

Forum of Firms

De-Identified Responses to Advanced Questions – Listed Entity – May 2020

Note to IESBA Members

This following written responses were provided by Forum of Firms (FoF) participants to the advanced questions below on listed entities as part of the March 2020 FoF virtual session on the Definitions of Listed Entity and Public Interest Entity (PIE) Project.

Questions

The definition of the term “listed entity” in the IESBA Code is identical to that in the IAASB standards. The term is defined in the Code as follows:

“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”

Question

How is the term “listed entity” applied by your network with respect to independence standards? Specifically:

- (a) Are there securities markets open to the public that are scoped out, and if so, which ones and on what basis?
- (b) Does your network include more entities as listed entities than required by relevant laws and regulations? If so, which ones and on what basis?

Responses Received

Firm 1	<ul style="list-style-type: none"> a) We do not scope out any securities markets within our definition of “listed entity” within the network procedures which relates to “recognized stock exchanges”. b) We do not currently include entities other than those required by relevant laws and regulations at the current time. We are, however, reviewing our independence procedures as part of a wider exercise and this may change in the future. That said, we are more likely to follow the lead of international standard setters in defining “listed” or “public interest” entities than we are to develop our own definition at network level. Individual member firms may, of course, choose to apply a broader definition within their jurisdictions.
Firm 2	<ul style="list-style-type: none"> a) no b) no
Firm 3	<p>The following is an extract from our internal guidance:</p> <p><i>PIEs are all listed entities and any entity:</i></p>

	<ul style="list-style-type: none"> • <i>Defined by regulation or legislation as a public interest entity; or</i> • <i>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 may be promulgated by any relevant regulator, including an audit regulator</i> <p>a) We do not intentionally scope markets out.</p> <p>To illustrate what we do in practice, LSE AIM is not an EU regulated market, but companies traded on this market are included on our list because of how they are regarded by domestic regulation in the UK.</p> <p>b) We have an internal group looking at this, as we are likely to add “equivalent entities” where the risk profile equates to that of a listed entity. In practice, some of our member firms already include “equivalent entities” because of national requirements or their decisions regarding risk management.</p>
Firm 4	<p>Our independence policies are primarily based on the requirements of the International Independence Standards of the International Code of Ethics for Professional Accountants (“the Code”). The term listed entity is therefore applied as per the definition in the Code, and any entity with shares or debts listed or quoted on any stock exchange that is open to the public (primary and secondary markets) will be treated as a PIE entity under our policy. Stated another way, no securities markets that are open to the public are scoped out of the application of the definition.</p> <p>We therefore consider more entities to be listed entities and PIEs than required by certain regulators around the globe. A good example is the EU which defines as a listed entity and PIE, any entity governed by the law of a Member State whose transferable securities are admitted to trading on a Regulated Market of any Member State as defined under Article 4(1) of Directive 2004/39/EC. Regulated Markets are generally only the primary markets within the member state’s jurisdiction. For EU member states where there is also a secondary market, we consider any entities listed on such markets to be IESBA PIEs. This principle is applied even when the Member State has clarified in local regulation that only their respective Regulated Markets (the primary market) are to be considered synonymous to the ‘recognized market concept’ under IESBA.</p> <p>The impact of our approach is that we may be applying a stricter PIE independence rule set for entities listed on secondary markets compared to other smaller practitioners within that same jurisdiction. Only with regards to the reporting of key audit matters (KAMs) in the auditor’s report (as expected under the ISAs and the EU regulation for EU PIEs), do we allow an exception from this requirement for entities that are not PIEs under the Member State regulation.</p> <p>The main issue we see today with the Code is the lack of a definition or clear guidance in application material of what is to be understood by the term ‘recognized market’. This potentially results in practitioners excluding entities from their PIE definition despite the fact that the entity is a listed entity and has retail</p>

