Definitions of Listed Entity and Public Interest Entity

Comments on ED Question 13

(Definition of Audit Client and Part 4B)

Question 13

For the purposes of this project, do you support the IESBA's conclusions not to:

(a) Review extant paragraph R400.20 with respect to extending the definition of "audit client" for listed entities to all PIEs and to review the issue through a separate future workstream?

(b) Propose any amendments to Part 4B of the Code.

Question 13(a)

The respondents' comments are grouped into:

- Respondents that supported the IESBA's conclusion for a separate work stream
- Respondents that did not support IESBA's conclusion

Respondent	Comment
	Respondents that supported IESBA's conclusion for a separate work stream
IRBA	We support the IESBA's conclusions that the definition of audit client in extant paragraph R400.20 is not further addressed as part of this project. We agree that the issue should be reviewed through a separate future work stream, and in consultation with the IAASB.
NASBA	We support the IESBA's conclusion not to review extant paragraph R400.20 with respect to extending the definition of "audit client" for listed entities to all PIEs and the conclusion not to propose any amendments to Part 4B of the Code.
UKFRC	The FRC agrees with the conclusion reached by IESBA to not review paragraph R400.20 with respect to the definition of 'audit client' and to review the issue through a separate future workstream (though we do note that the use of the term client is unhelpful, and is something that many stakeholders disagree with, believing the audited entity not to be the beneficial client). The issues posed by certain corporate structures clearly merit further research to understand the consequences of extending the whole universe of related entities for listed entities to apply to all public interest entities. This is likely to reflect local circumstances and may require a role of local bodies to refine the meaning of 'audit client'. For example, within the UK, the

Respondent	Comment
	FRC published additional application guidance following the introduction of the 'Other Entities of Public Interest' category to clarify the application of the term to entities held within portfolio companies or by central government bodies.
SMPAG	In our view, it is not clear that there is a need to review extant R400.20 at this time, as the term listed entity is used in the ISAs and the current wording provides an important link back to the ISAs.
CAANZ	The feedback we have garnered in our region did not identify any reasons to review extant paragraph R400.20 at present. However, we wish to highlight that the term "audit client" can be ambiguous in practice and there are arguments as to whether this reflects the shareholders or other users and stakeholders. we suggest terms such as "audited entity" or "entity subject to audit" may help clarify this aspect.
CAI	Yes, we support the conclusion made by IESBA in respect of a review of extant paragraph R400.20 through a separate future workstream. This can be a complex issue from a practical perspective, so we agree that further research on this topic is warranted to gain a better understanding of the ramifications before any amendments are made.
CPAA	It is not clear that there is a need to review extant R400.20 at this time, as the term "Listed Entity" is used in the ISAs and the current wording provides an important link back to the ISAs.
CPAG	Yes. For the purposes of this project we agree with IESBA's conclusions. As the guidance notes, this is a complex issue and does require further research before extending the definition to apply to all entities. Audit client definition for listed entities might not necessarily apply to all PIE's as not all PIE's are listed entities. We do however believe that it does make sense that the term "listed entity" be replaced with the proposed new term "publicly traded entity" in subparagraph R400.14 (a).
ICAS	As IESBA explains in paragraphs 75 and 76 of the Explanatory Memorandum, due to the complexity of the issue and the need for further research on this topic, we agree with IESBA's conclusion that extending the definition of audit client for listed entities to all PIEs in paragraph R400.20 should be reviewed through a separate workstream, and that, in the meantime, the only change to R400.20 be the replacement of the term "listed entity" with "publicly traded entity".
IDW	We support IESBA's conclusion not to review extant paragraph R400.20. However, in line with our responses to Questions 3 and 7, the words "(including any modifications made by law or regulation)" would need to be deleted.
ISCA	Noting that the proposed effective date of this project is 15 December 2024, we are mindful that extending the project to review the definition of "audit client" will require or likely result in a further delay in the effective date. Accordingly, we support IESBA's decision not to extend the project to consider any amendments to the definition of "audit client" and Part 4B of the Code. Notwithstanding the above, we wish to highlight that it would be difficult to appreciate the full impact of IESBA's proposals in relation to PIEs and listed entities without firming up the scope of the entities falling within the definition of "audit client".

