

Project Proposal— Definitions of Listed Entity and Public Interest Entity

I. Subject

1. A review of the definitions of the terms “listed entity” and “public interest entity” (PIE) in the Code, and how the term PIE relates to the term “entity of significant public interest” (ESPI) in the standards of the International Auditing and Assurance Standards Board (IAASB).

II. Background

Stakeholder Feedback on Extant Definitions in the Code and External Developments

Definition of Listed Entity

2. The Code defines a listed entity as follows:

An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
3. Some stakeholders have questioned the meaning of the term “recognized stock exchange” in this definition.¹ IESBA Staff has also received questions as to whether that term is intended to be the same as, or broader than, the concept of a “regulated market” in the definition of a PIE in the EU Audit Legislation.² It was suggested that some might perceive a difference as in practice exchanges exist that have a lower level of regulation compared with larger or more established securities exchanges.
4. In addition, developments in capital markets around the world and newer forms of capital raising such as crowd funding—and how these are regulated—have raised questions about the need to update the definition of a listed entity in the Code for clarity and continued relevance.³

Definition of Public Interest Entity

5. In the context of the Code, the concept of a listed entity is an important part of the concept of a PIE, which itself occupies a central place in the International Independence Standards (IIS, Part 4A of the Code). The Code takes a stricter view of audits of PIEs as opposed to entities that are not PIEs, and therefore many of the independence requirements in the IIS are focused on PIEs.

¹ See [Summary of Responses](#) (paragraph 32) to the survey of stakeholders for purposes of developing the IESBA Strategy and Work Plan, 2019-2023 (strategy survey).

² Article 2.13 of the EU Directive 2006/43/EC, amended by Directive 2014/56/EU, broadly sets out four categories of entity that fall within the meaning of a PIE:

- (a) Entities with transferable securities listed on EU regulated markets and governed by the law of an EU Member State;
- (b) Credit institutions authorized by EU Member States’ authorities;
- (c) Insurance undertakings authorized by EU Member State authorities; and
- (d) Other entities that a Member State may choose to designate as a PIE.

³ Calls to consider newer forms of capital raising like crowd funding were raised by a few respondents to the strategy survey (see [Summary of Responses](#), paragraph 35).

6. The definition of a PIE was established in the Code in March 2008. The Code defines a PIE as:

- (a) A listed entity; or
- (b) An entity:
 - (i) Defined by regulation or legislation as a PIE; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

7. The Code also states in paragraph 400.8 that other entities might also be considered to be PIEs:

Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.

8. Some regulatory stakeholders such as the International Association of Insurance Supervisors (IAIS)⁴ and the Basel Committee on Banking Supervision (Basel Committee) have suggested that the definition of a PIE be re-examined from the perspective of financial institutions, including banks.⁵ A regulatory stakeholder, the International Organization of Securities Commissions (IOSCO), has also commented that regulators in many jurisdictions do not have the power to set a definition.⁶

9. Other stakeholders, particularly the small and medium practices (SMP) community, have expressed concern that the independence requirements in the Code are increasingly disproportionate in those circumstances where firms provide audit and review services to small entities that fall within the PIE definition.⁷

⁴ In its [response](#) to the IAASB's January 2015 Exposure Draft of proposed ISAs 800 (Revised) and 805 (Revised), the IAIS noted the following: "The IAIS believes it is noteworthy to reiterate two important points that have been consistently brought to the attention of the IAASB, in particular in its previous letters regarding auditor reporting: (a) The IAIS believes that the definition of "public interest entities" should be extended to financial institutions; and (b)"

⁵ See [Summary of Significant Comments](#) (paragraph 73) on the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2014-2018*.

⁶ See IOSCO's [comment letter](#) (page 4) to the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2019-2023*.

⁷ See, for example, [comments](#) (as summarized, paragraph 45) on the August 2014 Exposure Draft, *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*.

10. Beyond stakeholder concerns, various jurisdictions (including a number of major ones such as the EU,⁸ [Australia](#) and [South Africa](#)) have taken different or more specific approaches to defining or scoping the concept of a PIE for their purposes. There is therefore a need to understand the commonalities and differences between those jurisdictional approaches and the approach taken in the Code, and whether there would be merit in seeking a pathway to greater convergence at the international level.

