

**Definitions of Listed Entity and Public Interest Entity
Preliminary Analysis – Key Issues and Comments****PURPOSE AND FORMAT OF PAPER**

1. The purpose of this paper is to provide key summary information with respect to the comments received on the Exposure Draft, Exposure Draft, [*Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*](#) (PIE ED).
2. This paper contains high-level information based on the Task Force's preliminary review of the comments received and is for the purposes of the Board discussion during its June 2021 meeting. It includes:
 - High level statistics on the responses received;
 - Key issues identified by the Task Force; and
 - Selected comments from respondents
3. This paper should be read in conjunction with Agenda Item 3-A (PIE presentation) which contains the Task Force's current thinking and preliminary views on key areas of the ED as well as matters for the Board's consideration. Please note that this paper does not contain the Task Force's full analysis nor its responses which will be further developed in July/August 2021.
4. When developing its responses and proposed revisions (1st read post ED) for the September 2021 Board meeting, the Task Force will take into account feedback from:
 - The June 2021 IESBA meeting;
 - The July 2021 IAASB PIE session on IAASB-related matters, particularly responses to Question 15 of the ED; and
 - Targeted stakeholder outreaches in Q3, specifically with IOSCO
5. This paper contains the following sections:
 - A. Breakdown of Respondents
 - B. Overarching Objective (ED Q.1)
 - C. List of Factors (ED Q.2)
 - D. Approach to Developing the PIE Definition (ED Q.3)
 - E. New Proposed PIE Category – Publicly Traded Entity (ED Q.4)
 - F. Other Proposed PIE Categories (ED Q.5)
 - G. Other Forms of Capital Raising Including ICOs (ED Q.6)
 - H. Role of Local Bodies (ED Q.7)
 - I. Outreach and Education Support (ED Q.8)
 - J. Requirement for Firms to Determine to Add Entities as PIEs (ED Q.9)
 - K. List of Factors for Firm Consideration (ED Q.10)

Definitions of Listed Entity and PIE – TF Preliminary Analysis
IESBA Virtual Meeting (June 2021)

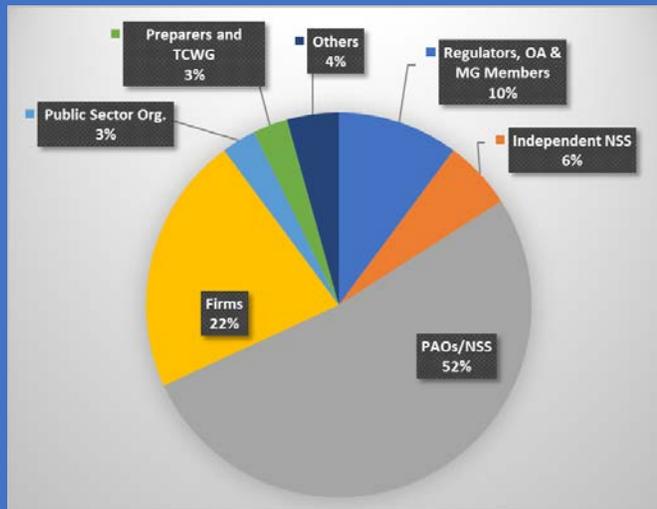
- L. Transparency Requirement for Firms (ED Q.11)
- M. Mechanism for Firm Transparency Requirement (ED Q.12)
- N. Other Matters – Related Entity and Part 4B (ED Q.13)
- O. Other Matters – Effective Date (ED Q.14)
- P. IAASB-Related Issues (ED Q15)

A. Breakdown of Respondents

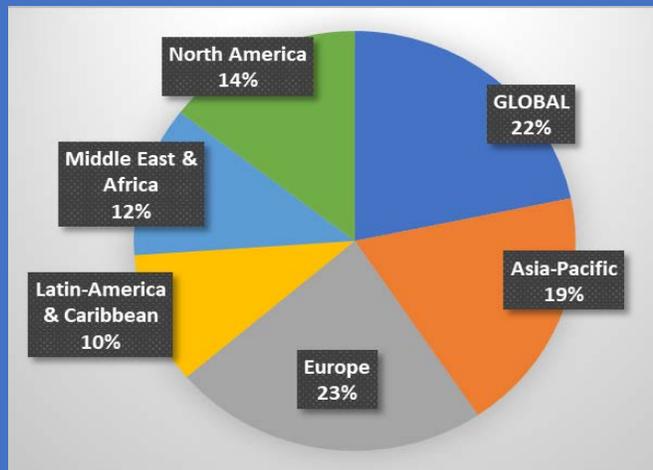
6. The IESBA has received a total of 69 comment letters in response to the PIE ED (See Appendix for a list of the respondents). Additional breakdown of the respondents:

- We received comment from one monitoring group member.¹
- Of the seven regulator and oversight authorities, one was global² and one was regional.³
- 12 of the 15 firms were members of the Forum of Firms and the other 3 from North America.
- 2 of the 4 independent standard setting boards were auditing boards which responded to the question on IAASB-related matters (Question 15 of the ED).
- Over 70% of the respondents were from the profession.

| Stakeholders | No. of responses |
|--|------------------|
| Regulators, Oversight Authorities incl. Monitoring Group Members | 7 |
| Public Sector Organizations | 2 |
| Preparers and TCWG | 2 |
| Independent NSS | 4 |
| PAOs/ NSS | 36 |
| Firms | 15 |
| Others | 3 |
| Grand Total | 69 |



| Region | No. of responses |
|---------------------------|------------------|
| GLOBAL | 15 |
| Asia-Pacific | 13 |
| Europe | 16 |
| Latin America & Caribbean | 7 |
| Middle East & Africa | 8 |
| North America | 10 |
| Grand Total | 69 |



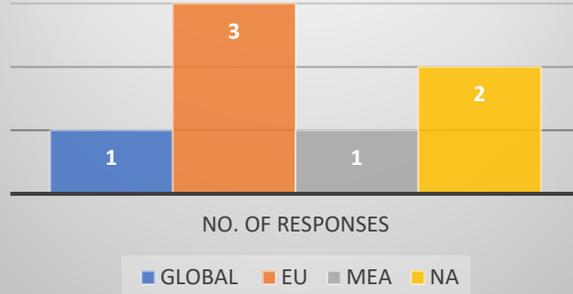
¹ Regulators/ MG: IOSCO

² Regulators/ MG: IOSCO

³ Regulators/ MG: CEAOB

| Stakeholders & Region | No. of responses |
|------------------------------------|------------------|
| Regulators, OA incl. MG | 7 |
| GLOBAL | 1 |
| Europe | 3 |
| Middle East & Africa | 1 |
| North America | 2 |
| Public Sector Organizations | 2 |
| North America | 2 |
| Preparers and TCWG | 2 |
| Asia-Pacific | 1 |
| Middle East & Africa | 1 |
| Independent NSS | 4 |
| Asia-Pacific | 3 |
| North America | 1 |
| PAOs/ NSS | 36 |
| GLOBAL | 1 |
| Asia-Pacific | 9 |
| Europe | 13 |
| Latin America & Caribbean | 5 |
| Middle East & Africa | 6 |
| North America | 2 |
| Firms | 15 |
| GLOBAL | 12 |
| North America | 3 |
| Others | 3 |
| GLOBAL | 1 |
| Latin America & Caribbean | 2 |
| Grand Total | 69 |

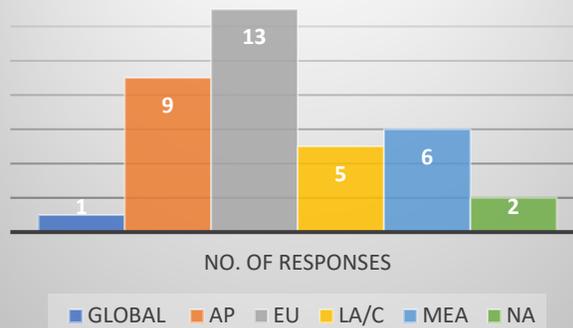
Regulators, OA incl. MG



NO. OF RESPONSES

■ GLOBAL ■ EU ■ MEA ■ NA

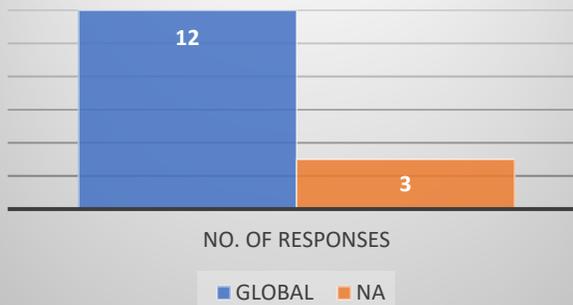
PAOs/ NSS



NO. OF RESPONSES

■ GLOBAL ■ AP ■ EU ■ LA/C ■ MEA ■ NA

Firms



NO. OF RESPONSES

■ GLOBAL ■ NA

B. Overarching Objective (Q1)

Question 1

Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code?

At a glance

| Stakeholders | Support | Support with comment | Do not support | Unclear | No comment |
|-----------------------------|-----------|----------------------|----------------|----------|------------|
| Regulators, OA incl. MG | 2 | 3 | | | 2 |
| Public Sector Organizations | 1 | | 1 | | |
| Preparers and TCWG | 2 | | | | |
| Independent NSS | | 2 | 1 | | 1 |
| PAOs/ NSS | 14 | 19 | 1 | | 2 |
| Firms | 5 | 9 | | 1 | |
| Others | | 1 | | 1 | 1 |
| Grand Total | 24 | 34 | 3 | 2 | 6 |
| | 35% | 49% | 4% | 3% | 9% |

- A substantial portion of the respondents, including IOSCO, were supportive of the use of an overarching objective to explain the need for additional independence requirements for PIE entities. Only a small number of respondents have stated that they do not support the overarching objective.
- The key issues raised by those that supported the proposed overarching objective relate to clarity of the term “financial condition” in proposed paragraph 400.8 and a perception of two levels of independence or audit quality from the proposed text in paragraph 400.9.

Key issues and comments

- Supportive comments include:

“We fully support the overarching purpose set out in paragraph 400.9” (IOSCO)

“We also welcome the focus on defining public interest in the financial condition of certain entities. This reflects the changing regulatory climate in relation to financial audit, in the UK, where stakeholders and reports commissioned by government have emphasised that certain entities are subject to public interest considerations due to their activities or other attributes, and that the role of the statutory auditor is to maintain deserved confidence in the financial condition of such entities.” (UKFRC)

“We support the objective of increasing confidence in the audit of financial statements for entities of public interest. Independence of auditors is a key element of ensuring trust by stakeholders in the work an auditor undertakes.” (ICAEW)

“The KICPA supports the overarching objective described in paragraphs 400.8 and 400.9. We believe that the overarching objective is helpful for not only understanding what the Code

intends to achieve by prescribing additional independence requirements for PIEs but also determining additional entities as PIEs.” (KICPA)

“The objective applied in determining which entities are PIEs is rightfully aligned to the financial statements and therefore, we agree the focus should be on financial condition. We also agree that the objective for determining PIEs should not consider the significance of the public interest in the quality or efficiency of the services provided by an entity, or other operational aspects of the entity, as this generally lies outside the scope of a financial statement audit.” (KPMG)

10. Only a few respondents have suggested that the focus of the public interest should go beyond financial health of the entities by extending to non-financial information.⁴

The meaning of “financial condition”

11. Whilst respondents generally agreed with the IESBA’s proposals to focus on the financial aspects of an entity in paragraph 400.8 when determining the level of public interest, one of the key issues raised was that the term “financial condition” is undefined and therefore lacks the necessary clarity as well as subject to interpretations. Comments include:
- The term may not be understood as intended by IESBA. In the determination of public interest, auditors and users of financial statements and regulators would be interested in matters beyond the “financial condition” of an entity.⁵
 - The term “financial condition” in the US refers to the balance sheet. However, public interest in entities is a function of the overall financial health of the entity and its ability to continue as a going concern.⁶
 - It is not clear if the term ‘financial condition’ refers to the going concern of the entity or whether it also encompasses the true and fair view of the financial statements of the entity or the stability of the financial management of the entity concerning its liquidity, assets and investment returns.⁷
 - As the term “financial condition” is not defined, its use and the use “financial statement” in proposed paragraphs 400.8 and 400.8 may cause confusion about whether they are different concepts and if the interest stakeholders have in financial statements is restricted solely to the entity’s financial condition.⁸
 - The use of the term “financial condition” could create issues with translation. For instance, it could be confused with terms like “going concern” when translated into French.⁹
 - The explanatory memorandum has a number of paragraphs that explain what the term means and what it does not mean but the reader will only have the term without any explanation in the Code.¹⁰

⁴ **Public Sector Organizations:** OAGA; **PAOs/ NSS:** CPAA, NBA

⁵ **Regulators/ MG:** IRBA

⁶ **Regulators/ MG:** NASBA

⁷ **Regulators/ MG:** APESB

⁸ **Independent NSS:** NZAuASB; **PAOs/ NSS:** CPAA; **Others:** SMPAG

⁹ **PAOs/ NSS:** ACCA

- There may be an expectation gap in the eyes of the public about the scope of public interest that the proposed provisions seek to address.¹¹
 - The concept of “financial condition” may not completely capture the essence of PIE because poor financial condition could be driven by a multitude of factors unrelated to public interest such as the state of the general economy, the global pandemic, etc, which the public could accept. However, should an entity’s poor financial condition be caused by the lack of financial accountability such as embezzlement or fraud, this would be a matter of significant public interest. In short, “financial accountability” better reflects the essence of a PIE.¹²
 - To provide further context to the intent of the use of “financial condition”, the wording from explanatory memorandum should be adapted and incorporated as application material.¹³
12. Respondents have recommended that the term to be either defined or explained in the Code or alternatively, use a different term. Suggestions from respondents include:
- Substitute the term “financial condition” with “financial health”.
 - Substitute financial condition with financial accountability.
 - Refer to “financial position and performance” instead.
 - Include some of explanation from the explanatory memorandum or the supplementary guide to provide additional context and explanation to the term “financial condition” such as reference to how an entity’s financial success or failure may impact the public.
 - Either restrict the definition to the linkage to auditors’ responsibilities for matters that are set out in the financial statements, or otherwise clarify the difference in auditor’s responsibilities regarding forward-looking statements and matters set out in “Other Information” such as the annual report more broadly.

