

**Definitions of Listed Entity and Public Interest Entity—
Issues and Task Force Proposals**

Note to IESBA Members

This Agenda Item should be read in conjunction with **Agenda Item 4-B** (Second Read - Mark-up from the First Read).

Refer to **Agenda Item 4-C** for a clean version of the Second Read and **Agenda Item 4-D** for a mark-up from extant Code version.

OVERVIEW

1. At the September-October 2020 meeting, the IESBA considered the Task Force's views and proposals as well as a [First Read](#) of the proposed text. As part of its discussion, the IESBA also considered:
 - The Task Force's responses to the key comments received from the July 2020 International Auditing and Assurance Standards Board (IAASB) meeting.
 - Responses received on the IESBA's Non-Assurance Services (NAS) exposure draft (ED) on the Definitions of Listed Entity and Public Interest Entity (PIE) project.
 - Initial responses received from the questionnaire to professional accountancy organizations (PAOs).
2. In developing the Second Read of the proposed text (See **Agenda Item 4-B**), the Task Force has taken into account, amongst other matters, responses received from:
 - The September-October 2020 IESBA meeting;
 - The joint October 2020 IAASB-IESBA CAG meeting;
 - The November 2020 IAASB PIE session; and
 - PIOB's October 2020 update on public interest issues on IESBA work streams.
3. Key revisions made to the First Read include:

Paragraphs	Key Revisions to First Read
400.8 and 400.9	<ul style="list-style-type: none"> • Revision of bullet #4 in paragraph 400.8
R400.14	<ul style="list-style-type: none"> • Introduction of a new term “publicly traded entity” to replace subparagraph (a) • Refinement of subparagraph (e) including the use of the term “collective investment vehicle”
400.15 A1	<ul style="list-style-type: none"> • New application material to clarify the role of the local bodies in refining the Code
R400.16 (First Read)	<ul style="list-style-type: none"> • Deleted

Paragraphs	Key Revisions to First Read
R400.16	<ul style="list-style-type: none"> Revised and new factors to address Board comments from the September-October 2020 IESBA meeting
R400.20	<ul style="list-style-type: none"> Replaced “listed entity” with “publicly traded entity”
Glossary	<ul style="list-style-type: none"> A new definition for the new proposed term “publicly traded entity.” This definition is a revision of the proposed paragraph R400.14(a) of the First Read. Removal of the term “listed entity”

4. The following are matters for IESBA consideration at its November-December 2020 meeting.

Matters for IESBA Consideration

IESBA members are asked to provide input to the following:

- Revisions to the First Read (See **Agenda Item 4-B**), including whether IESBA members:
 - Continue to support the use of the term “financial condition” in proposed paragraph 400.8; and
 - Agree with:
 - The introduction of the new term “publicly traded entity,” replacing “listed entity” in paragraph R400.20, and consequential deletion of the term “listed entity;”
 - The new proposed paragraph 400.15 A1; and
 - The revised transparency requirement in paragraph R400.17.
- The Task Force’s update and recommendations with regards to the issue of related entity (see section below on “Related Entity” and Appendix).
- The Task Force’s view that revisions to Part 4B of the Code are not warranted.
- The 3 options for effective dates of the final text for the NAS, Fees and PIE projects, and the Planning Committee’s recommendation (See **Agenda Item 4-E**).

5. Subject to the IESBA’s discussion, the Task Force intends to seek the Board’s approval of the proposed text for exposure during the second PIE session (scheduled for Friday December 4, 2020).



INFORMATION GATHERING ACTIVITIES SINCE SEPTEMBER 2020

6. The Task Force received views from participants of the joint IAASB-IESBA CAG meeting held in October 2020. The CAG representatives were generally supportive of the Task Force's views and proposals as reflected in the First Read. The Task Force's responses to key comments received during this meeting are set out below as appropriate.
7. The Task Force Chair will provide an update to the IFAC Small and Medium Practices Advisory Group (SMPAG) on November 24, 2020. The IESBA will receive a report-back at the November-December 2020 meeting.
8. On the subject of related entity, the Task Force has sought input from the Forum of Firms (FoF) in October 2020. See section below on "Related Entity" and the Appendix for more information and the Task Force recommendations.

IAASB November 2020 PIE Session

9. At its virtual session on November 10, 2020, the IAASB received an update from the Task Force Chair and IAASB correspondent member, Ms. Josephine Jackson, on the progress of the project, including a *revised* First Read of the proposed text (See [Agenda Items 1-A and 1-C](#) of IAASB's November 2020 session).
10. The IAASB members were asked to consider IAASB-specific matters on the overarching objective, continued use of the term "listed entity" in the IAASB standards, and transparency in the auditor's report (See [Agenda Item 1-B](#) of the November 2020 IAASB session). In particular, input was sought from the IAASB members on the following:
 - Whether the IAASB continues to support the proposed overarching objective set out in paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities.
 - The IAASB's view on the continued use of "listed entity" in the International Standards on Auditing (ISAs) and International Standards on Quality Management (ISQMs),¹ subject to the progress of the PIE project.
 - The IAASB's view on exploring revisions to ISA 700 (Revised)² for auditors to disclose in the auditor's report that an entity is or has been treated as a PIE.
11. The Task Force's responses to key comments received during this meeting (see **Agenda Item 4-G** for the draft minutes of the November 2020 IAASB PIE session) are set out below as appropriate.

PIOB Public Interest Issues

12. In its October 2020 list of public interest issues on the IESBA work streams, the PIOB restated its previous view that it is crucial to determine the categories of entities (e.g. financial institutions, listed

¹ The IAASB approved in September 2020 the following three Quality Management Standards, which are subject to approval by the PIOB at the December 2020 PIOB meeting: ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; ISQM 2, *Engagement Quality Reviews*; and ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*. In this agenda item, reference is made to these Quality Management standards, instead of extant ISQC 1 and extant ISA 220.

² ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

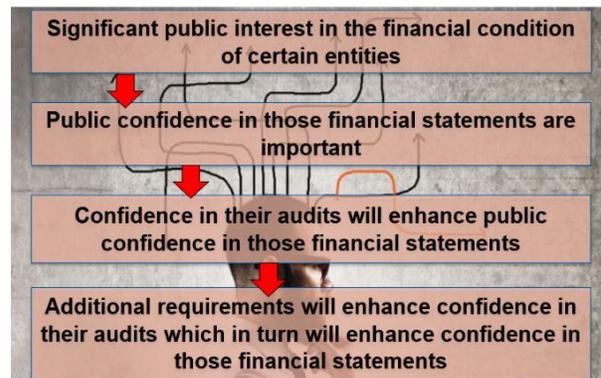
companies, significant utility companies), which should be subject to stricter provisions in the Code as the PIE definition affects other IESBA projects such as NAS and Fees. The PIOB noted that consideration should be given to any other entities that could pose a threat to financial stability, to ensure that the proposed list achieves the overarching objective and that there are no evident gaps. The PIOB also continued to highlight the importance of coordination between the IESBA and the IAASB to ensure consistent application of the two sets of standards.