Approaches Taken by Other International Standard Setters

Definition of Listed Entity in IAASB Standards

11. The definition of the term “listed entity” in IAASB standards is identical to that in the Code. The term is used in IAASB Standards specifically in relation to requirements for:
- Communication of certain matters to those charged with governance (TCWG) in an audit of financial statements.⁹
 - Communication of key audit matters in the auditor’s report.¹⁰
 - The performance of an engagement quality control review for an audit of financial statements.¹¹

Concept of an Entity of Significant Public Interest in IAASB Standards

12. The term ESPI was introduced in the IAASB standards to address a need expressed by certain stakeholders that some requirements in the IAASB standards that are designed to apply to listed entities (i.e., those noted above) should be extended to include ‘other entities’. It was possible to accommodate this need by initially aligning the IAASB standards with the Code at the time¹² (around 2005–2007). In this way, the auditor would be alerted that it may be appropriate to apply a requirement that was designed for an audit of a listed entity to a broader range of entities.
13. The IAASB’s approach in using the term ESPI recognizes that certain entities other than listed entities could have characteristics that give rise to similar public interest issues as listed entities. This pertains to the consideration of entities that have a large number and wide range of stakeholders, and the nature and size of the business. Various examples are included in application material to illustrate the types of entity that may exhibit such characteristics.
14. The IAASB’s rationale for using the term ESPI rather than PIE in its standards is primarily that “PIE” remains difficult to interpret and apply as it is seen as a matter of jurisdictional definition, and such

⁸ As noted in footnote 2

⁹ International Standard on Auditing (ISA) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 17

¹⁰ ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, paragraph 5

¹¹ International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 35(a)

¹² The Code at the time provided the following guidance: “Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Examples of such entities might include listed companies, credit institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of listed entities, certain paragraphs in this section deal with additional matters that are relevant to the audit of listed entities. Consideration should be given to the application of the principles set out in this section in relation to the audit of listed entities to other audit clients that may be of significant public interest.”

definition could vary widely between jurisdictions. In certain instances, small or non-complex entities could be scoped into the definition of a PIE as used by a regulator or in legislation, for which the application of a requirement designed to apply to listed entities (or entities similar in their nature and characteristics) would be considered impracticable or overly burdensome.

15. However, while the IAASB has determined that this term continues to be suitable for its purposes, it has acknowledged that there may be questions as to how that term relates to the term “PIE” as defined in the Code. Recognizing that it is in the public interest to minimize differences where possible, the IAASB, in coordination with the IESBA, has sought views on the topic from respondents to its February 2019 Exposure Draft (ED) of [proposed ISQM 1](#).¹³ In addition, in the context of their strategic commitment to coordination, the two Boards engaged in a [discussion group session](#) at their September 2019 joint meeting to begin exploring a pathway to convergence on the concepts of PIE and ESPI.

Concept of an Entity with Public Accountability in IASB Standards

16. A further relevant consideration is that for purposes of its International Financial Reporting Standard (IFRS) for Small- and Medium-sized Entities (SMEs), the International Accounting Standards Board (IASB) has defined the concept of an entity that has “public accountability.” Under that definition, an entity has public accountability if it files, or is in the process of filing, its financial statements with a securities commission or other regulatory organization for the purpose of issuing any class of instruments in a public market; or it holds assets in a fiduciary capacity for a broad group of outsiders. Examples of entities that hold assets in a fiduciary capacity include banks, insurance companies, brokers and dealers in securities, pension funds and mutual funds.

IESBA’s Strategy and Work Plan, 2019-2023

17. Given the above context, the IESBA has committed in its Strategy and Work Plan, 2019-2023 (SWP) to explore whether the definitions of the terms “listed entity” and “PIE” should be revised and to assess the implications of any changes, especially in relation to the IIS. The IESBA made it clear in its SWP that it appreciates the importance of maintaining a principles-based approach to the definitions and avoiding an overly prescriptive approach that would undermine the Code’s global applicability. The IESBA also set a clear expectation that it would engage in coordination with the IAASB on this initiative as the listed entity and PIE concepts are also relevant to IAASB standards.
18. When it established this strategic commitment, the IESBA initially planned to start the new work stream in Q2 2021. The IESBA also recognized that the direction of the work stream may be informed by work being undertaken as part of its [non-assurance services](#) (NAS) project.¹⁴ However, as the latter project has evolved, as has the IESBA’s related project addressing [fee-related matters](#), it became apparent that the timing of the review of the listed entity and PIE definitions needed to be accelerated so that the PIE-related revisions to the IIS arising from those projects achieve the inter-related objectives of balance and proportionality. Accordingly, the IESBA decided to bring forward the start of a project to review those definitions to Q4 2019.