Respondent	Comment
KICPA	The KICPA is of view that the independence requirement for related entities should continue to apply to listed entities only as it does now. We believe that whether or not to extend the requirement to PIEs should be decided after sufficient review of its necessity and practical impact upon request made by stakeholders.
NBA	We only support as long as related entities of a PIE are not automatically regarded as a PIE themselves
SAICA	SAICA and members of the working group support IESBA's conclusion to not extend the definition of an "audit client" for listed entities to all PIEs in proposed paragraph R400.20 and to review the issue through a separate future workstream. SAICA recommends that the future workstream consider the impact that extending the definition of "audit client" as contained in proposed paragraph R400.20 to a PIE may have. Entities with little public interest may end up being scoped in purely due to their relationship with the PIE, which may result in undue audit effort and cost.
SAIPA	We support the IESBA's conclusions not to: (a) Review extant paragraph R400.20 with respect to extending the definition of "audit client" for listed entities to all PIEs and to review the issue through a separate future workstream? And (b) Propose any amendments to Part 4B of the Code? We agree with the IESBA in replacing the word listed entity in R400.20 with the phrase publicly traded entity. We however strongly urge the IESBA to review the definition of audit client in R400.20 as a separate IESBA workstream soonest.
CohnReznick	We agree with the IESBA's conclusions to review the issue through a separate future workstream. We encourage the IESBA to consider recent SEC independence rule changes in late 2020.
DTTL	Deloitte Global agrees with the Board's conclusion with respect to reviewing extant paragraph R400.20 through a future workstream. We consider that there are significant potential challenges which would result from expanding the definition in paragraph R400.20 to all PIEs, including, but not limited to, difficulties in application of certain concepts such as control and materiality in structures other than corporate structures (e.g. private vehicles, trusts, partnerships, benefit plans, funds) which are complex and diverse across the world, limited access to relevant information, and undue burden on audit firms to monitor related entities that are not audit clients of the firm. An expansion in the definition also has the potential to increase complexity of the application of the rules and reduce competition in the market by restricting access to services as several firms may be required to treat the same entity as an audit client
EY	We support the Board's conclusion with regard to both points a. and b. In particular, with regard to extending the definition of "audit client" for listed entities to all PIEs, we believe the Board needs to carefully consider the potential consequences and burden this can place on entities based on the current proposed categories of PIEs, especially in light of various ownership mechanisms, corporate governance oversight and other factors. If the listed entity definition of "audit client" is extended to all PIEs, this will capture a wide array of entities that have ownership structures and oversight mechanisms that are very different from those of listed entities, and therefore could have unintended consequences. Therefore, we believe that any proposal to