13. The Task Force is of the view that the Board has duly considered the PIOB's public interest issues to date and that the IESBA's approach to developing the PIE definition, including the role of local bodies to refine the definition, will address any gaps in achieving the overarching objective.

OVERARCHING OBJECTIVE

14. At the September-October 2020 meeting, the Board was generally supportive of the Task Force's revisions to the overarching objective and the list of factors set out in proposed paragraphs 400.8 and 400.9 of the First Read. Amongst other matters, the following matters were raised:

- Considering adding new application material to reference the connection between the overarching objective in paragraph 400.9 and independence of auditors and firms.
- With regards to the new factor in bullet #2 of paragraph 400.8 that relates to regulatory supervision, the relevance of that factor in light of bullets #1 and #6 unless it references prudential regulation.



- On the other hand, it was noted that prudential regulation is not necessarily restricted to financial markets. In addition, the Task Force Chair clarified that if an entity is subject to regulatory supervision that includes ensuring it meets its financial obligations, then there is likely to be significant public interest in that entity's financial condition. Further, the audits of such an entity may in any event be required to be subject to additional independence and audit quality related requirements.
- Consideration should be given to whether the list of factors in paragraph 400.8 covers entities that hold large volumes of sensitive data given that misuse of such data may lead to a significant adverse impact on the public interest. In response, the Task Force Chair noted that whilst there is public interest in the use of data by some entities, it is unclear if there is the same level of public interest in those entities' financial condition which underpins the objective of defining a PIE for the purposes of the Code.
15. At the October 2020 joint IAASB-IESBA CAG meeting:
- There was a suggestion that the level of public interest in the business activity of an entity, in addition to its financial condition, is also important in determining if the entity should be treated as a PIE. It was therefore suggested that this factor should also be included in proposed paragraph 400.8.

- In response, the Task Force Chair emphasized that the focus is on public interest in an entity's financial condition as reflected in the financial statements and the role of an auditor. Whilst there may be public interest in the business activities of a particular entity, only the financial consequences of those activities are directly under the purview of the auditors.
16. At the November 2020 IAASB meeting, the IAASB members continued to support the concept of a shared overarching objective for additional requirements for the audit of PIEs. With regards to the proposals set out in paragraphs 400.8 and 400.9:
- A number of IAASB members suggested that the term “financial condition” in paragraph 400.8 is unclear and too broad, which might inadvertently cause some users to look further than the audit of the financial statements which is focused on financial position and financial performance. The Task Force was also asked to consider other terms that better align with those used in other standards such as the IFRS (e.g. “financial position” and “financial performance”).
 - An IAASB member queried if proposed paragraph R400.14 (list of PIE categories) should reference paragraph 400.8 in order that users can gain a better understanding of the context for the list of PIE categories. In response, the Task Force Chair noted that non-authoritative guidance material to be developed will provide further explanation of the link between these two paragraphs, and that category (f) in paragraph R400.14 already references paragraph 400.9.
 - A few IAASB members sought clarity about the phrase “easily replaceable” in bullet #4 in paragraph 400.8.
 - IAASB members supported the removal of “additional” in paragraph 400.9 in response to IAASB comments in July 2020 about a potential perception of two levels of audit quality.

Task Force Responses

17. Following deliberation, the Task Force formed the following views:
- The term “financial condition” in proposed paragraph 400.8 should be retained for the following reasons:
 - In March 2020, the Board took the view that the use of the term “financial statements” might place too much emphasis on the financial statements as opposed to the role of financial statements in relation to confidence in the overall financial “well-being” of the entity. The Board had also queried if “public interest in the financial statements” might be perceived as restricted to the interests of investors only. In response, the Task Force replaced “financial statements” with “financial condition” and this has received the Board's support to date.
 - Other alternatives suggested, such as financial position and financial performance, do not adequately capture the IESBA's view that the public interest is broader than financial statements.
 - Paragraph 400.8 is only application material which sets up the context for the overarching objective in 400.9 and the list of PIE categories in paragraph R400.14.

- The Task Force did not consider it necessary to expand the focus on the financial condition of an entity to encompass its business activities for the reasons provided by the Task Force Chair during the joint IAASB-IESBA CAG meeting. The Task Force is of the view that it is sufficient that the nature of an entity's business or activities is included as a factor for consideration in proposed paragraph 400.8 (Bullet #1). The Task Force also intends to provide further explanation on the focus of public interest on an entity's financial condition in the explanatory memorandum to the ED and other additional guidance material.
- The Task Force agreed to revise bullet #4 in paragraph 400.8 to clarify that part of the consideration is how easily replaceable an entity is in the event of financial failure.
- The Task Force did not consider further revisions to the list of factors in proposed paragraph 400.8 are necessary in light of the responses provided by the Task Force Chair at the September-October 2020 IESBA meeting and November 2020 IAASB meeting.
- Whilst there was no express reference to independence in the description of the overarching objective in proposed paragraph 400.9, it should be sufficiently clear to users from the immediate context of that paragraph, including extant paragraphs 400.1 and R400.11, that the additional requirements refer to independence requirements for the purposes of Part 4A of the Code. The Task Force also noted that the first sentence in extant paragraph 400.8 (lead-in sentence of proposed paragraph 400.8) mentions "Some of the requirements and application material set out in this Part" but makes no specific reference to independence. Accordingly, the Task Force did not consider it necessary to reference independence in proposed paragraph 400.9. In addition, the current formulation may facilitate use of the same wording by the IAASB in due course when it considers any appropriate changes to its standards.

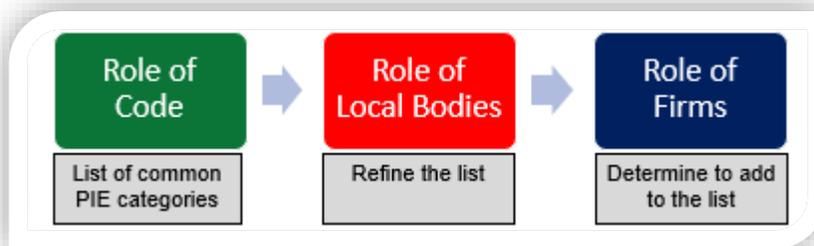
Replacing Listed Entity with PIE in ISAs

18. At its July 2020 meeting, the IAASB recognized the direction of the Task Force's work in relation to the IAASB exploring the replacement of the term "listed entity" with "PIE" in the ISAs. However, a few IAASB members suggested that there would be merit in reviewing the use of "listed entity" in IAASB standards on a case by case basis to determine if such replacement would be warranted. In this regard, some IAASB members also pointed out that there might be compelling reasons to retain the term "listed entity" without being inconsistent with the approach of a common overarching objective.
19. At the November 2020 meeting, the IAASB continued to support the case by case approach in determining whether the focus on listed entity in the ISAs and ISQM 1 should be expanded to all PIEs. In supporting this approach, the IAASB noted that whilst it might embrace the new PIE definition, it would need to properly assess the impact of the change to PIE in its standards in order to avoid any unintended consequences. In making that assessment, the IAASB would take into account the rationale for using listed entities in its current standards.
20. The IAASB also supported utilizing the IESBA's ED as a vehicle to obtain targeted input for purposes of informing the IAASB's consideration of a shared overarching objective and the potential replacement of listed entity with PIE in its standards. Both Boards' Chairs acknowledged that the information received would not bind the IAASB in any way. The IAASB also acknowledged the importance of providing appropriate context and explanations to ensure that its stakeholders will provide their feedback and understand the issues from an IAASB perspective.

