Definitions of Listed Entity and Public Interest Entity

Comments on ED Question 9

(Requirement for Firms to Determine Additional Entities as PIEs)

Question 9

Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs?

The respondents' comments are grouped into:

- Supportive comments
- Respondents that supported the requirement
- Respondents that did not support the requirement

Respondent	Comment
	Supportive comments
IRBA	We are of the view that the requirement in R400.16 that firms take into account whether a reasonable and informed third party would be likely to conclude that such entities should be treated as public interest entities will work as a sense check for auditors and prompt firms to enhance their documentation, when it comes to the determination of PIEs.
APESB	APESB strongly supports the proposed requirement for Firms to determine if any additional entities should be treated as a PIE. APESB has required Australian firms to make this determination in relation to the treatment of entities as PIEs since 1 January 2013. At the APESB roundtable, Australian stakeholders noted that this requirement had provided a consistent basis on which PIEs could be determined and that there is no evidence that the requirement has not worked effectively in Australia.
EFAA	This requirement may pose some practical difficulties and additional costs for SMPs. However, it reinforces the role that professional accountants play in protecting the public interest.
ICAG	Firms will have an understanding of the respective entities in each jurisdiction and will better be able to evaluate whether such entities should be included in the list. However, categorizing an entity as PIE results in increased regulatory supervision and other additional audit requirements therefore, firms may not be ready to incur the costs associated with these and may be reluctant to designate certain entities in their portfolio as PIEs. Mandating this for firms will ensure that consideration is paid to

Respondent	Comment
	these new requirements. Given the amount of new guidance and the competitive requirements in the industry, an extra push is needed to involve firms in this decision-making process.
	Respondents that supported the requirement
CEAOB, IAASA	We agree to strengthening the Code beyond the current encouragement for audit firms to determine whether to treat additional entities, or certain categories of entities, as PIEs. We also concur that transparency is important in this context. It is unclear in the ED whether the revised Code would require audit firms to perform complete and regular assessments of their portfolio of clients in making this determination. Clarity should be provided on what is precisely expected from firms in this respect.
IOSCO	We believe the Board's intention is that audit firms could add but not remove entities from being considered a PIE. We do not object to this approach, however we are concerned that there could be unintended consequences because of the current construct of the Board's proposal in paragraph R400.16, which states: "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 entities should be treated as public interest entities." (Emphasis added). Based on the current drafting, the sentence could be interpreted by some to mean that a firm could determine whether to treat (and thereby exclude) a certain category of entities, including those established in the baseline definition, as a PIE. While we do not believe this is the intention of the IESBA, we strongly believe that firms should not have the option to strip away any entities from the baseline definition. We encourage the IESBA to explore clarifying this paragraph. While firms are clearly among those in the ecosystem that possess the knowledge and characteristics of an entity to determine if an entity is a PIE, there may be unintended consequences as it would also give firms the power to decide otherwise, therefore posing an independence threat.
IRBA	Yes, we support the increased role for the firms to determine if any additional entities should be treated as PIEs. We are of the view that the requirement in R400.16 that firms take into account whether a reasonable and informed third party would be likely to conclude that such entities should be treated as public interest entities will work as a sense check for auditors and prompt firms to enhance their documentation, when it comes to the determination of PIEs. This decision should be for the firm and not left to the engagement partner, as reflected in the proposed requirement. In South Africa, our local amendments to the definition of PIEs are contained in paragraphs R400.8a SA, R400.8b SA and R400.8c SA of the IRBA Code. The IRBA Code requires the firm to document its reasoning and consideration of paragraph R400.8b SA, if it considers an audit client that falls under one or more of the PIE categories not to be a PIE (a rebuttable presumption).
OAGA	While we disagree in principle with the concept of PIEs because we disagree with having differential requirements, we agree with this requirement. We note that it should be expanded to include whether any additional engagements should be treated as PIE engagements. We propose instead that a better approach may be to consider whether the engagement itself (i.e. financial statement audit or ISAE 3000 engagement or something else) is a public interest assurance engagement. So in our view what is

Respondent	Comment
	important is not only the nature of the entity, but also the nature of the engagement. For some publicly traded entities, the financial statement audit may not be a PIE engagement, while perhaps ISAE 3000 engagements may warrant differential Code requirements.
APESB	APESB strongly supports the proposed requirement for Firms to determine if any additional entities should be treated as a PIE. APESB has required Australian firms to make this determination in relation to the treatment of entities as PIEs since 1 January 2013. At the APESB roundtable, Australian stakeholders noted that this requirement had provided a consistent basis on which PIEs could be determined and that there is no evidence that the requirement has not worked effectively in Australia. APESB is supportive of the inclusion of the reasonable and informed third party test as a means of determining whether an entity should be treated as a PIE.
NZAuASB	The NZAuASB is supportive of a principled-based approach whereby firms exercise their professional judgement to determine whether an entity should be treated as a PIE. Additional guidance may be needed to assist firms determine when a reasonable and informed third party would be likely to conclude that an entity should be treated as a PIE. The repercussions for the firms may be significant if a regulator assesses that a reasonable and informed third party would conclude that an entity should be treated as a PIE, but the firm has not reached that conclusion. Clear guidance would be helpful to ensure that a proportionate and cost-effective approach is applied by all.
BICA	We support this proposal as it allows firms to exercise an open mind and maintain a risk based approach in their engagements
CAANZ	The current Australian ethical standard already 'requires' firms to determine whether to treat additional entities as PIEs. However, we suggest the IESBA provide detailed guidance with examples that should assist firms in their determination of PIEs and how a reasonable and informed third party would be likely to conclude that an entity should be treated as a PIE. Additional guidance and examples are particularly important to mitigate possible disagreements where firms and regulators may arrive at different assessments on the treatment of additional entities as PIEs. Furthermore, the determination to treat additional entities as PIEs will require detailed documentation and guidance/scenarios could be particularly helpful for SMPs determining a proportionate approach.
CAI	We concur with the general concept of allowing firms to treat certain clients as PIEs but this should be within clear parameters and guidance on this should be issued by IESBA and local regulators as necessary.
CIIPA	Yes in principle on the basis that Firms could encounter situations not envisaged by the Code or the local body and therefore may need to be able to make a decision pending determinations made by local bodies or other regulators as to whether an entity should be considered public interest. We would expect this to be used in narrow circumstances, as this could lead to differences in treatment of entities between firms.

