

**Definitions of Listed Entity and Public Interest Entity –
Non-Authoritative Guidance
(Work-in-Progress Draft)**

Note to IESBA Members

This Agenda Item is a work-in-progress draft of the non-authoritative guidance material being developed as part of the Task Force's outreach activities in 2021. The content of this draft is not yet complete or finalized.

This Agenda Item aims to illustrate to the IESBA how the non-authoritative guidance material, when released, might be used to assist professional accountancy organizations gain better insight into not only the Board's approach and rationale, but also how they might be able to refine the PIE definition where relevant as part of their adoption and implementation process. It may also assist firms in their consideration of further entities that should be designated as PIEs. In addition, whilst it is not the role of IESBA to provide guidance for local regulators, they may also find it of assistance in developing any local definitions of PIE.

PURPOSE

This staff publication provides additional explanation and information on the IESBA's proposed new definition of public interest entity (PIE) and related provisions in the exposure draft (ED) and supplements the guidance material in the explanatory memorandum of the ED.

It aims to, amongst other things, assist professional accountancy organizations in considering and planning how to revise the IESBA's definition as part their adoption and implementation process. It may also assist firms in their application of the requirement in R400.16 to determine whether to treat additional entities, or categories of entities, as public interest entities. In addition local regulators or others whose responsibility it is to define public interest entities in their jurisdiction may find this discussion of the Board's thinking of assistance.

Note: Upon approval of the final revisions, it is envisaged that an updated version of this publication will be released as part of the rollout activities of the official pronouncement.

This staff-prepared publication does not amend or override the Code, the text of which alone is authoritative. Reading this publication is not a substitute for reading the Code. This guide is not meant to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

INTRODUCTION

[Insert background including drivers and objectives of the project]

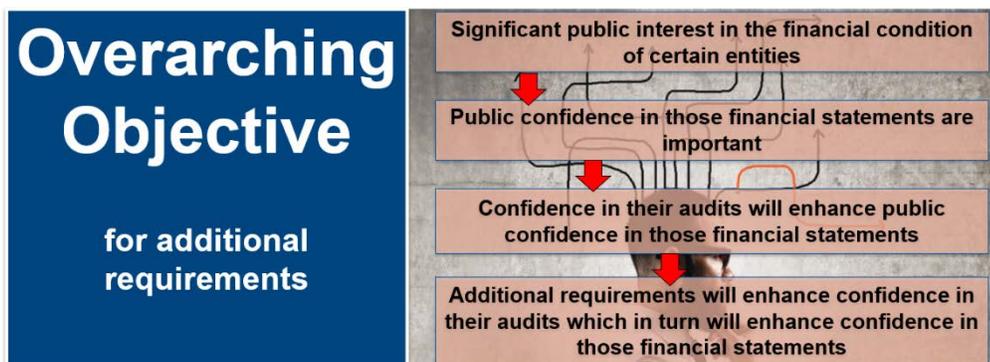
UNDERSTANDING THE IESBA APPROACH

Overarching objective

400.8	<p>Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities. The extent of public interest will depend on factors including:</p> <ul style="list-style-type: none">• The nature of the business or activities, such as 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	<p>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.</p>

3. In the IESBA independence standards there are requirements and associated application material that are applied only in respect of the audits of public interest entities. Before starting to consider what constituted a public interest entity therefore the IESBA determined at an early stage that it would be helpful to clearly articulate what the reason was for applying these additional requirements. This led to the formulation of the overarching objective as set out in paragraph 400.9, which is “to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements”.
4. The rationale for the overarching objective is that:
 - For entities that are PIEs, there is significant public interest in their financial condition and hence financial statements. It is important, therefore, that there is public confidence in those financial statements;
 - A major contributor to that confidence is in turn confidence in the audit of such financial statements;
 - Additional independence requirements (together with additional quality management measures specified in the IAASB's standards) would serve to enhance the confidence in such audits

5. The lead-in sentence in paragraph 400.8 set up the context for the overarching objective and explains that the additional requirements reflects the “significant public interest in the financial condition of these entities”. The IESBA proposed the more general term “financial condition” as opposed to other narrower terms such as “financial statement”, or “financial performance” to highlight the focus of the public interest is on the financial well-being or financial impact over a broad range of stakeholders.