¹³ See paragraphs 59-61 in the explanatory memorandum to the ED of Proposed International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance and Related Services Engagements*

¹⁴ The NAS project is considering from an independence perspective the permissibility of NAS provided by firms to PIE audit clients and audit clients that are not PIEs.

19. The IESBA has committed to coordinating this project with the NAS and Fees projects so that the revised provisions arising from these projects will have the same effective date.

III. Project Objectives, Focus, Scope and Approach

Project Objectives, Focus and Scope

20. The objectives of the project are two-fold:
- (a) To review, in coordination with the IAASB, the definitions of the terms “listed entity” and “PIE” in the Code with a view to revising them as necessary so that they remain relevant and fit for purpose; and
 - (b) In doing so, to:
 - (i) Establish agreement between the IESBA and IAASB on a common revised definition of the term “listed entity” that would be operable for both Boards’ standards; and
 - (ii) Develop a pathway that would achieve convergence between the concepts underpinning the definition of a PIE in the Code and the description of an ESPI in the IAASB standards to the greatest extent possible.¹⁵
21. The project is focused on audits of financial statements and auditor independence. The implications for Part 4B of the Code (other assurance engagements) will be taken into account and addressed as necessary.
22. While coordination between the IESBA and IAASB will be integral to the project, the project will be led by the IESBA.
23. In relation to the analysis of the issues and consideration of revisions by the IESBA or IAASB as the case may be, the scope will encompass:
- (a) The IIS;
 - (b) Any consequential or conforming changes deemed necessary to other sections of the Code, including with respect to Part 4B;
 - (c) The ISAs; and
 - (d) The quality management standards being developed by the IAASB.¹⁶

¹⁵ While this project proposal makes reference to the terms PIE and ESPI, a key objective of the project is to develop a pathway to convergence on the underlying concepts (referred to as concepts of PIE/ESPI for short) and not the terms themselves. If convergence is achieved, the IESBA and IAASB may agree on a single term as further indicated in paragraph 24.

¹⁶ Proposed ISQM 1; proposed ISQM 2, *Engagement Quality Reviews*; and proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements* (anticipated to be finalized as a package by Q2 2020)

Project Approach

24. Key matters that the project will address include, but are not limited to, the following:

With respect to the term “listed entity”

- (a) Gather an understanding of publicly traded markets in the G20, the general conditions entities must fulfill to be admitted and remain listed, and the nature and extent of the regulation that applies.
- (b) Gather an understanding of the various ways through which entities raise capital nowadays beyond the traditional capital markets, and the nature and extent of any regulation that applies.
- (c) Clarify the meaning of the concept of a “recognized market” in the extant definition and whether there is any distinction with the concept of a “regulated market.”
- (d) Taking into account the above, obtain agreement between the IESBA and IAASB on the criteria that should qualify some entities as listed and not others.
- (e) Establish whether any revised definition would fulfill the objectives of the IESBA and IAASB in the relevant standards.

With respect to the terms “PIE” and “ESPI”

- (f) Obtain agreement on the objectives of the IESBA and IAASB in classifying certain entities as PIEs or ESPIs respectively, recognizing that the public interest focus is on independence and audit quality.
- (g) Gather an understanding of which categories of entity in the G20 are required to have an audit by law or regulation, and within this population, the subsets that have been designated as PIEs.
- (h) Gather an understanding of the policies or criteria large networks that perform transnational audits have established to support determinations of entities they would consider to be PIEs or ESPIs for independence, audit or quality management purposes, following the applicable guidance or requirements in the IIS and IAASB standards.¹⁷
- (i) Taking into account the above as well as the need for a principles-based approach and for proportionality, obtain agreement between the IESBA and IAASB on the criteria that should dictate whether or not an entity is classified as a PIE. As part of this, consider:
 - Whether to establish specific categories of entity to facilitate consistent application.
 - The need for any de minimis thresholds or preclusions.
- (j) Obtain agreement between the IESBA and IAASB on whether a single term should be used for the revised concept in their standards if convergence is achieved, and whether that term should be PIE, ESPI or some other term.
- (k) Establish whether any revised definition would fulfill the objectives of the IESBA and IAASB in the relevant standards in a proportionate manner.