Respondent	Comment
CPAC	We support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. However, we are concerned that this proposal could lead to inconsistencies and become a competitive factor between firms, which would not be in the public interest. We observe that firms may be hesitant to designate clients as PIEs and that the enforceability of such designation by a firm could be called into question because of the significant judgement involved. Therefore, we are of the view that the role of local bodies in refining the PIE criteria is critical and, if performed well, the role of firms should be very limited. We think that robust consultations involving all stakeholder groups, including firms, will be important in arriving at appropriate criteria for refining the definition of a PIE by local bodies, and that this will help to limit the discretion required of firms in identifying additional PIEs.
EFAA	We support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. This requirement may pose some practical difficulties and additional costs for SMPs. However, it reinforces the role that professional accountants play in protecting the public interest. It is important the decision be respected and avoid a regulator or court, at a future point in time, deciding that a firm made an incorrect assessment about the entity's PIE status.
ICAEW	As the IESBA has identified, there are a number of factors that could influence whether there would be a significant public interest in the financial condition of an entity. In reality, not all of these factors can be adequately assessed by a local regulator in every instance to fully capture all appropriate entities. However we have received mixed views on whether there should be an obligation on firms to consider whether entities should be treated as PIEs for audit independence purposes. If this requirement was introduced, we believe some additional safeguards would be necessary as set out in the paragraphs below. There is a risk that local regulators will scrutinise the conclusions reached by firms in determining whether an entity should be treated as a PIE particularly where more than one firm has acted as auditor to an entity over a period of time, and the firms have reached different conclusions on the entity's PIE status. While the factors listed in paragraph 400.16 A1 seem logical issues to consider in performing an assessment of whether there would be a significant public interest in the financial condition of the entity, there should be an encouragement for local regulators to issue detailed guidance to firms based on the factors that is tailored to their jurisdiction. This should reduce the risk of inconsistent classification of entities as PIEs. If this requirement were introduced, we would recommend that the possible challenges for firms in determining whether an entity should be treated as a PIE be kept under review in the post implementation period.
ICAG	Yes. Firms will have an understanding of the respective entities in each jurisdiction and will better be able to evaluate whether such entities should be included in the list. However, categorizing an entity as PIE results in increased regulatory supervision and other additional audit requirements therefore, firms may not be ready to incur the costs associated with these and may be reluctant to designate certain entities in their portfolio as PIEs. Mandating this for firms will ensure that consideration is paid to these new requirements. Given the amount of new guidance and the competitive requirements in the industry, an extra push is needed to involve firms in this decision-making process.

Respondent	Comment
ICAJ	The application of this requirement may be an efficient process for large audit firms. However, firms could have different views resulting in divergence, depending on firm's risk appetites and evaluation criteria.
ICAS	We support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs however suggest that some further detail from paragraph 65 of the Explanatory Memorandum within some of the bullet points in paragraph 400.16 A1 might be helpful for users: "400.16 A1 In addition to the factors listed in paragraph 400.8, factors to consider when determining whether additional entities or certain categories of entities should be treated as public interest entities include: • Whether the entity has been specified as not being a public interest entity by law or regulation. It is not anticipated that a firm should treat an entity as a PIE when it has been explicitly specified as not being a PIE by law or regulation. • Whether the entity is likely to become a public interest entity in the near future. • Whether in similar circumstances the firm or a predecessor firm has treated the entity as a public interest entity. • Whether in similar circumstances the firm has treated other entities as a public interest entity. • 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, as many of the additional independence requirements for PIE audits relate to increased communication with TCWG.
INCP	Yes. We believe that this requirement contributes to increasing trust in the audit and financial statements of public interest entities. It is important both to align this new requirement with sections of the code of ethics, such as client acceptance, and to supplement the code of ethics with safeguards in the event that opinions on categorization of a PIE are different from those of the client or other firms. Including reference guides would be convenient for standardizing the assessment process aimed at categorizing an entity as a PIE. We support the assessment scenario under the criteria of a reasonably well-informed third party.
JICPA	Because it would be difficult to create an exhaustive definition of all PIE categories, we believe it is reasonable to ultimately consider whether there are entities that firms should add after relevant local bodies have refined PIE categories. We believe that it is important to raise awareness of the refinement of the IESBA's provisions by local bodies and determination by firms to treat additional entities as PIEs.

Respondent	Comment
MIA	The Institute fully supports the IESBA's proposal for providing a role for firms in determining if additional entities should be treated as PIEs, over and above those that are specifically identified under R400.14. Apart from the fact that it is already an existing practice in many firms as part of their risk management practices, it is also a positive recognition that accountants are highly regarded professionals with specialist skills coupled with strong ethical standards. It underpins the rationale that ultimately, professional accountants must act in the public interest. However, it is important that such decision is respected to avoid regulatory or court intervention when it comes to questioning the firm's decision on an entity's PIE status, on hindsight. Guidance will be helpful for firms to set such internal policy (in recognizing an entity's PIE status) and how such discretion is to be exercised and in particular, to be documented.
MICPA	We agree with the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. There are significant implications once an entity is identified as a PIE by a firm including requiring the entity to change to a different accounting standards framework, (i.e. IFRS vs IFRS for SMEs), as well as requiring the entity to be subjected to the scrutiny of oversight regulator. A reasonable transitional period should be provided to entities that have been identified by firms as PIEs. We also suggest the Board to provide clear and comprehensive guiding principles for firms in formulating their criteria for determination and identification of entities as a PIEs, to ensure consistent application and to minimise opportunities for entities to choose their auditors principally based on whether they would be classified as a PIE.
SAICA	SAICA and members of the working group are in support of the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. Members recognised that proposed paragraph 400.16 clearly stipulates what is required from a firm perspective. It was noted that local larger firms already have policies in place to designate entities as PIEs. It was however noted that the role of the local bodies is critical in refining the list of PIEs. The lack of such a list may give rise to an excess burden being placed on smaller audit firms in identifying PIEs. From a local perspective, the Auditor-General of South Africa, being the supreme audit institution of South Africa has identified a specific need to identify which of their auditees should be treated as PIEs due to their public relevance and service delivery impact.
SAIPA	The third component of the IESBA's approach relates to an increased role for the firms and is made up of two new proposed requirements: • Elevation of extant application material to a requirement for firms to determine if any additional entities should be treated as PIEs (paragraph R400.16) • A new requirement for the firms relating to increasing the transparency of when an entity has been treated as a PIE (paragraph R400.17)

