might be a proper size threshold, and hence in that sense it is a factor for consideration.</p>
<p>Mr. Yurdakul suggested that the level of public interest in the business activity of an entity, in addition to its financial condition, is also important in determining if the entity should be treated as a PIE. He wondered whether this consideration should also be included in proposed paragraph 400.8.</p>	<p>Point taken into account.</p> <p>At the October 2020 joint CAGs session, Mr. Ashley reiterated that the focus is on the public interest in an entity's financial condition as reflected by the financial statements and the role of an auditor. Whilst there may be public interest in the business activities of a particular entity, only the financial consequences of those activities are directly within the purview of the auditors.</p>
EXPANDED LIST OF PIE CATEGORIES	
<p>Ms. Robert and Mr. Cela suggested that proposed paragraphs R400.16 and 400.16 A1 should be further refined to more clearly explain which entities should not be considered as PIEs. Mr. Cela in particular expressed a concern that under category (f) in paragraph R400.14, law or regulation might specify certain entities to be PIEs but not in accordance with the overarching</p>	<p>Points accepted.</p> <p>At its December 2020 meeting, the IESBA agreed to further refinement, which included:</p> <ul style="list-style-type: none"> • Deleting paragraph R400.16; • Moving paragraph 400.16 A1 up as paragraph 400.14 A1; and

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Matters Raised	Task Force/IESBA Response
objective in the Code.	<ul style="list-style-type: none"> Clarifying that for an entity specified as a PIE by law or regulation to be within the category in sub-paragraph R400.14 (f), it must have been so specified to meet the objective set out in paragraph 400.9.
Ms. Wei expressed the view that under category (a) of proposed paragraph R400.14, the term “publicly listed” is more appropriate than “publicly traded.” She noted that if a security is listed but not publicly traded there may still be public investors and, hence, more judgment is needed when to use “traded” instead of “listed.”	<p>Point taken into account.</p> <p>At the October 2020 joint CAGs session, Mr. Ashley clarified that the word ‘traded’ is used instead of ‘listed’ because there are instruments that are listed but not for trading purposes. As an illustration, he noted that in the UK there are debts listed by wholly-owned subsidiaries for tax reasons. Whilst Mr. Ashley agreed that there is some element of judgment in what qualifies as publicly traded, he questioned why there would be a public interest element if the entity’s securities are not publicly traded.</p>
Mr. Munter sought clarification about the rationale for not including custodians such as brokers and trusts as a PIE category.	<p>During the session, Mr. Ashley reminded participants about the overarching objective and its focus on the financial statements of the entities. He noted that in many cases the financial statements of the custodians do not give insight about their custodial activities. He further noted that there are other types of reports that are designed specifically to give confidence to stakeholders such as corporates and members of the public that the custodians are fulfilling their custodial responsibilities.</p>
Mr. Yurdakul suggested that the phrase “equity or debt instruments” may not cover derivatives or other types of instruments and that the phrase “securities and financial instruments” might be more appropriate.	<p>Point taken into consideration.</p> <p>At its December 2020 meeting, the IESBA agreed to replace the proposed text in subparagraph R400.14(a) with a new term “publicly traded entity,” which is defined as “an entity that issues financial instruments that are transferrable and publicly traded.” Amongst other matters, this new term replaced “equity or debt instrument” with “financial instruments.” The IESBA also noted the Task Force’s view that the term “financial instruments” already encompasses “securities.”</p>
Mr. Yurdakul also sought clarification about the rationale for not including financial market	<p>At the October 2020 joint CAGs session, Mr. Ashley explained that the public interest in an FMI entity is</p>

