

**Definitions of Listed Entity and Public Interest Entity –
Additional Background Information (As of February 2020)**

OUTLINE OF PAPER

1. The paper contains certain additional background information relevant to the Project “Definitions of Listed Entity and Public Interest Entity” (PIE Project):
 - A. Key Drivers for the Project
 - B. Brief History of the PIE Concept in the Code
 - C. Independence Requirements Relating to PIE Audits
 - D. Use of ESPI in IAASB’s International Auditing Standards
 - E. Jurisdictional Definitions of PIE or Equivalent Terms
2. This paper will be revised as appropriate as the Task Force gathers additional information and be included as reference material for relevant IESBA meetings.

A. DRIVERS FOR THE PROJECT

1. As identified in the [IESBA SWP 2019-2023](#) (SWP), some regulatory stakeholders such as the International Association of Insurance Supervisors (IAIS)¹ and the Basel Committee on Banking Supervision (Basel Committee) have suggested that the definition of a public interest entity (PIE) be re-examined from the perspective of financial institutions, including banks.² A regulatory stakeholder, the International Organization of Securities Commissions (IOSCO), has also commented that regulators in many jurisdictions do not have the power to set a definition.³ Other stakeholders, particularly the small and medium practices (SMP) community, have expressed concern that the independence requirements in the Code are increasingly disproportionate in those circumstances where firms provide audit and review services to small entities that fall within the PIE definition.⁴
2. The SWP also noted the need to revisit the definition of “listed entity”. It pointed out that some stakeholders have questioned the meaning of the term “recognized stock exchange” in this definition, for example, whether it is intended to be the same as, or broader than, the concept of a “regulated market” in the definition of a PIE in the EU audit legislation.
3. Whilst this project was earmarked to commence only in Q1 2021, the IESBA agreed that it should be accelerated to provide clarity about the scope of entities that would be impacted by the proposed changes in both the NAS and Fees Exposure Drafts released in January 2020.
4. The PIOB welcomed the project with the following comments in its February 2020 report on current IESBA reports:

Importance of the definition of PIE and coordination with the IAASB

The definition of PIE is crucial to determine the categories of entities which are subject to stricter provisions in the Code. It affects important projects such as NAS and Fees.

Coordination with the IAASB is sought, to align the ISAs with the Code of Ethics and have a consistent application of the two sets of standards.

The definition of PIE should include all entities which have a public interest impact on society (e.g. financial institutions, listed companies, significant utility companies), as well as those defined as PIEs by national regulators in their own jurisdictions

¹ In its [response](#) to the IAASB's January 2015 Exposure Draft of proposed ISAs 800 (Revised) and 805 (Revised), the IAIS noted the following: "The IAIS believes it is noteworthy to reiterate two important points that have been consistently brought to the attention of the IAASB, in particular in its previous letters regarding auditor reporting: (a) The IAIS believes that the definition of “public interest entities” should be extended to financial institutions; and (b)”

² See [Summary of Significant Comments](#) (paragraph 73) on the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2014-2018*.

³ See IOSCO's [comment letter](#) (page 4) to the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2019-2023*.

⁴ See, for example, [comments](#) (as summarized, paragraph 45) on the August 2014 Exposure Draft, *Proposed Changes to Certain Provisions of the Code Addressing the Long Association of Personnel with an Audit or Assurance Client*.

B. BRIEF HISTORY OF THE PIE CONCEPT IN THE CODE

Previous Code

5. The guidance that entities of significant public interest (ESPI) requires further independence consideration and that “listed entities” falls within such entities were already present in earlier versions of the Code.
6. Paragraphs 290.24 to 290.30 (2005 Code) explained the objective and structure of Section 290 (Independence – Assurance Engagements). Paragraph 290.28 of the 2005 Code:

The evaluation of the significance of any threats to independence and the safeguards necessary to reduce any threats to an acceptable level, takes into account the public interest. Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Examples of such entities may include listed companies, credit institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of listed entities, certain paragraphs in this section deal with additional matters that are relevant to the financial statement audit of listed entities. Consideration should be given to the application of the framework in relation to the financial statement audit of listed entities to other financial statement audit clients that may be of significant public interest.

7. With regards to listed entities, paragraph 290.28 (2005 Code) stated that the Section contains additional matters that are relevant to the financial statement audit of “listed entities” (e.g. Long association and provision of non-assurance services) because of the strong public interest in their financial statements. The definition of “listed entity” in the 2005 Code is the same as that in the revised and restructured Code (current Code).
8. The rationale for applying more stringent requirements to listed entities is summarized in a 2006 IESBA Agenda Paper:

The rationale for applying differential requirements to listed entities is in terms of the perceived threats to independence, actual threats being addressed by the core requirements applicable to all audits. Listed entities have a much higher visibility and a wider range of stakeholders than privately owned entities, and it is more difficult to communicate on a direct basis to deal with perception concerns. The IFAC guidance has therefore required specific extra safeguards to be applied when auditing listed entities, to address the perception threats that would cause concern to a reasonable and informed third party... A rationale can be constructed for a degree of differentiation on the grounds that the public is in practice most interested in listed companies because there is a very widespread direct or indirect ownership interest in listed entities, which is a factor not typically present with other PIEs⁵.

9. With regards to ESPI, the concept is referenced twice in paragraph 290.28. The paragraph highlighted public interest as a factor for consideration when evaluating the significance of any threats to independence and safeguards necessary and pointed out that some some entities may be of significant public interest. The paragraph also stated that “Consideration should be given to the

⁵ IESBA Agenda Paper 3-C, Independence Public Interest Entities, February 2006

application of the framework in relation to the financial statement audit of listed entities to other financial statement audit clients that may be of significant public interest.” The concept is not mentioned elsewhere in the 2005 Code.

December 2006 ED

10. The December 2016 IESBA Exposure Draft proposed changes to the Independence section of the Code (2016 ED) and contained the following proposed revisions relating to listed entities and ESPI:

Entities of Significant Public Interest

290.1 Evaluating the significance of threats to independence and the safeguards necessary to eliminate them or reduce them to an acceptable level takes into account the extent of public interest in the entity. Entities of significant public interest are listed entities and certain other entities that, because of their business, size or number of employees, have a large number and wide range of stakeholders. The extent of the public interest in these entities is significant. This section, therefore, contains enhanced safeguards to recognize that interest.

290.2 In some countries, the entities considered to be of significant public interest for the purpose of determining the independence requirements that apply in that country are defined by law or regulation. In such cases, that definition should be used in applying the requirements in this section. In the absence of such a definition, member bodies should determine the types of entities that are of significant public interest and, thus, subject to the enhanced safeguards referred to above. Entities of significant public interest will always include listed entities, and, depending on the facts and circumstances, will normally include regulated financial institutions such as banks and insurance companies, and may include pension funds, government-agencies, government-controlled entities and not-for-profit entities.