Respondent	Comment
	We agree with paragraph R400.16 which makes it a requirement for firms to determine if any additional entities should be treated as PIE's. This is a requirement in the South African Code currently.
TFAC	We support the proposals to introduce a requirement for firms. However, these requirements will further create diversity in practice. Therefore, coordination with relevant local bodies regarding firms' addition of PIE is also recommended to acknowledge those in charge of supervising firms' practice.
TURMOB	We support this proposal since it is in line with the overarching objective of this revision. Since the aim and principles in deciding whether an entity is of public interest or not are set forth, the firms are well situated to make such assessments as they are knowledgeable of the entities more than any other party.
BKTI	We support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. Some jurisdictions already operate such a system and we are not aware of any significant problems or difficulties that have arisen as a result. We believe our member firms are well placed to judge whether any additional entities should be treated as PIEs, and on occasion they have done so under the existing rules. Also under the existing rules the audited entity may ask to be treated as if it were a PIE
	Respondents that did not support the requirement
UKFRC	Within the UK, enhanced confidence in corporate reporting by public interest entities is supported by: • Additional corporate governance requirements and enhanced corporate reporting through application of the Corporate Governance Code; • Additional requirements for auditors over independence and reporting mandated by regulation; and • A supervision regime consisting of inspection of audits performed on these entities and enforcement action against audit firms when necessary. Placing a requirement for firms to treat additional entities as public interest entities would result in only one element of this regime being in place. While the entity would be audited as a public interest entity, it would not be under any obligation to comply with the additional corporate governance and reporting requirements that flow from being so defined by regulation. Furthermore, regulation of the underlying audit in the UK would probably fall to a professional body rather than to the FRC as Competent Authority. Without these additional measures in place, a determination by a firm that an entity is a public interest entity is likely to cause confusion among stakeholders. It could also lead to a devaluation of the term, undermining the overarching aim to enhance confidence in the audit of such entities. For these reasons, determination of whether an entity is a public interest entity should be a matter for regulation.

Respondent	Comment
	We also note the potential for practical difficulties with respect to the additional requirements placed on auditors of public interest entities if the entity does not wish to be treated as such. If Those Charged with Governance do not ensure that an entity voluntarily conforms to the UK regulatory environment, the auditor possesses no levers with which to ensure that compliance if they believe that they should be treated as such. Instead of requiring firms to identify additional entities as public interest entities, we believe that a more appropriate approach would be to require firms to assess whether the public interest would be served if they adopted the enhanced independence requirements for audits of public interest entities for the entity in question. The rationale behind the proposed changes to IESBA's code is to enhance confidence in the audit of certain entities by requiring auditors to adhere to additional safeguards over independence. Requiring firms to make such as assessment and to action safeguards as necessary would be consistent with the requirements of Section 540 of the IESBA code, which requires firms to assess and safeguard against potential risks to independence from familiarity and self-interest. It would also be aligned with the requirement placed by ISQM 1 on firms to perform engagement quality reviews for entities which the firm determines that an engagement quality review is an appropriate response to address identified risks to quality for entities which are neither listed or where engagement quality review is neither required by law or regulation.
GAO	We do not support the proposal to require firms to determine if additional entities should be treated as PIEs in the IESBA Code. The IESBA Code should not create requirements for the performance of financial statement audits. The IAASB should promulgate requirements that affect the performance of financial statement audits.
SMPAG	The SMPAG does not support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. We are extremely concerned about the potential practical impact of the proposals for an auditor to go beyond the definition of a PIE in national law. Firms should be free to apply additional requirements to an audit of any entity, not just a public interest entity, if relevant risk assessments warrant such additions. However, to make it a requirement that a firm "shall determine whether to treat additional entities, or certain categories of entities, as public interest entities" (R400.16), rather than being encouraged, seems unnecessary and excessive. In our view, there would need to be robust data and evidence on what is the issue/ problem with the extant encouragement and therefore the need to change, which has not been presented in the EM. We are concerned the proposal means that firms will be in a position of "second guessing" what legislators, the Code and local bodies have determined to be PIEs. There are practical challenges in determining which audit clients ought to be treated as PIEs, which may desire to be treated as PIEs, or are so treated by chance of circumstance. It places undue pressure and focus on decisions by audit firms that arguably, are decisions for others in the community to make. For example, the argument provided for not including entities that may be in the process of enabling their financial instruments to be publicly traded is that auditors will know which of their clients fit this and thus should be "added" by the auditor. In some jurisdictions this is addressed by law instead of being at the auditor's discretion, and we do not see that this could not be addressed the Code. In our view, a clear criteria would be superior in terms of its ability to achieve this. It will also potentially be more difficult for SMPs generally not

Respondent	Comment
	serving the PIE audit markets, and if a determination is needed to be made (and documented) on each engagement, it will cause unnecessary cost for SMPs. We are concerned that it will open the door to audit firm shopping, to disagreements between auditors and regulators and to a potential notion that audit firms are being used to "correct" definitions determined by legislators or regulars. There could also be jurisdictions where it may be socially or culturally "unpalatable" for the accountancy profession to seek to go beyond the law voluntarily. In addition, firms making decisions about whether client entities should be treated as PIEs increases their risks, which will have an impact on firms' professional indemnity insurance policies, potentially increasing premiums in the market. Finally, the decision made must be respected and regulatory hindsight avoided. For example, it raises a question about what could happen if an SMP makes what is considered by a regulator, or court, at a future point in time, to be an incorrect assessment about the entity's PIE status.
ACCA	We suggest that the IESBA carefully consider the proposal to elevate the extant encouragement for firms to determine if any additional entities should be treated as PIEs into a requirement. While we see a role for the IESBA and relevant local bodies in determining the entities that should be treated as PIEs, the additional involvement of firms in this process has the potential to create divergence and undue inconsistency in the treatment of PIEs between firms. Feedback received suggests that the involvement of firms in determining PIEs could have unintended consequences and risks related to "auditor shopping", where entities may opt for a firm that does not treat them as PIEs for audit purposes. We suggest that the IESBA take the following into considerations before progressing with this proposed change: • Given that it is already an 'encouragement' in extant for firms to determine whether to treat additional entities or certain entities as PIEs, according to IESBA's investigation of how this has landed in practice, what changes does IESBA expect to see with the 'elevation' to a requirement? • Is there sufficient push and guidance in the ED that will lead firms to the appropriate decision? • Has there been a more thorough consideration of the cost implications of classifying an audit entity as PIE vs not, which helps IESBA understand the driver for inappropriate classification? • Is there a risk that firms will be concerned about being second-guessed by their regulators all the time and will constantly err on the side of caution? • Will such a requirement result in a disproportionate cost burden on the mid- and smaller-sized practices? We have also heard feedback expressing concerns over practical implications including those related to mandatory auditor rotation. For example, some firms may not interpret the principles correctly under these additional firm requirements and if they have treated an entity as PIE then the successor auditor may feel compelled to treat it as a PIE as well. Also, in jurisdictions