¹⁷ E.g., IIS, paragraph 400.8; ISA 260 (Revised), paragraph A23; and ISQC 1, paragraph 35(b)-(c)

- (l) Consider whether there is a need to strengthen the Code beyond the current encouragement for firms to determine whether to treat additional entities, or certain categories of entities, as PIEs based on the revised criteria.
 - (m) Consider whether there would be merit in promoting the notion that some entities that are not PIEs might themselves wish to be treated as PIEs if they wish to inspire a greater degree of public trust and confidence in their audited financial statements.
 - (n) In circumstances where firms have made determinations that certain audited entities (other than listed entities) should be deemed PIEs, consider whether there would be a need for public transparency as to the basis for such determination.
 - (o) Where audited entities that are not PIEs by definition are treated as PIEs for audit purposes, whether it would be desirable for public transparency about that fact.
25. In addressing these matters, it is not the intent of the IESBA and IAASB to override jurisdictions' determination of which entities should be classified as PIEs for their national purposes, or to take away their prerogative to do so. However, in developing any revised definitions, the IESBA in coordination with the IAASB will give careful regard to the interactions of the revised definitions with national definitions.
26. The project will involve consultations with various stakeholders, including:
- Monitoring Group members, other regulators and audit oversight bodies
 - The investor, corporate governance, preparer and user communities
 - National standard setters
 - The IFAC Small and Medium Practices (SMP) Committee
 - The Forum of Firms
 - Public sector organizations
 - Professional accountancy organizations in major jurisdictions
27. To gather early input from stakeholders, the IESBA will consider seeking, as part of the explanatory memorandum to its forthcoming NAS Exposure Draft, input from stakeholders as to considerations they believe should be taken into account in approaching a potential revision of the definition of a PIE. Such stakeholder views will help inform the IESBA's deliberations on the direction to take, in coordination with the IAASB.

IV. How the Project Serves the Public Interest and Impact Analysis

How the Project Serves the Public Interest

28. The public interest will be served by:
- (a) Bringing greater clarity to the concepts of listed entity, PIE and ESPI in the relevant IIS and IAASB standards, and importantly the objectives focused on independence and audit quality that underpin the concepts of PIE and ESPI;
 - (b) Updating the definitions or descriptions of these concepts so that they reflect developments in capital markets and other forms of capital raising as well as the range of entities that have

public interest significance beyond capital markets, thereby ensuring that those concepts remain relevant and fit for purpose; and

- (c) Achieving to the greatest extent possible convergence between the concepts of PIE and ESPI in the IESBA's and IAASB's standards, respectively, while maintaining the standards' interoperability.

It is intended that the benefits will be better specification of where there is rightly a need for greater trust and confidence in the audit (and hence the application of additional or more stringent standards), and transparency as to when those standards have been applied.

Impact Analysis Considerations

29. As the project advances, costs and benefits will be an important consideration as the IESBA and IAASB evaluate options and the practical impact of any potential changes to their standards, including the revised requirements arising from the IESBA's NAS and Fees projects, and the IAASB's Quality Management projects. The nature and extent of those costs and benefits, including the impact on service offerings of firms, will depend on the nature and extent of the changes envisaged.
30. It will be important to document the relevant analyses so that stakeholders fully understand the choices and trade-offs made.

V. Implications for any Specific Persons or Groups

31. The project has implications for:
- National standard setters and professional accountancy organizations that have adopted the Code and IAASB standards, or use them as a basis or a benchmark for their own standards.
 - Firms that are subject to these national standards, and in particular the SMP community.
 - Public sector organizations, including supreme audit institutions.
 - Preparers and TCWG in relation to their interactions with auditors on independence and audit matters.
 - The regulatory and audit oversight community in relation to enforcement of independence, auditing and quality management requirements.