21. A few IAASB members queried if the two Boards should have worked towards the issuance of a joint ED and if there should be a greater focus on coordination of outcomes. In response, the IAASB Chair:
- Noted that whilst a joint ED might be ideal to some, the two Boards have already worked very closely at all levels and that the project's progress has demonstrated a high level of coordination. Such a view was also echoed by the IESBA Chair.
 - Clarified that one of the drivers for the project was to remove the inconsistency in the use of the term "entity of significant public interest" (ESPI) in the ISQM 2 ED and the term PIE in the Code. The IAASB Chair added that the ultimate goal of the IAASB is to achieve alignment and that it is reasonable of the IAASB to form the view that only a subset of PIEs requires differential requirements with respect to audit and assurance standards.
 - Stressed that in adopting a case by case approach, it is important to consider that the term 'listed entity' in the IAASB standards might be replaced by the term eventually used by IESBA, be it publicly traded entity or otherwise, in order to achieve a level of consistency.
22. The PIOB Observer noted that the PIOB has some concern about the complexity caused by the different terminologies between the two Boards' standards.

DEFINITION OF PIE

23. The Task Force developed its proposals based on the following approach:
- The development of a longer and broader list of high-level categories of entities as PIEs;
 - Refinement by national bodies by tightening definitions, setting size criteria and adding or exempting particular types of entities; and
 - Determination by firms if any additional entities should be treated as PIEs.



Expanded List of PIE Categories

24. Amongst other matters, the following comments were made with respect to the list of high-level PIE categories in proposed paragraph R400.14 during the IESBA meeting and joint IAASB-IESBA CAG session in September and October 2020:
- A few IESBA participants preferred the term "securities" in subparagraph (a) and suggested the Task Force to consider "securities and other types of financial instruments" instead of "equity or debt instruments."
 - A few IESBA members asked if the phrase "publicly traded" in subparagraph (a) requires further explanation.

- A few CAG representatives suggested that “publicly listed” might be more appropriate than “publicly traded” in subparagraph (a) on the basis that more judgment is required to determine what is publicly traded than listed in some instances. In response, the Task Force Chair noted that the word ‘traded’ is used instead of ‘listed’ because there are instruments that are listed but not for trading purposes. For example, such a situation exists in the UK where there are debt securities listed by subsidiaries that are wholly-owned within a group. Whilst there is some element of judgment in what qualifies as publicly traded, “publicly listed” has its own challenge given the concerns with the term “listed” that the PIE project has been expected to address. Further, category (a) is about financial instruments that are publicly traded instead of traded by the public in the sense that there needs to be some mechanism for trading to take place such as an over-the-counter type market.
- In response to a query raised about the description in subparagraph (e), the Task Force Chair clarified that this category intends to capture mutual funds where an investor can sell its interests back to the entity, and not investment trusts where investors are selling their interests to other third parties (which would already be captured by subparagraph (a)).
- The IESBA supported the Task Force’s view of not including financial market infrastructures, stock and commodity exchanges as well as audit firms. The joint IAASB-IESBA CAG also noted the Task Force’s view and did not raise any significant comments.

25. Following deliberation, the Task Force:

- Revised subparagraph (a) to “publicly traded entity,” which is “an entity that issues financial instruments that are [freely/readily] transferrable and publicly traded.” This proposed revision:
 - Aims to replace the term “listed entity.”
 - Replaces “equity or debt instruments” with “financial instruments” to cover those financial instruments that may not fit neatly as either an equity or debt instrument such as hybrid instruments. The Task Force considered also adding the word “securities” in this definition but felt that it was now encompassed by the term “financial instruments.”
 - Aims to clarify that the financial instruments must be transferrable without any undue limitations from the entity. The Task force would welcome views on whether “freely” or “readily” is better at conveying that intention.
 - In using the phrase “an entity that issues,” this formulation also helps to avoid capturing those situations where instruments which may be linked to an entity are traded without its approval or knowledge. For example, traded debt issued by Company A with returns linked to the shares of Company B would not automatically make Company B a PIE.
- Noted that the term “publicly traded” is also used in the IFRS for SMEs and formed the view that further explanation in the Code is not necessary.
- Further refined the description of subparagraph (e) by clarifying that the function of this category of PIE is to act as a collective investment vehicle (see subparagraph R400.14 (e) of **Agenda Item 4-B**).
- Proposed a new paragraph (400.15 A1) which aims to clarify the high-level nature of the Code’s categories and the role of the local bodies.

- Deleted the proposed R400.16 in First Read as this requirement is no longer warranted in light of the requirement in R400.15 and additional application material in 400.15 A1 regarding the role of local bodies to refine the definition or exclude entities from it. The deletion will also improve the flow of the proposed text.

EXPECTED ROLE OF LOCAL BODIES

26. At the September-October 2020 meeting, the Board was generally supportive of the following proposed actions by the Task Force to mitigate the risk of local bodies not having the capacity to refine the PIE definition or simply adopting the revisions as is. These proposed actions include:
- A list of factors set out in proposed paragraph 400.8 that can be used to help determine the level of public interest.
 - Additional non-authoritative guidance material to assist with implementation of the final revisions.
 - A longer transition period that is at least 18 months.
 - Questionnaire to PAOs regarding their local body's capacity to refine the new definition of PIE in their respective jurisdictions.

PAO Questionnaire

27. With the assistance of the IFAC Quality and Development (Q&D Team, the Task Force circulated a questionnaire to approximately 40 PAOs in Asia, Middle East and Africa as well as Central and South America in July and August 2020. The purpose of the questionnaire was to seek their input on the expected role and capacity of local bodies to refine the PIE definition as part of the adoption process at the local level.
28. At the September-October IESBA meeting, the Task Force Chair provided the following report-back:
- The Task Force received 19 responses at the time of the Board meeting from a mixture of PAOs with direct, shared or no authority to revise the PIE definition.
 - Many jurisdictions already have their own local PIE definitions.
 - A strong indication from the responses that refinement of the PIE definition can be achieved at these jurisdictions.
 - Some expressed the view that the draft definition is sufficient to develop their local definitions, with one PAO noting that substantial work would be needed to persuade the local regulator to revise the local law.
29. A French version of the questionnaire was also sent to eight francophone-African PAOs in October 2020. As of mid-November, the Task Force has received responses from two of these jurisdictions as well as two additional responses from PAOs in Central and South America. These additional responses aligned with the previous responses received and did not raise significant concerns about local body capacity to refine the PIE definition.
30. The Task Force will continue to work with PAOs and other stakeholders at the national level and assist them with understanding the new definition of PIE and how to approach refinement of the IESBA definition for local adoption.