Enhancing confidence in audit of the financial statements of PIEs

13. Some respondents that supported the proposed overarching objective also raised concerns about the proposed text in paragraph 400.9, in particular its reference to enhancing confidence in the audit of financial statements of PIEs.
14. Some have suggested that the proposed text may cause the public to believe that here are different levels of independence and that auditors of non-PIE entities are somehow less independent than auditors of PIE entities.¹⁴ Similarly, others have suggested the proposed text points to different levels of audits qualities of audit for PIE and non-PIE audit engagements or somehow enhancing the quality of the audits beyond independence.¹⁵
15. It was pointed out that the primary purpose behind distinguishing entities as PIEs in the context of the Code is to enhance the confidence users of a PIE’s financial statements can place in the

¹⁰ **PAOs/ NSS:** CNCC

¹¹ **PAOs/ NSS:** ACCA, ICAEW; **Firms:** KPMG, PwC

¹² **PAOs/ NSS:** ISCA

¹³ **Firms:** CohnReznick

¹⁴ **Regulators/ MG:** NASBA; **PAOs/ NSS:** ACCA, CAANZ, CPAA

¹⁵ **PAOs/ NSS:** CFC, CNCC; **Firms:** BDO, EY, GTIL, KPMG, Mazars

independence of the audit firm and the engagement team through compliance with the fundamental principles, and by requiring the auditor to exercise a heightened awareness of the threats to compliance with the fundamental principles when auditing an entity that has an elevated degree of public interest.¹⁶

16. One respondent noted that whilst the explanatory memorandum sets out the rationale of the overarching objective (paragraph 18), the proposed paragraph 400.9 does not properly articulate this mechanism.¹⁷
17. A few have also suggested that the proposed text in paragraph 400.9 is too generic and can be applied to audits of PIEs and non-PIEs.¹⁸
18. Suggested refinement to proposed paragraph 400.9 from respondents include:
 - Clarify that the additional requirements are not to have a different level of independence but to allow the auditor to more clearly demonstrate or assert that their independence¹⁹
 - Emphasize there are additional independence requirements for audits of PIEs which reflect stakeholders' heightened expectations regarding a firm's independence.²⁰
 - Reference the conceptual framework within the Code, i.e., for entities which reflect significant public interest in the financial condition, there are or may be different or heightened threats, perceived or otherwise, to the independence of auditors. Because of these heightened independence threats (actual and perceived), additional requirements are included within the Code for audits of public interest entities to ensure that the threats are eliminated or reduced to an acceptable level.²¹
 - Explicitly stating that the overarching objective is to enhance public confidence in engagement performance through the auditor adopting additional safeguards which help maintain public perception of independence.²²
 - Make it clear in the paragraph that these are "additional" independence requirements for PIEs.²³

Other issues/comments/recommendations

19. Other key comments, issues and recommendations raised by respondents include:
 - The relationship between paragraphs 400.8 and 400.9 and the requirement in R400.14 needs clarity, including whether:
 - Whether the proposals are referring to two types of PIEs (one under paragraph 400.8 and another under paragraph R400.14).²⁴

¹⁶ **Firms:** EY

¹⁷ **Regulators/ MG:** UKFRC

¹⁸ **Independent NSS:** APESB, NZAuASB

¹⁹ **PAOs/ NSS:** ACCA, CPAA

²⁰ **Independent NSS:** APESB

²¹ **Independent NSS:** NZAuASB; **PAOs/ NSS:** CAANZ; **Firms:** EY

²² **Regulators/ MG:** UKFRC

²³ **Independent NSS:** APESB; **PAOs/ NSS:** ICAS

- Whether the logical flow of the proposed text could be improved by relocating the application material in paragraphs 400.8 and 400.9 to after the requirement in paragraph R400.14. Such a move will also give the overarching objective and list of factors in paragraphs 400.8 and 400.9 more prominence.²⁵
 - Instead of focusing on the impact of financial condition of an entity, the focus should be expanded to include impact on the public in general as the public is interested in the overall company performance, including non-financial information.²⁶
20. Key reasons for respondents not supporting the proposed overarching objective in paragraphs 400.8 and 400.9 include:
- There should not be differential independence requirements.²⁷
 - The proposed text, particularly the list of factors, lacks sufficient clarity.²⁸

²⁴ **PAOs/ NSS:** NRF

²⁵ **PAOs/ NSS:** CPAC

²⁶ **Public Sector Organizations:** OAGA; **PAOs/ NSS:** CPAA, NBA

²⁷ **Public Sector Organizations:** OAGA

²⁸ **Independent NSS:** AUASB; **PAOs/ NSS:** NRF

C. List of Factors (Q2)

Question 2

Do you agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity? Accepting that this is a non-exhaustive list, are there key factors which you believe should be added?

At a glance

21. Respondents were generally supportive of the non-exhaustive list of factors set out in paragraph 400.8 with refinement suggestions to the six proposed factors.

Key Issues and Comments

General Comments

22. One key revision suggested by a number of respondents with respect to paragraph 400.8 is that the proposal should clarify that each of the proposed factors on its own may not amount to significant public interest in the financial condition of an entity and should not be considered in isolation.²⁹ One respondent³⁰ suggested that the Board should also emphasize the following elements:
- There is not a minimum number of factors that would have to be applicable to an entity for the entity to be considered a PIE.
 - There may be a need to reevaluate the determination of the treatment of these entities as PIEs whenever facts and circumstances within the jurisdiction change.
23. A few respondents have observed that some of the factors require subjective judgment, causing inconsistent treatment of similar entities among firms, jurisdictions and at the global level.³¹ One respondent also suggested the Board to consider the need to include an element of scale on which to evaluate certain factors, particularly as these factors are applied by firms in connection with the requirement in R400.16.³²
24. With regards to the location of these factors, a few respondents suggested that the list of factors should be moved from introductory material to as application material for the proposed paragraph R400.14 or merged with the list of factors for firms in paragraph 400.16 A1.³³

Specific Comments on the 6 Factors

25. Respondents have suggested various refinements and other revisions to the six factors. These will be addressed by the Task Force as part of their full analysis of the comments in July/August 2021.

²⁹ **Independent NSS:** NZAuASB; **PAOs/ NSS:** CAANZ, ICAS, SAICA; **Firms:** CohnReznick, MNP, KPMG, PwC

³⁰ **Firms:** PwC

³¹ **PAOs/ NSS:** HKICPA, SAICA

³² **Firms:** KPMG

³³ **Independent NSS:** APESB; **Firms:** BDO

Suggested New Factors

26. The following were suggested by respondents for consideration by IESBA as additional factors:

- Geographical location of an entity which is particularly relevant when the entity is operating in remote communities. Alternatively, this point can be considered when determining how difficult it is to be replaced.³⁴
- Sustainability, climate change and environmental exposures and risks.³⁵
- Whether an entity is dealing with the provision of essential and strategic goods and services.³⁶

³⁴ **PAOs/ NSS:** ACCA; **Firms:** MNP

³⁵ **PAOs/ NSS:** CPAA

³⁶ **PAOs/ NSS:** NBAAT

D. Approach to developing the PIE definition (Q3)

Question 3

Do you support the broad approach adopted by the IESBA in developing its proposals for the PIE definition, including:

- Replacing the extant PIE definition with a list of high-level categories of PIEs?
- Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?

At a glance

| Stakeholders | Support Broad | Support Broad with comment | Support Narrow | Unclear/ mixed view | No comment |
|-----------------------------|---------------|----------------------------|----------------|---------------------|------------|
| Regulators, OA incl. MG | | 4 | 3 | | |
| Public Sector Organizations | | 1 | | 1 | |
| Preparers and TCWG | 2 | | | | |
| Independent NSS | 1 | 1 | | | 2 |
| PAOs/ NSS | 9 | 18 | 7 | 2 | |
| Firms | 2 | 5 | 8 | | |
| Others | 1 | | 1 | | 1 |
| Grand Total | 15 | 29 | 19 | 3 | 3 |
| | 22% | 42% | 28% | 4% | 4% |

| Region | Support Broad | Support Broad with comment | Support Narrow | Unclear/ mixed view | No comment |
|--------------------|---------------|----------------------------|----------------|---------------------|------------|
| GLOBAL | | 6 | 9 | | |
| AP | 3 | 8 | | 1 | 1 |
| EU | 1 | 6 | 8 | 1 | |
| LA/C | 4 | 2 | | | 1 |
| MEA | 5 | 3 | | | |
| NA | 2 | 4 | 2 | 1 | 1 |
| Grand Total | 15 | 29 | 19 | 3 | 3 |
| | 22% | 42% | 28% | 4% | 4% |

27. 64% of respondents supported the broad approach compared to 28% of respondents supporting the narrow approach.
28. About 53% of the firm respondents supported the narrow approach (8 out of 15); this is compared to 19% of the PAOs (7 out of 33) and 43% of the regulators/oversight bodies (3 out of 7).
29. In addition to IOSCO, the majority of the respondents that supported the narrow approach were either global firms or regulators/PAOs from the EU. On the other hand, respondents from Asia-

Pacific, Latin America/Caribbean, Middle East and Africa as well as the UK were generally supportive of the broad approach.

Key Issues and Comments

30. There is a general acknowledgement from respondents that whilst a globally consistent definition would be beneficial, it is difficult, if not impossible, to develop a single definition that could fit all jurisdictions.³⁷ Similarly, some respondents have also pointed that local bodies best placed to determine the PIE definition that suits their local needs. Notwithstanding this acknowledgement, respondents were split in their support for the broad and narrow approach.

Support for the Broad Approach

31. The broad approach received strong support particularly from Asia-Pacific, Latin America/Caribbean, Middle East and Africa as well as the UK.³⁸
32. Some of the supportive comments for the broad approach include:

“We support the broad approach adopted by the IESBA in developing the PIE definition and the role of local bodies in refining the PIE categories taking into consideration local law and regulations governing certain types and entities. Adopting a broad definition will be key to ensuring that the updated definitions remain relevant in an environment where entities and stakeholders are changing rapidly.” (CPAB)

“The approach considers the role of the Code, the role of local bodies and the role of firms. In South Africa, the IRBA Code plays a big role by elevating specific entities into the definition of a PIE, using a threshold approach, and thus eliminating some areas of judgement and local inconsistency. While a globally consistent definition would be beneficial, we acknowledge that there is no single definition that could likely fit all jurisdictions; therefore, we support the view that local bodies should further refine the definition of a PIE to suit the needs of their respective jurisdictions.” (IRBA)

“We agree with the broad approach adopted as it is consistent with the principles based approach and therefore afford firms and local jurisdictions an opportunity to further define PIEs. The list provided also assists those jurisdictions which the Board noted that may not have relevant bodies to establish definitions further.” (BICA)

“The FRC supports the approach set out by IESBA in its proposals for defining a public interest entity. Significant international variation exists between different jurisdictions in terms of legislation, regulatory framework and market characteristics, and a single definition is unlikely to capture this variety. A broad approach to defining a public interest entity which considers the attributes that such an entity may possess as well as specific business activities is therefore welcome.” (UKFRC)

³⁷ **Regulators/ MG:** IRBA, UKFRC; **PAOs/ NSS:** EFAA, HKICPA, ICPAU, ICAG, ISCA, MIA, WPK; **Firms:** BDO, EY, Nexia; **Others:** SMPAG

³⁸ **Regulators/ MG:** IRBA, UKFRC; **Preparers/TCWG:** CFO Forum, HKICS; **Independent NSS:** APESB, NZAuASB; **PAOs/ NSS:** ACCA, BICA, CAANZ, CAI, CFC, CIIPA, CPAA, FACPCE, ICAEW, ICAG, ICAJ, ICAS, ICPAU, INCP, ISCA, JICPA, KICPA, MIA, MICPA, NBAAT, SAIPA, RFAC, TURMOB; **Firms:** BDO, Crowe, Moore, PwC, RSM

“The broad approach is supported, because there is a greater scope for jurisdictions to assess their entities. Support includes the replacement of the current definition of PIE with a list of high-level categories. We support the intervention of the relevant local bodies as part of the adoption and implementation process, and not the authority of the Firms in the definition of PIEs.” (FACPCE)

“Given the significant international variations in legislation, regulation and market characteristics, we agree that a broad approach to a global PIE definition should be one of high-level categories with subsequent refinement. The power of local bodies to refine the IESBA definition is crucial to reflect territory-specific legal regimes and market context.” (ICAEW)

33. Some respondents have also pointed out that local bodies best placed to determine the PIE definition that suits their local needs.³⁹
34. Notwithstanding there is a general acceptance that there needs to be jurisdictional refinements, one of the key concerns raised is that the broad approach which requires the relevant local bodies to refine the global PIE definition at the local level will lead to inconsistencies between and within jurisdictions and may result in confusion to the public and the profession and undermining the universal applicability and purpose of the Code.⁴⁰
35. Some respondents expressed the view that the proposals as drafted allows a jurisdiction to completely exempt one or more of the proposed categories of PIE from their local definition without needing to justify its exclusion.⁴¹ This would undermine the purpose of the Code to achieve consistency as well as the objective of enhancing the trust in the financial statements of PIE entities which could result in a lower minimum standard than currently exists.⁴² See also Section H – Role of Local Bodies below.
36. Another key concern raised by those that supported the broad approach relates to the capacity, ability and appetite of local bodies to undertake the task of refining the global PIE definition.⁴³ It was suggested that if local bodies do not provide the necessary guidance and refinement, the IESBA’s proposed model would not be workable.⁴⁴ In this regard, this issue is a particular concern for members of the Forum of Firms (FoF) whose member firms generally follow the Code whilst other audit firms might only follow the local standards and regulations.⁴⁵
37. Other key comments raised include:
 - The broad approach may result in creating the means, and therefore the propensity, for local lawmakers and regulators to step into other areas of the Code, where they believe the IESBA’s Code is not sufficiently robust, to customize the Code.⁴⁶

³⁹ **Regulators/ MG:** CPAB, UKFRC; **Public Sector Organizations:** GAO; **PAOs/ NSS:** CPAA, EFAA

⁴⁰ **Regulators/ MG:** IRBA, NASBA, UKFRC; **Independent NSS:** APESB; **PAOs/ NSS:** ACCA, CAANZ, CAI, CPAC, ICPAU, JICPA, MIA, TFAC; **Firms:** Crowe, Moore, PwC, RSM

⁴¹ **Regulators/ MG:** UKFRC; **Independent NSS:** APESB; **PAOs/ NSS:** EFAA, ICAEW