11. The IESBA proposed the above revisions in recognition of the need for more specific guidance and in light of the public interest associated with a wide range of entities. In addition to revising the concept of ESPI, the 2016 ED also extended the independence provisions for listed entity to all ESPIs.
12. The term “ESPIs” is described in proposed paragraph 290.1 as listed entities and certain other entities which, because of their business, size or number of employees have a large number and wide range of stakeholders.
13. When developing the revised concept of ESPI, the Board conducted a review of other national standards at the time. This review indicated that there were similarities in approach between these jurisdictions, for example, including listed entities within the definition of public interest entities and including certain other entities based on a size test. There were, however, significant differences in the application of a size test. Further, in some jurisdictions, entities considered to be of significant public interest for independence purposes are defined by law or regulation.
14. The IESBA concluded that:

- It was impracticable to develop a single definition of an entity of significant public interest that would have global application and be suitable in all jurisdictions.
- Listed entities should always be considered to be entities of significant public interest due to its significant public interest.
- In those jurisdictions where entities considered to be of significant public interest for independence purposes are defined by law or regulation, such definitions should be used in applying the requirements of proposed revised Section 290. In the absence of a legal definition, the member bodies should determine the types of entities that are of significant public interest in their particular jurisdictions.
- Whilst there is a presumption that regulated financial institutions will be considered to be ESPIs, it will depend on facts and circumstances.

Final Pronouncement

15. Upon deliberations, the IESBA agreed on the following revisions:

Public Interest Entities

- 290.25 Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:
- (i) All listed entities; and
 - (ii) Any entity (a) defined by regulation or legislation as a public interest entity or (b) 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.
- 290.26 Firms and member bodies 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. Factors to be considered include:
- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
 - Size; and
 - Number of employees.

16. The following key changes were made to the 2016 ED:
- The term “entities of significant public interest” is replaced with “public interest entity” (PIE)
 - The definition of PIE included listed entities and what the law either defined as PIE or requiring the same independence requirements
 - Member bodies no longer determined if a type of entity should be treated as ESPIs but instead, firms and member bodies were encouraged to determine if additional entities or

categories of entities should be treated as PIEs based on factors including nature of business, size and number of employees.

17. In reaching its decisions, the IESBA addressed the following key aspects raised by respondents to the 2016 ED:

Flexibility for listed entities

A view was expressed that it was not appropriate to include all listed entities as ESPIs because, in some jurisdictions, there are many small listed entities that would not have a large number and wide range of stakeholders. It was further noted that such entities may not have the level of sophistication that is necessary to comply with reporting requirements without the assistance of the audit firm.

However, the IESBA disagreed with such a view and noted that listed entities, regardless of their size, are the result of an overt decision by their management to become listed in order to seek sources of capital from the capital markets. Management of those entities understood that becoming a listed entity brought with it additional responsibilities and requirements. The IESBA also noted that the existing Code does not provide flexibility for small listed entities and concluded that this continues to be appropriate.

Greater Emphasis of an Entity's Size

Some respondents suggested that greater emphasis be given to either the size of the entity or the fact that it has a large number and wide range of stakeholders in the definition of an ESPI. The IESBA concluded that providing greater emphasis on the size of the entity would not address the concern that the examples of ESPI provided in the ED could be viewed as tantamount to a rule. The IESBA also noted that it was not possible to provide specific quantitative guidelines that would be appropriate for global application.

Alignment to the IASB and EU Definitions

The IESBA considered the suggestion to have some alignment with definition of “public accountability entities” in IFRS for Small and Medium Sized Entities which refers to holding assets in a fiduciary capacity for a broad group of outsiders (see table below for the definition). The IESBA concluded that this would not address the concern raised by some respondents that the nature of the business itself, irrespective of size, would result in the entity being categorized as an ESPI. The IESBA noted that this definition would likely include all banks and other financial institutions such as credit unions and insurance companies. The IESBA was of the view that, because such entities might be quite small in some jurisdictions, it would be inappropriate to adopt such a broad definition for a Code that establishes global independence standards.

With regards to the EU definition of PIE, the IESBA was of the view that it was also very broad and would not be appropriate for a global Code, particularly given the concern expressed that in some jurisdictions regulated banks are not large and treating such banks as ESPIs could be detrimental to audit quality.

Narrow or Board Definition

The IESBA noted that much of the concern expressed related to the lack of specificity in the proposed revisions on determining whether an entity would be considered to be an entity of significant public interest. The IESBA concluded that this concern should be addressed by defining entities of

significant public interest narrowly as listed entities and any entities deemed by regulation or legislation to be an entity of significant public interest. Other than for listed entities, this would leave the determination of whether an entity is of significant public interest to the relevant regulators in each jurisdiction.

In addition, the IESBA concluded that Section 290 should contain an encouragement for firms and member bodies to consider whether additional entities, or categories of entities, should be treated as entities of significant public interest for independence purposes in that jurisdiction, thus subjecting their auditors to the more stringent independence requirements contained in Section 290. Factors that would be considered include: the nature of the business, such as the holding of assets in a fiduciary capacity (for example, financial institutions) for a large number of stakeholders; size and number of employees.

The IESBA also concluded that, given the narrower definition, it is appropriate to refer to these entities as “Public Interest Entities” as opposed to “Entities of Significant Public Interest.”

2018 Code

18. As part of IESBA’s restructuring of the Code project, the PIE provisions in the Code are as follows:

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 public interest 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. Factors to be considered include:

- The nature of the business, 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.
- Size.
- Number of employees.

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

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.

C. USE OF PIE IN THE CODE AND RECENT EXPOSURE DRAFTS

19. The Code provides more additional and more stringent independence requirements and application material with respect to the audit of PIEs as a result of their public interest.
20. The IESBA are also proposing additional independence requirements on the audit of PIEs with respect to the provision of non-assurance services and fees. Amongst other matters;
 - The NAS ED proposes that firms do not provide certain types of non-assurance services PIE audit clients if the provisions of these services create a self-review threat
 - The Fees ED proposes that the requirements relating to fee dependencies of both PIE and non-PIE clients be enhanced and that transparency with regard to fee-related information for PIE audit clients to assist those charged with governance (TCWG) and the public in forming their views about the firm's independence.
21. See Table 1 below for a list of the relevant sections on the independence requirements for PIE audits including those from the NAS and Fees ED (in blue).

Sections 260 and 360, Responding to Non-Compliance with Laws and Regulation	
260.7 A1	This section applies regardless of the nature of the employing organization, including whether or not it is a public interest entity.
360.7 A1	This section applies regardless of the nature of the client, including whether or not it is a public interest entity.
Sections 300, Applying the Conceptual Framework – Professional Accountants in Public Practice	
300.7 A3	<p>The professional accountant's evaluation of the level of a threat might be impacted by whether the client is:</p> <ul style="list-style-type: none">(a) An audit client and whether the audit client is a public interest entity;(b) An assurance client that is not an audit client; or(c) A non-assurance client. <p>For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of threat to compliance with the principle of objectivity with respect to the audit.</p>
Section 400, Applying the Conceptual Framework to Independence for Audit and Review Engagements	
400.8	<p>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 public interest 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. Factors to be considered include:</p> <ul style="list-style-type: none">• The nature of the business, 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.