Outreach Activities

31. To assist local bodies with gaining a better understanding of the IESBA's proposals when it is out on exposure, the Task Force aims to conduct a series of outreach activities in 2021. The purpose of these activities, including the provision of non-authoritative guidance material, is to help PAOs and local regulators gain better insight into not only the Board's approach and rationale but also how they might be able to refine the PIE definition as part of their adoption and implementation process.
32. In the first instance, the Task Force will develop non-authoritative guidance material to complement the exposure draft. This material will include, amongst other matters:
 - Explanations regarding the Board's approach, including the role of local bodies and firms.
 - The rationale behind each of the proposed PIE categories and how these could be further refined at the local level.
 - Examples of other categories that might be considered by a local body.
 - The thought process for the local body, including an expanded explanation of the overarching objective and the factors for consideration as set out in the proposed paragraphs 400.8 and 400.9.
33. Refer to **Agenda Item 4-F** for an initial draft of this guidance material.
34. Other outreach activities that are being considered by the Task Force include webinars, targeted outreach to local jurisdictions or regions, and Q&As. The Task Force will continue to identify and conduct appropriate outreach activities throughout the life span of this project, including rollout activities when the final text is approved by the Board.

ROLE OF FIRMS

35. Both the IESBA and IAASB were generally supportive of the Task Force's proposal to elevate the application material in extant paragraph 400.8 to a requirement for a firm to determine if any additional entities, or certain categories of entities, should be treated as PIEs. The Boards were also supportive of the additional list of factors for consideration by the firm.

Additional Factors for Firm Consideration

36. In response to comments received from IESBA participants at its September-October 2020 meeting with respect to the additional list of factors set out in the proposed paragraph 400.16 A1 for consideration by firms, the Task Force has:
 - Revised bullet #2 to address the concern raised by a few IESBA participants that the timing element should be less specific.
 - Added two new factors to cover the situations where in similar circumstances a firm or a predecessor firm has treated the same entity as a PIE (Bullet #3), and where in similar circumstances the firm has treated other entities as PIEs (Bullet #4). (See **Agenda Item 4-B.**)
37. The Task Force also considered a suggestion by the PIOB Observer about including as non-authoritative guidance material the situation where a firm might determine to add the entity as a PIE in order that it may look into the governance of the entity. In this regard, the Task Force is of the view

that it is not the role of auditors to investigate the standard of an entity's governance or to provide advice on how to improve it to a level that meets legal requirements or public expectations.

Transparency Disclosure

38. The Task Force had pointed out that one effect of its proposals may be increased uncertainty as to whether an entity has been treated as a PIE, particularly if this determination has been made by a firm rather than as established by law or regulation. To address this issue, the Task Force proposed a new requirement for firms to disclose in the auditor's report if an entity has been treated as a PIE. The Board also agreed that the Task Force should explore with the IAASB the option of adding a requirement in the ISAs for the auditor's report to disclose whether the particular entity was treated as a PIE.
39. At the July 2020 IAASB meeting, IAASB members were split as to the question of whether the auditor's report should disclose if the client was treated as a PIE. Whilst some IAASB members felt that such disclosure would be unnecessary, others were supportive of the suggestion and were open to further explore this option.
40. Following discussion with Task Force representatives, IAASB representatives developed three options for consideration by the IAASB at its November 2020 meeting:
 - Option 1** – No change to the auditor's report
 - Option 2** – IAASB to pursue the possibility of enhanced transparency as part of its Auditor Reporting Post-Implementation Review (PIR)
 - Option 3** – IAASB to explore potential revisions to ISA 700.28(c)³
41. At the November 2020 IAASB meeting, a clear majority of IAASB members preferred Option 2. In support of this option, the IAASB:
 - Agreed that further analysis as part of its Auditor Reporting PIR will allow the IAASB to properly consider Option 3, including any potential impact and unintended consequences, before deciding on an appropriate course of action.
 - Noted that transparency is an essential component of the Task Force's proposals and that the Task Force intended to recommend to the IESBA that specific comments be sought from stakeholders on this issue as part of the ED process.
 - Supported the approach of the IESBA seeking views from stakeholders as part of the project's ED process with regards to all three options. The information received will help inform the IAASB's review of this topic.
42. During the IAASB meeting, the PIOB Observer expressed support for the approach of seeking stakeholders' feedback on all three options and reinforced the PIOB's view that it is in public interest to enhance transparency.

³ ISA 700 (Revised), paragraph 28(c) requires that the auditor's report include a "statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements." It also requires that statement to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.

43. The Task Force also considered the proposed disclosure requirement for firms as set out in the proposed paragraph R400.18 of the First Read (paragraph R400.17 in **Agenda Item 4-B**) in light of the IAASB's feedback above. Following deliberation, including discussions with IAASB correspondent members and representatives, the Task Force agreed to revise paragraph R400.17 by replacing the requirement for a firm to disclose in the auditor's report whether an audit client has been treated as a PIE to a more general requirement without stating how the disclosure should be made. The Task Force would further recommend that respondents to the ED be asked specifically about different ways such disclosure may be made (including within the auditor's report) and their views on the advantages and disadvantages of different approaches, including any examples provided by the IAASB such as those presented at its November 2020 meeting.

OTHER MATTERS

Related Entity

44. The concept of related entity in the Code is currently under review by four of the IESBA's ongoing projects: NAS, Fees, Engagement Team – Group Audits Independence (ET-GA) and PIE.
45. At the September-October 2020 meeting, the IESBA:
- Broadly supported the Task Force's view that there is no strong philosophical reason for not extending the definition of audit client for listed entities in paragraph R400.20⁴ to apply to all PIEs.
 - Discussed whether such an extension would be inappropriate for certain entities, such as private equity companies and sovereign wealth funds (SWFs), due to their corporate structures and the flow of information within those structures. The IESBA noted that whilst this issue exists today for those entities that are listed entities, it might be compounded by extending the definition of audit client for a listed entity to apply all PIEs as it would encompass a wider range of entities.
 - Acknowledged the complexity of the issue and agreed that further research on this topic, including the nature of the ownership structures of private equity companies and SWFs, is warranted in order that it can gain a better understanding of the ramifications of extending the whole universe of related entities for listed entities to apply to all PIEs. The IESBA also agreed that given the timeframe, it may well be that further work will be required outside the scope of this project.
 - The IESBA asked the Task Force to continue its research in Q4 and provide an update at the next IESBA meeting.

FoF Questionnaire

46. In October 2020, the Task Force sought views from FoF participants on the issue of related entities, including:

⁴ Paragraph 400.20 states: "As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence."

- Key issues and challenges firms might encounter if the principle in paragraph R400.20 with respect to an audit client that is a listed entity is extended to PIEs.
- Whether the difficulties are caused more by the nature of “group corporate structure” than the nature of the entity itself.
- Replacing listed entity with those entities in category (a) of the proposed paragraph R400.14.
- Whether allowing for more local variation in the definition (by scoping out certain organizational structures) would be a suitable alternative solution.
- Whether a separate project on related entity and group corporate structure is warranted.