⁴² **Regulators/ MG:** UKFRC; **PAOs/ NSS:** ICAEW

⁴³ **PAOs/ NSS:** ACCA, CAI, ICPAU, ICAJ, JICPA,; **Firms:** BDO, PwC

⁴⁴ **Firms:** PwC

⁴⁵ **Firms:** BDO

⁴⁶ **Regulators/ MG:** IRBA; **PAOs/ NSS:** HKICPA

- For large global firms, the change in approach to definition of a PIE is likely to lead to additional complexity. At present there is some certainty from having a global minimum standard of PIE definition, given that most jurisdictions do not add to the IESBA requirement. The proposed changes would remove this comfort and would make it necessary to have knowledge of the PIE definition in each country, if as expected each jurisdiction’s regulator exercises their right to refine the definition.⁴⁷
 - The revisions should not result in entities currently considered PIEs no longer being considered PIEs.⁴⁸
 - There may be complications in a group or multi-location audit situation where an entity is treated differently in different jurisdictions.⁴⁹
 - In some jurisdictions such as the US, there might be multiple bodies that oversee and regulate the accounting profession. Such bodies might range from federal and state governments, quasi-governments or statutory bodies, and private bodies.⁵⁰
 - IESBA and the IAASB should work together to determine the subset of PIEs that should be subject to the differential requirements of both standards that currently apply to listed entities.⁵¹
38. To address the above concerns raised, a number of respondents have suggested that there should be focused efforts on education, developing guidance and outreaches as well as involvement with local standard setters and regulators so there is better understanding of the rationale for the refinement with the aim of achieving as much consistency as possible.⁵²
39. IESBA and NSS should monitor implementation issues and IESBA should also conduct a post-implementation review to identify any unintended or negative consequences arising from this approach.⁵³
40. Other suggestions raised to address the risks associated with the broad approach include:
- There needs to be a de minimis standard of adoption of the IESBA PIE definition for a jurisdiction to be able to claim that it has implemented the requirements of the Code in relation to PIEs.⁵⁴
 - IESBA should review and revise the mechanism for allowing local bodies to adapt the global definition to be applicable in their jurisdiction.⁵⁵

⁴⁷ **PAOs/ NSS:** ICAEW

⁴⁸ **Regulators/ MG:** CPAB

⁴⁹ **PAOs/ NSS:** ACCA, CAANZ; **Firms:** Moore

⁵⁰ **Regulators/ MG:** NASBA; **PAOs/ NSS:** ICAJ

⁵¹ **Firms:** RSM

⁵² **Regulators/ MG:** CPAB; **PAOs/ NSS:** CAANZ, CFC, HKICPA; KICPA, MICPA, TFAC; **Firms:** Crowe

⁵³ **Regulators/ MG:** UKFRC; **PAOs/ NSS:** CPAC, JICPA

⁵⁴ **PAOs/ NSS:** ICAEW

⁵⁵ **Independent NSS:** APESB

- There needs to be a mechanism to address situations where local bodies do not sufficiently execute their obligations to participate in and refine the entities within the proposed PIE definition categories.⁵⁶

Support for the Narrow Approach

41. As mentioned above, 28% of the respondents, mostly global firms and respondents from the EU, supported the narrow approach.
42. The IOSCO also supported the narrow approach and noted that it does not support a broad approach that results in jurisdictions being provided with the option of excluding categories of entities from the definition established by the Code:

“It is in the public interest that the IESBA clearly define which entities fall within the scope of a PIE. However, we believe a well-defined but narrow approach should be adopted as it will provide a “baseline” that establishes those entities that are consistently considered a PIE anywhere across the globe.

We do not support a broad approach that results in jurisdictions being provided with the option of excluding categories of entities from the definition established by the Code. We recognize that the ultimate responsibility for the designations of what entities are defined as a PIE, for the most part, rests with legislators, regulators, oversight bodies, and/or national standard setters, which is why a well-defined baseline in the Code could incentivize these bodies to adopt the definition, and only add to the list, as needed.”

43. Many of the key concerns raised by respondents that supported the narrow approach were similar to the ones raised by those that supported the broad approach.
44. A number of respondents have rejected the broad approach on the basis that it would cause confusion, inconsistent practice, create even more inconsistencies and could potentially undermine trust in the profession. If the scope of the Code, which is adhered to by many audit firms, becomes significantly at variance with local legislation, there will be a lot of confusion globally for both audit firms and the users of financial statements.⁵⁷ Some have observed that this approach deviates from normal international standard setting by the IESBA which is setting minimum requirements which can be extended.⁵⁸
45. Another concern raised by respondents is that the broad approach is heavily dependent on the actions of third parties, which are outside the IESBA’s remit and beyond its control, and thus raises significant risks that will be very difficult to rectify in the event that the relevant local bodies in a jurisdiction did not fulfil its role in refining the PIE definition.⁵⁹ Any delayed action or inaction by a local body in a particular jurisdiction will mean FoF members will follow the Code whilst other audit firms might only follow the local standards and regulations.⁶⁰ The Board was asked to consider clarifying that if a local body or regulator takes no action to change its definition of public interest

⁵⁶ **Firms:** BDO

⁵⁷ **PAOs/ NSS:** AE, AIPCA, ASSIREVI; **Firms:** DTTL, EY, GTIL, KPMG, Mazars, Nexia; **Others:** SMPAG

⁵⁸ **PAOs/ NSS:** AE, IDW, NRF; **Firms:** Deloitte, EY

⁵⁹ **PAOs/ NSS:** AICPA, ASSIREVI, CNCC; **Firms:** DTTL, GTIL, EY

⁶⁰ **Firms:** DTTL

entities, including being silent on its view, the appropriate application for the firm would be to follow the jurisdiction's definition.⁶¹

46. One example of the potential consequence suggested by one respondent relates to adoption of the term “publicly traded entity” in the EU. It was noted that refinement of the new term in the EU could result in a significant reduction in the number publicly traded entities categorized as PIEs as it is likely that many of the EU local bodies and regulators will limit this category to the “EU regulated markets”. Currently, the profession, in line with the Code, treats all listed entities as PIEs, including the large number of entities listed on secondary markets that are not EU regulated markets.⁶²
47. Other key comments raised include:
- With jurisdictions that already have a robust definition, such as the EU which already have a robust legal definition of PIE that links sophisticated professional and technical requirements to the definition, the IESBA cannot create definitions of PIE or impose obligations to audit firms or local bodies in this context that overrule national regulation. Accordingly, existing local definitions in such jurisdictions must be the single basis.⁶³
 - For highly regulated jurisdictions, where regulators have established customized independence regulations for a category of PIE, requiring auditors to also comply with alternative independence standards is counterintuitive and has the potential to result in confusion and inconsistent treatment.⁶⁴
 - The fact that the current state is a patchwork of different PIE definitions around the world, even in the European Union legislation which starts with one common definition and allows for local adaptation by member states, demonstrates that, on balance, the definition of a PIE is more appropriately determined by local bodies at a jurisdictional level. The number of PIEs should remain reasonable in every jurisdiction and that it does not increase to a level where it would become totally impracticable and unmanageable.⁶⁵
 - A consequence of this approach is that members of the Forum of Firms will not be able to benefit from any such exemptions.⁶⁶
48. As an alternative to the broad approach, a number of respondents have suggested a prescriptive approach (bottoms-up approach) with baseline definitions that can be more readily implemented consistently across jurisdictions and to which relevant local bodies could add to.⁶⁷ They do not however explain how any of these additional categories (e.g., banks) could be defined at a global level which would not potentially scope in entities that would not objectively be regarded as PIEs – the reason the TF and the Board had hitherto rejected this option.

⁶¹ **Firms:** EY

⁶² **Firms:** EY

⁶³ **PAOs/ NSS:** WPK

⁶⁴ **PAOs/ NSS:** AICPA

⁶⁵ **PAOs/ NSS:** CNCC; **Firms:** DTTL

⁶⁶ **Firms:** BKTl

⁶⁷ **Regulators/ MG:** IOSCO; **PAOs/ NSS:** AE, ASSIREVI, CNCC, IDW, NBA, NRF; **Firms:** BKTl, DTTL, EY, GT, KPMG

49. Other alternatives suggested include:

- The term listed entity should be retained.⁶⁸
- Instead of replacing listed entity with publicly traded entity, the PIE definition should incorporate the term “public accountability” to achieve better alignment with the IFRS for SME term and to reduce complexity and possible confusion amongst auditors and issues in jurisdictions that permit or require use of IFRS.⁶⁹
- The revised list of PIE categories should be aligned with those in the EU legislation.⁷⁰
- If the Board wishes to maintain a broad approach, a more practical solution might be to provide a PIE definition, using the proposed categories as guidance or examples (as opposed to required categories), and allowing the local bodies to refine the list as appropriate in the jurisdiction.⁷¹

⁶⁸ **Regulators/ MG:** IOSCO; **PAOs/ NSS:** CNCC, NRF; **Others:** SMPAG

⁶⁹ **Regulators/ MG:** IOSCO

⁷⁰ **Regulators/ MG:** CEAOB, IAASA; **PAOs/ NSS:** AE, CNCC, NRF

⁷¹ **PAOs/ NSS:** AICPA, ASSIREVI

E. New Proposed PIE Category – Publicly Traded Entity (Q4)

Question 4

Do you support the proposals for the new term “publicly traded entity” as set out in subparagraph R400.14(a) and the Glossary, replacing the term “listed entity”? Please provide explanatory comments on the definition and its description in this ED.

At a Glance

| Stakeholders | Support | Support with comment/changes | Do not support | Unclear | No comment |
|-----------------------------|---------|------------------------------|----------------|---------|------------|
| Regulators, OA incl. MG | 3 | 3 | 1 | | |
| Public Sector Organizations | | 1 | 1 | | |
| Preparers and TCWG | 2 | | | | |
| Independent NSS | | 2 | | | 2 |
| PAOs/ NSS | 12 | 20 | 3 | 1 | |
| Firms | 4 | 9 | 1 | | 1 |
| Others | | 1 | 1 | | 1 |
| Grand Total | 21 | 36 | 7 | 1 | 4 |
| | 30% | 52% | 10% | 1% | 6% |

50. A substantial portion of the respondents supported the proposed new term “publicly traded entity” to replace the existing term “listed entity” in the Code. This is compared to 10 % of respondents that did not support the new term. IOSCO did not support the proposed new term but preferred “listed entity” retained and revised as appropriate.
51. All respondents from Asia-Pacific, Africa, Latin America and the Caribbean were supportive of the new term.⁷² Many of the respondents that supported a narrow approach to revising the PIE definition expressed support for the new term.⁷³
52. Many of the respondents that are supportive of the new term have also suggested that its definition need more clarity, particularly with respect to the term “financial instrument”, the volume of trade required and the types of trading platforms covered by the proposed definition.

Key Issues and Comments

53. Respondents (over 80%) generally supported the IESBA’s proposals to introduce a new term “publicly traded entity” as a replacement for “listed entity”. All those that supported the broad approach have also expressed support for the new term.
54. Some supportive comments for the new term include:

“This definition seems reasonable and allows for inclusion of those securities not listed on a formal exchange but traded through other networks or markets”. (NASBA)

⁷² AUASB did not respond to this question.

⁷³ **Regulators/ MG:** CEAOB, IAASA; **PAOs/ NSS:** AE, ASSIREVI, IDW, NBA; **Firms:** BKTI, DTTL, EY, GTIL, KPMG, Nexia

“The proposed definition encompasses trading in financial instruments issued by an entity which is not just limited to regulated exchanges, but also covers recognised exchanges and over-the-counter trading. The definition also scopes out those entities where in substance it is not possible to trade in the financial instruments issued by that entity, such as when listing is a structural requirement, or where the consent of another party is required to trade in those instruments. This aligns with the guidance provided by the FRC on what constitutes a listed entity for the purposes of our own Ethical Standard”. (UKFRC)

“A broader definition is welcome to avoid a lack of clarity around definitions of a regulated exchange, and the classification of securities and debt in different jurisdictions”. (ICAEW)

“We believe it is an improvement in the current code, thus adapting it to the changes and complexities of today’s businesses around the world. The new term “publicly traded entity” includes a higher number of companies covered by the previous definition of “listed entity,” which only encompassed those entities whose shares or debt were quoted or listed on a stock exchange.” (INCP)

“GTIL supports the proposals for the new term “publicly traded entity” as set out in subparagraph R400.14(a) and the Glossary, replacing the term “listed entity”. We believe the proposed definition:

- *appropriately scopes in entities trading on second-tier markets, eliminating confusion between “regulated” versus “recognized” stock exchange,*
- *uses the term “financial instruments” which captures the various assets that can be traded beyond shares, stock, or debt, and*
- *uses the term “publicly traded” instead of “publicly listed”, which addresses whether a financial instrument is freely transferable, as some financial instruments are only listed and are not intended to be traded. Certain jurisdictions would not consider an entity as listed if their shares, stock, or debt were not freely transferable or could not be traded freely by the public or the entity, creating a disparity between the requirements in the Code and the requirements in the local jurisdiction.” (GTIL)*

55. Of those that did not support the new term,⁷⁴ the key reasons cited were that:

- The definition of “listed entity”, whilst not perfect, is a well-understood term that has been globally applied. Therefore, it may be more beneficial to refine this definition by clarifying the term “recognized stock exchange”; and
- The new proposed term may unduly scope in too many new entities

56. In addition, IOSCO has also made the following comment:

“We also note the following concerns with respect to IESBA’s proposed “publicly traded entity” definition:

- *Introducing the term “financial instruments” while removing the reference to equity or debt, creates additional confusion as the term “financial instruments” itself is neither well understood and possibly not consistently applied across jurisdictions. If the term “financial instruments”, or a similar type term, is included then it should be defined.*

⁷⁴ **Regulators/ MG:** IOSCO; **Public Sector Organizations:** OAGA; **PAOs/ NSS:** AICPA, CNCC, NRF; **Firms:** Mazars; **Others:** SMPAG

- *Additional guidance, or a definition, would be needed to interpret how the term “publicly traded” should be applied.”*

57. Many respondents who were supportive of the new proposed term have also suggested that more clarity, explanation, and guidance to the term’s definition are needed. In this regard, a few respondents have pointed out the circular nature of the proposed definition in the glossary⁷⁵ whilst others have suggested that the Board should consider including some of key considerations highlighted in the explanatory memorandum (paragraphs 37 and 38) either as part of definition, application material or non-authoritative guidance.⁷⁶
58. Respondents have sought clarity particularly with respect to the term “financial instrument”, volume of trade required and the types of trading platforms covered by the proposed definition⁷⁷
59. Some specific comments raised with regards to those three aspects include the following:

Financial instrument

- Whether the term “financial instruments” is meant to include various instruments such as shares, debt instruments, bonds.⁷⁸
- The definition of financial instruments in the Code should be consistent with the one that is widely applied by the users of financial statements, i.e. definition of financial instruments in the International Financial Reporting Standards (IFRS) to ensure consistency in application.⁷⁹
- Users might find it more helpful if IESBA’s intention for the term “financial instrument” to be broad as described in the explanatory memorandum is explained further in the Glossary, with examples given.⁸⁰