- Size.
- Number of employees.

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that would create a self-review threat in relation to the financial statements on which the firm will express an opinion unless the provision of such service has ceased and:

- (a) The results of the service were subject to auditing procedures in the course of the audit of the prior year's financial statements by a predecessor firm;
- (b) The firm engages a professional accountant, who is not a member of the firm expressing the opinion on the financial statements to perform a review of the first audit engagement affected by the self-review threat that is equivalent to an engagement quality review; or
- (c) The public interest entity engages another firm to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,

in either case, to the extent necessary to enable the other firm to take responsibility for the result of the service.

Section 410, Fees

410.3 A2 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.

410.4 A2 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include:

...

- The nature of the client, for example whether the client is a public interest entity.

Audit Clients that are Not Public Interest Entities

R410.14 When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the audit opinion being issued on the fifth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements review the fifth year's audit work; or
- (b) After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements or a professional body review the fifth year's audit work.

R410.15 If the total fees described in paragraph R410.14 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.14 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

R410.16 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.14 (a), if:

- (a) The circumstances addressed by paragraph R410.14 apply to only one of the firms expressing the audit opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

Audit Clients that are Public Interest Entities

R410.17 When for each of two consecutive years the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, an engagement quality review performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

R410.18 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.17, if:

- (a) The circumstances addressed by paragraph R410.17 apply to only one of the firms expressing the audit opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

R410.19 Subject to paragraph R410.20, if the circumstances described in paragraph R410.17 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.

R410.20 As an exception to paragraph R410.19, the firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the

public interest, provided that:

- (a) The firm consults with an independent regulatory body or professional body in the relevant jurisdiction and it concurs that having the firm continue as the auditor would be in the public interest; and
- (b) Before the audit opinion on the sixth and any subsequent year's financial statements is issued, the firm engages a professional accountant who is not a member of the firm expressing the opinion on the financial statements to perform a pre-issuance review.

410.20 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

410.21 A1 Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists them in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of audit work and impact on the audit fee.

Audit Fees

R410.22 The firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a) The level of the fee for the audit of the financial statements on which the firm issued an opinion;
- (b) Any fees for the audit of special purpose financial statements and review engagements; and
- (c) Whether the threats created by the level of the audit fees are at an acceptable level and any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.22 A1 The objective of such communication is to provide the background and context to the audit fee to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fee such as:
 - The scale, complexity and geographic spread of the audit client's operations.

- The time spent or expected to be spent commensurate with the scope and complexity of the audit.
- The cost of other resources utilized or expended in performing the audit.
- The quality of record keeping and processes for financial statements preparation.
- Adjustments to the fee quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fee.

410.22 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

Fees for Services Other than Audit

R410.23 The firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a) The fees charged during the period covered by the financial statements for the provision by the firm or a network firm of services other than audit to the client which for this purpose shall include only related entities over which the client has direct or indirect control; and
- (b) Where the firm has identified that there is an impact on the evaluation of the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of such fees relative to the audit fee:
 - (i) Whether such threats are at an acceptable level; and
 - (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.23 A1 The objective of such communication is to provide the background and context to the fees for services other than audit to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees from services other than audit that are required by laws and regulations.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R410.23(a) to the aggregate of the audit fees charged by the firm and network firms.

Fee Dependency

R410.24 Where the total fees from an audit client that is a public interest entity represent or are likely to represent more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.17); and
- (c) Any proposal to continue as the auditor under paragraph R410.20.

Considerations for Review Clients

R410.27 This section sets out requirements for firms to communicate fee-related information of an audit client that is a public interest entity and to be satisfied that such information is publicly disclosed. As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.

Section 524, Employment with an Audit Client

Key Audit Partners

R524.6 Subject to paragraph R524.8, if an individual who was a key audit partner with respect to an audit client that is a public interest entity joins the client as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,

independence is compromised unless, subsequent to the individual ceasing to be a key audit partner:

- (i) The audit client has issued audited financial statements covering a period of not less than twelve months; and
- (ii) The individual was not an audit team member with respect to the audit of those financial statements.

Senior or Managing Partner (Chief Executive or Equivalent) of the Firm

R524.7 Subject to paragraph R524.8, if an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm joins an audit client that is a public interest entity as:

- (a) A director or officer; or
- (b) An employee in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion,

independence is compromised, unless twelve months have passed since the individual was the Senior or Managing Partner (Chief Executive or equivalent) of the firm.

Section 540, Long Association

Audit Clients that are Public Interest Entities

R540.5 Subject to paragraphs R540.7 to R540.9, in respect of an audit of a public interest entity, an individual shall not act in any of the following roles, or a combination of such roles, for a period of more than seven cumulative years (the “time-on” period):

- (a) The engagement partner;
- (b) The individual appointed as responsible for the engagement quality control review; or
- (c) Any other key audit partner role.

After the time-on period, the individual shall serve a “cooling-off” period in accordance with the provisions in paragraphs R540.11 to R540.19.

R540.6 In calculating the time-on period, the count of years shall not be restarted unless the individual ceases to act in any one of the roles in paragraph R540.5(a) to (c) for a minimum period. This minimum period is a consecutive period equal to at least the cooling-off period determined in accordance with paragraphs R540.11 to R540.13 as applicable to the role in which the individual served in the year immediately before ceasing such involvement.

540.6 A1 For example, an individual who served as engagement partner for four years followed by three years off can only act thereafter as a key audit partner on the same audit engagement for three further years (making a total of seven cumulative years). Thereafter, that individual is required to cool off in accordance with paragraph R540.14.

R540.7 As an exception to paragraph R540.5, key audit partners whose continuity is especially important to audit quality may, in rare cases due to unforeseen circumstances outside the firm’s control, and with the concurrence of those charged with governance, be permitted to serve an additional year as a key audit partner as long as the threat to independence can be eliminated or reduced to an acceptable level.

540.7 A1 For example, a key audit partner may remain in that role on the audit team for up to one additional year in circumstances where, due to unforeseen events, a required rotation was not possible, as might be the case due to serious illness of the intended engagement partner. In such circumstances, this will involve the firm discussing with those charged with governance the reasons why the planned rotation cannot take place and the need for any safeguards to reduce any threat created.