FoF Responses

47. As of November 10, 2020, the Task Force received responses from five respondents (see Appendix for the responses).
48. Matters raised by these respondents with regards to expanding the definition of audit client for a listed entity to apply to all PIEs are consistent with the issues already highlighted by the Task Force and discussed at the September-October 2020 IESBA meeting. Key comments include:
- The definition in paragraph R400.20 was developed with a conventional corporate structure in mind and cannot be easily applied to structures such as collective investment vehicles or other structures such as pension funds and trusts.
 - It may be difficult to obtain related entity information for certain structures such as sovereign wealth funds, government-controlled entities and private equity complexes whereas such information for a listed entity group is more readily available to the entity and its auditor. For instance, a listed entity may have the same auditor across the corporate group. This becomes less likely in the case of other entities such as government entities, pension funds, or private equity funds.
 - Expanding independence requirements to portfolio entities controlled by an audit client where the former is just a passive investor, or to sister entities, can create challenges in applying the independence requirements because often these are unrelated and independent companies with their own boards and management and different auditors.
 - The topic of the application of the related entity definition to collective investment vehicles has been considered by the IESBA in prior Strategy and Work Plan surveys but has not been progressed.
 - For structures such as those of the private equity groups, it is a labor-intensive exercise for both firms and their audit clients to track and monitor related entities for the purposes of compliance. There are concerns that, for some private equity groups, the expansion of the definition of audit client to them would be punitive and without much benefit from an independence perspective.
 - The compliance costs required to maintain the data and monitor the relationships, including significant changes to firms’ systems and process at both firm and network level, would likely outweigh any public interest benefit. It may be argued that proposed changes based only a “philosophical view” does not justify the increase in administrative burden.

- Philosophically and conceptually speaking, non-listed PIEs do not warrant the same audit client definition as listed entities, given their level of risk and public interest in their financial statements as compared to listed entities. Listed entities require a higher level of confidence in their financial statements and related audits than other non-listed PIEs. This heightened level of public confidence in listed entities' financial statements is due to the role listed entities play in establishing and influencing public trust and confidence in the capital markets. Therefore, the incremental mitigation of independence risk through the inclusion of all related entities in the definition of audit client for listed entities is warranted. However, the narrower public impact of the financial statements of a non-listed PIE does not support this incremental mitigation of independence risk.
49. Additionally, the following comments were raised by the respondents:
- If the IESBA changes the definition of audit client in paragraph R400.20, it should also develop detailed application material to explain the application of this definition. The Code should also recognize some level of best efforts in identifying related entities in private entity structures, where the information cannot be reasonably obtained.
 - If the expanded definition is adopted, a long period of transition will also be needed to implement due to the time required to identify the entities impacted.
 - Respondents did not raise any concerns about removing the term "listed entity" from the Code other than those raised by the definition in paragraph R400.20. Two respondents also expressed support for replacing listed entity in paragraph R400.20 with category (a) in proposed paragraph R400.14 to avoid confusion.
50. Two respondents raised concerns about the introduction of local variation in the definition as this would increase complexity. It was also felt that the likelihood of different interpretations would weaken the consistent application of Code around the world, as well as across entities that operate in different countries with different requirements and potentially different audit firms
51. Respondents are supportive of the establishment of a new IESBA project to review group corporate structures given the expansive work required to consider the issues and develop the necessary material

Task Force Recommendations

52. The Task Force recommends that the definition of audit client in paragraph R400.20 be reviewed as a separate workstream as discussed by the Board during the September-October 2020 meeting.
53. As part of its recommendation, the Task Force also suggests that the objective of this new workstream may be to determine if the definition of audit client for a listed entity should be expanded to other PIEs in paragraph R400.20. To reach this decision, the Board may wish to:
- First determine whether there is any philosophical reasons for not extending the definition of audit client applicable to listed entities to all PIEs in paragraph R400.20 given their level of public interest (i.e., a prima facie case that the definition of audit client for all PIEs, not just listed entities, should include all related entities). In this regard, the Task Force is of the view that the suggestion that listed entities require more public confidence (due to their impact on capital markets) than other PIEs conflicts with the overarching objective in paragraph 400.9.

- Identify if there are any other reasons or barriers to making the extension such as logistical challenges and corporate organizational structures.
 - Consider the impact on the independence requirements set out in Part 4A (including the final revisions to the NAS and Fees projects).
 - Consider if the definition of “related entity” should be revised in order to address some of the issues identified.
 - Seek further input from firms as well as other stakeholders such as regulators and those charged with governance.
 - Consider relevant requirements in major jurisdictions such as the [recent amendments](#) in the SEC auditor independence rules relating to the definitions of affiliates of an audit client and investment company complex.
54. As part of its recommendation, the Task Force also proposes that in paragraph R400.20, the term “listed entity” be replaced with the proposed new term “publicly traded entity” in subparagraph R400.14 (a). The Task Force also believes that this should take into account how the local law and regulation may have amended the broad category in R400.14(a) and the wording is designed to achieve this.

Part 4B of the Code

55. Whilst the project centers on the definitions of listed entity and PIE by focusing on audits of financial statements and auditor independence (i.e., Part 4A of the Code), the project scope provides that any implications for Part 4B of the Code will be taken into account and addressed as necessary.
56. Following the September-October 2020 Board discussions, an IESBA member also asked the Task Force to consider the following:
- With respect to assurance engagements other than audits, whether additional independence requirements should be expected for certain types of entities depending on the public interest implications.
 - For example, for an assurance engagement related to data governance, whether additional independence requirements are necessary due to public importance (e.g., sensitivity) of the data being held.
57. Following its review of the revised Part 4B set out in the final pronouncement, [Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in International Standard on Assurance Engagements 3000 \(revised\)](#) (Revised Part 4B), the Task Force has formed the view that changes to Part 4B are not necessary as part of the PIE project.
58. The Task Force’s rationale in forming its above conclusion are as follows:
- Part 4B applies to assurance engagements other than audit and review engagements. Part 4B already requires a firm to be independent of the assurance client when performing such an engagement.
 - The term “assurance engagement” in Part 4B refers to an assurance engagement other than an audit or a review engagement. Under such an engagement, the firm expresses a conclusion that is designed to enhance the confidence of the intended users about the subject matter

information. Paragraph 900.1 of the Revised Part 4B gives a number of examples such as assurance on an entity’s key performance indicators, an entity’s compliance with law or regulation, and the effectiveness of an entity’s system of internal control.

- Whilst there may be some assurance engagements that are of greater public interest than others, this is at least as much to do with the nature of the engagement as with the nature of the entity. As such, not all assurance engagements for a PIE (as defined by Part 4A) would be of significant public interest; equally some assurance engagements for an entity not otherwise regarded as a PIE might be of significant public interest. As such the Task Force does not believe that developing a different definition of PIE in Part 4A has direct implications for Part 4B
- The Task Force acknowledges that it may be possible to define a class of “public interest assurance engagements” but believes this is outside the scope of the current project. In considering whether to take forward another project to consider this, the Task Force also believes that it would be helpful firstly to reflect on what additional independence requirements (if any) might be imposed on the providers of such engagements in order to enhance confidence in their performance.

Consequential and Conforming Changes

59. The Task Force has also made a number of consequential and conforming changes in paragraph 300.7 A7 and the glossary of the Code.