Respondent	Comment
	where there is mandatory rotation, there are practical challenges as we could end up at a “procyclical PIE phenomenon” with every successor auditor treating an entity as a PIE, eventually leading to a situation where most entities are treated as PIEs.
AE	No, we do not support the introduction of this requirement and believe it should remain in the application material as an encouragement to firms. Auditors already consider internal and external factors and determine if they need to apply stricter rules of independence in a specific engagement. Such a requirement might negatively impact the three-way relation between the lawmaker, the audit firm and the regulator, especially in regions like the European Union where the lawmaker has set a robust PIE definition. Determination of additional entities as PIE by audit firms might be interpreted as questioning the capability of the lawmaker. Also, this may lead to inconsistency if a firm determines an entity as a PIE, but another firm does not do the same for another entity of a similar nature. Similarly, the regulator will be put in a very difficult situation, being expected to confirm that audit firms abide by the requirement, but at the same time not wanting to be in a position to judge their lawmaker. Hence there will be a risk of legislators and regulators choosing not to adopt the IESBA Code. Treating a non-PIE entity as a PIE by audit firms may only be relevant in two cases: when those charged with governance of an audited entity request to be treated as a PIE and when an entity is in the process of becoming a PIE. In other cases, we believe that the overall application of the conceptual framework and the requirements under Part 4-A of the Code will enable the auditor to achieve the objectives related to independence.
AICPA	PEEC does not support the requirement that firms determine whether to treat additional entities or certain categories of entities as PIEs. PEEC recommends the requirement be removed from the standard because it will lead to inconsistent application and will counteract the uniformity created by the refinement process undergone by local bodies. Since local bodies will need to refine the categories of PIEs, firms should be permitted to rely on the extensive work performed by that local body. This does not mean that firms or clients can’t choose to treat an entity as a PIE, but rather, firms should not be required to evaluate every audit client that is not already defined as a PIE and should be able to rely on the conclusions reached by their local bodies.
ASSIREVI	On the contrary, the Association strongly disagrees with the approach proposed by the IESBA through the introduction of a third level for the definition of PIEs, namely: "(c) Role of Firms - Determination by firms whether to treat any additional entities, or certain categories of entities, as PIEs". This approach, which leaves to the auditor the choice of entities to be included in the category of PIEs in addition to those already listed by the Code or local legislation, seems inappropriate in our opinion for several reasons: (i) the definition of the perimeter of PIEs involves a relevant element of public interest; accordingly, only national or international legislators have a thorough and fully comprehensive vision of the appropriate choices to be made in this respect, in light of the regulatory strategies that they pursue. The legislators can then decide to delegate and empower the competent Authorities to proceed to the identification, on their behalf, of different types of entities to be included in the list of PIEs.

Respondent	Comment
	Additionally, the qualification of an entity as a PIE in relation to the public interest involved necessarily requires an objective evaluation, which can only be appropriately carried out by legislators and regulators. Otherwise, introducing elements of subjectivity in determining the perimeter of PIEs would raise uncertainties which are not compatible with the purpose of the Code to safeguard the public interest; (ii) the auditor would be required to take a decision (with unavoidable elements of discretion) as to which category each audited entity should be included in. In fact, the Exposure Draft does not seem to require the auditor to use his professional judgment as to whether, in certain circumstances, the safeguards to independence should be strengthened by applying the provisions contained in the Code for PIEs. The requirement is rather to classify an audited entity as a PIE, which would give the auditor the role of a legislator and/or a regulator, even more so in the absence of any involvement of the audited entity and its governance bodies. It is reasonable to expect inevitable discussions with the audited entity, which may dissent from the auditor's view on the existence of elements leading to the qualification of the entity as a PIE. Such a situation could lead to potential conflict areas due to subjective interpretations, with could result in threatening, in our opinion, the very same independence that the proposal in the Exposure Draft is intended to strengthen. Indeed, the assessment of the elements that might lead to qualifying an entity as a PIE could, at most, be carried out by the audited entity, which has the full information framework necessary to reach a conclusion in this respect; (iii) it is also reasonable to expect that such an approach may result in inconsistent behaviors, as entities with similar characteristics may well be assessed differently from time to time by the relevant auditors; (iv) the discretionary and highly subjective nature of the auditor's assessment could be questioned ex post as a result of any subsequent events or additional facts. In this regard, it should also be noted that the set of independence rules applicable to the audit of PIEs in the European legal system (and consequently in the legal systems of the EU Member States – including Italy) is very complex and onerous, not only for the auditor but also for the entity being audited. We refer in particular to the provisions concerning the appointment of the auditor, the duration of the audit engagement, the appointment of the Audit Committee, the prohibition to provide certain non-audit services and the determination of the fee cap. As a consequence, it is easy to imagine significant implementation issues due to an inconsistent and uncoordinated application of the set of rules provided for PIEs by the Code, compared with those indicated by the European and national lawmakers. Finally, we would like to remind to the Board that the 2014 reform that led to the above-mentioned European legislation on PIEs has expressly included in this category "entities [...] whose transferable securities are admitted to trading on a regulated market", "credit institutions" and "insurance undertakings". At an Italian level, an ad hoc category was created in 2016 (namely, "Entities subject to an intermediate discipline" – "ESRI")( ), subject to an independence regulation which largely recalls the rules provided for PIEs. More recently, in March 2021, the UK Government published the consultation document "Restoring trust in audit and corporate governance - Consultation on the government's proposals", containing some proposals to reform the areas of audit and corporate governance – including a new

Respondent	Comment
	definition of PIEs. In this definition, the UK Government is proposing to include entities such as (i) "AIM companies with market capitalization exceeding £200m", (ii) "Lloyd's Syndicates" and (iii) "large third sector entities". The Government also seeks suggestions as to other entities to be added to the PIE category, but does not provide any mechanism for audit firms to identify the entities to be included in such definition. The abovementioned experiences confirm, once again, that in the current context it is for the legislators (and, at the most, the regulators) to appropriately determine the extent of the perimeter for the definition of PIEs. This is further confirmed by the guidelines for the appointment of statutory auditors or audit firms by public interest entities recently published by the Committee of European Auditing Oversight Bodies on March 16th, 2021. In fact, as stated in such guidelines, "entities are defined as PIEs from the moment they fulfill the criteria of a listed company, a credit institution or an insurance undertaking as set out in EU law. In addition, Member States may designate other entities as PIEs under national legislation. Such entities are to be considered PIEs when fulfilling the criteria set by the respective Member State". Indeed, from a European Union perspective the identification of entities which have to be qualified as PIEs is always left to the European or national legislator, without any mechanism similar to the 'third level" proposed in the Exposure Draft. In summary, Assirevi supports in principle the intent of the IESBA to broaden the definition of PIEs, as it shares the "overarching objective" indicated in the Exposure Draft, according to which "there are types of entities for which there is significant public interest in their financial condition and hence their financial statements. It is important, therefore, that there is public confidence in those financial statements. A major contributor to that confidence is in turn confidence in the audit of such financial statements; and confidence in such audits will be enhanced by additional independence requirements" (see p. 8). However, the Association expresses its disagreement with the approach set out with respect to the "third level" referred to above, considering that the overarching objective stated by the Board can be fully satisfied through an extension of the definition of PIEs by the IESBA and a possible integration/clarification of this category by the supranational or national legislators or regulators. If the aim of the IESBA is to strengthen the safeguards to auditor independence in those territories where there is a weaker regulatory response by local lawmakers or regulators, it would then be desirable for the proposal to clarify that the provision regarding the third level of definition of a PIE is limited to those cases where there are no specific local provisions in this regard. In any event, Assirevi believes that the overarching objective stated by the Board can easily be achieved through the mere use of professional judgment by the auditor to determine whether, in certain circumstances, it may be appropriate to strengthen the existing independence safeguards by applying the provisions for PIEs reflected in the Code. This would not entail any request of the auditor to qualify an audited entity as a PIE – and would therefore avoid the unintended consequences referred to above, which could impact the otherwise reasonable intentions of the Board. As mentioned above, Assirevi does not agree with the proposal to include in the Code a "requirement for firms to determine if any additional entities should be treated as PIEs"...