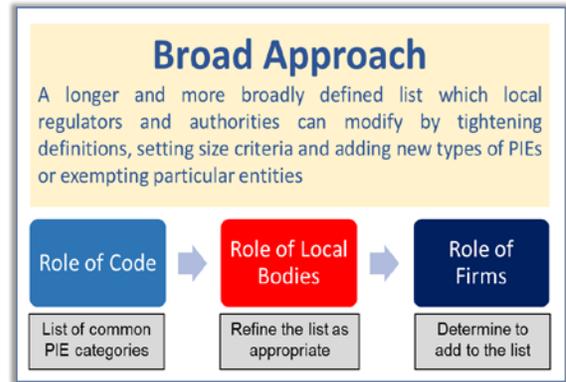
6. This overarching objective means that when refining the IESBA definition and determining which entities should be categories as PIE in the local code, it is important to assess the public interest on the financial impact of an entity and not on the public interest on other aspects of that entity such as the quality of the services it provides or the manner in which it delivers those services.
7. For instance, whilst there may be a significant level of public interest in the provision of services by a public hospital given its role with a jurisdiction’s health services infrastructure, whether that public hospital should be categorized as a PIE in the local Code will depend on the public interest in its financial condition. In this regard, it may be argued that the financial condition of a public hospital does not attract significant public interest as a public hospital with significant debts does not necessarily have much impact on going concern or its ability, or that of the government, to continue the provision of its services.
8. The following are two additional examples that illustrate the difference between public interest in the financial condition of an entity (relates to the overarching objective) vs public interest in its services or operations:
- Whilst there might be significant public interest in charities given that its sources of funding as well as the impact of its services and activities on often a society’s most vulnerable communities, the public impact of their financial failures will vary from charity to charity. For instance, the public interest on the financial condition of an “umbrella” charity with only few private donors and which primarily provides grants to other charities may not be significant as its financial failures may not have much direct impact on the public.
 - For social media providers, there may be significant public interest in how they manage the collection, use and disposal of their users’ data that contains personal and sensitive information. However, whilst the financial failure of social media providers may impact their investors, there may only be limited impact on their users given that they are usually free to join and that they are easily replaceable by other similar providers.

Categories of PIE

9. The IESBA's approach to revising the definition of PIE has been a broad approach which uses a longer and more broadly This is contrasted with the more limited approach adopted by the extant Code which only has a narrow list of entities to which local bodies can continue to add.

10. This broader approach comprises 3 keys elements:

- The development of a longer and broader list of high-level categories of entities as PIEs in the IESBA Code;
- Refinement of the IESBA definition by relevant local bodies by tightening definitions, setting size criteria and adding new types of entities or exempting particular entities; and
- Determination by firms if any additional entities should be treated as PIEs



11. Local bodies plays a pivotal role under this approach towards ensuring that the list of PIE categories applicable in the local setting is fit for purpose by refining the IESBA list as part the local adoption and implementation process, taking into account, amongst other things, the overarching objective and the list of factors set out in paragraph 400.8 (see discussion below).

12. The IESBA's rationale for relying on local bodies to refine the definition is that local regulators and authorities have the responsibility, and are also best placed, to assess and determine which entities or types of entities should be treated as PIE for the purposes of additional independence requirements. In this regard, many jurisdictions such as those in the European Union have already developed their own definitions of PIE for the purposes of additional independence requirements.

13. Further, the IESBA recognized that any categories it seeks to include will, being a principle based global Code, inevitably be quite broad and could therefore scope in entities where the public interest is not significant. Also, there will be categories of entities that should be added as PIEs because of the level of public interest within their jurisdictions but are not suitable at the global level.

14. Under the IESBA's broad approach, firms are also required to, in addition to those entities have been categorized under the local Code as PIE, determine if any additional entities or categories of entities should be treated as PIEs.

[Insert Diagram/Flowchart to describe the IESBA approach]

REFINING THE IESBA DEFINITION OF PIE

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.