Effective Date

60. At the September-October 2020 meeting, the IESBA deliberated on the effective date for the PIE project’s final text, taking into account the possible effective date for the NAS and Fees final texts, both of which are expected to be approved by the IESBA in December 2020.
61. The IESBA acknowledged that, whilst the initial intention was for the three projects’ final revisions to become effective on the same date, it is unlikely that this can take place at least until December 2023 given that the PIE exposure draft is to yet to be released.
62. At the November-December 2020 IESBA meeting, the IESBA will be asked to consider three effective date options for the three projects, subject to approval by the Board of the NAS and Fees final texts as well as the PIE ED.

	NAS and Fees	PIE
Option 1	December 2022	December 2023
Option 2	December 2023	December 2023
Option 3	December 2022	December 2024

63. The PIE Task Forces prefers Option 3 on the basis that:
- A longer transition period will create more time for local bodies to refine the new PIE definition and also allow the IESBA more time to develop non-authoritative guidance material to facilitate global adoption of the PIE definition.
 - The earlier effective date for the NAS and Fees projects will likely better respond to the expectations of the regulatory community for strengthened auditor independence requirements to come into effect as soon as reasonably practicable.
 - This will give firms some time to develop experience with the application of the new NAS and Fees provisions for PIEs based on the extant PIE definition before they become applicable to a broader group of PIEs (a “step change” approach rather than a “big bang” one).
 - In the unforeseen event of a delay in completing the PIE project, this would not unduly withhold the NAS and Fees revisions coming into effect.
64. The NAS and Fees Task Forces as well as the IESBA Planning Committee also support Option 3 as their preferred options.
65. Refer to **Agenda Item 4-E** for more background information, pros and cons for each option and how they would work.

Forum of Firms
Responses to IESBA Public Interest Entity Project Questionnaire –
Related Entity & Definition of Audit Client
October 2020

Questions

In October 2020, Forum of Firms (FoF) participants were asked to provide views to the following questions relating to the definition of an audit client in paragraph R400.20 of the Code.

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| <ol style="list-style-type: none">1) Are there any implications to removing the term “listed entity” from the Code other than those raised by the definition in paragraph R400.20?2) If the definition in paragraph R400.20 of an audit client that is a listed entity were to be extended to all PIEs, taking into account the current IESBA PIE project to revise the PIE definition:<ol style="list-style-type: none">(a) What are the key issues or challenges firms might encounter (e.g. logistical, group structure of some entities such as private equity firms)? Please provide examples if possible.(b) What are some practical examples of how this might significantly affect the application of independence requirements in Part 4A of the Code?3) If in the definition in paragraph R400.20 the term “listed entity” were alternatively to be replaced by reference to proposed 400.14 category (a), how would that affect the responses to the above?4) Would allowing for more local variation in the definition (by scoping out certain organizational structures) be an alternative way of addressing the immediate issue and what difficulties would that present?5) Do you agree that the difficulties of inclusion of related entities that are parents or sister entities in the definition of audit client are caused more by the nature of the “group corporate structure” than may the nature of the entity itself? If so, do you think it requires a separate project to review this and are there other structures, in addition to private equity and sovereign wealth funds, that the IESBA might need to consider? |
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FoF Responses

As of November 20, 2020, five respondents provided their input.

Responses Received
Respondent #1
All networks whose firms conduct listed company audits will have some form of international system for conducting conflict checks, an independence database, and perhaps a restricted entities list. These systems will likely be at firm and network levels, maybe regional too. For many networks the systems will be standalone – that is a system for Singapore clients will be different to the UK system will be different to the US system etc will be different to the network level system. Often different software, but also different procedures, definitions etc

Alongside those country level systems there will be country level defined tasks and roles which describe who has to do what and when. Some of those tasks will be defined by reference to the nature of the entity. Each member firm's system as a minimum has to comply with IESBA rules.

So, any change in definition means not only a change in the network level system etc, but also changes in each member firm. Any change in global definition immediately means a significant logistical challenge at each member firm – to understand the new definition, to understand the need for change, to change their systems and processes, to update their country level data, to train their system administrators, to change their monitoring processes to include the new data, possibly to change their conflict resolution procedures to take account of the new classes of related entity.

By definition, removing "listed entity" from the Code is a broadening in application of the rules, even before the PIE definition gets revised (read: broadened).

At a time when it is often relayed to me that the current rules are already set at a level where there is limited additional public confidence to be gained, then a further tightening or broadening in application based only on a "philosophical" view would not attract widespread understanding or support. IESBA should accompany any proposed changes in this regard with a cost/benefit analysis. The extent of the perceived weakness needs to be described in terms other than technical or philosophical language. "There might be a problem out there..." is not sufficiently robust to warrant imposing this level of administrative burden and therefore ultimately cost on users of audited information.

Respondent #2

We agree in principle to the proposal to replace the reference to "listed entity" by "public interest entity". This is consistent with the approach taken by oversight bodies.

During the discussion at the Forum meeting, a colleague from our US member firm made an observation about the possible inclusion of Private Equity Groups (PEG) in the definition of PIE. My colleague has prepared the following note for private consideration by the members of the IESBA Board and members of staff like yourself who support the Board:

Our concern with expanding the definition for listed entity to all PIEs is related to the private equity group (PEG) space. This is a significant aspect of our practice and while some PEGs, here in the US do meet the requirements to follow the more rigid SEC requirements (which is similar to what IESBA is proposing but with a key point noted below), the majority of our clients do not. As was noted, the affiliates of a PEG can be significant when the definition includes sister entities, and sister PEGs. It is very labor intensive to track and monitor and requires effort by both the firms and the PEG. For those PEGs subject to the more restrictive SEC requirements, it has been accepted as a cost of doing business. The entity chose to structure their organization such that it required the more stringent requirements. For others though, it would be punitive and without much benefit from an independence perspective. Our experience is that objectivity is not threatened when a prohibited non-audit service is performed for a portfolio company of a sister entity of a PEG, by way of example.

It is also important to note that the SEC just issued revised interpretations of their independence requirements (which is something they do very infrequently) to better align their affiliate rules with both the current AICPA and IESBA definitions. It is not exactly the same, but a better recognition of where the SEC determined changes were appropriate. The SEC also did extensive outreach as part of their changes and spent considerable time in making their

assessment. Our view is that the expanded definition by IESBA that is being discussed would be more restrictive than the SEC's new requirements, though we are still evaluating the SEC's new rules, given they have only been out for a short time. Further, the SEC new rules would only apply to entities that need to be SEC compliant, not all PEGs.

I would observe that developing a definition of PIE for inclusion in the Code that acknowledges and embraces the definitions of PIE adopted by national oversight bodies would be a step in the right direction and would avoid any divergence between the Code and national requirements, which may have the backing of law. For example, consider the differences in the application of the PIE definition in the EU Audit Directive because EU Member States / EEA Member States / UK had the ability to extend the definition when transposing it into national law.

A separate project on "corporate structures" would make sense.

Respondent #3

1) Are there any implications to removing the term "listed entity" from the Code other than those raised by the definition in paragraph R400.20?