Trading mechanism

- Whether the term covers second-tier markets and other over-the-counter trading platforms.⁸¹
- The definition should keep a reference to a market, whether a recognized market as in the current IESBA definition or a regulated market as in the EU definition.⁸²
- If the financial instruments are traded on secondary markets but only available to accredited investors – would this meet the definition of “publicly traded”?⁸³
- The definition should not capture trading mechanisms which are in substance designed to assist individuals conduct a private sale, rather than genuine trading in the stocks of the entity. The definition of publicly traded needs therefore to also consider the size of the entity,

⁷⁵ **Regulators/ MG:** IRBA; **PAOs/ NSS:** ICAS, CNCC

⁷⁶ **PAOs/ NSS:** CIIPA, ICAS, IDW, SAICA; **Firms:** PwC

⁷⁷ **Regulators/ MG:** IRBA; **Public Sector Organizations:** GAO; **PAOs/ NSS:** AE, CAANZ, CAI, CIIPA, ICAS, IDW, ISCA, KICPA, MIA, MICPA, SAICA; **Firms:** DTTL, EY, Moore, PwC

⁷⁸ **PAOs/ NSS:** CAANZ

⁷⁹ **PAOs/ NSS:** MICPA

⁸⁰ **PAOs/ NSS:** ICAS

⁸¹ **PAOs/ NSS:** CAANZ

⁸² **PAOs/ NSS:** CNCC

⁸³ **PAOs/ NSS:** ISCA

the degree of sophistication of its governance structure, the depth of the market and liquidity of its stocks in deciding whether the securities are truly “publicly traded”.⁸⁴

Volume of trade

- It is not clear whether “publicly traded” means the financial instruments are actively traded or be available to trade is sufficient.⁸⁵
- Volume of trading is not necessarily indicative of the number of public investors; and low volume of trades may also mean low level of public interests in the financial condition of the entities.⁸⁶
- What are the implications of an entity being placed on a trading halt on a securities exchange and whether this will mean an entity should no longer be treated as a PIE.⁸⁷
- As secondary markets are generally less accessible to the public compared to formal exchanges, is the liquidity of that secondary market or volume of transactions on the over-the-counter trading platforms a relevant consideration in determining whether the instruments are “publicly traded”?⁸⁸
- When securities are thinly traded, there is a heightened challenge regarding which entities should be captured and which should not, and how to define an appropriate boundary.⁸⁹

60. Other comments include:

- Entities that are listed on a recognized stock exchange should continue to be considered as publicly traded under the new term.⁹⁰
- PIEs should include the entities issuing publicly traded financial instruments, in addition to the listed issuers of stocks and bonds traded in recognized markets.⁹¹
- Given the likelihood that in some jurisdictions the local bodies may not undertake a robust exercise to refine the broad categories but may instead adopt the revisions wholesale, the Board should drive global consistency and prevent broadening of this category beyond what is appropriate by providing prescriptive guidance to local bodies regarding the application of the term “publicly traded entity” for this PIE category.⁹²
- IESBA should investigate the potential impact from the proposed change since the proposals significantly expand the scope of the PIE definition.⁹³
- Additional guidance and support should be provided to local bodies.⁹⁴

⁸⁴ **Firms:** PwC

⁸⁵ **Regulators/ MG:** IRBA; **PAOs/ NSS:** ICAJ, SAICA

⁸⁶ **Regulators/ MG:** IRBA

⁸⁷ **Independent NSS:** APESB

⁸⁸ **PAOs/ NSS:** ISCA

⁸⁹ **Firms:** KPMG

⁹⁰ **Regulators/ MG:** IRBA; **Firms:** AE, EY

⁹¹ **PAOs/ NSS:** KICPA

⁹² **Firms:** KPMG

⁹³ **PAOs/ NSS:** EFAA

61. Some respondents have suggested solutions and revisions, including the following:

- The concept of “public accountability” be added to the PIE definition with listed entity included as a subset of this concept.⁹⁵
- The new term should be aligned with the EU definition and refer to entities with transferrable securities listed on a regulated market governed by law.⁹⁶
- Suggested revisions:

“An entity that issues financial instruments that are transferrable and ~~publicly traded~~ available for trading in a public market, such as an exchange or other trading platform accessible to the public” (IRBA)

“An entity ~~that issues financial instruments that are transferrable and publicly traded~~ having issued transferrable financial instruments which are traded on a stock exchange or other facilitated mechanism.” (ICAEW)

“An entity that issues financial instruments that are transferrable and ~~publicly traded~~ where there is a facilitated trading mechanism which aims to match buyers and sellers. ~~publicly traded~~. This would exclude financial instruments which are traded through privately negotiated agreements or financial instruments issued by an entity which are only listed and not traded.” (ICAS)

“An entity that issues ~~financial instruments~~ shares, stock, debt equity or debt instruments that are transferable and publicly traded” (DTTL)

62. A number of respondents have also pointed out that IAASB and the IESBA should work closely together to ensure that any new “term” can be defined and applied consistently across both the auditing standards and the ethical standards.⁹⁷ A few respondents went further to recommend alignment also with the IASB standards.⁹⁸

⁹⁴ **PAOs/ NSS:** ACCA, CAI

⁹⁵ **Regulators/ MG:** IOSCO

⁹⁶ **Regulators/ MG:** CEAOB, IAASA; **PAOs/ NSS:** ASSIREVI

⁹⁷ **Independent NSS:** NZAuASB; **PAOs/ NSS:** AE, CAANZ, CPAA, EFAA, EXPERTsuisse, HKICPA, ISCA. WPK; **Firms:** BDO, Nexia; **Others:** SMPAG

⁹⁸ **Regulators/ MG:** IOSCO; **PAOs/ NSS:** CPAA, EFAA, HKICPA; **Firms:** Nexia; **Others:** SMPAG

F. Other Proposed PIE Categories (Q5)

Question 5

Do you agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f)?

At a Glance

| Stakeholders | (a) | (b) | (c) | (d) | (e) | (f) | All | None | No response |
|----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------|-------------|
| Regulators, OA incl. MG | 6 | 6 | 6 | 4 | 4 | 6 | 4 | 1 | |
| Public Sector Organization | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | |
| Preparers and TCWG | 2 | 2 | 2 | 2 | 2 | 2 | 2 | | |
| Independent NSS | 2 | 2 | 2 | 2 | 2 | 2 | 2 | | 2 |
| Firms | 13 | 11 | 11 | 8 | 9 | 11 | 8 | 1 | |
| PAOs/ NSS | 32 | 34 | 34 | 27 | 28 | 31 | 25 | 2 | |
| Others | 1 | 2 | 2 | | 2 | 2 | | | 1 |
| Grand Total | 57 | 59 | 59 | 44 | 48 | 55 | 42 | 5 | 3 |
| | 83% | 86% | 86% | 64% | 70% | 80% | 61% | 7% | 4% |

63. Each specific PIE category ((b) to (e)) receives support from at least 60% of the respondents with just over 60% of respondents expressed support for all categories. However, there is stronger support for the proposed PIE categories (b) and (c) compared to categories (d) and (e).

Key Issues and Comments

64. Many of the respondents that supported the other proposed PIE categories have also provided additional comments and suggested revisions. The Task Force will consider the specific comments to proposed categories (b) to (f) during the July/August Task Force meetings, taking into account the Board's strategic input at the June 2021 meeting with respect to the board approach and the definition of publicly traded entity. The following are some high-level observations made by the Task Force as part of its preliminary review.
65. Of those that were counted as not providing their support to any of the specific categories (i.e., (b) to (e)), a number of respondents did not provide any feedback with respect to these categories whilst others have rejected all the proposed specific categories.⁹⁹
66. All the regulatory respondents, including IOSCO and most of the PAO and firm respondents that preferred a narrower and more prescriptive approach to developing the PIE definition were supportive of at least categories (b) and/or (c).
67. All but three respondents that supported categories (b) and (c) but not (d) and/or (e) were either regulators or PAOs from the EU or global firms.¹⁰⁰
68. The most significant comments relate to proposed categories (d) and (e).

⁹⁹ **Public Sector Organizations:** OAGA; **PAOs/ NSS:** AICPA, ASSIREVI; **Firms:** GTIL, Torrillo

¹⁰⁰ **Regulators/ MG:** CEAOB, IAASA, IOSCO; **PAOs/ NSS:** ACCA, AE, CNCC, EXPERTsuisse, IDW, NBA, NRF, WPK; **Firms:** BKTI, EY, Mazars; **Others:** SMPAG

69. Both public sector organization respondents suggested that the proposals will scope in too many government entities and that they should be excluded from the outset unless deemed appropriate by local bodies.¹⁰¹
70. Some respondents have suggested additional PIE categories for consideration by the Board either as a new category in the Code or for local adoption:
- Public sector entities and systemically significant entities.¹⁰²
 - Entity that manages or assumes custody of assets on behalf of public.¹⁰³
 - Certain types of charity for local adoption.¹⁰⁴
 - Sovereign funded and government linked corporations.¹⁰⁵

¹⁰¹ **Public Sector Organizations:** OAGA, GAO

¹⁰² **PAOs/ NSS:** CPAA

¹⁰³ **Regulators/ MG:** IRBA

¹⁰⁴ **PAOs/ NSS:** ICAEW

¹⁰⁵ **PAOs/ NSS:** MICPA

G. Other Forms of Capital Raising including ICOs (Q6)

Question 6

Please provide your views on whether, bearing in mind the overarching objective, entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO) should be captured as a further PIE category in the IESBA Code. Please provide your views on how these could be defined for the purposes of the Code recognizing that local bodies would be expected to further refine the definition as appropriate

At a Glance

| Stakeholders | Support | Do not support | No comment |
|-----------------------------|---------|----------------|------------|
| Regulators, OA incl. MG | | 5 | 2 |
| Public Sector Organizations | | 1 | 1 |
| Preparers and TCWG | | 1 | 1 |
| Independent NSS | | 2 | 2 |
| PAOs/ NSS | 7 | 25 | 4 |
| Firms | 2 | 10 | 3 |
| Others | | 2 | 1 |
| Grand Total | 9 | 46 | 14 |
| | 13% | 67% | 20% |

71. The majority of respondents that provided feedback to this question did not support adding a new PIE category in the Code that scopes in entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO).

Key Comments and Issues

72. The majority of the respondents (46) that responded to this question did not support adding a new PIE category to scope in those entities that have raised funds from less conventional forms of capital raising such ICOs.
73. Many of the respondents that did not support the addition of a new category were of the view that the decision is best made at the local level as they are better placed to make the necessary judgements, taking into account the list of factors in proposed paragraph 400.8, on whether entities raising capital in less conventional ways should be treated as PIEs.¹⁰⁶ A few have suggested that it would be helpful for the IESBA to include additional guidance material for local standard setters to take into account when considering the case for treating entities that raises funds through alternative forms of capital as PIEs.¹⁰⁷

¹⁰⁶ **Regulators/ MG:** NASBA, UKFRC; **Public Sector Organizations:** GAO; **Preparers/TCWG:** CFO Forum; **PAOs/ NSS:** ACCA, ICAEW, ICAJ, ICAS, ISCA, JICPA, SAICA; **Firms:** BDO, Crowe, KPMG

¹⁰⁷ **Regulators/ MG:** IRBA; **PAOs/ NSS:** ICAEW

74. Other reasons provided by respondents that did not support such an addition include:
- Other innovation or new forms of capital raising will continue to emerge and thus requiring the Code's PIE definition to be constantly under revision.¹⁰⁸
 - It is too early to include less conventional forms of capital raising (e.g., ICOs) as questions from regulatory to accounting still need to be addressed. ICOs often possess a range of characteristics from digital currency units to equity, debt and financial instruments altogether. Therefore, more research is necessary.¹⁰⁹
 - There may be unintended consequences of bringing in a large pool of entities from an unregulated industry such as the public perception and enhanced investor confidence that would come with their inclusion as PIEs.¹¹⁰
 - Protection of investors is an issue for market regulators rather than independence rules for auditors. Stricter independence rules can never be a proxy for appropriate market supervision and transparent information to investors.¹¹¹
 - It is not the method of raising funds, nor how those funds are practically maintained but rather whether the funds are being raised from the public; and that the public has an expectation that an entity's financial reporting will be of the highest quality for relevant and appropriate decision making.¹¹²
75. Of those that believed there should be a category to capture entities that raise funds via lesser conventional forms,¹¹³ the key reason provided is that there is sufficient public interest to warrant their inclusion as PIEs because they are raising funds from the public and their failures might have significant impact on the public.

¹⁰⁸ **PAOs/ NSS:** CAANZ; **Firms:** Crowe

¹⁰⁹ **Regulators/ MG:** IOSCO, CPAB

¹¹⁰ **Regulators/ MG:** IOSCO; **PAOs/ NSS:** ACCA

¹¹¹ **PAOs/ NSS:** AE, CNCC, ICAEW, TURMOB

¹¹² **PAOs/ NSS:** CPAA

¹¹³ **PAOs/ NSS:** BICA, CPAC, FACPCE, ICAG, INCP, MICPA, SAIPA; **Firms:** BKTI, MNP

H. Role of Local Bodies (Q7)

Question 7

Do you support proposed paragraph 400.15 A1 which explains the high-level nature of the list of PIE categories and the role of the relevant local bodies?

At a Glance

76. Whilst respondents have generally recognized the role of local bodies in adopting the Code and expressed support for local bodies to refine the PIE definition as part of the local adoption process, respondents have highlighted the risks associated with such reliance on local bodies as well as refinement suggestions particularly relating to clarifying that a local body should not be allowed to delete a category.

Key Issues and Comments

77. Supportive comments for the relevant local bodies to refine the PIE definition at the local level include:

“The change from listed entity to publicly traded entity increases the importance of the role of local bodies in ensuring the categories do not inadvertently exclude entities that were previously considered PIEs.” (CPAC)

“We support the proposed paragraph 400.15 A1. We agree with the IESBA’s view that the relevant local bodies have the responsibility, and are also best placed, to assess and determine which entities or types of entities should be treated as PIEs, for the purposes of additional independence requirements.” (IRBA)

“We are supportive for relevant local bodies to refine the list of PIE categories that are applicable to each local market and agree that there is no one-size fits all definition globally that could be consistently applied by all jurisdictions without modification and further refinement at a local level.” (MICPA)

Reliance on Local Bodies

78. A number of respondents have highlighted the risks associated with local bodies revising the PIE definition as part of the broad approach. One key concern raised is that the proposed broad approach would further heighten the risk that a local body may choose not to, or have the requisite capacity to, make the necessary refinements or simply adopt the Code as is.¹¹⁴ This will result in unintended consequences of scoping in entities, such as smaller sized entities, that do not have significant public interest.