R540.8 If an audit client becomes a public interest entity, a firm shall take into account the length of time an individual has served the audit client as a key audit partner before the client becomes a public interest entity in determining the timing of the rotation. If the individual has served the audit client as a key audit partner for a period of five cumulative years or less when the client becomes a public interest entity, the number of years the individual may continue to serve the client in that capacity before rotating off the engagement is seven years less the number of years already served. As an exception to paragraph R540.5, if the individual has served the audit client as a key audit partner for a period of six or more cumulative years when the client becomes a public interest entity, the individual may continue to serve in that capacity with the concurrence of those charged with governance for a maximum of two additional years before rotating off the engagement.

R540.9 When a firm has only a few people with the necessary knowledge and experience to

serve as a key audit partner on the audit of a public interest entity, rotation of key audit partners might not be possible. As an exception to paragraph R540.5, if an independent regulatory body in the relevant jurisdiction has provided an exemption from partner rotation in such circumstances, an individual may remain a key audit partner for more than seven years, in accordance with such exemption. This is provided that the independent regulatory body has specified other requirements which are to be applied, such as the length of time that the key audit partner may be exempted from rotation or a regular independent external review.

Other Considerations Relating to the Time-on Period

R540.10 In evaluating the threats created by an individual's long association with an audit engagement, a firm shall give particular consideration to the roles undertaken and the length of an individual's association with the audit engagement prior to the individual becoming a key audit partner.

540.10 A1 There might be situations where the firm, in applying the conceptual framework, concludes that it is not appropriate for an individual who is a key audit partner to continue in that role even though the length of time served as a key audit partner is less than seven years.

Cooling-off Period

R540.11 If the individual acted as the engagement partner for seven cumulative years, the cooling-off period shall be five consecutive years.

R540.12 Where the individual has been appointed as responsible for the engagement quality control review and has acted in that capacity for seven cumulative years, the cooling-off period shall be three consecutive years.

R540.13 If the individual has acted as a key audit partner other than in the capacities set out in paragraphs R540.11 and R540.12 for seven cumulative years, the cooling-off period shall be two consecutive years.

Service in a combination of key audit partner roles

R540.14 If the individual acted in a combination of key audit partner roles and served as the engagement partner for four or more cumulative years, the cooling-off period shall be five consecutive years.

R540.15 Subject to paragraph R540.16(a), if the individual acted in a combination of key audit partner roles and served as the key audit partner responsible for the engagement quality control review for four or more cumulative years, the cooling-off period shall be three consecutive years.

R540.16 If an individual has acted in a combination of engagement partner and engagement quality control review roles for four or more cumulative years during the time-on period, the cooling-off period shall:

- (a) As an exception to paragraph R540.15, be five consecutive years where the individual has been the engagement partner for three or more years; or
- (b) Be three consecutive years in the case of any other combination.

R540.17 If the individual acted in any combination of key audit partner roles other than those addressed in paragraphs R540.14 to R540.16, the cooling-off period shall be two consecutive years.

Service at a Prior Firm

R540.18 In determining the number of years that an individual has been a key audit partner as set out in paragraph R540.5, the length of the relationship shall, where relevant, include time while the individual was a key audit partner on that engagement at a prior firm.

Shorter Cooling-off Period Established by Law or Regulation

R540.19 Where a legislative or regulatory body (or organization authorized or recognized by such legislative or regulatory body) has established a cooling-off period for an engagement partner of less than five consecutive years, the higher of that period or three years may be substituted for the cooling-off period of five consecutive years specified in paragraphs R540.11, R540.14 and R540.16(a) provided that the applicable time-on period does not exceed seven years.

Restrictions on Activities During the Cooling-off Period

R540.20 For the duration of the relevant cooling-off period, the individual shall not:

- (a) Be an engagement team member or provide quality control for the audit engagement;
- (b) Consult with the engagement team or the client regarding technical or industry-specific issues, transactions or events affecting the audit engagement (other than discussions with the engagement team limited to work undertaken or conclusions reached in the last year of the individual's time-on period where this remains relevant to the audit);
- (c) Be responsible for leading or coordinating the professional services provided by the firm or a network firm to the audit client, or overseeing the relationship of the firm or a network firm with the audit client; or
- (d) Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services that would result in the individual:
 - (i) Having significant or frequent interaction with senior management or those charged with governance; or
 - (ii) Exerting direct influence on the outcome of the audit engagement.

540.20 A1 The provisions of paragraph R540.20 are not intended to prevent the individual from assuming a leadership role in the firm or a network firm, such as that of the Senior or Managing Partner (Chief Executive or equivalent).

Section 600, Provision of Non-Assurance Services to an Audit /Client

600.9 A2 Factors that are relevant in identifying and evaluating threats created by providing a non-assurance service to an audit client include:

- ...
- Whether the client is a public interest entity.

Providing advice and recommendations

600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in 600.11 A2. This includes considering the nature of the

advice and recommendations and how such advice and recommendations might be implemented by the audit client. If a self-review threat is identified, application of the conceptual framework requires the firm to address the threat where the audit client is not a public interest entity. If the audit client is a public interest entity, paragraph R600.14 applies.

Audit clients that are public interest entities

600.13 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

600.13 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

R600.14 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion.

Communication with Those Charged With Governance Regarding Non-Assurance Services

Audit Clients that are not Public Interest Entities

600.17 A1 In the case of audit clients that are not public interest entities, paragraphs 400.40 A1 and 400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Audit Clients that are Public Interest Entities

R600.18 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, the firm shall provide those charged with governance with sufficient information to enable them to make an informed decision about the impact of the provision of such a non-assurance service on the firm's independence.

600.18 A1 Examples of information that might be provided to those charged with governance include:

- The nature and scope of the service to be provided.
- Any threats to independence identified by the firm from the provision of such a service.
- Whether such threats are at an acceptable level.
- Actions that the firm or network firm intends to take to address any threats that are not at an acceptable level.
- How such actions will eliminate or reduce the threats to an acceptable level.

R600.19 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, unless those charged with governance of the public interest entity concur with:

- (a) The provision of that service; and
- (b) The firm's conclusion that any threat to independence has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level.

600.19 A1 The process by which the firm obtains the concurrence of those charged with governance for the provision of a non-assurance service to the audit client might be for example, on an individual engagement basis, under a general policy, or via other means provided that the process to be used is approved by those charged with governance.

600.19 A2 Where an audit client includes one or more public interest entities, it might be appropriate for the process by which the firm or the network firm obtains concurrence to address how and from whom such concurrence is to be obtained.

Audit Client that Later Becomes a Public Interest Entity

R600.20 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit client compromises the firm's independence when the client becomes a public interest entity unless:

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm discusses actions with those charged with governance, that might be taken to address any threat to independence, obtains their concurrence to the approach it proposes to take, and implements such actions.

