

Definitions of Listed Entity and Public Interest Entity – First Read (Clean)

Note to IESBA Members

Please read this agenda paper in conjunction with **Agenda Item 6-A** and refer to **Agenda Item 6-B** for a mark-up version of the proposed text.

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 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:

- 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 whether it is easily replaceable 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) An entity whose equity or debt instruments are publicly traded;
- (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 issue redeemable equity or debt instruments to the public to pool funds to invest in the equity or debt instruments of other entities; or
- (f) An entity specified as such by law or regulation.

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

R400.16 As an exception to paragraph R400.14, a firm may determine not to treat an entity as a public interest entity when in accordance with law or regulation:

- (a) The financial statements of that entity are not required to be subject to audit;
- (b) The financial statements of that entity are not made available to [stakeholders]; or
- (c) That entity is specified not to be a public interest entity.

400.16 A1 When terms other than public interest entity (such as listed entity) are applied to entities by law or regulation to achieve 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.

R400.17 A firm shall determine whether to treat additional entities, or certain categories of entities, as public interest entities. 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. In addition to the factors listed in paragraph 400.8, factors to consider might 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 before the conclusion of the subsequent year’s audit

- 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.

R400.18 A firm shall publicly disclose in the auditor's report that an audit client was treated as a public interest entity [To be discussed with IAASB].

[Paragraph 400.19 is intentionally left blank]