79. A number of respondents have queried that in the event the local bodies did not properly performed their role, how the categories should be interpreted and applied by firms (CAI) and particularly how FoF members will handle the PIE requirements when local bodies have not yet made any refinements.¹¹⁵

¹¹⁴ **PAOs/ NSS:** ACCA, CAI, CPAC, JICPA, NBA; **Firms:** BDO, DTTL, KPMG, PwC, Mazars; **Others:** SMPAG

¹¹⁵ **PAOs/ NSS:** CAI, NBA; **Firms:** BDO, DTTL, KPMG

80. Other comments include:

- The “bottom up” approach to revising the PIE definition should be adopted with the role of relevant local bodies to be limited solely to expanding the definition if and as required.¹¹⁶
- Similar jurisdictions may treat similar entities in different ways. For instance, one jurisdiction may apply a size limitation to a certain type of entity within a particular category, while a local body in a similar jurisdiction may scope out the same type of entity and a third jurisdiction may leave the same type of entity without refinement. These varying treatments by local bodies in similar jurisdictions would not further the public interest in relation to a global code.¹¹⁷
- The IESBA should make it clear that the role of local standard-setting bodies will only be relevant in jurisdictions where the definition of PIE is not clearly stipulated in laws and regulations. In EU member states, the PIE definition is well-established by legislation and as such, there is no room for local bodies to refine this definition.¹¹⁸
- In many jurisdictions there might be more than one body that can be defined as the relevant local body. In those jurisdictions, there is a risk that the different local bodies reach inconsistent conclusions which would pose implementation challenges for the local firm.¹¹⁹

Risk of Excluding a Category

81. One of the key issues raised is that the proposals seem to allow local bodies to scope out an entire PIE category as part of their adoption of the Code.¹²⁰ There is also a risk that this may result in entities which are currently considered to be a PIE under the extant definition, being excluded from the definition in the future.¹²¹ It was argued that by clearly signposting ways by which those adopting the Code can choose to diverge from its provisions runs the risk of undermining the authority and clarity of the Code.¹²² Therefore, respondents suggested that proposed paragraph 400.15 A1 emphasizes that local bodies are not permitted to exclude a PIE category.
82. One suggestion to counter this risk is for the proposals to set out de minimis levels of adoption. Alternatively, IESBA, through liaison with IFAC and its program assessing membership compliance, might need to monitor local standard setters, to see whether jurisdictions are making excessive use of the derogations.¹²³

¹¹⁶ **PAOs/ NSS:** NRF; **Firms:** BKTl

¹¹⁷ **Firms:** KPMG

¹¹⁸ **PAOs/ NSS:** AE, WPK

¹¹⁹ **PAOs/ NSS:** AICPA, NRF; **Firms:** BDO

¹²⁰ **Regulators/ MG:** CEAOB, IAASA; **Independent NSS:** APESB, NZAuASB; **PAOs/ NSS:** ACCA, AE, CPAA, CPAC, EFAA, ICAEW, BDO, GTIL, MIA, NBA; **Firms:** Nexia; **Others:** SMPAG

¹²¹ **Firms:** BDO

¹²² **PAOs/ NSS:** CPAA, EFAA

¹²³ **PAOs/ NSS:** ICAEW

Other Comments

83. Other general comments raised include:

- It is critical to ensure that the role of local bodies is as clear as possible.¹²⁴
- Some respondents have highlighted the importance of additional guidance and education program in assisting local bodies as these proposals are being developed and adopted at the local level.¹²⁵
- Notwithstanding the Board's outreach activities indicate that refinement of the PIE definition can be achieved even in the smaller and less developed jurisdictions, the concerns remains regarding the proposal's timeliness when considering the length of time various bodies will need to carry out their own study and due process, especially in those jurisdictions where legislative action is required to adopt changes reflected in the Code or where there are multiple regulators and standard setting bodies within the same jurisdiction who need to take action.¹²⁶
- Local bodies within a jurisdiction, for example the audit regulator and the stock exchange regulator, should be encouraged to collaborate in agreeing common local definitions and in establishing the appropriate reference points to facilitate consistent implementation of the PIE definition in the jurisdiction.¹²⁷

84. A number of respondents have also suggested revisions to proposed paragraph 400.15 A1 in addition to clarifying that local bodies are not permitted to exclude a PIE category, These other suggestions, which will be addressed by the Task Force at its July/August meeting, include:

- It should be explicit that local bodies are authorized to add new categories.¹²⁸
- The paragraph suggests that a basis to exclude an entity locally may be related to a "particular organizational structure" yet such a structure is not included as a factor in 400.8 or R400.14.¹²⁹
- IESBA should consider clarifying within this paragraph that local bodies are expected to be guided by the overarching objective in paragraph 400.9 and to consider the list of factors in paragraph 400.8 in refining the definition of a PIE in their jurisdiction.¹³⁰
- The paragraph could be rephrased in the interests of clarity to say that the bodies have the discretion to refine the PIE categories to take into account local law and regulation, and are able to determine the appropriate size thresholds for entities in their market.¹³¹

¹²⁴ **PAOs/ NSS:** CPAC

¹²⁵ **PAOs/ NSS:** CAANZ, CAI, JICPA, KICPA; **Firms:** Crowe

¹²⁶ **Firms:** DTTL

¹²⁷ **Firms:** PwC

¹²⁸ **Regulators/ MG:** CEAOB, IAASA

¹²⁹ **Regulators/ MG:** IRBA

¹³⁰ **Regulators/ MG:** UKFRC; **PAOs/ NSS:** CPAC

¹³¹ **PAOs/ NSS:** ICAEW

- The content of paragraph 400.15 A1 in relation to relevant local bodies would be better placed as application material to R400.14 (ICAS) or as an introduction paragraph at paragraph 400.9 to explain the role of the IESBA Code and the relevant local body in determining entities to be treated as PIEs.¹³²
 - The IESBA is urged to reflect on how a local jurisdiction would adopt paragraph 400.15 A1 in a local Code. While the language in proposed paragraph 400.15 A1 is appropriate in a global code it is not easily adopted in a local code, as it is largely not relevant within a specific jurisdiction.¹³³
85. A small number of respondents did not support the role of the local bodies as proposed, particularly in light of the risks mentioned above.¹³⁴

¹³² **Independent NSS:** APESB

¹³³ **Independent NSS:** NZAuASB

¹³⁴ **PAOs/ NSS:** CNCC, IDW, NRF, TFAC; DTTL, Mazars

I. Outreach and Education Support (Q8)

Question 8

Please provide any feedback to the IESBA's proposed outreach and education support to relevant local bodies. In particular, what content and perspectives do you believe would be helpful from outreach and education perspectives?

At a Glance

86. Respondents are generally supportive of IESBA's proposed outreach and education support to local jurisdictions and have provided suggestions different types of education activities for IESBA's consideration.

Key Issues and Comments

87. Outreach and education programs suggested by respondents include:

- Additional guidance material should include practical examples, scenarios and case studies.¹³⁵
- Standing item at the National Standard-Setters meetings to track the implementation of the revised definition and to foster discussion about challenges and sharing of best practices. It was noted that smaller emerging jurisdictions may not have the capacity to make modifications to IESBA's requirements and might leverage the work of larger jurisdictions in this manner.¹³⁶
- Roundtable with regional bodies with similar environment to share experience on implementation and examples of additional PIE categories.¹³⁷
- Formation of a working group to facilitate communication of implementation challenges and resolutions.¹³⁸
- Timely translation of authoritative and non-authoritative material.¹³⁹

88. There was also a call for IESBA, in coordination with the IFAC, to monitor implementation on an ongoing basis as well as to undertake a post-implementation review to understand how the proposed role for relevant local bodies has been utilized, and to identify if any jurisdictions that have scoped out any category of PIE.¹⁴⁰

¹³⁵ **Preparers/TCWG:** CFO Forum; **PAOs/ NSS:** CAANZ, CPAA, EFAA, ICAG

¹³⁶ **Independent NSS:** NZAuASB; **PAOs/ NSS:** CPAC

¹³⁷ **Firms:** Crowe

¹³⁸ **PAOs/ NSS:** CPAC

¹³⁹ **PAOs/ NSS:** INCP

¹⁴⁰ **Regulators/ MG:** UKFRC; **PAOs/ NSS:** AE, BICA, CPAC

J. Requirement for Firms to Determine to Add Entities as PIEs (Q9)

Question 9

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

At a Glance

| Stakeholders | Support | Do not support | Mixed view | No comment |
|-----------------------------|---------|----------------|------------|------------|
| Regulators, OA incl. MG | 4 | 2 | | 1 |
| Public Sector Organizations | 1 | 1 | | |
| Preparers and TCWG | 1 | | | 1 |
| Independent NSS | 2 | | | 2 |
| PAOs/ NSS | 19 | 15 | 1 | 1 |
| Firms | 2 | 12 | | 1 |
| Others | | 2 | | 1 |
| Grand Total | 29 | 32 | 1 | 7 |
| | 42% | 46% | 1% | 10% |

89. Overall, a small majority of respondents that responded to this question did not support the proposed new requirement for firms to determine if additional entities should be treated as PIEs.
90. Almost all the firm respondents that responded did not support this proposed requirement.¹⁴¹ In contrast, almost all the respondents in the regulator and independent NSS groups that responded, including IOSCO, expressed their support.¹⁴²
91. The views of the PAOs were more mixed with slightly more PAOs supporting the proposed requirements.

Key Issues and Comments

92. A small majority of respondents that responded to this question did not support this proposed requirement which included most of the firm respondents and just under half of the PAO respondents. This is contrasted with the majority of the regulators including IOSCO, oversight bodies and independent NSS, that expressed their support for this new requirement.

Support for the Proposed Requirement

93. Some supportive comments include:

“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” (IRBA)

¹⁴¹ **Firms:** BDO, CohnRenzick, DTTL, EY, GTIL, KPMG, Mazars, MNP, Moore, Nexia, PwC, RSM

¹⁴² **Regulators/ MG:** CEAOB, IAASB, IOSCO, IRBA; **Independent NSS:** APESB, NZAuASB

“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.” (EFAA)

“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.” (JICPA)

“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.” (MIA)

“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.” (BKTI)

94. Both the IRBA and APESB that have already elevated the current application material in the IESBA Code to requirement in their local Codes did not raise any concerns regarding their local experience and are supportive of the proposed requirement.
95. Some respondents that supported the proposed requirements suggested that additional guidance, such as the levels of documentation required and when a reasonable and informed third party (RITP) would conclude that an entity should be treated as a PIE, would be helpful to firms.¹⁴³ Such guidance by IESBA and/or the local regulators will reduce the risk of inconsistent classification of entities as PIEs and help to mitigate the risk of disagreements between firms and the regulators or scrutiny by regulators.¹⁴⁴ One respondent also suggested that this aspect be reviewed in the post implementation period.¹⁴⁵
96. Other comments include:
- The IOSCO encouraged the Board to clarify proposed paragraph 400.16 to ensure it is clear that firms should not have the option to exclude any entities from the baseline definition.
 - The proposals should be clear that firms are required to perform complete and regular assessments of their portfolio of clients in making this determination.¹⁴⁶
 - The role of local bodies in refining the PIE criteria is critical and, if performed well, the role of firms should be very limited as this could lead to differences in treatment of entities between firms.¹⁴⁷

¹⁴³ **Independent NSS:** NZAuASB; **PAOs/ NSS:** CAANZ, CAI, ICAEW, INCP, MIA, MICPA

¹⁴⁴ **PAOs/ NSS:** CAANZ, ICAEW

¹⁴⁵ **PAOs/ NSS:** ICAEW

¹⁴⁶ **Independent NSS:** CEAOB

¹⁴⁷ **PAOs/ NSS:** CIIPA, CPAC

- This requirement may pose some practical challenges, additional costs and excessive burdens for SMPs.¹⁴⁸

Key views for Not Supporting the Proposed Requirement

97. One of the key reasons cited by respondents for not supporting the new requirement in proposed R400.16 is that a firm's determination in this regard is subjective in nature and will create divergence and undue inconsistency in the treatment of PIEs between firms, and may lead to confusion in the market and undermine the confidence the Board is seeking to enhance.¹⁴⁹ It was noted that applying judgement in every case will 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.¹⁵⁰ Further, a firm's decision might depend on the firm's specific circumstances such as risk tolerance, client base, geographic footprint, service line offerings, etc.¹⁵¹
98. Some respondents have argued that the responsibility for classifying an entity as PIE should be primarily that of IESBA and local standard setters or regulators and that firms should not be required to "second guess" the decisions of IESBA and relevant local bodies or be seen as questioning the capability of the regulators.¹⁵² It was argued that it is not appropriate for firms 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.¹⁵³
99. Similarly, a number of respondents have also pointed out that the decision of whether an entity should voluntarily be treated as a PIE should rest in the first instance with those charged with governance (TCWG) or the entity.¹⁵⁴ It was noted that the client has the complete set of information required to determine whether the conditions to consider the entity as a PIE are met.¹⁵⁵
100. A number of respondents argued that firms should be free to treat an entity as a PIE as defined by the IESBA Code and to apply its requirements if it believes it is more advantageous to do so due to stakeholder requests or for risk management purposes. However, firms should not be required to make such an assessment.¹⁵⁶ Some respondents pointed out that firms already have to exercise professional judgment to assess the internal and external factors to determine if additional

¹⁴⁸ **PAOs/ NSS:** ACCA, EFAA, SAICA

¹⁴⁹ **PAOs/ NSS:** ACCA, AE, AICPA, ASSIREVI, CNCC, FACPCE, ICPAU, ISCA; **Firms:** BDO, DTTL, EY, GTIL, Moore, MNP, Nexia, PwC, RSM

¹⁵⁰ **Firms:** DTTL

¹⁵¹ **Firms:** MNP

¹⁵² **Regulators/ MG:** NASBA; **PAOs/ NSS:** ACCA, AE, ASSIREVI, CPAA, FACPCE, NRF; **Firms:** EY, KPMG, PwC; **Others:** SMPAG

¹⁵³ **Firms:** PwC

¹⁵⁴ **Regulators/ MG:** NASBA; **PAOs/ NSS:** AE, ASSIREVI, WPK; **Firms:** CohnReznick, DTTL, EY, GTIL, PwC

¹⁵⁵ **PAOs/ NSS:** ASSIREVI

¹⁵⁶ **PAOs/ NSS:** AICPA, ASSIREVI, CPAA, IDW; **Others:** SMPAG

independence rules have to be applied to a client's audit which will meet the overarching objective in the proposals.¹⁵⁷