600.20 A1 Examples of actions that the firm might take include:

- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary.
- Engaging another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Subsection 601, Accounting and Bookkeeping Services

Audit Clients that are Public Interest Entities

R601.5 A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity if the provision of such accounting and bookkeeping services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Subsection 603, Valuation Services

Audit Clients that are Public Interest Entities

Self-review Threats

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is a public interest entity if the provision of such valuation service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy Threats

603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing valuation services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

Subsection 604, Tax Services

Audit Clients that are Public Interest Entities

R604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity if such calculations will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy threats

604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by tax advisory and tax planning services for an audit client that is a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.19 A firm or a network firm shall not perform a valuation for tax purposes for a public interest entity if the provision of that service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion, unless:

- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
- (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation,

and the valuation is subject to external review by a tax authority or similar regulatory authority.

Advocacy Threats

604.19 A1 Examples of actions that might be safeguards to address an advocacy threat for an audit client that is a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit client that is a public interest entity if the provision of that assistance will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy Threats

604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client that is a public interest entity if the services involve acting as an advocate for the audit client before a tribunal or court.

604.27 A1 Paragraphs R604.25 and R604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

604.27 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

Subsection 605, Internal Audit Services

Audit Clients that are Public Interest Entities

R605.6 A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:

- The internal controls over financial reporting.
- Financial accounting systems that generate information for the client’s accounting records or financial statements on which the firm will express an opinion.
- Amounts or disclosures that relate to the financial statements on which the firm will express an opinion.

Subsection 606, Information Technology Systems Services

Audit Clients that are Public Interest Entities

R606.6 A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

606.6 A1 Examples of services that are prohibited because they give rise to a self-review threat include those involving designing or implementing IT systems that:

- Form part of the internal control over financial reporting; or
- Generate information for the client’s accounting records or financial statements on which the firm will express an opinion.

Subsection 607, Litigation Support Services

Audit Clients that are Public Interest Entities

Self-review Threats

R607.6 A firm or a network firm shall not provide litigation support services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

607.6 A1 An example of a service that is prohibited because it gives rise to a self-review threat is providing advice in connection with a legal proceeding which affects the quantification of any provision in the financial statements on which the firm will express an opinion.

Advocacy Threats

607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing litigation support services to an audit client that is a public interest entity is using a professional who was not an audit team member to perform the service.

Audit Clients that are Public Interest Entities

R607.9 A firm or a network firm or a network firm or an individual within a firm or a network firm, shall not act as an expert witness in a dispute involving an audit client that is a public interest entity unless appointed by a tribunal or court.

Subsection 608, Legal Services

Audit Clients that are Public Interest Entities

Self-review Threats

R608.6 A firm or a network shall not provide legal advice to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

608.6 A1 Examples of legal advice that might create such a self-review threat are:

- Estimating a potential loss arising from a lawsuit for the purpose of recording a provision in the client's financial statements.
- Interpreting provisions in contracts that might give rise to liabilities reflected in the client's financial statements.

Advocacy Threats

608.6 A2 The provisions in paragraphs 608.5 A1 and 608.5 A2 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advisory services to an audit client that is a public interest entity.

Audit Clients that are Public Interest Entities

R608.9 A firm or a network firm shall not act in an advocacy role for an audit client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

Subsection 610, Corporate Finance Services

Audit Clients that are Public Interest Entities

Self-review Threats

R610.8 A firm or a network firm shall not provide corporate finance services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy Threats

610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

Section 800, Reports on Special Purpose Financial Statements that Include a Restriction on Use and Distribution (Audit and Review Engagement)

Public Interest Entities

R800.7 When the firm performs an eligible audit engagement, the firm does not need to apply the independence requirements set out in Part 4A that apply only to public interest entity audit engagements.

Section 950, Provision of Non-Assurance Services to Assurance Clients Other than Audit and Review Clients

950.6 A2 Factors that are relevant in identifying and evaluating threats created by providing a non-assurance service to an assurance client include:

- ...
- Whether the client is a public interest entity.

Assurance clients that are public interest entities

950.9 A1 Expectations about a firm's independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

- (a) Made available publicly, including to shareholders and other stakeholders; or
- (b) Provided to an entity or organization established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations form part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.9 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.9 A1 (b), the firm is encouraged to disclose to the intended user of the information the existence of a self-review threat to independence and the steps taken to address it.

D. USE OF ESPI in IAASB's International Auditing Standards

22. Below are relevant extracts from the current IAASB 2018 Handbook. The terms ESPI and PIE have been highlighted in **green** in all extracts presented below.

ISA 260 (Revised), Communication with Those Charged with Governance

Requirements

Auditor Independence

17. In the case of listed entities, the auditor shall communicate with those charged with governance:
- (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
 - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
 - (ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A29–A32)

Application and Other Explanatory Material

Auditor Independence (Ref: Para. 17)

- A31. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.
- A32. The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other **entities**, including those that may be **of significant public interest**, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

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

Requirements

Key Audit Matters

31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA 701. (Ref: Para. A40–A42)

Application and Other Explanatory Material

Key Audit Matters (Ref: Para. 31)

- A40. Law or regulation may require communication of key audit matters for audits of entities other than listed entities, for example, entities characterized in such law or regulation as **public interest entities**.
- A41. The auditor may also decide to communicate key audit matters for other **entities**, including those that may be **of significant public interest**, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.

Overview of Developments in the ISAs regarding the Term ESPI

23. This section presents a summary of the history of the introduction and use of the term ESPI as follows: ISA 260 (Revised) going back to March 2005; ISA 700 (Revised) going back to June 2013; and ED-ISQM 1 that was issued in February 2019.

ISA 260 (Revised)

24. The relevant history in relation to ISA 260 (Revised) can be traced back to March 2005 when the IAASB issued an ED in relation to its project to address auditors' communication with those charged with governance. At that point ISA 260 and ED-260 made no reference to ESPI.
25. Based on the meeting materials where the board discussed the comments received on ED-260 the following revised paragraph was presented in the marked version of the December 2005 IAASB agenda papers:

[Note: Paragraph 49 requires that for listed entities the auditor makes certain disclosures regarding auditor independence to those charged with governance.]

51. The auditor considers whether the communications set out in paragraph 49 are also ~~appropriate~~ relevant in the case of entities that are not listed entities, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders. Examples of such entities might include public sector entities, credit institutions, insurance companies, and pension funds. Communications regarding independence may ~~not be unnecessary~~ relevant, e.g., where all of those charged with governance have been informed of relevant facts through their management activities. This is

particularly likely to be the case where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond ~~an annual~~ a financial statement audit.

26. The related issues paper provides the following by way of explanation for the additions in paragraph 51 of proposed ISA 260:

Auditor Independence Applicable Only to Listed Entities

11. The ED required listed entities to make certain disclosures to those charged with governance regarding independence (paragraph 49). Many respondents recommended that this requirement be widened to include other entities. The main suggestions were to include all public sector entities, all public interest entities, or all entities.
12. This requirement was restricted to listed entities to be consistent with the IFAC Code of Ethics. The Code also notes:
Certain entities may be of significant public interest because, as a result of their business, their size or their corporate status they have a wide range of stakeholders. Examples of such entities might include listed companies, credit institutions, insurance companies, and pension funds. Because of the strong public interest in the financial statements of listed entities, certain paragraphs in this section deal with additional matters that are relevant to the audit of listed entities. Consideration should be given to the application of the principles set out in this section in relation to the audit of listed entities to other audit clients that may be of significant public interest.
13. The Task Force notes that paragraph 51 (“The auditor considers whether the communications set out in paragraph 49 are also relevant in the case of entities that are not listed entities ...”) contains a similar sentiment to the above quote from the Code.

