

**Draft Minutes of the Joint Public Session of the Virtual Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
CONSULTATIVE ADVISORY GROUP (IAASB CAG) and INTERNATIONAL ETHICS
STANDARDS BOARD FOR ACCOUNTANTS CONSULTATIVE ADVISORY GROUP
(IESBA CAG)**

Held on October 13, 2020

PRESENT

Mr. Jim Dalkin	IAASB CAG Chair
Mr. Gaylen Hansen	IESBA CAG Chair
Mr. Christian Orth	Accountancy Europe (AE)
Ms. Noémi Robert	AE
Mr. Robert J. De Tullio	Basel Committee on Banking Supervision (Basel Committee)
Dr. Claes Norberg	Business Europe (BE)
Ms. Mohini Singh	CFA Institute (CFA)
Dr. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Mr. Paul Thompson ¹	EFAA
Ms. Laura Shiffman	Financial Executives International (FEI)
Mr. Paul Sobel	Institute of Internal Auditors (IIA)
Mr. Daniel Pavas	Inter-American Accounting Association (IAAA)
Ms. Natasha Landell-Mills	International Corporate Governance Network (ICGN)
Ms. Conchita Manabat	International Association of Financial Executives Institutes (IAFEI)
Mr. Paul Munter	International Organization of Securities Commissions (IOSCO)
Mr. Takeshi Hirai	IOSCO
Mr. Hüseyin Yurdakul	IOSCO
Mr. Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)
Mr. Kazuhiro Yoshii	Japan Securities Dealers Association (JSDA)

¹ As agreed with the CAG Chairs, Mr. Thompson attended as an observer for EFAA with speaking rights.

Ms. Inanc Yazar	Organisation for Economic Cooperation and Development (OECD)
Ms. Asha Mubarak	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Ms. Wei Meng	World Federation of Exchanges (WFE)
Observers	
Ms. Megan Zietsman**	United States Public Company Accounting Oversight Board (PCAOB)
Mr. George Kabwe ²	International Monetary Fund (IMF)
Ms. Dawn McGeachy-Colby	IFAC SMP Advisory Group
IAASB and IESBA Members and Staff	
Mr. Tom Seidenstein	IAASB Chair
Ms. Fiona Campbell	IAASB Deputy Chair
Dr. Stavros Thomadakis	IESBA Chair
Mr. Richard Fleck	IESBA Deputy Chair
Mr. Michael Ashley	IESBA Member and PIE Task Force Chair
Mr. James Gunn	Managing Director, Professional Standards
Mr. Ken Siong	IESBA Senior Technical Director
Mr. Willie Botha	IAASB Technical Director
Ms. Beverley Bahlmann	IAASB Deputy Director
Mr. Brett James	IAASB Deputy Director
Ms. Diane Jules	IESBA Deputy Director
Mr. Jasper van den Hout	IAASB Principal
Mr. Geoffrey Kwan	IESBA Principal
Ms. Kam Leung	IESBA Principal
Ms. Yvonne Chan	IAASB Manager
Ms. Szilvia Sramko	IESBA Manager
Ms. Carla Vijian	IESBA Manager
Ms. Astu Tilahun	IESBA Assistant Manager
Ms. Diana Vasquez	Executive Assistant, Professional Standards

** Views expressed by the PCAOB Representative represent her views and do not necessarily reflect the views of the PCAOB Board or other Board members or staff.

² As agreed with the CAG Chairs, Mr. Kabwe attended as an observer for IMF with speaking rights

Public Interest Oversight Board (PIOB) Mr. Shigeo Kashiwagi

APOLOGIES

Members

Mr. John Kuyers	Information Systems Audit and Control Association
Mr. Henry Rees	International Accounting Standards Board (IASB)
Ms. Tara Hansen	International Actuarial Association
Mr. Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Mr. Mauro Bini	International Valuation Standards Council
Mr. Henri Fortin	World Bank (WB)

Opening Remarks

Mr. Dalkin welcomed the CAG Representatives and Observers to the joint meeting. He also welcomed the IAASB Chair, Mr. Tom Seidenstein; the IESBA Chair, Dr. Stavros Thomadakis; The PIOB Observer, Mr. Shigeo Kashiwagi; and other IAASB and IESBA representatives and staff.