Respondent	Comment
	The reasons underpinning the view of Assirevi, which is contrary to leaving to auditors the choice to determine whether specific entities should be defined as PIEs or not, have already been explained above. In addition, a number of additional issues that appear to be critical in this respect is described below. In light of our specific experience at the national level, the current perimeter of entities for which "reinforced" independence requirements apply is already very broad. Nor does it seem easy to identify concrete examples of additional entities which should be added to the categories of PIEs already identified under the local regulatory framework and proposed by paragraph R400.14 of the Code. Italy, in fact, applies the PIE perimeter as defined by the European legislator, further supplemented by the ESRI entities – expressly introduced by the Italian law and substantially similar to PIEs with regard to the application of auditor independence rules. Also in light of the above, it is the view of Assirevi that the introduction of proposed paragraph R400.16 would not be necessary. In fact, the "overarching objective for additional independence requirements for the auditors of PIEs" could be achieved, even in those jurisdictions where the local legislation does not provide sufficient coverage on this subject, by simply requiring the auditor to apply his professional judgment in determining whether, in certain circumstances, it is appropriate to strengthen the independence safeguards by voluntarily applying to an entity the provisions of the Code regarding PIEs. On the other hand, and for the reasons outlined above, it does not seem appropriate to require an auditor to qualify an audited entity as a PIE, given that such qualification would trigger all the consequences mentioned above – which are not limited to the application by the auditor of the reinforced independence requirements provided by the Code for PIEs. Assirevi therefore does not agree with the introduction of proposed paragraph R400.16. However, if the intent of IESBA with the introduction of this “third level” of classification is to strengthen the protection of auditor independence in those territories whose national legal or regulatory framework in this area appears to be particularly weak, it should then be clarified that an intervention by the auditor to qualify an entity as a PIE would only be required in those very specific circumstances. Among the factors justifying the negative view of Assirevi on the so-called “third level” of definition of a PIE, the issues related to inconsistencies in the execution of the audit resulting from different choices made by the auditor in qualifying an entity as a PIE also play a role. For example, the case of two auditors of the same group who come to a different conclusion as to whether the parent company should be regarded as a PIE or not would inevitably lead to an inconsistent application of two different sets of independence rules to the same group. In addition, it is our view that even if the Code allowed for an extension of the rules on independence for PIEs to entities other than those listed by the Code or local authorities, this extension should in the first instance be decided by the audited entity rather than the auditor. The former – rather than the latter – has indeed the complete set of information required to determine whether the conditions to consider the entity as a PIE are met. Therefore, the criterion set out in bullet 5 of proposed paragraph 400.16 A1 of the Code could at most be the only addition to the categories of PIEs defined by the Code and local authorities. Also when it comes to the appointment of the auditor, critical issues could arise due to the discretion given to the auditor to treat as a PIE an entity that is not considered as such by the Code or by the Local Bodies. For example, in case two auditors

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	participating to an audit tender were to reach a different conclusion as to whether the company should be treated as a PIE or not, such an entity might be inclined to appoint the auditor that does not regard it as a PIE. This would in fact imply the application of a less stringent independence regime to the audit engagement, which in turn would result into less onerous consequences for the audited entity. In such a scenario, the very same purpose of the proposed amendment to the Code would be undermined. Finally, the Exposure Draft does not clearly explain the scope of the independence rules applicable to PIEs falling into this category as a result of a choice made by the auditor. In the view of Assirevi, in the undesired event that the IESBA wishes to proceed with the introduction of the so-called "third level" for the definition of PIEs, it would then be necessary to clarify that only the independence requirements set forth in the Code for PIEs are to be considered applicable to the entities regarded as such by the auditor – with the exclusion of the other provisions that local regulations, such as the European rules, impose on the auditors of PIEs as locally defined. Otherwise, the auditor (as well as the entity being audited) would end up being subject to significantly onerous rules in the absence of the required legal prerequisites. In fact, as discussed above, the set of independence rules applicable to the audit of a PIE in the European legal system is very complex and onerous not only for the auditor, but also for the audited entity, given the restrictions on (i) the assignment and the duration of the audit, (ii) the rules established for Audit Committees, (iii) the prohibition to provide certain non-audit services and (iv) the fee cap on permitted non-audit services. In addition, as already mentioned, local laws in Italy also identify the category of ESRI, governed by rules on auditor independence similar to those applicable to PIEs. In this context, it is likely that implementation issues would arise in presence of an inconsistent application of the set of rules on EIPs under the Code and those provided by European and national regulations.
CNCC	No, we do not support the proposal to introduce a requirement for firms to determine if additional entities should be treated as PIEs. As explained in our general comments above, we believe that this requirement would be a source of inconsistency and confusion for the Public. If the IESBA considers that audit firms should apply more stringent independence and quality requirements to certain audit clients, which is an objective we support, we note that it is already required by ISQC1 and future ISQM1 that firms design criteria to classify the risk profile of their audit clients and apply more stringent independence and quality rules to those clients which are considered high risk. Firms can for example decide to have an engagement quality control reviewer on certain high-risk clients, even though those clients are not PIEs. We believe that the approach of ISQC1 and ISQM 1 which allows the firm to judge which additional independence and quality requirements is better suited to respond to the independence or quality risks on such clients and enables the firm to better target the risks of many more clients than any requirement to "upgrade" some clients as PIEs would do. The IESBA might want to liaise with the IAASB to see how they could feed in their list of factors to a potential implementation guidance of ISQM1.
CPAA	Careful consideration needs to be given to the introduction of a requirement for firms to determine if any additional entities should be treated as PIEs. Potentially, it places undue pressure and focus on decisions by the audit firms that arguably, are decisions