Not that we are aware of.

2) If the definition in paragraph R400.20 of an audit client that is a listed entity were to be extended to all PIEs, taking into account the current IESBA PIE project to revise the PIE definition:

(a) What are the key issues or challenges firms might encounter (e.g. logistical, group structure of some entities such as private equity firms)? Please provide examples if possible.

We consider that there may be several issues and challenges with the proposal to expand the definition in R400.20 to include all PIEs:

- i. The definition in R400.20 was developed with a corporate structure in mind and concepts such as control are not easily applied to other structures. For example, in the case of collective investment vehicles or different legal structures (mutual funds, pension funds, trusts etc.) it is often unclear how the requirements apply when a firm audits one or more funds in the fund family, the trustee/sponsor/advisor of the funds or both. If the IESBA changes the application of the definition in R400.20 it is essential to accompany the change with detailed application material to explain the application of this definition to an expanded group of private vehicles and structures included in the PIE definition, which will be complex and diverse across the world. Refer, for example, to the extensive application material issued by the AICPA when it amended its interpretation of entities that should be considered affiliates of a financial statement audit client - including trusts, partnerships, benefit plans, funds, etc. We note that the topic of the application of the related entity definition to collective investment vehicles has been considered by the IESBA in prior Strategy and Work Plan surveys as a result of comments from respondents but was never progressed. Issuing such application material will entail a much more expansive project that might be beyond the scope of the PIE project as currently envisioned. If this is the case, R400.20 should not be expanded to include PIEs until a more holistic approach can be taken to ensure consistent application of the definition in the public interest.

- ii. The public interest for a listed company is centered around the relevant stakeholders – namely the investors. It is therefore appropriate that the independence requirements would apply with respect to other investors in that entity that have significant influence or control over the audited entity. In these situations, the audited entity and its auditor will have more easy access to publicly available corporate tree related entity information, including acquisitions and disposals by investors in the audit client. Additionally, corporate governance frameworks for listed entities make it more practicable for a listed entity to make the necessary requests of the relevant investors of the company about their other holdings so the auditor can fulfill its independence requirements. The controlling parties/investors in other types of PIEs might not be relevant based on the interests of the stakeholders and the information might not be public. Additionally, the corporate governance over such entities might not be as robust and/or the audited entity might not have the ability to obtain the necessary information about related parties, especially sister entities, of the upstream entities. If the IESBA feels the application of the related parties to non-listed PIEs is in the public interest, but the non-listed entity cannot provide the related entity information required by the auditor to comply with the independence requirements, and the auditor cannot obtain the information because it is not public, we consider the Code should recognize some level of best efforts in identifying related entities in private entity structures, where the information cannot be reasonably obtained. Otherwise the amendments significantly raise the risk of breaches that are outside the control of the auditor or the audit client, or an auditor being unable to confirm compliance with the requirements of the Code.
- iii. A listed company may have the same auditor across the corporate group and this becomes less likely in the case of other entities such as government entities, pension funds, or private equity funds (in the context of their proposed related entities such as portfolio companies). Firms will be required to increase the monitoring of a significantly expanded group of related entities, which may not also be audit clients of the firm. This also has the potential to increase complexity of the application of the rules, and also reduce competition in the market by reducing access to services as several firms may be required to treat the same entity as an audit client.

(b) What are some practical examples of how this might significantly affect the application of independence requirements in Part 4A of the Code?

With certain funds, such as private equity funds and sovereign wealth funds, expanding independence requirements to portfolio entities where they are just an investor, or sister entities, can create challenges in applying the independence requirements because often these are unrelated and independent companies with their own boards and management and different auditors. Some of these challenges already exist with respect to listed companies, however the challenges are significantly exacerbated by extending the application of the related party definition to all PIEs.

Another challenge is the application of all the provisions in Sections 400-540 to the expanded definition of audit client. The challenges in collecting and maintaining the related entity data in the situations described above will additionally lead to firms being unable to appropriately manage other interests and relationships that would not be permitted with those entities. The compliance costs required to maintain the data and monitor the relationships would likely outweigh any public interest benefit – is it reasonable to conclude, for example, that an auditor's independence with respect to a non-listed bank would be impaired by a relationship at an unrelated and unaudited sister company?

- (3) If in the definition in paragraph R400.20 the term “listed entity” were alternatively to be replaced by reference to proposed 400.14 category (a), how would that affect the responses to the above?**

We would support the alternative of replacing “listed entity” in paragraph R400.20 with “entities whose shares, stock or debt equity or debt instruments are publicly traded” to drive consistency in the application of the related entity definition. This would remove some of the challenges described above that arise from needing to identify the related entities of non-public companies.

- (4) Would allowing for more local variation in the definition (by scoping out certain organizational structures) be an alternative way of addressing the immediate issue and what difficulties would that present?**

We have concerns about the introduction of local variation in the definition as this increases complexity and the likelihood that different interpretations will weaken the consistent application of Code around the world, as well as across entities that operate in different countries with different requirements and potentially different audit firms.

- (5) Do you agree that the difficulties of inclusion of related entities that are parents or sister entities in the definition of audit client are caused more by the nature of the “group corporate structure” than may the nature of the entity itself? If so, do you think it requires a separate project to review this and are there other structures, in addition to private equity and sovereign wealth funds, that the IESBA might need to consider?**

As noted above, we agree that different structures such as in the private equity space create challenges with respect to the inclusion of parents and sister entities in the definition due to the corporate structure. However, challenges can also arise from the nature of the entity itself. For example, in the case of entities that provide insurance or take deposits – the public interest stems from the products it sells in the market, in which case it is unclear how the application of independence requirements to parent or sister entities that are unrelated to the nature of the audited entity (the seller of financial products) is required to maintain independence. The entity may be a privately held company and be unaware and/or not have a legal right to information about its shareholder or its shareholders’ other unrelated investments. On the other hand, the public interest considerations related to a listed entity relate to the stakeholder being a shareholder in the entity. Therefore, the influence of other shareholders and the need for the auditor to have independence requirements in certain instances with respect to those shareholders will be more relevant to investors than other audited entities that are deemed to be PIEs given other public interest matters.

Respondent #4

- (2) If the definition in paragraph R400.20 of an audit client that is a listed entity were to be extended to all PIEs, taking into account the current IESBA PIE project to revise the PIE definition:**
- (a) What are the key issues or challenges firms might encounter (e.g. logistical, group structure of some entities such as private equity firms)? Please provide examples if possible.**

(b) What are some practical examples of how this might significantly affect the application of independence requirements in Part 4A of the Code?

A key issue or challenge in some jurisdictions that would result from the extension of the definition of a PIE is potentially firms would need to apply stricter rules to certain government entities, credit unions, health & welfare benefit plans, small insurance businesses (those not listed) and pension plans. Some of these entities are typically small entities and may need more assistance with non-audit services (e.g. preparation of financial statements). Making these entities PIEs would prohibit firm's ability to assist these organizations. Separately, there may be an increase in fees due to risk and work involved in carrying out the audit. Additionally, an expanded definition to all audit clients to always include its related entities (upstream, downstream and sister entities) – will be more restrictive than the SEC if there is no materiality qualifier

In situations where there is no relationship with the upward entities, it will be difficult to obtain information and monitor; requiring clearing entities that may not be relevant when relying on information in the public domain – spending time and resources on relationships/non-audit services that will not impair independence of the audit client. The focus should be on those that are true affiliates and prohibited relationships/non-audit services that could affect objectivity and impartiality.