	<p>investors. We believe that if IESBA can add such further definition or guidance, the definition of listed entity and PIE will be applied more consistently around the globe by all practitioners.</p> <p>I would also like to take this opportunity to reiterate a point raised during the presentation to the FoF. The strawman is missing a category of entities that are very important to the public interest - entities that have custody of their clients' securities. This is especially important given there are markets that no longer have physical certificates for stocks, bonds, etc., but rather the record of ownership is electronically maintained by the financial institution of the owner of the security. In these circumstances, the reliability of the recordkeeping by the institution is paramount to the interest of their customers. The financial institutions do not own the securities or have title to them and the securities are not reflected in the entity's balance sheet, however it is the responsibility of the institution to properly safeguard the custody of these assets through the recordkeeping process and the auditor has a role in that process. For example, in the United States the auditor performs specified audit procedures to ensure compliance with the safekeeping regulations pertaining to customers' asset and opines on such as part of the audit opinion. This demonstrates the public interest component of such an entity. I suggest the task force consider adding an additional category of public interest entities to R400.13 as follows: <i>An entity which has custody of its customers' financial assets such as stock, bonds, etc. or is responsible for the records evidencing ownership of such assets.</i></p>
<p>Firm 5</p>	<p>We apply the term “listed entity” exactly as described in the IESBA Code and do not scope out any recognized securities market open to the public, since the IESBA provides no exception to the definition.</p> <p>This might involve applying the independence requirements applicable to IESBA “listed” entities beyond local laws and regulations. For instance, the EU regulation has specific provisions applicable to EU regulated exchanges only. We do apply both the EU regulation and the IESBA IIS to those entities. We also apply the IESBA provisions to entities listed in recognized exchanges in the EU even when that exchange is not considered a EU regulated exchange (<i>Tone might provide specific names and examples here</i>).</p> <p>The distinction is very clear for our network and does not create significant confusion. We understand and support the fact that the IESBA PIE definition currently allows some flexibility for local jurisdictions to determine what is public interest for their own purpose.</p> <p>As result, we do not see any need to change the definition of “listed” entity in the IESBA Code.</p>
<p>Firm 6</p>	<p>a) None, noting the update FRC definition is helpful:</p> <p><i>Listed entity</i>—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.</p>

	<p>This includes any company in which the public can trade shares, stock or debt on the open market, such as those listed on the London Stock Exchange (including those admitted to trading on the Alternative Investment Market), and ISDX Markets. It does not include entities whose quoted or listed shares, stock or debt are in substance not freely transferable or cannot be traded freely by the public or the entity (e.g. because the listing is a structural requirement for that entity and its shares, stock or debt are not traded, or because the consent of another party is required to trade in the shares, stock or debt).</p> <p>It is now clearly stated what is not included (ie does not have the same public interest). This is what we are now relying on in the UK. It would be great if a similar structural carveout from the pie definition was acknowledged by IESBA.</p> <p>b) None</p>
Firm 7	<p>a) no, we do not scope out any securities markets open to the public and</p> <p>b) no, we do not include any more entities as listed other than as defined by the Code (we do however require our member firms to apply the IESBA Code definition where their local law has a less stringent definition)</p>
Firm 8	<p>In response to the question posed to Forum of Firms members as part of their March meeting agenda -</p> <p>We adopt the IESBA definition of listed entity below, and then leave it up to individual member firms to determine which markets are in (or in rare cases out) based on local circumstances. At times there has been some limited discussion but we do not have a global list. This may be a different approach from some of the other networks who take a more centralized approach to certain policies like this.</p> <p>“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”</p>
Firm 9	<p>“Under our firm’s definition, ‘publicly-listed’ means where any form of security is quoted on a stock exchange, including second markets and over-the-counter markets and similar institutions.”</p> <p>I believe the answers, with reference to our definition above, to your questions below, would therefore be “No” to (a) and “Yes/possibly” to (b)</p>
Firm 10	<p>In our case there are no open public security markets scope out.</p> <p>Our Firm includes as “Listed Entities”, those entities that are under the control of a regulatory body, as follows:</p> <ul style="list-style-type: none"> • Entities listed in recognized stock exchange and relevant subsidiaries for consolidation purposes. • Banks and financial institutions.

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	<ul style="list-style-type: none">• Insurance companies.• Cooperatives. <p>The entities mentioned before are all regulated ones, by different controlling bodies, and among the regulations they are required to submit audited financial information periodically.</p>
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