

## Definitions of Listed Entity and Public Interest Entity – Proposed Revised Text (Mark-up from September 2021 Posted Version)

### Notes to IESBA Participants

This proposed revised text is a mark-up from the September 2021 posted version. The changes are in **tracked changes**.

The numbering of the paragraphs in this agenda paper is based on the 2021 edition of the IESBA Code, taking into account the approved revisions from the IESBA's [Non-Assurance Services \(NAS\)](#) and [Fees](#) Final Pronouncements.

Refer to **Agenda Item 2-C** for the proposed revised text marked up from the Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) and Agenda Item 2-D for the clean version. Both **Agenda Items 2-C** and **2-D** also include provisions from the 2021 edition of the Code as well as the NAS and Fees Final Pronouncements for which paragraph numbers have changed as a result of the new provisions from this project.

## PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

### SECTION 400

## APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

### Introduction

#### General

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#### Public Interest Entities

- 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.
- 400.9 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:
- 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 sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

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.

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## Requirements and Application Material

### General

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### Public Interest Entities

**R400.175** For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following 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; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose set out in paragraph 400.10.

400.175 A1 When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose set out in paragraph 400.10, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as "public interest entities" for reasons unrelated to the purpose set out in paragraph 400.10, that designation might does not necessarily mean that such entities are ~~not~~ public interest entities for the purposes of the Code.

**R400.186** In complying with the requirement in paragraph R400.175, a firm shall ~~have regard to take into account more explicit definitions established by~~ law, regulation or professional standards ~~which provide more explicit definitions of for~~ the categories set out in paragraph R400.175 (a) to (c).

400.186 A1 The categories set out in paragraph R400.175 (a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction.

The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to more explicitly define these categories by, for example:

- Making reference to specific public markets for trading securities.
- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, ~~for example, credit unions or mutual insurers~~ such as an entity with mutual ownership.
- Setting size criteria for certain types of entities.

400.186 A2

~~As set out in paragraph R400.175 (d), anticipates that~~ those bodies responsible for setting ethics standards for professional accountants ~~might will~~ add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

400.197 A1

A firm is encouraged to determine whether to ~~apply the independence requirements for treat other entities as public interest entities to the audits of the financial statements of other entities for the purposes of this Part.~~ 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:

- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances a predecessor firm has applied independence requirements for public interest entities to the entity.
- Whether in similar circumstances the firm has applied independence requirements for public interest entities to other entities.
- Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards.
- Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the 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.

*Public Disclosure - Application of Independence Requirements for Public Interest Entities*

**R400.2018** Subject to paragraph R400.21, 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 in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.

R400.21 As an exception to paragraph R400.20, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

~~[Paragraph 400.19 is intentionally left blank]~~

**Related Entities**

**R400.220** As defined, an audit client that is a publicly traded entity in accordance with paragraphs R400.175 and R400.186 includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

~~[Paragraphs 400.231 to 400.29 are intentionally left blank]~~

## **PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS**

### **PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

#### **SECTION 300**

#### **APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE**

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#### **Requirements and Application Material**

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#### **Evaluating Threats**

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#### *Consideration of New Information or Changes in Facts and Circumstances*

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300.7 A7      Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the professional accountant's personal or immediate family relationships.

## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

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**Audit** *In Part 4A, the term “audit” applies equally to “review.”*

**Audit client** An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity in accordance with paragraphs R400.175 and R400.186, audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.229.)

*In Part 4A, the term “audit client” applies equally to “review client.”*

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**Key audit partner** The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.

**May** *This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.*

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**Proposed accountant** A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).

**Public interest entity** For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following 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;
- or

- (d) An entity specified as such by law, regulation or professional standards to meet the purpose set out in paragraph 400.10.

*The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.186 A1 and 400.186 A2.*

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.*

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