101. In this regard, a few respondents noted 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 additional independence and quality rules to those clients which are considered high risk. It was noted 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.¹⁵⁸
102. A few respondents expressed the view that firms will bear the disproportionate responsibility and burden of considering every entity that does not meet the PIE definition and concluding whether or not to treat it as a PIE.¹⁵⁹ It will also potentially be more difficult for SMPs generally not 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.¹⁶⁰
103. Some respondents have also questioned the relevance of the RITP test in proposed paragraph R400.16.¹⁶¹ It was noted that the view of the RITP has already been taken into account by IESBA when determining the broad PIE categories in proposed paragraph R400.14 and will be taken into account by the relevant local bodies when refining the categories pursuant to the factors set out in proposed paragraph 400.8.¹⁶² The proposed 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.¹⁶³ It was also suggested that the RITP approach would often only be taken as hindsight with new facts and circumstances or new market practices or norms.¹⁶⁴
104. Other concerns raised include:
 - It was also noted that there are practical difficulties if an audited entity did not agree to be treated as PIE.¹⁶⁵
 - Whether a firm's decision to treat an entity as PIE may create undue pressure on any successor firm of that entity to also treat the entity as a PIE¹⁶⁶ or the requirement may lead to auditor shopping.¹⁶⁷

¹⁵⁷ **PAOs/ NSS:** AE, ASSIREVI; **Firms:** Mazars, Moore

¹⁵⁸ **PAOs/ NSS:** CNCC, NBA; **Firms:** Mazars, Moore

¹⁵⁹ **Firms:** BDO, CohnReznick, DTT

¹⁶⁰ **PAOs/ NSS:** HKICPA;

¹⁶¹ **PAOs/ NSS:** HKICPA, NRF; **Firms:** DTTL, PwC

¹⁶² **Firms:** DTTL; **Others:** SMPAG

¹⁶³ **PAOs/ NSS:** NRF

¹⁶⁴ **PAOs/ NSS:** HKICPA

¹⁶⁵ **Regulators/ MG:** NASBA, UKFRC; **PAOs/ NSS:** ASSIREVI

¹⁶⁶ **Firms:** MNP

¹⁶⁷ **PAOs/ NSS:** ACCA, ASSIREVI; **Others:** SMPAG

- Firms may err on the side of caution when determining PIE status to avoid being “second guessed” by its local regulators, leading to more entities being treated as PIEs, potentially at greater cost to the entity’s shareholders.¹⁶⁸
- The subjective nature of the auditor’s assessment could be questioned ex post as a result of any subsequent events or additional facts.¹⁶⁹
- The IESBA should clarify that if an additional entity is treated by a firm as PIE, it is only relevant for the purposes of Part 4A.¹⁷⁰
- The proposed requirement will increase firms’ exposure to criticism and complaint, as well as risks which will have an impact on firms’ professional indemnity insurance policies, potentially increasing premiums in the market.¹⁷¹

105. One respondent has suggested an alternative solution of requiring firms to make an assessment of whether public interest would be served if additional independence requirements for PIEs are applied to a client.¹⁷² It was noted that such an approach is consistent with the approach in Section 540 of the Code as well as ISQM 1 with respect to engagement quality review:

‘...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...’ (UKFRC)

¹⁶⁸ **Regulators/ MG:** NASBA; **PAOs/ NSS:** ACCA

¹⁶⁹ **PAOs/ NSS:** ASSIREVI

¹⁷⁰ **PAOs/ NSS:** ASSIREVI

¹⁷¹ **PAOs/ NSS:** CPAA; **Others:** SMPAG

¹⁷² **Regulators/ MG:** UKFRC

K. List of Factors for Firm Consideration (Q10)

Question 10

Please provide any comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1.

At a Glance

| Stakeholders | Support | Support with changes/ comment | Do not support | No comment |
|-----------------------------|-----------|----------------------------------|----------------|------------|
| Regulators, OA incl. MG | | 3 | | 4 |
| Public Sector Organizations | | 1 | 1 | |
| Preparers and TCWG | | | | 2 |
| Independent NSS | | 2 | | 2 |
| PAOs/ NSS | 9 | 13 | 4 | 10 |
| Firms | 1 | 6 | 4 | 4 |
| Others | | 1 | 1 | 1 |
| Grand Total | 10 | 26 | 10 | 23 |
| | 14% | 38% | 14% | 33% |

106. A majority of the respondents that responded to this question supported at least one or more of the factors for consideration by firms set out in proposed paragraph 400.16 A1, including some respondents that did not support the proposed firm requirement in R400.16.
107. Many respondents have also provided refinement suggestions to the proposed factors as well as other comments for consideration by IESBA. These will be addressed in detail by the Task Force at its July/August meeting.

Key Issues and Comments

General Comments

108. One respondent, whilst supportive of the list of factors being a starting point, pointed out that the proposed factors focus on judgements made by others and do not focus sufficiently on what might be the basis for enhanced public interest in an engagement or entity.¹⁷³
109. A few respondents have highlighted that TCWG should play a greater role in the firm's determination.¹⁷⁴
110. A few respondents queried how the proposed factors in paragraphs 400.8 and 400.16 A1 should interact and suggested that the two lists be placed in one location.¹⁷⁵

¹⁷³ **Regulators/ MG:** UKFRC

¹⁷⁴ **Independent NSS:** NZAuASB; **PAOs/ NSS:** ISCA

¹⁷⁵ **PAOs/ NSS:** HKICPA; **Firms:** BDO

111. A number of respondents have suggested that the Board should provide further guidance and examples in order to demonstrate how firms should determine if an additional entity should be treated as a PIE and to promote consistency in the application of the proposed list.¹⁷⁶
112. One respondent has also recommended that there should be an encouragement for local regulators to issue detailed guidance to firms based on the factors that is tailored to their jurisdiction.¹⁷⁷ In this regard, a few respondents have noted that refinement at local level may be necessary.¹⁷⁸

Reasons for not Supporting the List of Factors

113. Some of the reasons provided by respondents not supporting the list of proposed factors in paragraph 400.16 A1 include:
- If the Code has appropriately presented the expected PIE definition and local bodies have undertaken a thoughtful evaluation of how to apply the definition in the local jurisdiction, then it generally should not be necessary to have the firms determine if an additional entity should be scoped in.¹⁷⁹
 - The proposed list of factors is more appropriate for consideration by local bodies instead of by firms.¹⁸⁰
 - The “building block approach” to factors for consideration is too complicated and unclear with the three components of the broad approach - the Code, local bodies and firms - all have different factors to consider.¹⁸¹

Specific comments on the Proposed Factors

114. Respondents have suggested various refinements and other revisions to the six proposed factors as well as other comments for the Board’s consideration. These will be addressed by the Task Force as part of their full analysis of the comments in July/August 2021.
115. The following are selected comments on each factor:

| | |
|----------|--|
| Factor 1 | <ul style="list-style-type: none"> • Clarify that if laws and regulations specify an entity as not being a PIE, there should not be any expectation from the audit firm to consider the entity any further. • Add reference to professional standards or local bodies. |
| Factor 2 | <ul style="list-style-type: none"> • The terms “near future” and “likely” are subjective in nature and unclear and may lead to inconsistency and confusion. • The factor contains a forward-looking aspect. • Potential future event is not a sufficient reason to apply the PIE requirements in advance of such event unless specifically requested by TCWG. |

¹⁷⁶ **PAOs/ NSS:** HKICPA, CAANZ, EFAA; **Firms:** BKT I

¹⁷⁷ **PAOs/ NSS:** ICAEW

¹⁷⁸ **PAOs/ NSS:** SAICA, TURMOB

¹⁷⁹ **PAOs/ NSS:** IDW; **Firms:** KPMG

¹⁸⁰ **PAOs/ NSS:** MICPA

¹⁸¹ **PAOs/ NSS:** NRF

Definitions of Listed Entity and PIE – TF Preliminary Analysis
IESBA Virtual Meeting (June 2021)

| | |
|----------|---|
| Factor 3 | <ul style="list-style-type: none">• A firm will use significant professional judgment to make the assessment and any reasons for a past determination might not be applicable to the current situation. |
| Factor 4 | <ul style="list-style-type: none">• It is not clear that the circumstance between unrelated entities would be sufficiently similar to make it clear that an entity should be a considered of public interest. |
| Factor 5 | <ul style="list-style-type: none">• When TCWG of an audited entity requests to be treated as a PIE, more guidance is need on legitimate grounds for firms to refuse such a request.• The definition of a stakeholder will be critical. |
| Factor 6 | <ul style="list-style-type: none">• It is unclear how this drives a determination whether there is significant public interest in the financial condition of the entity. |

L. Transparency Requirement for Firms (Q11)

Question 11

Do you support the proposal for firms to disclose if they treated an audit client as a PIE?

At a Glance

| Stakeholders | Support | Do not support | No comment |
|-----------------------------|---------|----------------|------------|
| Regulators, OA incl. MG | 5 | 1 | 1 |
| Public Sector Organizations | | 2 | |
| Preparers and TCWG | 1 | | 1 |
| Independent NSS | | 3 | 1 |
| PAOs/ NSS | 20 | 14 | 2 |
| Firms | 2 | 12 | 1 |
| Others | 1 | 1 | 1 |
| Grand Total | 29 | 33 | 7 |
| | 42% | 48% | 10% |

116. Overall, a small majority of the respondents that responded did not support the proposed new requirement for firm to disclose if an audit client was treated as a PIE. This result is similar to that of Q.9.
117. The response pattern in each stakeholder group is also similar to those for Q.9. Of note, the two independent NSS that supported the new firm requirement to determine additional entities as PIEs did not support this transparency requirement.¹⁸²

Key Issues and Comments

118. Supportive comments from respondents include:

“...If the objective is to enhance public confidence in the financial condition of certain entities, public disclosure that a firm has treated an entity as a public interest entity and adopted additional safeguards will support that objective...” (UKFRC)

“The disclosure is critical for informed stakeholders for appreciation of the additional independence requirements afforded the client. It is therefore beneficial for firms disclose. In Botswana auditors of Public Interest Entities include their Certified Auditors of PIE status in their signature in the report. By inference therefore the disclosure is made.” (BICA)

119. A few respondents expressed the view that given the objective the proposals to enhance stakeholder confidence in an entity’s financial statements through enhancing confidence in the audit of those financial statements, it is important that stakeholders are aware whether an entity has been treated as a PIE or not.¹⁸³

¹⁸² **Independent NSS:** APESB, NZAuASB

¹⁸³ **PAOs/ NSS:** ICAEW, ICAS, JICPA

120. The IOSCO has suggested that the level of transparency needed may not be achieved if the disclosure requirement is limited only to stating whether an entity was defined as a PIE or not. Others have noted that such a disclosure may not be properly understood or interpreted by users and resulting in misunderstanding and confusion as well as expectation gap. Accordingly, there must also be disclosure about what it means and clarify that there are not two levels of audit.¹⁸⁴
121. A few respondents have suggested the proposals should provide further clarity:
- More guidance on what is expected to be disclosed should be added as application material to paragraph R400.17. Such guidance should, amongst other things, clarify that the information should be easy to find particularly when the financial statements are not publicly available.¹⁸⁵
 - The disclosure should include whether the entity has been designated as a public interest entity either in accordance with R400.14, or through the firm's own assessment as a result of the proposed paragraph R400.16.¹⁸⁶
 - Whether firms are also required to disclose when an entity has not been treated as a PIE.¹⁸⁷
 - If firms are required to consider if additional independence requirements should be applied to the audits of an entity, what those requirements are.¹⁸⁸
 - How disclosure should be made, for instance whether this is to be in auditor report or otherwise.¹⁸⁹
122. A few respondents supported the requirement only on the basis that the disclosure should be made through the auditor's report subject to approval by IAASB or relevant standard setters.¹⁹⁰ or reasons including professional secrecy and the duty of confidentiality, specifically in jurisdictions where this is required.¹⁹¹

Key Comments for Not Supporting the Proposed Requirement

123. A number of respondents were unclear what underlying problem were intended to be resolved by the proposed requirement or the purpose and intended benefits of the disclosure.¹⁹² A few respondents expressed the view that what matters to stakeholders other than audit regulators is whether the auditor of an entity was independent as required by relevant ethical requirements, whatever that entity might be, which is already being asserted in the auditor's report.¹⁹³ A few respondents queried how the disclosure would contribute to transparency or confidence in an

¹⁸⁴ **PAOs/ NSS:** CPAA, JICPA, MIA, SAICA

¹⁸⁵ **Regulators/ MG:** IRBA, **PAOs/ NSS:** SAICA

¹⁸⁶ **Regulators/ MG:** UKFRC; **PAOs/ NSS:** NBA; **Firms:** DTTL

¹⁸⁷ **PAOs/ NSS:** JICPA

¹⁸⁸ **Regulators/ MG:** UKFRC

¹⁸⁹ **PAOs/ NSS:** ASSIREVI, SAICA

¹⁹⁰ **PAOs/ NSS:** CIIPA, CPAC

¹⁹¹ **PAOs/ NSS:** CPAC

¹⁹² **Public Sector Organizations:** OAGA; **Independent NSS:** APESB, NZAuASB; **PAOs/ NSS:** IDW

¹⁹³ **PAOs/ NSS:** IDW; **Firms:** KPMG

audit.¹⁹⁴ A few respondents questioned if the benefits of such disclosure outweigh the costs and any negative consequence.¹⁹⁵

124. By far, the most common concern raised by respondents is that the proposed disclosure may lead to confusion and the unintended consequence of users and the public interpreting the disclosure to mean that there are different levels of independence and that audits for non-PIEs are of lesser quality or provide lower quality assurance than PIE audits.¹⁹⁶ It was noted that the definition and scope of what constitutes a PIE is not simple and questions might be asked about whether this an entity a “legal PIE or IESBA PIE”;¹⁹⁷ and in many jurisdictions, being a PIE creates obligations not only for the auditors but also, and foremost, for the entities.¹⁹⁸ As a result, this could have an adverse effect on the confidence in non-PIE audits which would not be in the public interest and potentially exacerbate the audit expectation gap.
125. A related common issue raised by respondents is that more information would need to be disclosed, such as why an entity is considered to be a PIE and what the implications, in order for the disclosure to be useful.¹⁹⁹ Respondents argued that a disclosure limited to the treatment of the audit client as a PIE, such as in the auditor’s report, without proper context and explanation, would be of limited value to the users of the financial statements and unlikely to increase the level of confidence in the audit of the financial statements or help in the assessment of the independence of the audit firm.
126. Other concerns and comments raised by respondents for not supporting this proposed requirement include:
- The requirement could potentially widen the number of entities that seek to be treated as PIEs and the implications this will have on the audit market, as entities might seek out auditors who are perceived as “more independent” or might auditor-shop based on interpretation of whether to treat the entity as a PIE.²⁰⁰
 - This should be reserved to relevant local bodies for potential inclusion in transparency report requirements.²⁰¹
 - The decision should involve the entity’s TCWG and the disclosure should not be in the auditor’s report but rather in the footnotes to the financial statements or in the audit service plan or independence letter.²⁰²
 - There may be confidentiality concerns if a firm is required to disclose the name of an audit client anywhere aside from its report.²⁰³

