

**Definitions of Listed Entity and Public Interest Entity –
Second Read
(Mark-up from Extant)**

Note to IESBA Members

This Agenda Item should be read in conjunction with issues Task Force proposals paper (**Agenda Item 4-A**). Refer to **Agenda Item 4-B** for a mark-up from the second read version and **Agenda Item 4-C** for a clean version of the Second Read.

The revisions under “Proposed Consequential and Conforming Amendments” were not included in the First Read and are marked-up from the extant Code.

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

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Public Interest Entities

400.8 Some of the requirements and application material set out in this Part ~~reflect the extent of public interest in certain entities which are defined to be~~ are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities. ~~Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders.~~ **[Moved to R400.17]** The extent of public interest will depend on factors to be considered including:

- ~~The nature of the business or activities, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds taking on financial obligations to the public as part of an entity’s primary business.~~
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.

- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.9 The purpose of these requirements and application material for public interest entities is to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements.

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Requirements and Application Material

General

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Public Interest Entities

R400.14 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public;
- (d) An entity whose function is to provide post-employment benefits;
- (e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
- (f) An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9.

400.14 A1 When terms other than public interest entity (such as listed entity) are applied to entities by law or regulation to meet the objective set out in paragraph 400.9, such terms are regarded as equivalent terms. However, if law or regulation designates entities as “public interest entities” for reasons unrelated to the objective set out in paragraph 400.9, that designation does not mean that such entities are public interest entities for the purposes of the Code.

R400.15 A firm shall have regard to law or regulation which provide more explicit definitions of the categories noted in paragraph R400.14 (a) to (e), for example by reference to the legislation under which such functions are performed.

400.15 A1 The categories set out in paragraph R400.14 are broadly defined and no recognition is given to any size or other criteria that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethical standards for professional accountants to refine these categories by, for example, making reference to local law and regulation governing certain types of entities. Similarly, the Code also provides for such bodies to exclude entities that would otherwise be regarded as falling within one of the broad categories in paragraph R400.14 for reasons relating to, for example, size or particular organizational structure.

R400.16 **[Moved from 400.8]** ~~A Firms are encouraged shall~~ to determine whether to treat additional entities, or certain categories of entities, as public interest entities ~~because they have a large number and wide range of stakeholders.~~ When making this determination, the firm shall take into account whether a reasonable and informed third party would be likely to conclude such entity should be treated as a public interest entity.

400.16 A1 In addition to the factors listed in paragraph 400.8, factors to consider when determining whether additional entities or certain categories of entities should be treated as public interest entities include:

- Whether the entity has been specified as not being a public interest entity by law or regulation.
- Whether the entity is likely to become a public interest entity in the near future.
- Whether in similar circumstances the firm or a predecessor firm has treated the entity as a public interest entity.
- Whether in similar circumstances the firm has treated other entities as a public interest entity.
- Whether the entity or other stakeholders requested the firm to treat the entity as a public interest entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example whether those charged with governance are distinct from the owners or management.

R400.17 A firm shall publicly disclose if an audit client has been treated as a public interest entity.

[Paragraphs 400.1318 to 400.19 are intentionally left blank]

R400.20 As defined, an audit client that is a ~~listed entity~~ publicly traded entity (including any modifications made by laws and regulations) 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.

PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS

PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Requirements and Application Material

Evaluating Threats

Consideration of New Information or Changes in Facts and Circumstances

300.7 A7 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a ~~listed~~publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the professional accountant's personal or immediate family relationships.

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Audit *In Part 4A, the term "audit" applies equally to "review."*

Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a ~~listed~~publicly traded entity, audit client will always include its related entities. When the audit client is not a ~~listed~~publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.20.)

In Part 4A, the term "audit client" applies equally to "review client."

Key audit partner The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.

~~Listed Entity An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.~~

May *This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.*

Proposed accountant A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).

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

~~Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.~~

~~For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:~~

- ~~(a) A publicly traded entity;~~
- ~~(b) An entity one of whose main functions is to take deposits from the public;~~
- ~~(c) An entity one of whose main functions is to provide insurance to the public;~~
- ~~(d) An entity whose function is to provide post-employment benefits;~~
- ~~(e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or~~
- ~~(f) An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9.~~

The Code provides for the categories to be revised or entities to be excluded as described in paragraph 400.15 A1.

Publicly traded entity

An entity that issues financial instruments that are [freely/readily] transferrable and publicly traded.

Reasonable and informed third party

Reasonable and informed third party test

The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

These terms are described in paragraph R120.5 A4.