27. The next development occurred when ISA 260 was revised as part of the IAASB's Clarity Project. Paragraph 51, above, was moved into the application material of the proposed clarified ISA 260. The board approved clarified ISA 260 at its meeting in September 2007, which included the following application material to the requirement that for listed entities, the auditor shall make certain disclosures regarding auditor independence to those charged with governance:

- A23. The communication requirements relating to auditor independence that apply in the case of listed entities may also be relevant in the case of some other entities, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders. Examples of entities that are not listed entities, but where communication of auditor independence may be appropriate, include public sector entities, credit institutions, insurance companies, and retirement benefit funds. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

28. The reasoning for leaving this paragraph largely unchanged can be found in the related issues paper (see extract below).

G. Listed versus public interest entities

- G1. (Old) paragraph 15 requires communication of certain matters related to independence. It applies only in the case of listed entities. Basel, AASB, CEBS, IAIS, Mazars, and NZICA suggest that it should apply for “public interest” entities (consistent with proposed changes to the IFAC Code of Ethics); and the Provincial Auditor for Saskatchewan suggests that it should apply for all entities.
- G2. This issue was discussed by the IAASB at its April 2007 meeting in the context of the requirement of proposed ISQC 1 (Redrafted) that listed entities have an engagement quality control review, at which time it was agreed “that to extent the requirement for reviews beyond listed entities would not be appropriate as part of the clarity project, but would be considered again when changes to the Code as a result of the IESBA exposure draft have been finalized. A decision on the matter at that time would have the benefit of being informed by feedback received by the IESBA on its exposure draft.”
- G3. The task force considers this same rationale should be applied in the case of (old) paragraph 15.

29. ISA 260 was again revised during the IAASB’s new and revised auditor reporting project, with the new and revised standards being issued in January 2015. The changes reflected in ISA 260 (Revised) are only in relation to revisions to the auditor reporting standards in the 700-series. The section in ISA 260 (Revised) regarding auditor independence (the requirements and application material) was not affected, except for some language and structuring updates. However, the use of the term, ESPI, and the context in which it is used, did not change. Extracts of the currently effective standard, ISA 260 (Revised), have been included in Section 1 of this Appendix.

ISA 700 (Revised)

30. In December 2011 the IAASB approved a Project Proposal with regard to auditor reporting. The resulting new and revised auditor reporting standards were approved at the IAASB meeting in September 2014, including ISA 700 (Revised) and ISA 701 (and four other standards). Developments in relation to the use of the term ESPI are summarized in the paragraphs that follow.
31. The Task Force’s initial analysis of the comments received on the Auditor Reporting EDs, as was presented at the March 2014 IAASB meeting, noted, amongst other matters, that most respondents supported the IAASB’s proposal for key audit matters (KAM) to be limited to audits of financial statements of listed entities. However, two Monitoring Group respondents were of the view that the requirement should be expanded to PIEs, with suggestions for a definition of PIE.
32. The following is an extract of the changes that were proposed by the Task Force at the June 2014 IAASB meeting in responding to the need to consider options relating to audits for which KAM should be required, or may otherwise be applied voluntarily (i.e. beyond audits of listed entities):

30a. ~~When the auditor of a complete set of general purpose financial statements of an entity other than a listed entity shall also apply proposed ISA 701 when the auditor:~~

- (a) is required by law or regulation to do so, regardless of the opinion expressed; and
- (b) Otherwise decides to communicate key audit matters and has not expressed an adverse opinion or disclaimed an opinion on the financial statements in the auditor's report or otherwise decides to do so, the auditor shall apply proposed ISA 704. (Ref: Para. A3041–A3143)

Key Audit Matters (Ref: Para. 30a)

A42. The communication requirements relating to key audit matters that apply in the case of listed entities may also be appropriate in the case of some other entities, particularly those that may be of significant public interest because they have a large number and wide range of stakeholders.

Factors that may be relevant include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees.

Law or regulation may define these types or other entities as public interest entities, and may require communication of key audit matters for these entities.

33. The above application material was further revised to the current paragraph A41 in ISA 700 (Revised), that was approved in September 2014.

E. Jurisdictional definition of PIE or Equivalent Terms (To be Completed)

Jurisdiction	PIE or equivalent Definition
Global	
IFRS for SMEs	<p>IFRS for SMEs:</p> <p>Glossary of Terms</p> <p>public accountability</p> <p>An entity has public accountability if:</p> <p>(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or</p> <p>(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.</p> <p>publicly traded (debt or equity instruments)</p> <p>Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).</p> <p>small and medium-sized entities</p> <p>Entities that:</p> <p>(a) do not have public accountability; and</p> <p>(b) publish general purpose financial statements for external users.</p> <p>An entity has public accountability if:</p>

	<p>(a) it files, or it is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; or</p> <p>(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.</p>
Europe	
EU	<p>Directive 2013/34/EU:</p> <p>Article 2</p> <p>'public-interest entities' means:</p> <p>(a) entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC;</p> <p>(b) credit institutions as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council, other than those referred to in Article 2 of that Directive;</p> <p>(c) insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC; or</p> <p>(d) entities designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees;</p>
UK	<p>FRC Revised Ethical Standard 2019 (Updated January 2020)</p> <p>Glossary of Terms (Auditing and Ethics)</p> <p><i>Public interest entity</i>—These are:</p> <p>(a) An issuer whose transferable securities are admitted to trading on a UK regulated market;</p> <p>(b) A credit institution within the meaning of Article 4(1)(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council, which is a CRR firm within the meaning of Article 4(1)(2A) of that Regulation;</p> <p>(c) A person who would be an insurance undertaking as defined in Article 2(1) of Council Directive 91/674/EEC of 19 December 1991 of the European Parliament and of the Council on the annual accounts and consolidated accounts of insurance undertaking as that Article had effect immediately before exit day, were the United Kingdom a Member State.</p> <p>No other entities have been specifically designated in law in the UK as 'public interest entities'.</p>

Other entity of public interest – An entity which does not meet the definition of a Public Interest Entity, but nevertheless is of significant public interest to stakeholders. This includes:

- (a) AIM listed entities which exceed the threshold to be an *SME listed entity* as calculated using the definition in this glossary;
- (b) Lloyd’s syndicates;
- (c) Private sector pension schemes with more than 10,000 members and more than £1 billion of assets, by reference to the most recent set of audited financial statements¹¹;
- (d) Entities that are subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018 (SI/2018/860) by reference to the most recent set of audited financial statements¹¹, excluding fund management entities which are included within a private equity or venture capital limited partnership fund structure.