The Proposed List of PIE Categories

15. Paragraph R400.14 sets out the list of PIE categories with subparagraphs (a) to (e) sets out five specific categories and subparagraph (f) includes into the PIE definition any other entity that has been so categories by law and regulation for the purposes of the overarching objective in accordance with paragraph 400.9.
16. The IESBA developed the five specific categories in paragraph R400.14 (subparagraphs (a) to (e)) by using the follow approach:
 - Consider initially those categories already identified as PIEs by a number of jurisdictions which indicated that these may generally be regarded as PIEs in developing a globally applicable list;

- Include those entities that should in principle be included in this global list just because of the nature of their main functions); and
 - Not include those entities that would be included just because of their size.
17. This approach led to five specific PIE categories set out in paragraph R400.14. They are in fact based on the first category noted above, as although the IESBA considered a number of other categories during the development of the definition (see Appendix) it concluded that whilst certain of the suggestions may have applicability in specific jurisdictions none of them were likely to be of global relevance.
18. In looking at existing PIE definitions used in various jurisdictions the IESBA noted that they were often defined by reference to local legislation governing for example entities carrying on banking or insurance businesses. Being a globally based Code the IESBA obviously was not able to follow a similar course and hence the definitions are broadly based and described in such way as to avoid the use of terms, such as mutual funds, that are more location specific. In addition, the IESBA recognized that in having no size criteria attached to the definition it was potentially scoping in some very small entities that would not objectively be considered to be PIEs. However it was not felt to be practical to define a threshold that would be of global application.
19. Paragraph 400.15 A1 therefore makes clear that the IESBA list does not give any recognition to size and it allows for the relevant local bodies to further refine these categories including the exclusion of entities. If these categories were adopted by the relevant local bodies as is without any refinement, they will likely scope in entities that do not have significant public interest.
20. When refining the IESBA list for local adoption, it is anticipated that relevant local bodies may wish to consider, amongst other matters, the following:
- Size of the entity (Bullet #3 of paragraph 400.8). This is one of the key factors that should be taken into consideration as, under the IESBA’s rationale for developing its list of PIEs, smaller entities within each of its categories in paragraph R400.14 will be scoped in irrespective of whether they are deemed to have significant public interest in their jurisdictions.

For instance, under the Canadian Code, “listed entity” excludes those entities which have, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000.

Another example is that under South Africa’s IRBA Code, entities are presumed to have satisfied the conditions of a PIE if they are insurers “registered under the Long-term Insurance Act 1998, (Act No. 52 of 1998) and the Short-term Insurance Act 1998, (Act No.53. of 1998) excluding micro lenders”.
 - Number and nature of stakeholders including investors, customers, creditors and employees.

For instance, local credit unions that do take deposits from the public may only have relatively small numbers of customers and, therefore, a relevant local body might determine that such entities should be excluded from being treated as PIEs.
 - Types of entities within each category. A relevant local body might determine only certain types of entities with each IESBA PIE category should be treated as PIE under paragraph R400.14 or determine to exclude specific entities.

For instance, a relevant local body might determine to exclude some of its state-owned entities that would otherwise be encompassed by the IESBA definition, such as a state-owned bank.

Additional considerations under Each Category

A publicly traded entity

21. The proposed new term “publicly traded entity” is defined as “An entity that issues financial instruments that are [freely/readily] transferrable and publicly traded” in the ED.
22. The term “publicly traded entity”, by replacing the extant term “listed entity”, is intended to scope in more entities under this category of PIE given that the new term has a broader application as it is not confined to financial instruments that are traded only in formal exchanges or “recognized stock exchange” but also those in secondary markets or over-the-counter trading platforms.
23. Other key points for consideration include:
 - The term “financial instrument” is intended to be a broad term, covering “shares, stock or debt” (the term currently used in the definition of “listed entity”), securities, equity or debt instruments or other types of instruments such as hybrid instruments.
 - In using the phrase “an entity that issues,” it is intended that it would not encompass an entity (A) which does not itself issue publicly traded securities but where another entity (B) issues financial instruments the return on which is in some way linked to the return on financial instruments issued by A.
 - The financial instruments must be transferrable without any undue restrictions being placed on their transfer by the entity, hence the use of the term “freely”.
 - The term “publicly traded” is used instead of ‘publicly listed’ because there are instruments that are listed but not for trading purposes. For example, situations exist where there are debt securities issued by subsidiaries that are wholly owned within a group but are listed primarily for tax purposes.
 - The term does not include an entity that may be in the process of enabling its financial instruments to be publicly traded (for example by seeking a listing) because of the difficulties of establishing criteria that are of global application. This is included as one of the criteria to be used by firms in considering whether to designate an entity as a PIE and in addition it is anticipated that bodies in some local jurisdictions with a well defined timetable for listing may also establish when such entities would qualify to be treated as a PIE.