¹⁹⁴ **Independent NSS:** APESB, NZAuASB, AUASB

¹⁹⁵ **PAOs/ NSS:** HKICPA, NRF

¹⁹⁶ **Public Sector Organizations:** OAGA; **Independent NSS:** APESB, NZAuASB, AUASB; **PAOs/ NSS:** ACCA, AE, CAANZ, CNCC, HKICPA, ISCA, NRF, TFAC, WPK; **Firms:** BDO, BKTi, DTTL, KPMG, Mazars, MNP, Nexia, PwC; **Others:** SMPAG

¹⁹⁷ **PAOs/ NSS:** CAANZ, IDW

¹⁹⁸ **PAOs/ NSS:** AE

¹⁹⁹ **Independent NSS:** NZAuASB; **PAOs/ NSS:** AE, AICPA, WPK; **Firms:** DTTL, KPMG, MNP, Moore,

²⁰⁰ **Independent NSS:** NZAuASB

²⁰¹ **Firms:** BDO, Crowe

²⁰² **Firms:** GTTL, MNP

- The variety of methods that firms and audit clients could use to disclose PIE status, the goal of improving consistent application would not be achieved.²⁰⁴
 - The Code should not create reporting requirements for financial statement audits. Requirements that affect the form and content of financial statement audit reports should be promulgated by the IAASB.²⁰⁵
 - Disclosure of an entity as a PIE may be considered to be a quasi-permanent decision, and difficult to rescind in future, even where there is justification for doing so.²⁰⁶
 - It is not appropriate for the auditor to make a statement on this matter when management does not also have obligations to determine and disclose whether an entity is a PIE. To do so risks the regulation of the behaviour of entities through regulation of the auditor, and the auditor should not be used as an agent of change in this way.²⁰⁷
127. A few respondents suggested that, if IESBA were to keep this proposed requirement, the final text should make clear whether this relates only to entities that firms have added as PIEs or whether this includes those captured under proposed R400.14 and where disclosure should take place.²⁰⁸
128. In rejecting this proposed requirement, a number of respondents have suggested further consultation, evaluation and research, including cost-benefit analysis, should be conducted.²⁰⁹

²⁰³ **PAOs/ NSS:** AICPA

²⁰⁴ **PAOs/ NSS:** AICPA

²⁰⁵ **Public Sector Organizations:** GAO

²⁰⁶ **Firms:** BKTl

²⁰⁷ **Firms:** PwC

²⁰⁸ **PAOs/ NSS:** HKICPA, NBA; **Firms:** DTTL

²⁰⁹ **Independent NSS:** NZAuASB; **PAOs/ NSS:** ACCA, CAANZ; **Firms:** BKTl

M. Mechanism for Firm Transparency Requirement (Q12)

Question 12

Please share any views on possible mechanisms (including whether the auditor’s report is an appropriate mechanism) to achieve such disclosure, including the advantages and disadvantages of each. Also see question 15(c) below.

At a Glance

| Stakeholders | Support auditor's report disclosure | Do not support | Mixed view | No comment | Other mechanisms suggested |
|-----------------------------|-------------------------------------|----------------|------------|------------|----------------------------|
| Regulators, OA incl. MG | 4 | | | 3 | 10 |
| Public Sector Organizations | 1 | 1 | | | 1 |
| Preparers and TCWG | | | | 2 | |
| Independent NSS | | 3 | | 1 | 8 |
| PAOs/ NSS | 20 | 11 | 1 | 4 | |
| Firms | 4 | 8 | | 3 | |
| Others | 2 | | | 1 | 1 |
| Grand Total | 31 | 23 | 1 | 14 | 20 |
| | 45% | 33% | 1% | 20% | 29% |

129. About 60% of the respondents that responded to this question supported the use of auditor’s report as an appropriate mechanism to disclose whether a firm has treated an entity as PIE.
130. Some of the respondents that did not support the proposed firm transparency requirement (ED Q.11) suggested that if the firm transparency requirement were to be retained, auditor report will be the appropriate avenue for such disclosure.²¹⁰
131. Almost 30% of respondents (those supportive and not supportive of auditor report disclosure) suggested other mechanisms for disclosure.

Key Issues and Comments

Supportive of Disclosure

132. Supportive comments from respondents include:

“We support additional disclosures within the auditor’s report, whilst noting that that the form and content of the auditor’s report should be a matter for the auditing standards. Disclosure of the impact on the auditor is an aid to both transparency and confidence and supports the overarching objective of the proposed amendments.” (UKFRC)

“The rationale behind identifying entities as PIEs is to enhance the audit independence of their financial statements. We believe therefore that the disclosure is best placed in the audit report.” (BICA)

²¹⁰ Regulators/ MG: NASBA; Public Sector Organizations: GAO; PAOs/ NSS: NBA, NRF; Firms: DTTL, PwC; Others: SMPAG

“We believe the auditor’s report to be the most appropriate place for such a disclosure.

We feel that as the decision to treat the entity is made solely by the auditor then such disclosure ought to be provided in communication originating from the auditor rather than the entity being audited.” (EFAA)

Not Supportive of the Disclosure in Auditor Report

133. One concern raised by a few respondents for not supporting auditor report disclosure is that more explanations to an already comprehensive report would be needed in order to turn the disclosure into useful information for users and to avoid confusion and expansion of the expectation gap.²¹¹ ().
134. Some respondents reiterated their concerns that such disclosure in the auditor’s report create confusion and the perception that there are two levels of independence and contributes further to the expectation gap.²¹²
135. A few respondents have called for more investigation and assessment be conducted by IAASB in collaboration with IESBA.²¹³

Other Suggested Disclosure Mechanism

136. The two most common avenues for disclosure include transparency report²¹⁴ as well as websites for firms, the entity and local bodies²¹⁵
137. Other mechanism/avenues suggested include:
 - Other legal disclosure requirements
 - Audit service plan, engagement letter or independence letter.
 - Firms working paper or correspondence to regulators.
 - Client financial statements and other client reporting.
 - Disclosure by the audited entity’s management in the notes to the financial statements.
 - Corporate governance report if firms are required to obtain concurrence of TCWG on whether the entity should be treated as a PIE.
138. A few respondents have also highlighted the importance of communicating with TCWG of the clients the rationale for defining the clients as PIEs and the additional independence requirements applied.²¹⁶

²¹¹ **PAOs/ NSS:** ACCA, IDW, WPK; **Firms:** BKTI

²¹² **Public Sector Organizations:** OAGA; **Independent NSS:** APESB; **PAOs/ NSS:** IDW, KICPA; **Firms:** BKTI, EY

²¹³ **Independent NSS:** NZAuASB; **PAOs/ NSS:** CAANZ

²¹⁴ **Independent NSS:** APESB; **PAOs/ NSS:** JICPA, SAICA, **Firms:** BDO, BKTI, Crowe, EY, KPMG, PwC

²¹⁵ **Regulators/ MG:** IRBA; **PAOs/ NSS:** SAICA; **Firms:** BDO, BKTI, EY, KPMG

²¹⁶ **Regulators/ MG:** NZAuASB; **PAOs/ NSS:** SAICA

N. Other Matters – Related Entity and Part 4B (Q13)

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.*

Q13 (a) – Audit Client

At a Glance

| Stakeholders | Support | Support with comment | Do not support | No comment |
|-----------------------------|-----------|----------------------|----------------|------------|
| Regulators, OA incl. MG | 2 | 1 | | 4 |
| Public Sector Organizations | 1 | | 1 | |
| Preparers and TCWG | 1 | | | 1 |
| Independent NSS | 2 | | | 2 |
| PAOs/ NSS | 25 | 6 | 1 | 4 |
| Firms | 7 | 6 | | 2 |
| Others | 2 | | | 1 |
| Grand Total | 40 | 13 | 2 | 14 |
| | 58% | 19% | 3% | 20% |

139. A large majority of the respondents (77%) supported the IESBA’s conclusions not to review extant paragraph R400.20 with respect to extending the definition of “audit client” for listed entities to all PIEs but to review the issue through a separate future workstream. A further 20% of the respondents did not provide any feedback to this question.
140. Of those respondents that are supportive of the IESBA’s conclusions, 75% did not provide any further comments.

Key Issues and Comments

141. In support of the IESBA’s conclusions, a number of respondents have urged the IESBA to conduct a thorough review in determining whether to extend the definition of audit client definition given the complexity of the issues involved.²¹⁷
142. One respondent pointed out that the IESBA’s Engagement Team – Group Audit Independence project will shed more light on the application of PIE-related requirements to audit of group financial statements of a PIE and noted the importance of coordination with the IAASB in this regard.²¹⁸
143. One respondent suggested by “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

²¹⁷ **Regulators/ MG:** UKFRC; **Firms:** DTTL, EY, KPMG, PwC

²¹⁸ **Firms:** PwC

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”.²¹⁹

144. A few respondents observed that the term “audit client” may be ambiguous and suggested other terms such as “audited entity” or “entity subject to client”.²²⁰

Q13 (b) – Part 4B

At a Glance

| Stakeholders | Support | Support with comment | Do not support | No comment |
|-----------------------------|-----------|----------------------|----------------|------------|
| Regulators, OA incl. MG | 3 | | | 4 |
| Public Sector Organizations | 1 | | | 1 |
| Preparers and TCWG | 1 | | | 1 |
| Independent NSS | 1 | 1 | | 2 |
| PAOs/ NSS | 23 | 5 | | 8 |
| Firms | 12 | 1 | | 2 |
| Others | 1 | 1 | | 1 |
| Grand Total | 42 | 8 | | 19 |
| | 61% | 12% | 0% | 28% |

145. All respondents that provided feedback to this question supported the IESBA’s conclusion not to propose any revisions to Part 4B of the Code under this project.

146. Of those that were supportive, a small number of respondents provided further comments.

Key Issues and Comments

147. The key comment raised relates to paragraph 900.13 of the Code and the explanation provided in paragraph 79 of the explanation memorandum which states:

“...not all assurance engagements for a PIE (as defined by Part 4A) would be of significant public interest; equally, some assurance engagements for a non-PIE might be of significant public interest. Accordingly, the IESBA does not believe that developing a different definition of PIE in Part 4A has direct implications for Part 4B...”

148. Paragraph 900.13 of the 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.”

²¹⁹ **Firms:** KPMG

²²⁰ **Regulators/ MG:** UKFRC; **Firms:** CAANZ

149. A number of respondents²²¹ sought clarification regarding paragraph 79 of the in light of paragraph 900.13, including:
- Whether the application of paragraph 900.13 would also extend to the designation of the client as a PIE.
 - 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? if, for example, there is an assurance engagement being performed that is “of significant public interest” does it make the entity a PIE?
150. In supporting the IESBA’s conclusion, a few respondents have urged the IESBA to establish a work stream for the near future to how the Code can address the increasing demand for other assurance engagements such as assurance over climate-related disclosure as well as integrated reporting.²²²

²²¹ **Independent NSS:** APESB; **PAOs/ NSS:** CPAA, MIA, SAICA; **Others:** SMPAG

²²² **PAOs/ NSS:** CAANZ; **Firms:** DTTL

O. Other Matters – Effective Date (Q14)

Question 14

Do you support the proposed effective date of December 15, 2024?

At a Glance

| Stakeholders | Support | Support with comment | Extension sought | Other suggestion | No comment |
|-----------------------------|-----------|----------------------|------------------|------------------|------------|
| Regulators, OA incl. MG | 3 | | 1 | | 3 |
| Public Sector Organizations | 1 | | | | 1 |
| Preparers and TCWG | 1 | | | | 1 |
| Independent NSS | 1 | 1 | | | 2 |
| PAOs/ NSS | 17 | 6 | 8 | 2 | 3 |
| Firms | 5 | 2 | 6 | 1 | 1 |
| Others | 1 | | | 1 | 1 |
| Grand Total | 29 | 9 | 15 | 4 | 12 |
| | 42% | 13% | 22% | 6% | 17% |

151. A majority of the respondents that have responded to this question (38) supported the IESBA's proposed effective date of December 15, 2024. This is compared to 15 respondents recommending the effective date be extended and 12 respondents with no comments.
152. A number of respondents either suggested that the effective date for the PIE revisions should align with that of the NAS and Fees revisions²²³ or that it is difficult to comment on the proposed effective date until it is so strongly linked to the final outcome of this project, especially with regard to the approach taken, including the future roles of the local bodies and the firms.²²⁴

Key Issues and Comments

Support for the Proposed Effective Date

153. The following key comments were raised by respondents:

- The IESBA should evaluate if the proposed effective date provides sufficient time for conducting the necessary outreaches.²²⁵ It should also consider continue to monitor implementation and consider extending the effective date if there are indications that local bodies are having significant implementation issues or delays in refining the definition of a PIE.²²⁶

²²³ PAOs/ NSS: CPAA; Firms: Nexia; Others: SMPAG

²²⁴ PAOs/ NSS: NRF; Others: SMPAG

²²⁵ Firms: EY

²²⁶ PAOs/ NSS: CPAC

- There is a concern that the IESBA and IAASB are not moving at the same pace and, despite close coordination, there remains a risk that the two Boards may ultimately arrive at conclusions that do not fully align with each other.²²⁷
- Given the importance of increasing trust in audit and the public expectations on this issue, the IESBA could encourage early adoption in jurisdictions that are able to do so.²²⁸

Support for Extending the Effective Date

154. IOSCO has encouraged IESBA to consider re-exposure if the Board makes significant changes to its proposals.
155. Respondents suggested that the proposed effective date should be postponed taking into account:
- The amount of work required of local bodies and the potential impact on firms and entities under the IESBA's current proposals.²²⁹
 - The potential increase in the number of PIEs being scoped under the revised definition.²³⁰
 - A longer transition period would be beneficial, particularly to allow smaller audit firms to understand the necessary revisions to their systems, processes and controls and to assess and manage the impact on their business due to greater service restrictions to their audit clients. A longer timeline to implementation would also allow the IAASB to deliberate fully upon the proposals, and to decide if amendments to auditing standards may be appropriate, and then have sufficient time to consult upon these proposed amendments and implement any agreed changes.²³¹
 - In some jurisdictions, there are more than one regulator who may need to consider the new requirements.²³²
156. Suggested alternatives include:
- An alternative date of December 2025.²³³
 - The effective date be aligned with local body's effective date.²³⁴
 - Transitional arrangements and provisions be provided as without which, it may create significant challenges for firms, particularly with the requirement for long association and partners rotation.²³⁵

²²⁷ **Independent NSS:** NZAuASB

²²⁸ **PAOs/ NSS:** AE, ICAEW

²²⁹ **Regulators/ MG:** IOSCO; **PAOs/ NSS:** AICPA, CAI, MICPA; **Firms:** DTTL, KPMG, PwC

²³⁰ **PAOs/ NSS:** AE, CNCC

²³¹ **Firms:** PwC

²³² **Firms:** BDO

²³³ **PAOs/ NSS:** ICPAU; RSM

²³⁴ **PAOs/ NSS:** AICPA; **Firms:** DTTL, PwC

²³⁵ **PAOs/ NSS:** AICPA, CAI, MICPA; **Firms:** BKTI, KPMG

- IESBA to monitor the refinement efforts by the relevant local bodies, especially those most impacted by the new definition, and consider postponing the effective date if appropriate progress is not being made by local bodies.²³⁶

157. Other comments raised include:

- As a result of the interaction of terminology and triggering of requirements between the Code and the ISAs/ ISQMs, any conforming amendments to the ISAs/ ISQMs should be determined in parallel to this project, and such changes should have the same effective date. Otherwise, there would be a mismatch between the Code and the ISA/ ISQM standards²³⁷
- The IESBA's NAS and Fees projects should have been deferred pending the outcome of the PIE project.²³⁸

²³⁶ **Firms:** KPMG

²³⁷ **Firms:** KPMG

²³⁸ **PAOs/ NSS:** CPAA; **Firms:** Nexia; **Others:** SMPAG

P. IAASB-Related Issues (Q15)

Question 15

To assist the IAASB in its deliberations, please provide your views on the following:

- (a) Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.
- (b) The proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to other categories of PIEs.
- (c) Considering IESBA's proposals relating to transparency as addressed by questions 11 and 12 above, and the further work to be undertaken as part of the IAASB's Auditor Reporting PIR, do you believe it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE? If so, how might this be approached in the auditor's report?