(N.B. The [Kingman Review](#) (released in December 2018) recommended that the UK Government review the UK’s definition of PIE for the following reasons:

However other countries (see table below) have incorporated a much wider range of entities into their definition of a PIE, such as: all quoted companies, major private companies, pension funds, or asset management companies. The Review is concerned that the UK’s current PIE definition may be somewhat too narrowly drawn and may exclude entities whose audit arrangements are a matter of public interest.)

ICAEW Code of Ethics

Glossary

- (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.

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 public interest 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. Factors to be considered include:

- The nature of the business, 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.
- Size.
- Number of employees.

ICAS Code of Ethics

Glossary

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	<ul style="list-style-type: none"> • The nature of the business, 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. • Size. • Number of employees.
Other EU member states	Refer to Accountancy Europe “Definition of Public Interest Entity in Europe: State of play after the implementation of the 2014 Audit Reform” , updated March 2019
Asia Pacific	
Australia	<p>APES 110 Code of Ethics for Professional Accountants</p> <p>Public Interest Entity</p> <p>(a) A Listed Entity*; or</p> <p>(b) An entity:</p> <p>(i) Defined by regulation or legislation as a public interest entity; or</p> <p>(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.</p> <p>* Includes a listed entity as defined in Section 9 of the Corporations Act 2001.</p> <p><i>Other entities might also be considered to be Public Interest Entities, as set out in paragraphs 400.8 to AUST 400.8.1 A1.</i></p> <p>-----</p> <p>AUST R400.8.1</p>

	<p>Firms shall 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. Factors to be considered include:</p> <ul style="list-style-type: none"> • The nature of the business, 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. • Size. • Number of employees. <p>AUST 400.8.1 A1</p> <p>The following entities in Australia will generally satisfy the conditions in paragraph AUST R400.8.1 as having a large number and wide range of stakeholders and thus are likely to be classified as Public Interest Entities. In each instance Firms shall consider the nature of the business, its size and the number of its employees:</p> <ul style="list-style-type: none"> • Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA)⁹ under the Banking Act 1959; • Authorised insurers and authorised NOHCs regulated by APRA¹⁰ under Section 122 of the Insurance Act 1973; • Life insurance companies and registered NOHCs regulated by APRA¹¹ under the Life Insurance Act 1995; • Private health insurers regulated by APRA¹² under the Private Health Insurance (Prudential Supervision) Act 2015; • Disclosing entities as defined in Section 111AC of the Corporations Act 2001; • Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA¹³ under the Superannuation Industry (Supervision) Act 1993; and • Other issuers of debt and equity instruments to the public
New Zealand	<p>International Code of Ethics for Assurance Practitioners (Including International Independence Standards (NZ) (PES1):</p>

	<p>[NZ] Public interest entity</p> <p>Any entity that meets the Tier 1 criteria in accordance with XRB A15 and is not eligible to report in accordance with the accounting requirements of another tier</p> <p>Public Interest Entities</p> <p>400.8</p> <p>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 public interest 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. Factors to be considered include:</p> <ul style="list-style-type: none">• The nature of the business, 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.• Size.• Number of employees. <p>XBR Standard A1</p> <p>Public Accountability</p> <p>7. For the purpose of applying the Tier 1 criteria, an entity has public accountability if:</p> <ul style="list-style-type: none">(a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or(b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9. <p>8 In accordance with the IASB definition, an entity has public accountability if:</p> <ul style="list-style-type: none">(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
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(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

9 An entity is deemed to have public accountability in New Zealand if:

(a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013; or

(b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.

10 Notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).

11 Some entities may hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business, that does not mean that they have public accountability. For example:

(a) this may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies;

(b) in the public sector, a government department whose primary business is the provision of state housing to tenants does not have public accountability if it also manages trust money (rental bonds) on behalf of those tenants as an incidental activity to its primary business; and

(c) in the not-for-profit sector, a not-for-profit entity that provides a wide range of welfare services to beneficiaries as its primary activity does not have public accountability merely because it holds welfare benefits on behalf of some of those beneficiaries to assist them with budgeting. While the entity is holding assets in a “fiduciary capacity for a broad group of outsiders” it is not holding them “as one of its primary businesses”. This

	<p>is because providing the budgeting services is an incidental activity to its primary activity of providing a range of welfare services to beneficiaries.</p> <p>12 Trustees of a trust are required to act in a fiduciary capacity for the benefit of the beneficiaries of that trust or in achieving the objects of the trust. However, this does not necessarily mean that the trust has public accountability as defined in paragraph 8(b). For example, a trust would not have public accountability when the financial resources or other resources held and managed by the trust are not the resources of specified individual beneficiaries, in the manner that the financial resources of the entities listed in paragraph 8(b) are the resources of the individual clients, customers and members of those entities.</p> <p>13 Where the entity is a group in New Zealand, and the parent/controlling entity of the group has public accountability, the group is deemed to have public accountability. A group is not considered to have public accountability solely by reason of a subsidiary/controlled entity having public accountability</p> <p>461KFMC reporting entities considered to have higher level of public accountability</p> <p>(1) The following FMC reporting entities are considered to have a higher level of public accountability than other FMC reporting entities:</p> <p>(a) issuers of equity securities or debt securities under a regulated offer:</p> <p>(b) managers of registered schemes, but only in respect of financial statements of a scheme or fund prepared under section 461A:</p> <p>(c) listed issuers:</p> <p>(d) registered banks:</p> <p>(e) licensed insurers:</p> <p>(f) credit unions:</p> <p>(g) building societies:</p> <p>(h) an FMC reporting entity, or a class of FMC reporting entities, specified for the purposes of this paragraph by a notice issued under section 461L(1)(a).</p>
Singapore	<p>ISCA Code of Professional Conduct and Ethics (EP 100)</p> <p>Public Interest Entities</p>

290.25

Section 290 contains additional provisions that reflect the extent of public interest in certain entities. For the purpose of this section, public interest entities are:

- (a) All listed entities; and
- (b) Any 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 may be promulgated by any relevant regulator, including an audit regulator.

SG290.25A

For the purposes of paragraph 290.25(b)(i), a public interest entity means —

- (a) Any entity that is listed or is in the process of issuing its debt or equity instruments for trading on a securities exchange in Singapore;
- (b) Any entity that is incorporated in Singapore and the securities of which are listed on a securities exchange outside Singapore; or
- (c) Any financial institution.