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infrastructure (FMI) entities as PIEs given their role in financial markets.	often not in their financial position but rather their operations. He acknowledged that some jurisdictions might choose to include FMI entities as part of their local refinement.
Mr. Paul Sobel asked if the use of “main function” in categories (b) and (c) under proposed paragraph R400.14 was deliberate. He also queried if “main” meant over 50%.	At the October 2020 joint CAGs session, Mr. Ashley confirmed that the use of “main” is deliberate, but the Task Force was also deliberate not to be prescriptive as to whether or not it is 50%. In this regard, he gave the example of a bank which may have several major lines of business including deposit taking and lending.
Ms. Manabat questioned how minor public investment or minority interest can be protected once an entity is de-listed.	At the October 2020 joint CAGs session, Mr. Ashley clarified that under the extant Code, a de-listed entity would no longer be a PIE. He also emphasized that the proposed category (a) in paragraph R400.14 is about financial instruments that are publicly traded instead of traded by the public in the sense that there needs to be some mechanism for public trading to take place, such as an over-the-counter-type market. The protection of minority interests should be a matter for company law to address in the particular jurisdiction.
Mr. Pavas suggested that for the Latin American jurisdictions, more guidance is needed to determine if an entity should be treated as a PIE.	Suggestion taken into consideration. At the October 2020 joint CAGs session, Mr. Ashley clarified that which entities should be scoped in will ultimately depend on the relevant adopting bodies in the local jurisdictions. To provide further assistance to relevant local bodies in understanding the IESBA’s proposed revisions, the IESBA is due to release additional guidance material in March 2021 as a supplement to the explanatory memorandum of the ED.
EXPECTED ROLE OF LOCAL BODIES	
Mr. Hirai expressed concern about the potential for confusion regarding the interaction between the expected roles of the local body and firms. If the local body included categories (a)-(c) but not (d) and (e), he wondered whether firms should pick up categories (d) and (e). He also wondered whether	At the October 2020 joint CAGs session, Mr. Ashley clarified that a distinction needs to be made where the local body has determined not to include an entity as a PIE for a public interest reason. In such circumstances, while a firm would be required to consider whether additional entities should be

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<p>firms should not include categories (d) and (e) if local law or regulation did not include them in the definition of a PIE. He expressed a preference for allowing local bodies the option of deleting categories (d) and (e).</p>	<p>treated as PIEs, it should not go against the local body's determination.</p>
<p>Mr. Cela expressed the view that the Task Force's proposed mitigation strategy will help local bodies to play their role in the adoption process.</p>	<p>Support noted.</p>
<p>Mr. Thompson sought clarification if any professional accountancy organizations (PAOs) in the Eastern Europe partnership and Central Asia were included in the questionnaire.</p>	<p>At the October 2020 joint CAGs session, Mr. Ashley noted that whilst the Task Force will consider other jurisdictions, limited resources restricted the number of jurisdictions that could be covered.</p> <p>The Task Force will conduct targeted outreach meetings with stakeholders, including local and regional PAOs, in Q2 and Q3 2021.</p>
<p>ROLE OF FIRMS</p>	
<p>Mr. Hansen queried if the proposed disclosure in an auditor's report effectively becomes a new element of the auditor's conclusions.</p>	<p>At the October 2020 joint CAGs session, Mr. Ashley clarified that the Task Force's proposal is not about requiring firms to opine on whether an entity is a PIE but rather if it has or has not been treated as a PIE from an independence and audit perspective.</p>
<p>Mr. Hirai queried if the proposals should provide more flexibility as to how the disclosure might take place, such as an approach similar to the IESBA's Fees public disclosure proposals.</p>	<p>At the October 2020 joint CAGs session, Mr. Ashley noted that whilst the focus of the Fees proposals is more on persuading clients to disclose the fee-related information and the firm would only be disclosing that information as a last resort, the PIE proposals are about the firm disclosing what independence requirements have been applied.</p>
<p>Ms. McGeachy-Colby suggested that it would be helpful if the list of additional factors in proposed paragraph R400.17 included treatment by the previous auditors. She also expressed support for further assessment as part of the IAASB's Auditor Reporting post-implementation review.</p>	<p>Point accepted.</p> <p>At its December 2020 meeting, the IESBA agreed to add a new factor in terms of whether in similar circumstances a firm or its predecessor has treated an entity as a PIE.</p>
<p>Mr. Orth wondered if the proposals would lead to some non-PIE entities, such as fast-growing entities, requesting PIE audits as a form of "gold-plated" audits.</p>	<p>Point noted.</p> <p>At the October 2020 joint CAGs session, Mr. Ashley acknowledged that this is possible. He noted that the IESBA had attempted to address this issue by including in the proposed list of additional factors in</p>

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	R400.17 an entity's corporate governance requirements, such as whether those charged with governance are distinct from the owners or management. Mr. Ashley further suggested that auditors might encourage fast-growing entities to improve their governance if they were to be considered as PIEs.

Project History

Project: Definitions of Listed Entity and Public Interest Entity

Summary

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