



3 May 2021

International Ethics Standards Board for Accountants®
529 Fifth Avenue
New York
NY 10017

Dear Sir/Madam

CFO FORUM SUBMISSION ON THE PROPOSED REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE CODE

In response to your request for comments on Exposure Draft on the Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, attached is the comment letter prepared by the CFO Forum, an interest group of the South African Institute of Chartered Accountants (SAICA). We have included our responses to the specific questions raised in the Consultation Paper in Appendix A.

This comment letter results from deliberations of the members of the CFO Forum, a discussion group formed and attended by the Chief Financial Officers of major Johannesburg Stock Exchange (JSE) listed and larger state-owned companies – with members representing a significant part of South African business. The CFO Forum has broad sectoral coverage ranging from financial services, mining, retail, media, telecoms, medical services and paper & packaging. Its aim is to contribute positively to the development of South Africa's policy and practice on financial matters that affect business – such as government regulatory issues and initiatives, taxation, financial reporting, corporate law and governance, capital market regulation and stakeholder communications for enterprises.

We thank you for the opportunity to provide comments on this discussion paper.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

Jason Quinn
Chair of the CFO Forum



APPENDIX A: SPECIFIC COMMENTS

QUESTIONS TO STAKEHOLDERS

Objective

1. Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code?

Yes.

2. Do you agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity? Accepting that this is a non-exhaustive list, are there key factors which you believe should be added?

Yes. None to add.

Approach to Revising the PIE Definition

3. Do you support the broad approach adopted by the IESBA in developing its proposals for the PIE definition, including:
 - Replacing the extant PIE definition with a list of high-level categories of PIEs? Yes
 - Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process? Yes, necessary to defer to local bodies.

PIE Definition

4. Do you support the proposals for the new term “publicly traded entity” as set out in subparagraph R400.14(a) and the Glossary, replacing the term “listed entity”? Please provide explanatory comments on the definition and its description in this ED.

Yes.

5. Do you agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f)?

Yes.

6. Please provide your views on whether, bearing in mind the overarching objective, entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO) should be captured as a further PIE category in the IESBA Code. Please provide your views on how these could be defined for the purposes of the Code recognizing that local bodies would be expected to further refine the definition as appropriate.



Leave to local bodies to assess relevant categories of unconventional funding for inclusion rather than incorporated into the IESBA code.

Role of Local Bodies

7. Do you support proposed paragraph 400.15 A1 which explains the high-level nature of the list of PIE categories and the role of the relevant local bodies?

Yes.

8. Please provide any feedback to the IESBA's proposed outreach and education support to relevant local bodies. In particular, what content and perspectives do you believe would be helpful from outreach and education perspectives?

Allow for local bodies to present their intended application of proposed criteria in their jurisdictions, for information sharing and discussion with other local bodies.

Present some case studies reflecting on step-by-step application of the criteria, for discussion with the audiences (and the consequences / outcomes of choosing differently).

Role of Firms

9. Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs? Yes.
10. Please provide any comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1.

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

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

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



Reports that Include a Restriction on Use and Distribution

400.109 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

Assurance Engagements other than Audit and Review Engagements

400.110 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

Requirements and Application Material

General

R400.121 A firm performing an audit engagement shall be independent.

R400.132 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Public Interest Entities

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

(a) A publicly traded entity;

(b) An entity one of whose main functions is to take deposits from the public;

(c) An entity one of whose main functions is to provide insurance to the public;

(d) An entity whose function is to provide post-employment benefits;

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

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

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

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

400.15 A1 The categories set out in paragraph R400.14 are broadly defined and no recognition is given to any size or other criteria that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to refine these categories by, for example, making reference to local law and regulation governing certain types of entities. Similarly, the Code also



provides for such bodies to exclude entities that would otherwise be regarded as falling within one of the broad categories in paragraph R400.14 for reasons relating to, for example, size or particular organizational structure.

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

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

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

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

[Paragraphs 400.1318 to 400.19 are intentionally left blank]

R400.20 As defined, an audit client that is a listed entity publicly traded entity (including any modifications made by law or regulation) includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Transparency Requirement for Firms

11. Do you support the proposal for firms to disclose if they treated an audit client as a PIE?

Yes.



12. Please share any views on possible mechanisms (including whether the auditor's report is an appropriate mechanism) to achieve such disclosure, including the advantages and disadvantages of each. Also see question 15(c) below.

Other Matters

13. For the purposes of this project, do you support the IESBA's conclusions not to:
- (a) Review extant paragraph R400.20 with respect to extending the definition of "audit client" for listed entities to all PIEs and to review the issue through a separate future workstream?

Yes

- (b) Propose any amendments to Part 4B of the Code?

Yes

14. Do you support the proposed effective date of December 15, 2024? Yes

Matters for IAASB consideration

15. To assist the IAASB in its deliberations, please provide your views on the following:
- (a) Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.

Yes

- (b) The proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to other categories of PIEs.

Yes

- (c) Considering IESBA's proposals relating to transparency as addressed by questions 11 and 12 above, and the further work to be undertaken as part of the IAASB's Auditor Reporting PIR, do you believe it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE? If so, how might this be approached in the auditor's report?

Yes

Other Comments



- Page 7 – Overarching objectives – using the term “additional independence requirements” will almost certainly result in a different level of independence approach by audit firms which is in contrast to para 17. This will likely result in a practical approach of an additional list of requirements to be met. It would be better to address this as follows:
 - Rephrase “additional independence requirements” to two-way independence requirement for PIE. A more specified approach of ensuring that the entity/prescribed officers (ie not just the auditor) performs, declares and signs independence will ensure a more wholistic/enhanced approach to the current set of requirements. Further it could also be considered that a Malus and Claw back provisions in relation to executive/prescribed officers for PIE entities becomes mandatory to ensure that any breach of the two-way independence requirement by the entity can be recovered directly from the prescribed officers.

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

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



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

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

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

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

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

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

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

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



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

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

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

Publicly traded entity An entity that issues financial instruments that are transferrable and publicly traded.

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

These terms are described in paragraph R120.5 A4.