SG290.25B

For the purposes of paragraph 290.25(b)(ii), the audit of large charities and large institutions of a public character shall be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

290.26

Firms and member bodies 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. Factors to be considered include:

	<p>(a) The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds.</p> <p>(b) Size; and</p> <p>(c) Number of employees.</p> <p>Definition</p> <p>Financial Institution</p> <p>(a) Entities that are part of the banking and payment systems (namely, banks, financial institutions approved under section 28 of the Monetary Authority of Singapore Act (Chapter 186), operators of designated payments systems, holders of widely-accepted multi-purpose stored value facilities (including all holders of multi-purpose stored value facilities in excess of \$30 million, whether approved or exempted), remittance agents and finance companies);</p> <p>(b) Insurers and insurance brokers;</p> <p>(c) Capital market infrastructure providers (namely, approved holding companies under the Securities and Futures Act (Chapter 289), approved exchanges, local market operators and designated clearing houses); and</p> <p>(d) Capital markets intermediaries (namely, holders of capital market services licence, licensed financial advisers, registered fund management companies, licensed trust companies and approved trustee for collective investment scheme</p>
Malaysia	<p>By-laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants</p> <p>Definitions</p> <p>(lxvi) public interest entity</p> <p>(a) A listed entity; or</p> <p>(b) An entity:</p> <p>(i) Defined by regulation or legislation as a public interest entity; or</p>

	<p>(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 may be promulgated by any relevant regulator, including an audit regulator.</p> <p>Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.</p> <p>400.8 Public Interest Entities</p> <p>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 public interest 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. Factors to be considered include:</p> <ul style="list-style-type: none"> • The nature of the business, 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. • Size. • Number of employees.
<p>Hong Kong</p>	<p>HKICPA Code of Ethics for Professional Accountants</p> <p>Glossary</p> <p>Public interest entity</p> <p>(a) A listed entity; or</p> <p>(b) An entity:</p> <p>(i) Defined by regulation or legislation as a public interest entity; or</p> <p>(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^{1c}. Such regulation might be promulgated by any relevant regulator, including an audit regulator.</p> <p><i>Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.</i></p>

	<p>Fn 1c Currently under the legislation of Hong Kong, there is no definition of public interest entity or requirement for the audit of an entity to be conducted with the same independence requirements applicable to the audit of listed entities. Hence, there is no entity falling within this part of the definition under the legislation of Hong Kong.</p> <p>400.8</p> <p>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 public interest 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. Factors to be considered include:</p> <ul style="list-style-type: none"> • The nature of the business, 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. • Size. • Number of employees.
<p>North America</p>	
<p>Canada</p>	<p>CPA professional conduct: Auditor independence — Harmonized Rule of Professional Conduct (Rule 204) – Independence</p> <p>(The term “public interest entity” is not used in the Canadian Codes; instead, “reporting issuer or listed entity” is used)</p> <p>Definitions</p> <p>“listed entity” means an entity whose shares, debt or other securities are quoted on, listed on or marketed through a recognized stock exchange or other equivalent body, whether within or outside of Canada, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a listed entity by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a listed entity thenceforward</p>

	<p>unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.</p> <p>In the case of a period in which an entity makes a public offering:</p> <ul style="list-style-type: none"> (a) The term “market capitalization” shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured using the closing price on the day of the public offering; and (b) The term “total assets” shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document. <p>“reporting issuer” means an entity that is defined as a reporting issuer under the applicable Canadian provincial or territorial securities legislation, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a reporting issuer thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.</p> <p>In the case of a period in which an entity makes a public offering:</p> <ul style="list-style-type: none"> (a) the term “market capitalization” shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured using the closing price on the day of the public offering; and (b) the term “total assets” shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document. <p>In the case of a reporting issuer that does not have listed securities or publicly traded debt, the definition of reporting issuer shall be read without reference to market capitalization</p>
USA	<p>(to be updated with the relevant SEC and PCAOB Rules)</p> <p>PCAOB Rules Section 3, Subpart 1 “Independence”, Rules 3520-3526</p>

	<p>AICPA Code of Professional Conduct</p> <p>41 Public interest entities. All of the following:</p> <p>a. All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body.</p> <p>b. Any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).</p> <p>Members may wish to consider whether additional entities should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered may include</p> <ul style="list-style-type: none">• the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders;• size; and• number of employees. <p>Members should refer to the independence regulations of applicable authoritative regulatory bodies when a member performs attest services and is required to be independent of the client under such regulations.</p> <p>[Prior reference: paragraph .20 of ET section 100-1]</p>
South America	(To be updated in Q2)

Middle East and Africa	
South Africa	<p>IRBA Code of Professional Conduct for Registered Auditors</p> <p>Definitions</p> <p>Public Interest Entity</p> <p>(c) A listed entity; or</p> <p>(d) An entity:</p> <p style="padding-left: 40px;">(iii) Defined by regulation or legislation as a public interest entity; or</p> <p style="padding-left: 40px;">(iv) 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; <u>or</u></p> <p>(e) <u>Other entities as set out in paragraphs R400.8a SA and R400.8b SA</u></p> <p>Public Interest Entities</p> <p>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 public interest entities.</p> <p><i>(Part of 400.8 has been elevated into a South African requirement)</i></p> <p><u>R400.8a SA</u> Firms <i>shall</i> 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. Factors to be considered include:</p> <ul style="list-style-type: none"> • The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks, insurance companies, and pension funds. • <u>Number of equity or debt holders.</u> • Size.

	<ul style="list-style-type: none">• Number of employees. <p><u>R400.8b SA</u> <i>A registered auditor shall regard the following entities as generally satisfying the conditions in paragraph R400.8a SA as having a large number and wide range of stakeholders, and thus are likely to be considered as Public Interest Entities:</i></p> <ul style="list-style-type: none">• <u>Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country.</u>• <u>Banks as defined in the Banks Act, 1990 (Act No. 94 of 1990), and Mutual Banks as defined in the Mutual Banks Act 1993, (Act No. 124 of 1993).</u>• <u>Market infrastructures as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012).</u>• <u>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.</u>• <u>Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), that hold assets in excess of R15 billion.</u>• <u>Funds as defined in the Pension Funds Act, 1956 (Act No. 24 of 1956), that hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.</u>• <u>Pension Fund Administrators (in terms of Section 13B of the Pension Funds Act, 1956 (Act No. 24 of 1956)) with total assets under administration in excess of R20 billion.</u>• <u>Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002), with assets under management in excess of R50 billion.</u>• <u>Medical Schemes as defined in the Medical Schemes Act, 1998 (Act No. 131 of 1998), that are open to the public (commonly referred to as “open medical schemes”) or are restricted schemes with a large number of members.</u>• <u>Authorised users of an exchange as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012), who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.</u>
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	<ul style="list-style-type: none">• <u>Other issuers of debt and equity instruments to the public.</u> <p><u>R400.8c SA</u> <u>If a firm considers an audit client that falls under one or more of the above categories not to be a public interest entity, the firm shall document its reasoning and its consideration of paragraph R400.8b SA.</u></p>