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	for others in the community to make. Additionally, audit firms making decisions about whether client entities should be treated as PIEs increases their exposure to criticism and complaint, as well as risks (e.g., what will happen if they make what is considered by a regulator, or court, at a future point in time, to be an incorrect assessment about the entity's PIE status?), which will have an impact on firms' professional indemnity insurance policies, potentially increasing premiums in the market. Furthermore, audit firms should be free to apply additional independence requirements to an audit of any entity, not just a PIE, if relevant risk assessments warrant such additions. While we note that the Australian standard setter, the APESB, has included a requirement for audit firms in the Australian code of ethics, it has done so within the context of very clear guidelines and examples as to which entities may be considered PIEs. It was also done following close consultation with all key stakeholders. It may be preferable for the IESBA to retain the current wording that encourages firms to make such determinations and which then allows each jurisdiction to determine how it might address this matter. We note that proposed paragraph R400.16 refers to the reasonable and informed third party test. Arguably, it is preferable, and far less controversial, to have a third party make the determination about what constitutes a PIE in a jurisdiction – rather than an audit firm – as it demonstrates a greater level of objective judgement and minimises claims of potential actual and perceived conflicts of interest.
FACPCE	We consider that firms should not make this determination. The difficulty of making an accurate identification of a PIE will add greater risk to audit firms and their criteria are likely to differ in comparable cases. As we expressed in question 1) "The considerations of the firms, collected through their professional experiences, should be received by a professional body for their evaluation in conjunction with a regulator, where this joint work proceeds.
HKICPA	We received significant concern and disagreement from our stakeholders on the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. Stakeholders from the SMP community highlighted that, unlike many other jurisdictions, Hong Kong requires a statutory audit for most of the entities and corporations. The proposed revision may impose a significant amount of cost and undue pressure on SMPs to assess whether each client is a PIE at the client acceptance and engagement continuance exercise. In practical terms, there is little incentive for a firm to define an entity as PIE at the firm level because it would incur additional cost and restrictions (e.g. EQCR) to the firm with little benefit. We may envisage that firms, especially micro-practice units and sole proprietors would likely conclude the entity as a non-PIE. Stakeholders also commented that the "reasonable and informed third party" approach would often be taken as hindsight. Regulators may question a firm as to why an entity in a certain industry has not been treated as a PIE where peers have treated entities in the same industry as a PIE before market practice or norms are established. We would recommend that the IESBA re-consider elevating the extant application material to a requirement. If the proposed requirement will be finalised as drafted, we recommend the IESBA to clarify that the requirement is only applicable where the firm

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	has reasonable basis to conclude such entity should be treated as a PIE. Depending on the reasons for the determination, it may not be necessary to apply such determination to all the clients in the same industry. We also noted that while certain entities may be identified as PIEs under R400.16, it is not clear how an entity may be reclassified from a PIE to a non-PIE. We would recommend the IESBA to develop guidance or factors a firm would need to consider if it re-classifies an entity from PIE to non-PIE.
ICPAU	We do not agree with the elevation of extant application material to a requirement for firms to determine if any additional entities should be treated as PIEs under (paragraph R400.16). Whereas this would have been a welcome proposal for the profession in as far as enlarging the scope of PIEs for purposes of managing risks, it will however, compound on the problem of inconsistencies of application of the requirements of the Code not only across jurisdictions but equally within jurisdictions since the auditor will come up with a different conclusion from that of the IESBA and the local body in respect to entities being PIEs. This 3 layer disparity simply introduces confusion in the market.
IDW	We do not believe it to be necessary for firms to be subject to a requirement to determine if any additional entities should be treated as PIEs because we believe that the principle of what should be a PIE as we suggest in our proposed changes to paragraph 400.8 together with the clear definitions and application material that we propose for paragraph R400.14 would suffice to cover all of those entities that ought to be covered as PIEs. In other words, the principle and definition we propose would cover almost all instances in which the public has a significant interest in the financial condition of the entity, and hence its audited financial statements, when making decisions about whether or not to “invest” in or “divest” a financial obligation from the entity. We note that if firms believe that due to stakeholder requests or for risk management purposes, it may be advantageous to treat an entity as a PIE as defined by the IESBA Code and to apply the requirements of that Code, then firms are free to do so, but the Code should not be used as a basis for requirements that can be dealt with through stakeholder requests and firm risk management. The requirement is therefore superfluous and can be deleted.
ISCA	Whilst we are generally supportive of the broad approach in having a global PIE definition and for the local bodies to refine the list of entities designated as PIEs, we note that it may be practically challenging for the firms to determine additional entities as PIEs. For example, one of the factors IESBA has included in proposed paragraph 400.16 A1 is whether in similar circumstances, a firm or a predecessor firm has treated the entity as a PIE. We wish to highlight the practical challenges given that different firms may potentially interpret or apply the Code differently. Such a requirement might also create inconsistency and confusion and result in additional burden to firms.
KICPA	We understand that it is practicable to some extent for national standard setters (NSS) to refine the scope of PIEs. However, it is less practicable for firms to determine additional entities to be treated as PIEs. We believe that meeting the above requirement is only possible when countries put in place criteria and processes that are objective, comparable and also understandable by stakeholders. However, it makes more sense that such criteria are developed by standard setters, rather than firms, which again

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	limits the possibility of firms fulfilling the requested role. We fully understand and respect the purpose and intention of introducing the role for firms, but with all due respect, it is questionable whether such requirement can actually work as intended. We also hope that the IESBA will monitor how PIEs are identified by national standard setters or firms so that it can play its role in reinforcing international convergence (as part of post implementation review (PIR) activities)
NBA	We repeat our introductory comment: We support an approach whereby firms should think upfront whether additional safeguards are necessary based on the specific circumstances of a client in the situation that the client is not designated as a PIE by legislation. We consider this to be part of a firm's quality management system (besides, this matter is about more than independence only). One could compare that with a firm's determination upfront, when to perform an engagement quality review where this is not mandatory. We believe that the ISQM is more suitable to address this matter than the IIS. In addition to AE, we suggest IESBA and IAASB to explore the pros and cons of including this matter in the ISQM and to discuss in what form.
NRF	We do not support this proposal. In our view it is unclear what the rationale behind the proposal is. To our understanding such concerns have not been raised regarding the current approach that makes it necessary to replace the encouragement for the firms to determine if any additional entities should be treated as PIEs, with a requirement. Also, we question the use of the reasonable and third party test in this context. It is not part of the current regulation and we cannot see why elevating the current encouragement to a requirement would justify the need to use this test. Normally, the reasonable and third party test is used to add a more objective perspective to the decision-making process. Applying the test within this context gives the impression that the firms should second-guess whether the already broad categories of entities covered in R400.14 are broad enough and whether the relevant local bodies are able to make the correct judgment calls when refining the scope. In our view this is a role that is not suitable for the firms.
WPK	We do not support the proposal to introduce a mandatory requirement for firms to determine if any additional entities should be treated as PIEs. Stakeholders are basically free to structure their contractual relationships. They can agree on additional requirements beyond the statutory requirements according to which the companie´s audit shall be conducted. The terms of the auditor engagement, for example, or the companie´s constitutional documents might stipulate for additional requirements for the audit. This is purely a matter for the contractual parties and should not have a place in the Code. Furthermore, the outcome of the assessment whether to treat any additional entities as PIEs must be clear in advance. We are concerned that an entity considered as a PIE by one firm might not be regarded as a PIE by another firm. In other words, the IESBA proposal might lead to a considerable degree of legal uncertainties and might also cause difficulties for the regulatory oversight body.
BDO	We do not support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. This places an unnecessary burden on firms and could lead to inconsistency and lack of comparability between firms and