Q15 (a) – Common Overarching Objective

- 158. Responses to this Question 15 will be used by IAASB as initial information gathering and discussed during their meeting in July 2021.
- 159. The IAASB has established a Working Group to review the comments received and develop proposed responses and recommendations for its consideration. The IAASB will meet in July and November 2021 to consider on the IAASB-related matters and will provide any relevant views for the Board's consideration.

At a Glance

| Stakeholders | Support | Support with comment | Do not support | Unclear/ Not decided | No comment |
|-----------------------------|----------|----------------------|----------------|----------------------|------------|
| Regulators, OA incl. MG | | 3 | | | 4 |
| Public Sector Organizations | | | 1 | 1 | |
| Preparers and TCWG | 1 | | | | 1 |
| Independent NSS | | | 4 | | |
| PAOs/ NSS | 5 | 22 | 4 | 3 | 2 |
| Firms | | 9 | 1 | 2 | 3 |
| Others | 1 | 1 | | | 1 |
| Grand Total | 7 | 35 | 10 | 6 | 11 |
| | 10% | 51% | 14% | 9% | 16% |

- 160. About 60% of respondents were either supportive of the overarching objective as set out in proposed paragraphs 400.8 and 400.9 for use by both IESBA and IAASB in establishing differential requirements for certain entities or at least recognized the importance of having a consistent approach between the boards including the use of the same terms and definitions.

Key Issues and Comments

161. A few respondents did not support the overarching objective as set out in proposed paragraphs 400.8 and 400.9 on the basis that the proposal lacks clarity and maybe perceived as suggesting two levels of independence or audit quality.²³⁹
162. Other comments provided by respondents that were not supportive of a common overarching objective include:
- There should not be any differential requirements for PIEs.²⁴⁰
 - The nature and extent of audit procedures as established in ISAs are general to an audit and should not be linked to the type of audit client.²⁴¹

Q15 (b) – Case by Case Approach

At a Glance

| Stakeholders | Support | Support with comment | Do not support | Unclear/ Not decided | No comment |
|-----------------------------|---------|----------------------|----------------|----------------------|------------|
| Regulators, OA incl. MG | 2 | 1 | 1 | | 3 |
| Public Sector Organizations | | | 1 | 1 | |
| Preparers and TCWG | 1 | | | | 1 |
| Independent NSS | | 3 | | | 1 |
| PAOs/ NSS | 7 | 16 | 7 | 4 | 2 |
| Firms | 3 | 5 | 3 | 1 | 3 |
| Others | | 2 | | | 1 |
| Grand Total | 13 | 27 | 12 | 6 | 11 |
| | 19% | 39% | 17% | 9% | 16% |

163. Approximately 60% of the respondents were supportive of a case by case approach by IAASB, compared with just under 20% of the respondents who did not support such an approach.

Key Issues and Comments

164. IOSCO did not support this approach based on their view that IAASB should align the differential requirements already established within the IAASB Standards for listed entities today with the enhanced definition of a PIE resulting from the IESBA project. This view was also shared by a few other respondents.²⁴²

²³⁹ **Independent NSS:** APESB, NZAuASB

²⁴⁰ **Public Sector Organizations:** OAGA

²⁴¹ **PAOs/ NSS:** BICA

²⁴² **PAOs/ NSS:** ICAEW, INCP

165. On the other hand, a few respondents expressed the view that the differential treatment should only be applied to listed entities (or publicly traded entities) and not be expanded to other categories of PIEs.²⁴³
166. Some respondents, including IOSCO, also asked IESBA and IAASB to coordinate closely on the IAASB LCE project.²⁴⁴
167. One respondent recommended alignment of the term “entity of significant public interest” (ESPI) in the ISAs with PIE as there should be a common understanding between ISAs/ ISQMs and the IESBA Code.²⁴⁵

Q15 (c) – Disclosure in Auditor Report

| Stakeholders | Support | Support with comment | Do not support | Unclear/ Not decided | No comment |
|-----------------------------|---------|----------------------|----------------|----------------------|------------|
| Regulators, OA incl. MG | | 4 | | | 3 |
| Public Sector Organizations | | 1 | 1 | | |
| Preparers and TCWG | 1 | | | | 1 |
| Independent NSS | | | 3 | 1 | |
| PAOs/ NSS | 4 | 15 | 11 | 5 | 1 |
| Firms | | 4 | 8 | | 3 |
| Others | 1 | 1 | | | 1 |
| Grand Total | 6 | 25 | 23 | 6 | 9 |
| | 9% | 36% | 33% | 9% | 13% |

168. The responses to this question generally align with those provided for Q11 and Q12.

²⁴³ **PAOs/ NSS:** ISCA, KICPA, MICPA; **Firms:** BDO

²⁴⁴ **Regulators/ MG:** IOSCO; **PAOs/ NSS:** CAANZ, EFAA, TURMOB; **Others:** SMPAG

²⁴⁵ **Firms:** KPMG

Appendix

List of Respondents

Note: Members of the Monitoring Group are shown in **bold** below.

| # | Abbrev. | Respondent | Region |
|---|--------------|---|---------------|
| Regulators and Oversight Authorities, Including MG members (7) | | | |
| 1. | CEOAB | Committee of European Auditing Oversight Bodies | EU |
| 2. | CPAB | Canadian Public Accountability Board | NA |
| 3. | IAASA | Irish Auditing & Accounting Supervisory Authority | EU |
| 4. | IOSCO | International Organizations of Securities Commissions | GLOBAL |
| 5. | IRBA | Independent Regulatory Board for Auditors (South Africa) | MEA |
| 6. | NASBA | National Association of State Boards of Accountancy (US) | NA |
| 7. | UKFRC | United Kingdom Financial Reporting Council | EU |
| Public Sector Organizations (2) | | | |
| 8. | GAO | US Government Accountability Office | NA |
| 9. | OAGA | Office of the Auditor General of Alberta | NA |
| Preparers and Those Charged with Governance (2) | | | |
| 10. | CFO | CFO Forum (South Africa) | MEA |
| 11. | HKICS | The Hong Kong Institute of Chartered Secretaries | AP |
| Independent National Standard Setters (NSS)²⁴⁶ (4) | | | |
| 12. | AASB | Canadian Auditing and Assurance Standards Board | NA |
| 13. | APESB | Accounting Professional & Ethical Standards Board (Australia) | AP |

²⁴⁶ NSS that have a mandate to set national ethics standards, including independence requirements, in their jurisdictions and which do not belong to PAOs are categorized as "Independent National Standard Setters."

The IESBA has a liaison relationship with a group of NSS (both independent NSS and organizations that hold dual NSS-PAO roles) that share the common goal of promulgating high-quality ethics standards, including independence requirements, and seeking convergence for those standards. Participating jurisdictions include Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, Russian Federation, South Africa, the UK, and the US.

Definitions of Listed Entity and PIE – TF Preliminary Analysis
 IESBA Virtual Meeting (June 2021)

| # | Abbrev. | Respondent | Region |
|---|--------------|--|--------|
| 14. | AUASB | Auditing and Assurance Standards Board (Australia) | AP |
| 15. | NZAuASB | New Zealand Auditing and Assurance Standards Board | AP |
| Professional Accountancy Organizations (PAOs), Including NSS²⁴⁷(36) | | | |
| 16. | ACCA | Association of Chartered Certified Accountants ^δ | GLOBAL |
| 17. | AE | Accountancy Europe | EU |
| 18. | AICPA | American Institute of Certified Public Accountants ^δ | NA |
| 19. | ASSIREVI | Association of Italian Audit Firms | EU |
| 20. | BICA | Botswana Institute of Chartered Accountants ^δ | MEA |
| 21. | CAANZ | Chartered Accountants Australia and New Zealand ^δ | AP |
| 22. | CAI | Chartered Accountants Ireland ^δ | EU |
| 23. | CFC | Conselho Federal de Contabilidade ^δ (Brazil) | SA |
| 24. | CIIPA | Cayman Islands Institute of Professional Accountants ^δ | LA/C |
| 25. | CNCC | Compagnie Nationale des Commissaires aux Comptes ^δ | EU |
| 26. | CPAA | CPA Australia | AP |
| 27. | CPAC | Chartered Professional Accountants Canada ^δ | NA |
| 28. | EFAA | European Federation of Accountants and Auditors for SMEs | EU |
| 29. | EXPERTsuisse | Swiss Expert Association for Audit, Tax and Fiduciary | EU |
| 30. | FACPCE | Argentina Federation of Professional Accountants and Economics | SA |
| 31. | HKICPA | Hong Kong Institute of Certified Public Accountants ^δ | AP |
| 32. | JICPA | Japanese Institute of Certified Public Accountants ^δ | AP |
| 33. | ICAEW | Institute of Chartered Accountants in England and Wales ^δ | EU |
| 34. | ICAG | Institute of Chartered Accountants Ghana ^δ | MEA |

²⁴⁷ For purposes of this categorization, a PAO is a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to IFAC member bodies. PAOs that have full, partial or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions are indicated with a “δ”.

Definitions of Listed Entity and PIE – TF Preliminary Analysis
 IESBA Virtual Meeting (June 2021)

| # | Abbrev. | Respondent | Region |
|---------------------------------|-------------|--|--------|
| 35. | ICAJ | Institute of Chartered Accountants of Jamaica ^δ | LA/C |
| 36. | ICAS | Institute of Chartered Accountants of Scotland ^δ | EU |
| 37. | ICPAU | Institute of Certified Public Accountants of Uganda ^δ | MEA |
| 38. | IDW | Institut der Wirtschaftspruefer ^δ (Germany) | EU |
| 39. | INCP | Instituto Nacional de Contadores Públicos de Colombia | SA |
| 40. | ISCA | Institute of Singapore Chartered Accountants ^δ | AP |
| 41. | KICPA | Korean Institute of Certified Public Accountants ^δ | AP |
| 42. | MIA | Malaysian Institute of Accountants ^δ | AP |
| 43. | MICPA | Malaysian Institute of Certified Public Accountants ^δ | AP |
| 44. | NBA | Royal Netherlands Institute of Chartered Accountants ^δ | EU |
| 45. | NBAAT | National Board of Accountants & Auditors – Tanzania ^δ | MEA |
| 46. | NRF | Nordic Federation of Public Accountants | EU |
| 47. | SAICA | South African Institute of Chartered Accountants ^δ | MEA |
| 48. | SAIPA | South African Institute of Professional Accountants ^δ | MEA |
| 49. | TFAC | Federation of Accounting Professions – Thailand ^δ | AP |
| 50. | TURMOB | Union of Chambers of Certified Public Accountants of Turkey ^δ | EU |
| 51. | WPK | Wirtschaftsprüferkammer ^δ (Germany) | EU |
| Firms (15)²⁴⁸ | | | |
| 52. | BDO* | BDO International Limited | GLOBAL |
| 53. | BKTI* | Baker Tilly International | GLOBAL |
| 54. | CohnReznick | CohnReznick LLP | NA |

²⁴⁸ Forum of Firms members are indicated with a *. The Forum of Firms is an independent association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide. They also have policies and methodologies for the conduct of such audits that are based to the extent practicable on the International Standards on Auditing (ISAs), and policies and methodologies which conform to the IESBA Code and national codes of ethics.

Definitions of Listed Entity and PIE – TF Preliminary Analysis
 IESBA Virtual Meeting (June 2021)

| # | Abbrev. | Respondent | Region |
|-------------------|----------|--|--------|
| 55. | CROWE* | Crowe Global | GLOBAL |
| 56. | DTTL* | Deloitte Touche Tohmatsu Limited | GLOBAL |
| 57. | EY* | Ernst & Young Global Limited | GLOBAL |
| 58. | GTIL* | Grant Thornton International Limited | GLOBAL |
| 59. | KPMG* | KPMG IFRG Limited | GLOBAL |
| 60. | MAZARS* | Mazars Group | GLOBAL |
| 61. | MNP | Meyers Norris Penny-Canada | NA |
| 62. | MOORE* | Moore Global Network Limited | GLOBAL |
| 63. | NEXIA* | Nexia International | GLOBAL |
| 64. | PwC* | PricewaterhouseCoopers International Limited | GLOBAL |
| 65. | RSM* | RSM International | GLOBAL |
| 66. | Torrillo | Torrillo & Associates Certified Public Accountants | NA |
| Others (3) | | | |
| 67. | AFV | Álvaro Fonseca Vivas | SA |
| 68. | CEM | Cristian E. Munarriz- Argentina | SA |
| 69. | SMPAG | IFAC Small and Medium Practices Advisory Group | GLOBAL |