Respondent	Comment
	considering extending the definition of "audit client" for listed entities to all PIEs will require further consideration and exposure for public comment.
KPMG	We agree that undertaking a thorough review and fully considering the best course of action in relation to a possible extension of the audit client definition would have taken significant effort and would have resulted in further delaying the PIE Definition standard. However, as we contended in our comment letters to the NAS and Fees EDs, we believe the Board should have reconsidered its decision to move forward with finalizing the NAS and Fees standards without completion of the PIE Definition proposals. The Board responded that the timeline they espoused would provide sufficient sightlines to the PIE Definition proposals by the time the NAS and Fees standards would be effective. However, delaying the consideration of extending the audit client definition for listed entities to all PIEs prohibits stakeholders from having a complete picture of the ramifications of the enhanced requirements for PIEs which we believe to be critical given the nature and extent of the new independence requirements proposed for PIEs in the NAS and Fees standards.
Mazars	We agree with the first bullet point in paragraph 75 of the Exposure Draft, that there is no strong philosophical reason for not extending the definition of audit client for listed entities in paragraph R400.20 to all PIEs. If the issue is to be reviewed through a separate future workstream, the impact of further changes on users of the code needs to be considered. Any changes arising from the future workstream should be effective at the same time as changes from this exposure draft.
PwC	We agree this is a complex area that requires fulsome consideration given the potential wider impacts of the revised PIE definition and, as such, that this warrants consideration through a separate workstream. In particular, use of the term "related entities" requires careful consideration in the context of a broadened definition of PIE. We understand that the Board's project on "Group audits" will also bring some clarity on the application of the PIE requirements to the audit of group financial statements of a PIE. It is important that the IESBA coordinates with the IAASB on this project.
RSM	Yes, although if the intention is ultimately to extend the definition of audit client for listed entities to all PIEs, then it would seem sensible to assess the impact of extending the definition to all the proposed categories of PIEs before it is determined what the definition of PIE should be. This further emphasises the need to determine the impact of extending the requirements of listed entities to all categories of PIE.
	Respondents that did not support IESBA's conclusion
OAGA	We do not support conclusion to not review extant R400.20. In our broadest view, there should not be differential requirements, for either listed or publicly traded or public interest entities. As noted in our response to question 5, we are also concerned with how these terms may be understood, given the intricate dependencies amongst "related party," R400.20 use of language "all of its related entities", and R400.14.

Respondent	Comment
BICA	R400.20 should have been reviewed in this project as it is along the same lines. The expanded proposed definition of a PIE signifies the importance of PIE and therefore the Code should have a direction of putting focus on PIEs as opposed to publicly traded entities separately

Question 13(b)

Respondent	Comment
IRBA	We support the conclusions not to propose any amendments to Part 4B of the Code. There is no differential between PIE and non-PIE in Part 4B. Other assurance engagements, other than audit or review engagements, are not driven by the type of entity but other things that are relevant to that entity, such as compliance engagements.
UKFRC	We agree that the degree of public interest in an assurance engagement other than an audit or review engagement is contingent upon the subject matter of that assurance engagement, and that not all such assurance engagements will therefore engage public interest.
APESB	APESB agrees with the IESBA's approach to not amend Part 4B of the IESBA Code. However, we are concerned with the comments in the explanatory memorandum in paragraph 79 that *'…not all assurance engagements for a PIE (as defined by Part 4A) would be of significant public interest…'* and therefore developing a different definition of PIE in Part 4A would not have direct implications for Part 4B. APESB believes this is not consistent with paragraph 900.13 of the Code, which states that the independence requirements of Part 4A apply to assurance engagements if the firm also performs an audit or review engagement for the same client. Therefore, any changes to the definition of PIE in Part 4A may impact assurance engagements if the firm is also providing an audit or review engagement to that client.
NZAuASB	The NZAuASB agrees that some assurance engagements, other than audits of financial statements, are of greater public interest than others, and that this has to do with both the nature of the engagement and the nature of the entity. While the NZAuASB agrees that proposing amendments to Part 4B is outside the scope of this project, we highlight that IFAC and the IIRC have recently set out their vision for accelerating integrated reporting assurance. They recognise that as an increasing number of businesses around the world implement integrated reporting as a route to long-term value creation and sustainable development, demand for assurance on such reports is expected to rise and that development and evolution of integrated reporting assurance is needed to make a greater contribution to the confidence and credibility of integrated reporting. They recognise that ultimately assurance on integrated reports enhances the credibility of corporate reporting on the business as a whole, which provides a more robust foundation of trust in capital markets.