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	jurisdictions creating a risk to the public interest. We are supportive of maintaining the application material, included in the extant Code, that encourages firms to determine whether additional entities or certain categories of entities should be treated as PIEs along with the application material on factors to consider for the limited entities that may not fit the categories in 400.14.
CohnReznick	We do not agree with the proposed requirement in paragraph 400.16 to determine whether to treat additional entities, or certain categories of entities, as public interest entities. While this is similar to extant requirements, we believe evolving markets and a new focus on PIEs created by the proposed standard put an undue burden on firms and potentially harm the public interest. Some firms may treat an entity as a PIE simply because the entity was treated as such previously, regardless if the criteria for a PIE are clearly met, or just out of being overly conservative. Such an exercise may cause an entity to allocate additional resources to the audit exercise needlessly, thus potentially harming investors. We believe with transparent disclosure in the audit report that the market will decide which entities should and should not be treated at PIEs.
DTTL	The extant provisions in the Code that encourage the consideration of additional PIE entities by the firm remain appropriate, but Deloitte Global does not support the proposal to introduce a requirement that a firm should determine whether additional entities should be treated as PIEs. This approach introduces a third layer to the Code definition and the refinements by the local bodies that would further decrease consistency in the interpretation and the application of the PIE standards in a given jurisdiction. The introduction of a requirement to determine whether to treat an entity as a PIE implies that firms bear the disproportionate responsibility of considering every entity that does not meet the PIE definition and concluding whether or not to treat it as a PIE. This additional level of judgement applied in every case will also lead to different independence requirements being applied by different firms to similar entities in the same jurisdiction, or even to entities in the same corporate group if audits are undertaken by different firms. Those Charged With Governance are more appropriately positioned to make this determination than the auditor. Paragraph R400.16 requires firms to take into account whether a reasonable and informed third party would be likely to conclude such entities should be treated as PIEs and consider additional factors supplementary to those in paragraph 400.8. It would appear, however, that the view of the reasonable third party has already been taken into account by the Board in determining the broad categories of PIEs in paragraph R400.14 and will be taken into account by the local bodies when evaluating whether to refine the categories pursuant to the factors set forth in paragraph 400.8. In Deloitte Global's view, firms could be encouraged to consider additional PIE entities, but only with respect to entities that meet the specific criteria in paragraph 400.16 A1 (which, as explained below, could benefit from greater consideration and clarity.)
EY	No, we do not support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. We do not believe it is appropriate or in the public interest for firms to make this judgmental determination, and doing so could create inconsistencies in how entities are treated, which would ultimately impede rather than enhance stakeholders' confidence in the independence of the auditor. While the Boards proposals include provisions addressing the transparency as to whether an entity has been treated as a PIE, if similar entities are treated differently in different jurisdictions, this may undermine the confidence the Board is seeking to enhance. As we have noted in our response, local bodies and regulators are best positioned to supplement a narrow, baseline list of categories in the Code and we believe it is not in the public interest for audit

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	firms to second-guess determinations made by the local bodies and regulators. If this provision is retained, those charge with governance should be required to agree to the classification as a public interest entity. If those charged with governance do not agree, then the entity would not be considered a PIE.
GTIL	GTIL does not support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as a PIE. If a regulator or standard setter has not categorized an entity as a PIE, we do not believe it is the auditing firm's responsibility to decide to treat the entity as a PIE. If an entity wants to be treated as a PIE, such for purposes of going through a future IPO, that should be the decision of the entity's management and those charged with governance. Furthermore, we believe the inconsistent application of the requirements is not in the best interest of the audit client. Firms applying the PIE requirements to an entity that is not a PIE, could drive-up and impact the audit fee. Furthermore, this could lead to opinion shopping for entities that do not want to be treated as PIEs.
KPMG	We are not supportive of the requirement for firms to determine if any additional entities should be treated as PIEs. With a global definition present in the Code and the proposed role of local bodies to further refine such definition, the requirement for firms to make a final determination for entities not otherwise considered PIEs is not adequately supported. This requirement would seem to inappropriately transfer a regulatory responsibility to the firms that should be reserved for the Board and local standard setters. As noted previously, it also will further undermine the drive for global consistency as a result of the likelihood of firms making different PIE determinations for similar entities. The extant Code presents this concept as an encouragement (i.e., a recommendation) for the firm in application material and we support this treatment instead of elevating this point to a requirement given our expectation that there will be few additional entities that would require PIE treatment beyond the Code definition as refined by local regulators. Given the diversity of practice among firms and networks in the determination of the treatment of similar entities that would likely result, the following are additional points: — The public interest will not be served should firms treat similar entities differently. — Firms in separate networks may not collaborate on the treatment of similar entities for consistency as this may be viewed as collusion or in violation of anti-trust laws in certain jurisdictions. — Treatment as a PIE may come to be viewed as "gold standard" treatment and further the misconception that auditors are more "independent" when they audit PIE clients. This misinformed viewpoint may then put certain entities at a disadvantage if the local bodies in their jurisdiction have determined to specifically exclude their entity type from PIE treatment. — Legal ramifications may be a possibility in some jurisdictions if the understanding of a third party differs from the understanding of the firm in considering an entity of significant public interest. — Global policies and standards across network firms may not be effective for the determination of PIE treatment for categories of entities given certain entities in some jurisdictions will be exempted from PIE treatment when law or regulation