VI. Development Process, Project Output and Project Timetable

Development Process

32. It is anticipated that the project will follow the normal development process of the IESBA for changes to the Code.
33. The project will involve coordination with the IAASB from the start. The established principles of IAASB-IESBA coordination will apply.

Project Output

34. It is anticipated that the output of the project will include:
- Revised definitions for the concepts of listed entity and PIE in the Code.

- Appropriate convergence in meaning between the concepts of PIE and ESPI in the IESBA's and IAASB's standards, respectively.
 - Revisions to related provisions, including application material.
35. Should agreement be reached between the IESBA and IAASB regarding convergence between the concepts of PIE and ESPI, the IAASB will launch a separate project to develop the necessary changes to its standards.
36. Depending on issues identified, the Task Force may also identify other relevant matters for the IESBA's and IAASB's consideration.

Project Timetable

37. Subject to the IESBA's approval of the project proposal, this project will commence immediately. The specific project milestones and outputs will be dependent on the matters that the Task Force and the IESBA, in coordination with the IAASB, ultimately determine are appropriate to address as part of the project, and the priorities assigned to those matters.
38. The table below provides indicative timing for key milestones in the project:

Timing	Milestone
December 2019	Approval of project proposal
March 2020	Joint IESBA CAG and IAASB CAG discussion
September 2020	Discussion with IAASB in joint plenary meeting*
	First read exposure draft
December 2020	Approval of exposure draft
March 2021	Joint IESBA CAG and IAASB CAG discussion
September 2021	Discussion with IAASB in joint plenary meeting
	First read post exposure
December 2021	Approve final

* The IAASB may allocate additional plenary time to discuss issues and recommendations during its meetings, as determined by the IAASB Steering Committee, or senior staff and the IAASB Chair, based on input from the IAASB correspondent members on the Task Force.

39. Should the IAASB determine to launch a separate project to develop appropriate changes to its standards, it will establish a separate timeline for that project.

VII. Resources Required

40. A project Task Force consisting of:
- Four IESBA representatives, with an IESBA member as Chair.
 - Two IAASB representatives as correspondent members.¹⁸
41. IESBA Staff will provide support to the project Task Force. For coordination purposes, an IAASB staff member will be assigned to support the IAASB representatives.

VIII. Relevant Sources of Information that Address the Matter Being Proposed

42. Relevant sources of information include:
- Relevant issues papers and minutes of past IESBA deliberations that led to the extant definition of a PIE in the Code.
 - Relevant issues papers and minutes of past IAASB deliberations that led to the use of the term ESPI in IAASB standards.
 - The main takeaways from the joint September 2019 IAASB-IESBA meeting relating to the discussion group session on exploring a pathway to convergence on the concepts of PIE and ESPI in the IESBA and IAASB standards, respectively.
 - Stock exchanges that operate capital markets in the G20, including markets that are subject to lower levels of regulation compared with larger, more established markets. Regulatory organizations such as IOSCO may also be able to provide useful information about various capital markets around the world.
 - Published research into newer forms of capital raising and information about any accompanying regulation.
 - Benchmarking information relative to jurisdictional definitions of the concept of a PIE, focused on the G20, and the rationale for such definitions. Professional accountancy organizations as well as regional accountancy groupings such as Accountancy Europe may be able to assist in this regard.
 - Analyses considered by the EC when it developed the revised definition of a PIE in the EU.
 - Information concerning the evolution of definitions of other terms developed by regulators (such as the Basel Committee and the Financial Stability Board) that may be of relevance, for example, systemically (or global systemically) important financial institutions (SIFIs or G-SIFIs) (including insurers or banks).
 - Published research or other background information about the accounting/governance scandals in entities that were not identified as PIEs in some jurisdictions.
 - Large networks that perform transnational audits and the policies they have developed to support determinations of entities that they would consider to be PIEs or ESPIs for independence, audit or quality management purposes.

¹⁸ The IAASB correspondent members will be responsible for reporting back and seeking timely input from the IAASB Steering Committee and the IAASB, as appropriate, as the project evolves.

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- Relevant literature of other international standard setters, in particular, the IASB in relation to its deliberations on the concept of public accountability.
- Relevant stakeholder feedback from the IESBA's current NAS and Fees projects.
- Relevant stakeholder feedback to the Exposure Draft of ISQM 1