APPROVAL OF MINUTES

The CAGs approved the minutes of the March 2020 joint IAASB-IESBA CAG public session as presented.

Definitions of Listed Entity and Public Interest Entity (PIE)

- To *RECEIVE* a report-back on the discussion at the March 2020 IESBA CAG meeting
- To *PROVIDE* views on the Task Force's responses to the issues identified and first read of the proposed text.

Mr. Ashley introduced the session by providing a recap of the March 2020 IESBA CAG discussions as well as a brief update on the Task Force's information gathering activities since March 2020, and a report-back of the IAASB's July 2020 PIE session. He noted that, amongst other things, the IAASB:

- Was generally supportive of a shared overarching objective for additional independence and audit quality-related requirements.
- Recognized the direction of the Task Force's work in exploring replacing the term "listed entity" with "PIE" in the ISAs but needed to consider the impact on a case by case basis.

Mr. Ashley also provided highlights of the responses to the question in the IESBA's [Non-Assurance Services \(NAS\)](#) exposure draft about whether the IESBA should undertake the PIE project. He noted that most respondents were supportive of the project and that no new significant issues were raised.

OVERARCHING OBJECTIVE

Mss. Robert, Manabat and McGeachy-Colby and Messrs. Dalkin and Thompson expressed support for the proposed overarching objective and the list of factors set out in paragraphs 400.8 and 400.9.

Amongst other matters, the following were raised:

- 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 companies tend to be listed. Those that are unlisted are generally small and therefore tend to be replaced if they run into difficulties.
- Ms. Robert queried if it is appropriate to include size as a factor for consideration in a global Code. In response, Mr. Ashley noted that size is influenced by the market in which the entity is operating. So, 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.
- 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.

- 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. In response, 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.

EXPANDED LIST OF PIE CATEGORIES

Mr. Ashley reminded the CAGs that the Task Force's approach to revising the PIE definition in the Code comprises three key elements: (1) An expanded list of high-level PIE categories; (2) Expected role of local bodies to refine the list; and (3) Role of firms to include additional entities as PIEs.

The CAGs were generally supportive of the Task Force's list of PIE categories set out in proposed paragraph R400.14, as well as the Task Force's conclusions to not include certain types of entities such as custodians, charities and large private companies.

Amongst other matters, the following were raised by CAG participants:

- 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 R400.16, law or regulation might specify certain entities to be PIEs but not in accordance with the overarching objective in the Code. In response, Mr. Ashley agreed that the Task Force will review these provisions when developing the next draft for the IESBA's review.
- 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." In response, 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, in the UK there are debts listed by wholly-owned subsidiaries for tax reasons. Whilst he 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.
- Mr. Munter sought clarification about the rationale for not including custodians such as brokers and trusts as a PIE category. In response, 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.
- 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. In response, Mr. Ashley noted that the IESBA had yet to conclude whether "securities" or "financial instruments" is a more appropriate term but noted his personal view that the term "financial instruments" should cover all forms of "securities."

- Mr. Yurdakul also sought clarification about the rationale for not including financial market infrastructure (FMI) entities as PIEs given their role in financial markets. In response, Mr. Ashley explained that the public interest in an FMI entity is 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%. In response, 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 wondered how minor public investment or minority interest can be protected once an entity is de-listed. In response, Mr. Ashley clarified that under the extant Code, a de-listed entity will 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.
- Mr. Pavas suggested that for the Latin American jurisdictions, more guidance is needed to determine if an entity should be treated as a PIE. In response, Mr. Ashley clarified that which entities should be scoped in will ultimately depend on the relevant adopting bodies in the local jurisdictions.

EXPECTED ROLE OF LOCAL BODIES

Mr. Ashley emphasized that under the Task Force’s proposed approach, the list of PIE categories in paragraph R400.14 would need to be refined at the local level for the right entities are scoped in.