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	provides such. A lack of global consistency further undermines the expressed directives of regulators and oversight bodies which have pushed the large audit networks to incorporate globally consistent policies.
Mazars	We believe that firms should follow the requirements set out in the code in determining whether an entity is a PIE. We do not consider that it is necessary for firms to go beyond this and consider if other entities not falling into these categories should be treated as PIEs. Such a requirement would be likely to lead to inconsistent application. In several countries auditing PIEs is licensed so a change in category will mean that the choice of audit firms is limited which does not encourage competition in the market for audit services. Firms already have policies for 'higher risk' clients which are not PIEs such as appointment of EQCR and categorising additional entities as PIEs would not change these procedures.
MNP	We do not support firms having the ability to determine if any additional entities should be treated as PIEs as we believe that this will result in inconsistent application. We are concerned that firms may choose to scope in additional entities depending on a firm's specific circumstances such as risk tolerance, client base, geographic footprint, service line offerings, etc. The risk tolerance and lens that a global or national firm applies when assessing which entities shall be treated as PIEs may be different than that of a local or regional firm. As such, where a firm identifies an additional entity as a PIE, they may in effect be committing any successor firm of that entity to also treat the entity as a PIE, despite whether this is consistent with the successor firm's policy on which entities should be treated as PIEs. The pressure by a successor firm to remain consistent is heightened by the requirement to disclose whether an entity has been treated as a PIE within the auditor's report. We believe that this will induce a successor auditor to continue to treat that entity as a PIE, given that it is public knowledge and a change would likely cause confusion amongst the financial statement users and potentially adverse implications to the entity. Conversely, if the successor is not bound to treat the entity as a PIE, a firm's definition of a PIE would become a market differentiator.
Moore	We disagree with the proposition to require individual auditors to define PIEs. This could lead to further conflicts in independence without necessary safeguards available. The auditor should be able to respond to the risks of the specific client engagement and have the ability to address such risks identified through the addition of safeguards or additional "work" such as performing an EQR on the engagement. The auditor however should not be involved directly in determining which entity meets the PIE definition. As noted earlier, the inconsistency concern may no longer only be between jurisdictions, but also between auditors within jurisdictions. This could have unintended consequences such as opinion shopping between auditors to find the most beneficial approach to the definition of a PIE. There is therefore a need to introduce safeguards against these unintended consequences.
Nexia	We are definitely concerned about the elevation of the obligation on an audit firm to consider whether a client should be treated as a PIE. We are not in support of this option. We consider that such a review would be extremely judgemental and give rise to potential significant differences in interpretation between an auditor and its regulators. We do not believe that standards should have this impact.

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PwC	We do not support elevating the extant application material on this point to a requirement. The extant application material appropriately allows for those narrow circumstances where firms could encounter specific situations not envisaged by the Code or the local body and making such a decision may be in the public interest. It is not the role of the auditor to come to a different conclusion where IESBA and the local bodies do not view specific types of entities to be PIEs, nor is it in the public interest to have inconsistent definitions of PIE based on a particular firm's view. This would result in not only inconsistencies across jurisdictions but also within the same jurisdiction. Furthermore, there is an argument, even if in perception only, that firms have a self-interest in this determination, given that treating an entity as a PIE has consequences for the firm, notably regarding the provision of non-assurance services. We do not believe it is appropriate for auditors to determine, for example, the potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity, or the importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure. Governments, regulators and/or local bodies are better placed to determine which entities meet these criteria. Firms may provide guidance to their clients. The responsibility of the auditor in determining whether an entity is a PIE should be to examine the basis for management's conclusions and decide whether the evidence presented supports management's assertion. In line with corporate governance principles and the respective responsibilities of management for the preparation of financial statements and auditors for their opinion upon them, responsibility for determination of whether an entity meets the definition of a PIE as defined by the Code and local bodies, or beyond this, whether an entity should voluntarily be treated as a PIE, should rest in the first instance with those charged with governance. We further note that some of the data suggested which may appear to be simple to assess, such as number of stakeholders, could actually be onerous to gather and maintain. Accordingly, we recommend that the introduction to paragraph R400.14 could be amended to read as follows (but see comments above): *For the purposes of this Part, a firm shall treat an entity as a public interest entity in accordance with definitions provided by local bodies or if so otherwise determined by those charged with governance. Such entities may fall within any of the following categories:* For this same reason, we do not support R400.16 nor 400.16 A1. We do not believe that the reference to the "reasonable and informed third party" is appropriate or necessary. In broad terms we believe that these are factors that those charged with governance might wish to consider in their own evaluation. Subjective considerations such as "when an entity is likely to become public interest", "in the near future", "similar circumstances" all lead to risk of increased inconsistency and confusion. Practically speaking, many entities already adopt many of the practices

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	of a "publicly traded entity" prior to becoming listed in anticipation of a listing as part of their preparations, including application of any additional independence restrictions or other considerations, or changes in governance arrangements including establishing an independent board. As a Network, we support such steps taken by entities as part of the listing process, however, this should remain as a decision for the entity to make as, given the inherent uncertainty involved in the listing process, it would be difficult to provide meaningful and helpful guidance on when these structural changes should be made. If this proposal remains unchanged, a provision that deals with circumstances where the entity disagrees with the auditor's judgment would be needed. Without additional restrictions, the entity could simply appoint an audit firm who agrees their entity is not a PIE (thus extending non-assurance services that could be provided for example). It may also be helpful for the Board to contextualise this obligation for auditors with an expectation that it would be rare for an auditor to identify an entity with public interest that has not already been identified by local regulatory bodies. However, as noted above, this can also already be achieved with the extant provisions.
RSM	Given the proposed requirement on local standard setters to modify the IESBA's categories of PIEs we do not understand the need for a requirement on firms to determine their own policies. We believe that different firms may have different views on whether a particular entity meets the definition of PIE. This diverse approach will likely lead to confusion in the public and thus not help improve public confidence in the financial condition of entities and might lead to unforeseen consequences. For example, the approach could drive a Company to change auditors if one audit firm were to characterise an entity as a PIE and another audit firm were to decide it is not. In many countries and jurisdictions, the status of being a PIE is usually defined by law or regulation and it usually creates additional requirements for the entities themselves (in terms of Governance for example, such as the obligation to have an audit committee and a requirement to obtain pre approval for non-audit services) as well as it creates additional obligations to the auditor (for example, rotation, concurring review, specific reporting to the audit committee). It also entails additional obligations for the supervisory authorities, such as the prohibition to delegate the inspection of PIE audit firms to the professional institute. If the audit firm was to consider an entity as a PIE, based on its own criteria, it would nevertheless not be able to impose to the client entity the other requirements imposed by law to a PIE and the Public may be misled, especially if the audit firm discloses that it has considered the entity as a PIE, in believing that the entity has met all the requirements imposed to a PIE. An alternative approach might be to encourage firms to make the consideration if its local standard setter has not modified the IESBA's category of PIEs.