If this expanded definition is adopted, our member firms would need a long period of time to implement due to the time required to identify the entities impacted. Also, we would be concerned that we would be put at a competitive disadvantage compared to smaller firms that do not follow the IESBA Code.

(3) If in the definition in paragraph R400.20 the term “listed entity” were alternatively to be replaced by reference to proposed 400.14 category (a), how would that affect the responses to the above?

We are not sure what this question is trying to address. It almost seems to be somewhat repetitive from above.

(4) Would allowing for more local variation in the definition (by scoping out certain organizational structures) be an alternative way of addressing the immediate issue and what difficulties would that present?

It really depends on which entities are being included in the definition and then we would need to reassess. If there is no change and the local authority can identify an entity as a PIE this would be an easier approach.

(5) Do you agree that the difficulties of inclusion of related entities that are parents or sister entities in the definition of audit client are caused more by the nature of the “group corporate structure” than may the nature of the entity itself? If so, do you think it requires a separate project to review this and are there other structures, in addition to private equity and sovereign wealth funds, that the IESBA might need to consider?

Yes, government entities may require a separate review.

Respondent #5

1) Are there any implications to removing the term “listed entity” from the Code other than those raised by the definition in paragraph R400.20?

We do not see other implications of removing the term “listed entity” from the Code, except to consider if the term’s use in other places would likewise need to be removed or reworded. We would suggest that “listed entity” as used in 300.7 A7 could be reworded to “when the client becomes listed on a securities exchange...” similar to the language used in 260.20 A2 and 360.25 A2. Use of this language would not necessitate defining in the Code.

(2) If the definition in paragraph R400.20 of an audit client that is a listed entity were to be extended to all PIEs, taking into account the current IESBA PIE project to revise the PIE definition:

- (a) What are the key issues or challenges firms might encounter (e.g. logistical, group structure of some entities such as private equity firms)? Please provide examples if possible.**
- (b) What are some practical examples of how this might significantly affect the application of independence requirements in Part 4A of the Code?**

Related to the key issues and practical application, we agree with the examples currently being evaluated by the Board related to sovereign wealth funds, government provident funds, government- controlled entities and private equity complexes. As the public interest concerns are evaluated, the challenges with respect to obtaining related entity information should be a core consideration in determining if it is impractical to apply the broader audit client definition for listed entities to all PIEs.

However, we ultimately believe that the listed entity audit client definition should not be applied to all PIEs for conceptual reasons beyond just the challenges or difficulties of application. We do not believe that non-listed PIEs warrant the same audit client definition as listed entities, given their level of risk and public interest in their financial statements as compared to listed entities.

Non-listed PIEs garner public interest in their financial condition and specifically their ability to meet their financial obligations, which merit enhanced confidence in their financial statements, and in the audit of those financial statements. Listed entities, on the other hand, require an even higher level of confidence in their financial statements and related audits. This heightened level of public confidence in listed entities’ financial statements is due to the role listed entities play in establishing and influencing public trust and confidence in the capital markets. The capital markets are a key avenue for businesses to raise funds for growth or expansion. The effective operation of the capital markets is dependent on the reliability of financial information made public by listed entities. Misstated financial statements of a listed entity have the potential to broadly impact market sentiment and investor confidence in the capital markets, extending the impact of such a misstatement beyond the investors and creditors of the particular entity. In this regard, we believe the incremental mitigation of independence risk through the inclusion of all related entities in the definition of audit client for listed entities is warranted. Conversely, we believe the narrower public impact of the financial statements of a non-listed PIE does not support this incremental mitigation of independence risk. Accordingly, we continue to agree with the IESBA board’s conclusion in its explanatory memorandum to the 2006 Independence Exposure Draft that expanding the audit client definition for non-listed entities is “overly broad and unnecessary to maintain independence.”

(3) If in the definition in paragraph R400.20 the term “listed entity” were alternatively to be replaced by reference to proposed 400.14 category (a), how would that affect the responses to the above?

Use of the proposed 400.14 category (a) would not change our responses to the questions above. We do believe use of terminology consistent with category (a) would be beneficial to prevent ambiguity in the Code that might cause users to question if there is a difference between “listed entity” and category (a) resulting in a subsequent failure to identify the appropriate related entities of an audit client.

We believe it should be clarified whether it is envisaged that 400.14 category (e) refers to mutual funds or unit trusts that are marketed exclusively to institutional investors. We appreciate the significant level of public interest if there were numerous retail investors, but find it hard to acknowledge such level of public interest where it concerns a limited number of institutional investors, as we expect that they would be well advised.

(4) Would allowing for more local variation in the definition (by scoping out certain organizational structures) be an alternative way of addressing the immediate issue and what difficulties would that present?

We do not agree that allowing for more local variation would be an appropriate way to address the immediate issue. Doing so would give rise to an even more diverse set of independence requirements that PAPPs, firms and network firms have to comply with, giving rise to possible unintended non-compliance. We believe the Code should continue to operate as a globally-consistent Code except in the rarest of cases where jurisdictional variances are unavoidable.

(5) Do you agree that the difficulties of inclusion of related entities that are parents or sister entities in the definition of audit client are caused more by the nature of the “group corporate structure” than may the nature of the entity itself? If so, do you think it requires a separate project to review this and are there other structures, in addition to private equity and sovereign wealth funds, that the IESBA might need to consider?

We believe there are difficulties in applying the definition of an audit client to all PIEs related to both the group corporate structure of some entities, as well as the nature of non-listed PIEs. As noted under question 2, logistical challenges and the corporate structures of some non-listed PIEs raise concerns with applying the broader definition to all PIEs. Likewise, the nature of non-listed PIEs does not require the same heightened level of trust as listed entities that participate in the capital markets, and this contributes to our hesitancy to apply additional requirements to all PIEs to maintain independence. With the inclusion of the proposed changes to the Code from the Non-assurance Services and Fees projects, we believe the Code effectively establishes a higher bar for independence for all PIEs without the need to incrementally reduce independence risk by extending the audit client definition to all PIEs.

If a separate project to review the definition of related entities is undertaken, we would suggest two sets of related entities – one for listed entity audit clients and one for all other entities regardless of whether they are a PIE or non-PIE. Our view is that the expanded definition of an audit client should not be applied to non-listed PIEs (i.e., PIEs that do not fall within category (a) of 400.14).

Additional comment on category (e) as currently proposed by the PIE definition project:

An entity whose function is to issue redeemable equity or debt instruments to institutional investors to pool funds to invest in the equity or debt instruments of other entities should be excluded from (e). It would be useful to specify “retail investors” in place of “public” for clarity, such that it reads as “An entity whose function is to issue redeemable equity or debt instruments to retail investors to pool funds to invest in the equity or debt instruments of other entities.”