He noted that the Task Force has identified a number of actions that aim to mitigate the risk of local bodies not appropriately refining the high level list of categories as part of the adoption process or simply adopting it as is. Mr. Ashley highlighted that with the assistance of the IFAC Quality and Development team, a recent questionnaire was circulated to approximately 40 professional accountancy organizations (PAOs) from mainly less developed jurisdictions. Mr. Ashley pointed out that the 20 or so responses received were primarily from PAOs in Asia and Africa that have a mix of direct, shared or no authority to adopt the Code. He further noted that many of them already have a local PIE definition and that there was strong indication from the responses received that local refinement can be achieved without any significant adoption issue relating to local body capacity. Mr. Ashley also noted that the IESBA did not support the use of a rebuttable presumption as a mitigation strategy, primarily on the basis that such an approach would amount to stepping into the role, and infringing on the authority, of local bodies.

The following comments were raised by CAG participants:

- 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 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). Mr. Ashley responded 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 treated as PIEs, it should not go against the local body's determination.

- 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.
- Mr. Thompson sought clarification if any PAOs in the Eastern Europe partnership and Central Asia were included in the questionnaire. In response, Mr. Ashley noted that whilst the Task Force will consider other jurisdictions, limited resources restricted the number of jurisdictions that could be covered.

ROLE OF FIRMS

Mr. Ashley outlined the proposals relating to the role of firms, including a new requirement for firms to determine if additional entities should be treated as PIEs and a list of additional factors for their consideration.

With respect to the Task Force's suggestion of adding a requirement in the IAASB's standards for auditors' reports to disclose whether the particular entity was treated as a PIE, Mr. Ashley reported that the Task Force received mixed views from the IAASB during its July 2020 PIE session. He informed the CAG that the IAASB will consider three options developed by IAASB representatives at its November 2020 PIE session. These options include no change to the auditor's report, further assessment as part of the IAASB's on-going Auditor Reporting post-implementation review, and exploring a potential amendment to its Auditor Reporting standard, ISA 700.

The following comments were raised by CAG participants:

- Mr. Hansen queried if the proposed disclosure in an auditor's report effectively becomes a new element of the auditor's conclusions. In response, 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.
- 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. In response, 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.
- 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.
- 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. In response, 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 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.

OTHER MATTERS

Mr. Ashley further highlighted two other outstanding issues currently being addressed by the IESBA. The first issue relates to whether the scope of related entities for an audit client that is a listed entity in paragraph R400.20 of the extant Code should be the same for all audit clients that are PIEs. In this regard, Mr. Ashley noted that the IESBA had agreed to address the issue as a separate initiative given it goes beyond the scope of the PIE project. The IESBA had, nevertheless, asked the Task Force to continue its research and to provide an update at the November-December 2020 IESBA meeting.

Mr. Ashley also informed the CAG that the IESBA will discuss the effective date for the PIE revisions along with the effective date of the final revisions relating to the IESBA's NAS and Fees projects, which are due to be approved by the IESBA in December, at the November-December 2020 IESBA meeting. CAG Representatives did not raise any comments relating to these two issues.

PIOB OBSERVER'S REMARKS

Mr. Kashiwagi congratulated the IESBA on the strong coordination with the IAASB. He expressed the PIOB's on-going support for the Task Force's approach. He further highlighted the importance of striking the right balance between developing a global definition of PIE and providing appropriate flexibility to local bodies to refine the definition at the jurisdictional level.

Dr. Thomadakis acknowledged the challenge of global applicability and believed that the CAG discussion had given a strong indication that the Task Force's proposals are on target.

Mr. Kashiwagi thanked the IESBA and IAASB CAGs for the opportunity to observe the meeting.

WAY FORWARD

Mr. Ashley informed the CAGs that the IAASB will further consider the Task Force's proposals in November 2020, following which the IESBA will discuss the Task Force's second read of the proposed text at its November-December 2020 meeting with a view to approving it for exposure.

Closing Remarks

Mr. Dalkin thanked the CAG participants for their contributions and closed the meeting.