An entity one of whose main functions is to take deposits from the public

24. Whilst most banks undertake a range of activities including lending money and trading in financial instruments and foreign exchange, it is generally the raising of deposits from the public (both individuals and other entities) which requires authorization under specific legislation. The rationale for this, that depositors are generally those with most to lose in the event of financial failure, is equally pertinent when considering whether there are of significant public interest.
25. At the same time the IESBA recognizes that in many countries there are some types of organization, credit unions for example, for which regulation is specifically designed to be lighter touch simply because of their size. As noted it would be difficult for the IESBA to establish a definition which drew the line globally as to which entities should and should not be captured in this definition given the

differing laws and regulations which govern such activities around the world. It is envisaged however that this could be done by local regulators.

An entity one of whose main functions is to provide insurance to the public

26. Insurance is another activity which tends to be subject to specific authorization by local regulators primarily because it is the nature of the business to take premiums in exchange for the commitment to pay out funds (often considerably in excess of the premiums) in specified circumstances potentially many years in the future. These are features which generally mean that such entities are of significant public interest.
27. As is the case with deposit taking activities however there can be some forms of small insurance undertakings – some mutuals for example, which have a very narrow range of customers who effectively are just combining funds for mutual benefit. Again where appropriate the IESBA would anticipate that these would be excluded by local regulators from this broad definition.

An entity whose function is to provide post-employment benefits

28. The proposed wording in subparagraph R400.14 (d) will capture both pension funds available to the general public and those that are restricted to the employees of specific entities but nonetheless large enough to be considered as PIEs.
29. However, the phrase “whose function” means employers that simply provide post-employment benefits as just as a consequence of employing personnel are not encompassed in this definition.

An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public

30. This category intends to capture mutual funds where the public investor will realize the value of its interest by selling it back to the entity, but not investment trusts where investors would selling their interests to other third parties (which would already be captured by subparagraph R400.14 (a)).

An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9

31. This category aims to capture those entities that have been defined by laws and regulations as PIE for the purposes of additional requirements to enhance the confidence in the audits of those entities. For instance, in Malaysia, the term “public interest entity” as used in the MICPA Code is separately defined in Part of Schedule 1 of its Securities Commission Malaysia Act 1993 that includes over 15 different categories.
32. In accordance with paragraph 400.14 A1:
 - If a term other than public interest entity is applied to entities by law or regulation to meet the objective set out in paragraph 400.9, such terms are regarded as equivalent terms (i.e., they should be treated as PIE under subparagraph 400.14 (f)).
 - However, if law or regulation designates a group of entities as “public interest entities” for reasons unrelated to the objective set out in paragraph 400.9, it means that those entities are not to be treated as public interest entities for the purposes of the Code.

Other Categories for Consideration

[insert examples from selected jurisdictions e.g. Australia, South Africa, Singapore]

33. In addition to refining the list of PIE categories set out in paragraph R400.14, a relevant local body may also consider including other categories of entities as additional categories of PIEs in their local code, taking into consideration their local context.
34. In developing its view on whether a category of entities should be added as PIE in a local code as part of the adoption process, a relevant local body should bear in mind the overarching objective and focus of public interest for the purposes of PIEs on the financial condition of an entity. This means that even if there is significant public interest in the activities of an entity, the impact of their financial failure may not amount to significant public interest.
35. A relevant local body should also consider the list of factors set out in paragraph 400.8 when determining if an entity should be categorized as a PIE:

- The nature of the business or activities, such as taking on financial obligations to the public as part of an entity's primary business. (Bullet #1)
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. (Bullet #2)
- Size of the entity. (Bullet #3)
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure. (Bullet #4)
- Number and nature of stakeholders including investors, customers, creditors and employees. (Bullet #5)
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity. (Bullet #6)

36. When considering the list of factors in paragraph 400.8, it is important to note that the list is not an exhaustive list and there may be other relevant factors from a local context that should be taken into consideration. Further, each factor on its own may not be sufficient to determine if a category of entities should be added.
37. Whereas Bullet #4 relates to the impact of an entity on the sector in which it operates, Bullet #5 relates to the direct impact on an entity's stakeholders, Bullet #6 relates to the indirect impact that the entity might have on the overall economic system in which it plays a part.
38. Bullet #1
 - The two most obvious examples of entities in these categories are banks and insurers, but depending on jurisdiction there may be other examples of entities which as part of their business model take on significant financial obligations to the public. [Example]. In considering this criteria it was also not intended that the term "public" should apply only to individuals but that other entities should also be considered.