Respondent	Comment
	The NZAuASB encourages the IESBA to commence a project to explore the need for a PIE definition and PIE requirements for specific entities on some types of other assurance engagements covered by Part 4B, recognizing the increasingly significant public interest to ensure that confidence in the assurance of that information is high so as to promote the credibility of the reported information.
SMPAG	Paragraph 79 of the explanatory memorandum explaining the rationale for not making changes to Part 4B of the Code may require further clarity. It seems to imply that an assurance engagement for an entity considered a PIE for audit purposes will not necessarily be an assurance engagement for a PIE and vice versa. Paragraph 900.13 of the extant code states "Independence standards for audit and review engagements are set out in Part 4A - Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members." Therefore, if an entity is a PIE for audit purposes, the firm is obliged to maintain the same independence requirements for any assurance engagements it performs. It could thus also be assumed that the opposite is true. The explanatory memorandum seems to imply that if, for example, there is an assurance engagement being performed that is "of significant public interest" it may not be considered a PIE even if that assurance engagement is somehow related to the financial condition of the entity. This may need to be clarified and the logic in para. 79 revisited before a perspective can be made on whether amendments to Part 4B of the Code are required.
CAANZ	We did not hear any compelling reasons against the IESBA's conclusion that changes to Part 4B are not necessary as part of the current project. However, we would highlight the global demand for other assurance engagements, such as assurance over climate-related disclosures and integrated reporting is increasing. These engagements carry significant public interest. Therefore, the IESBA may wish to consider a project in near future to determine how PIE requirements will apply to these other assurance engagements.
CPAA	Paragraph 79 of the explanatory memorandum, explaining the rationale for not making changes to Part 4B of the Code, is unclear and confusing. It seems to imply that an assurance engagement for an entity considered a PIE for audit purposes will not necessarily be an assurance engagement for a PIE; and vice versa? Paragraph 900.13 of the Code – *Independence standards for audit and review engagements are set out in Part 4A - Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members* – suggests that the same independence requirements apply for audits as they do for assurance engagements, where a firm performs both types of engagements for the same client. Therefore, if an entity is a PIE for audit purposes, the firm is obliged to maintain the same independence requirements for any assurance engagements it performs. What is not clear, is if the opposite is also true? One assumes it is. Therefore, the logic in paragraph 79 of the explanatory memorandum may need to be revisited. If there is an assurance engagement being

Respondent	Comment
	performed that is "of significant public interest", does it make the entity a PIE. The answer, according to the proposed definition, is probably not, even if that assurance engagement is somehow related to the financial condition of the entity? But, is that the intention of the IESBA? Only after re-visiting and clarifying the logic in paragraph 79 can one then confidently opine on whether amendments of Part 4B of the Code are required.
MIA	Paragraph 79 of the explanatory memorandum tries to explain the rationale for not making changes to Part 4B of the Code. But, more clarity is required. It seems to imply that an assurance engagement for an entity considered a PIE for audit purposes will not necessarily be an assurance engagement for a PIE and vice versa. Paragraph 900.13 of the extant code states "Independence standards for audit and review engagements are set out in Part 4A - Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members." Therefore, if an entity is a PIE for audit purposes, the firm is obliged to maintain the same independence requirements for any assurance engagements it performs. It could thus also be assumed that the opposite is true. The IESBA will needs to reconcile this two positions as a way forward.
SAICA	Possible proposed amendments to Part 4B of the Code include: a. Paragraph 900.13 which indicates that where a firm also performs an audit or review engagement for the same client for which an assurance engagement subject to Part 4B of the Code is performed - the requirements of Part 4A continues to apply. We propose that it be clarified whether this would also extend to the designation of the client as a PIE. Paragraph 79 of the explanatory memorandum of the Exposure Draft seems to imply that an assurance engagement for an entity considered as a PIE for audit purposes will not necessarily be an assurance engagement for a PIE and vice versa. b. Furthermore, it should be considered whether when another firm that performs the audit or review and designated the client as a PIE, the firm responsible for the Part 4B assurance engagement should not also treat the client as a PIE.
DTTL	Deloitte Global agrees with the Board's conclusion to not include amendments to Part 4B of the Code as part of this project given the significant standard setting underway with this proposal in conjunction with the fees and NAS revisions. However, we consider it is a very important project for the near future given the increasing investor demand for ESG disclosures and the importance of integrated reporting assurance in enhancing confidence in integrated reporting – keeping in mind that the public interest in an integrated reporting assurance engagement is not necessarily driven by the entity's financial condition, so a different objective might be appropriate.