39. Bullet #2

- This factor relates to entities that are subject to financial or prudential regulatory supervision designed to give confidence that the entities will meet their financial obligations. Such regulation is primarily but not necessarily restricted to financial markets. 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.

40. Bullet #3

- Size as a criteria can be viewed both from the perspective of excluding very small entities that might meet others of the criteria, but also in considering very large entities that by sheer size alone might qualify to be regarded as of significant public interest. This will often be linked to bullet #5.

41. Bullet #4

- This factor relates to entities that are an integral part of a sector such as the energy sector or capital markets.
- The harder it is to replace an entity to provide the relevant services if it were to suffer financial failure, the more likelihood that it will have a higher level of public interest

42. Bullet #5

- The greater the number of stakeholders and the broader the range of stakeholders that an entity has, the more likely that there is significant public interest in the financial condition of that entity
- Not only should the number of stakeholders should be taken into consideration, but also their nature. For instance, the level of public interest may not be as high if the investors are mostly sophisticated investors who are investing for their own account.
- The stakeholder groups listed (investors, customers, creditors and employees) are not exhaustive.

43. Bullet #6

- Irrespective of the other criteria if an entity's financial failure were to have a significant impact on the economic system in which it operates then this would indicate that it was of significant public interest.

44. See **Appendix** for a list of those categories that the IESBA had determined not to have sufficient public interest to be categorized as PIE in a global code. Whilst these may not be suitable PIE categories for the Code, relevant local bodies might determine to include some of them as PIEs in their local codes. Some jurisdictions have already included some of these categories as PIEs in their local codes.

ROLE OF FIRMS

[Insert summary information about the proposed revisions on the role of firms]

Appendix

List of Categories of Entities Considered by IESBA

The following categories of entities were considered by the IESBA as possible PIE categories when developing its proposed text for exposure but were deemed not appropriate for the purposes of a global Code.

Whilst these may not be suitable PIE categories for the Code, relevant local bodies might determine to add some of them as PIEs in their local codes. Some jurisdictions have already included some of these categories as PIEs in their local codes.

Charities

Charities cover a broad range of sectors such as social and welfare, health, arts and religion. In this regard, it may be argued that the level of public interest in these entities varies depending on the nature of their operations and services. For instance, the public interest in the financial condition of a major welfare organization on which its beneficiaries are highly dependent may be different to that of a local sporting club that is also registered as a charity.

Charities also vary in size – in terms of donations, the number and type of donors and beneficiaries, as well as number of employees. For instance, a number of is one of the largest private foundations in the world, it only has a small number of donors and distributes its money to grantees (often other charities) instead of directly for the benefit of members of the public. This may be contrasted with the Red Cross which runs programs that directly benefit those at risk, and receives donations from a broad spectrum of society.

The Singapore's [ISCA Code](#) provides that the audit of large charities and large institutions of a public character are subject to the same independence requirements applicable to listed entities if they meet certain size thresholds as defined by laws and regulations. Similarly, New Zealand's [XRB Code](#) also includes not-for-profit entities of a certain size as PIEs. Whilst charity is not listed as a category of PIE in its local Code, the APESB has recently published an [independence Guide](#) that includes an illustrative example of a significant charity as an entity that firms might determine to treat as a PIE.

The IESBA agreed that the public interest in the financial condition of a charity will vary considerably depending on factors such as size, nature of services and number of stakeholders. Accordingly, it is not appropriate to include charities as a separate category of PIE in a global code.

Public Utilities

A public utility provides essential services to the public such as electricity, gas, water and postal services.

Whilst there may be significant public interest in the continuing operations of a public utility entity because of the essential nature of the services it provides, the level of public interest in the financial condition of such entity will depend on a number of factors. Such factors may include the source of funding and whether the provision of services can be readily replaced by other service providers.

For instance, whilst there is a high level of public interest in the provision of gas services in a metropolitan area, the level of public interest in the financial condition of a privately owned public utility entity that distributes gas in that area may not be high if its services can be easily picked up by its competitors.

It is also unclear which aspect in the provision of an essential service would render a public utility entity a PIE – the generation, transmission or distribution of a service, all of which may be undertaken by separate entities.

Public Sector Entities

Similar to the rationale relating to public utility entities, whilst there may be significant public interest in the continuing operations of a public sector entity, the level of public interest in the financial condition of such entity will depend on a number of factors. In addition, many public sector entities are audited by other arms of government rather than by professional accountants.

Accordingly, the Task Force is of the view that public sector entities should not be included as a separate PIE category in a global code.

Large Private Companies

The IESBA is of the view that what is ‘large’ will vary from jurisdiction to jurisdiction and would be impossible to define at a global level. Whether there is sufficient public interest in the financial condition of a particular private company or types of private companies will depend on factors such as those included in the proposed paragraph 400.8

Accordingly, the IESBA is of the view that large private companies, including any companies that were once public companies, should not be included as a separate PIE category in a global code. Instead, the inclusion of any private companies or categories of private companies should be considered only at the local level. For instance, some jurisdictions might determine that any private companies that are required to file certain types of financial statements should be added as a category of PIE.

The IESBA noted that under the UK FRC’s revised [Ethical Standard](#) as of December 2019, the statutory audit of an entity that meets the definition of “other entity of public interest” (OEPI) is subject to certain independence requirements with respect to the provision of non-audit/additional services. Under the UK FRC’s revised [Glossary of Terms](#), large private companies that meet certain thresholds and criteria are deemed to be OEPIs.

Private Equity Funds

Private equity funds by nature receive investments from only institutional investors and do not attract funds from the public directly.

Similar to the rationale for large private companies, the IESBA is of the view that whether there is sufficient public interest in the financial conditions of a private equity or types of private companies will depend on factors such as those included in the proposed paragraph 400.8.

Financial Market Infrastructures, Stock and Commodity Exchanges

In the [Principles for Financial Market Infrastructures](#) (PFMI) of the Committee on Payment and Settlement Systems of the International Organization of Securities Commissions (IOSCO), financial market infrastructure (FMI) is defined as:

A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions

FMLs play a significant role within the financial system and are considered to be systemically important. Safe and efficient FMLs are essential for a stable and well-functioning financial system. This means they require sound design and high standards of operational and financial resilience. FMLs can be structured in a variety of forms, including associations of financial institutions, nonbank clearing corporations, and specialized banking organizations. They may also be owned and operated by central banks or by the private sector and can be either for-profit or not-for-profit. FMLs may include payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories.

Similarly, stock and commodity exchanges play an important role within the financial system and the wider economy by providing the infrastructure, facilities and regulatory environment that allow businesses, industries and governments to raise capital, and investors to buy and sell various types of financial instruments. Many stock exchanges today are listed entities themselves and are therefore already classified as PIEs under the extant Code's definition.

The Task Force is of the view that the FMLs, stock and commodity exchanges should not be added as a PIE category in a global code for the following reasons:

- Whilst the health of FMLs, stock and commodity exchanges is clearly important to the proper functioning of financial markets, given their typically large size, lack of substitutability in the markets they serve, and strong connections with banks and other financial institutions, the Task Force is of the view that the public interest in these entities relates more to their operations (including compliance with all necessary legal requirements) than their financial conditions.
- The legal structure of such entities varies considerably between jurisdictions. For instance, as noted many stock exchanges are now listed entities in their own right and would therefore be treated as a PIE for that reason. Some, in contrast, are still mutual organizations owned by their members that effectively support it from a financial perspective. Payment organizations are similar. For example in the UK, the payments services provider Pay.UK is effectively sponsored by the Bank of England and the major banks – the fact therefore that it is currently showing negative reserves in its financial statements is of little or no consequence to the public who depend on its operations.

Systemically Significant Entities

The IESBA also considered whether, in addition to financial institutions that are systemically important, there are other systemically significant entities that should be included as a PIE category.

A systemically significant entity is an entity whose potential failure may cause serious harm to other industries and to the economy, or an entity that is “too big to fail.” In this regard, the Task Force chair had a discussion with a representative of the Financial Services Board. It was noted that aside from the large banks, it had as yet not been possible to achieve a global consensus on what other types of entities might be of systemic significance, although there had been some consideration of major insurance companies and hedge funds/asset managers.

The Task Force is therefore of the view that whilst whether an individual entity has a systemic significance should play a part in the criteria used to determine if an entity is a PIE, the term is too subjective and requires too much local context to usefully include it as a separate category.