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Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (GTIL) appreciates the opportunity to comment on the exposure draft, Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, approved for publication by the International Ethics Standards Board for Accountants (the IESBA or the Board).

GTIL is an umbrella organisation that does not provide professional services to clients. Professional services are delivered by GTIL member firms around the world. Representative GTIL member firms have contributed to and collaborated on this comment letter with the public interest as their overriding focus.

Request for Specific Comment

Overarching 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?

GTIL supports the overarching objective set out in proposed paragraph 400.8 and as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code.

However, we do foresee challenges as jurisdictions start to refine their PIE definitions for purposes of identifying which entities should be subject to more restrictive independence requirements. As local regulators and standard-setting bodies start to refine the list based on local requirements, circumstances, and views, we believe differing definitions of PIEs in various jurisdictions, can lead to the inconsistent application of the independence standards. Jurisdictions could have different views regarding entities in the same group, especially large international groups, potentially resulting in an increase in breaches.

We would encourage IESBA to provide regulators and standards setters with further guidance on determining the level of public interest in the financial condition of entities when refining the definition of PIE as part of their adoption and implementation process, to promote consistency and convergence in the various jurisdictions.

Paragraph 400.9 states the purpose of more stringent requirements for PIE audit clients is to enhance confidence in their financial statements by enhancing confidence in the audit of those financial statements. However, the current proposals do not provide requirements that would enhance the quality of audits for PIEs, similar to requirements in the ISAs for listed entity audit clients. The proposals prompt additional independence rules for the auditors. Although there is value to enhancing independence rules, claiming that they would, by themselves, enhance confidence in the audit of the PIE's financial statements is unsubstantiated.

We believe the proposals in paragraph 400.9 only increase the expectation gap, more specifically the knowledge gap component, as users of the financial statements may interpret that an audit performed for a PIE is more robust and provides more assurance than an audit of a non-PIE, providing a false sense of confidence in the audit.

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?

GTIL agrees with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity.

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?

GTIL does not support replacing the extant PIE definition with a list of high-level categories of PIEs. While we understand the direction of setting a broad, global definition and suggesting regulators and national standard setters refine as necessary, we are concerned that this approach will create more inconsistency in application and result in unintended consequences. This is especially of concern in jurisdictions where they lack the resources and knowledge to make the necessary assessments and refinements to the definition of a PIE or in jurisdictions where they adopt and implement the IESBA provisions with little to any refinements.

In these jurisdictions, the PIE definition could remain broadly applicable and lead to inconsistent and overapplication of the rules, scoping entities into the PIE requirements that do not have significant public interest.

Therefore, we believe that the PIE definition being proposed by IESBA should not be as broadly defined and should be a baseline with certain qualifiers, to which regulators and national standard setters can adhere to and refine only by being allowed to add to, further define, or provide additional guidance as to the nature, size, structure, and threshold of entities that should be categorized as PIEs.

- Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?

GTIL supports refinement of the IESBA definition by relevant local bodies and standards setters as part of the adoption and implementation process. Refinement of the definition will help reduce inconsistencies and overapplication of the requirements, such as excluding entities whose financial condition is not significant to the public interest.

However as stated above, we believe that the PIE definition being proposed by IESBA should not be as broadly defined (as currently proposed). The proposed definition should be a baseline to which regulators and national standard setters can adhere to and refine only by being allowed to add to, further define, or provide additional guidance as to the nature, size, structure, and threshold of entities that should be categorized as PIEs

We are further concerned with the broad-based definition because the process of refining the IESBA's revised definition of PIE will require significant effort and time from the relevant local bodies and standard setters. Jurisdictions that adopt and implement the provisions with little to any refinements to the definition, will require the jurisdiction at a minimum, to include those categories set out in IESBA's final proposal. This could result in entities being categorized as a PIE whose financial condition may not have significant public interest, resulting in additional requirements and cost that may actually be contrary to the public interest.

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.

GTIL supports 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". We believe the proposed definition:

- appropriately scopes in entities trading on second-tier markets, eliminating confusion between "regulated" versus "recognized" stock exchange,
 - uses the term "financial instruments" which captures the various assets that can be traded beyond shares, stock, or debt, and
 - uses the term "publicly traded" instead of "publicly listed", which addresses whether a financial instrument is freely transferable, as some financial instruments are only listed and are not intended to be traded. Certain jurisdictions would not consider an entity as listed if their shares, stock, or debt were not freely transferable or could not be traded freely by the public or the entity, creating a disparity between the requirements in the Code and the requirements in the local jurisdiction.
5. Do you agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f)?

GTIL does not agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f). As stated above, we believe the PIE categories are too broadly defined and the proposed definition should be a baseline with certain qualifiers, to which regulators and national standard setters can adhere to and refine only by being allowed to add to, further define, or provide additional guidance as to the nature, size, structure, and threshold of entities that should be categorized as PIEs.

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.

GTIL does not believe entities raising funds through an initial coin offering should be captured as a further PIE category in the IESBA Code. These types of capital raising tend to be highly unregulated. Therefore, we believe it should be left to the determination of regulators and standard setters in jurisdictions as to whether or not this form of capital raising would subject to entity to being categorized as a PIE in that jurisdiction.

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?

GTIL does not support the high-level nature of the list of PIE for reasons stated above. We do support the role of relevant local bodies to refine the list, however by only by being allowed to add to, further define, or provide additional guidance as to the nature, size, structure, and threshold of entities that should be categorized as PIEs.

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?

As part of IESBA's outreach and education program, GTIL agrees IESBA should issue non-authoritative guidance material that provides additional explanation and information as a supplement to the explanatory memorandum in this ED.

We would encourage the Board to provide regulators and standards setters with guidance and application material, including examples for certain PIE categories, on how to determine the level of public interest in the financial condition of entities when refining the definition of PIE.

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?

GTIL does not support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as a PIE. If a regulator or standard setter has not categorized an entity as a PIE, we do not believe it is the auditing firm's responsibility to decide to treat the entity as a PIE. If an entity wants to be treated as a PIE, such for purposes of going through a future IPO, that should be the decision of the entity's management and those charged with governance.

Furthermore, we believe the inconsistent application of the requirements is not in the best interest of the audit client. Firms applying the PIE requirements to an entity that is not a PIE, could drive-up and impact the audit fee. Furthermore, this could lead to opinion shopping for entities that do not want to be treated as PIEs.

10. Please provide any comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1.

GTIL does not have any additional comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1, because we do not support the proposal as discussed in (9) above.

Transparency Requirement for Firms

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

GTIL does not support the proposal for firms to disclose if they treated an audit client as a PIE. Please see our response to 12 below for further commentary.

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.

If an entity's management or those charged with governance have decided to treat the entity as a PIE, the entity's management should disclose this in the footnotes to the financial statements (i.e., footnote 1. Basis of Presentation).

Other Matters

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

GTIL supports 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 and (b) not to propose any amendments to Part 4B of the Code.

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

GTIL supports the proposed effective date of December 15, 2024.

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.

GTIL agrees that it is important for the IAASB and IESBA to achieve consistency and agree with the objectives set out in proposed paragraphs 400.8. The ISAs currently have requirements that apply to audits of financial statements of listed entities only. Some jurisdictions have already gone further and have requirements that are aimed at public interest entities, for example the UK has specific requirements for public interest entities (as defined by the EU and now incorporated into UK legislation) as ISA 'add-ins'.

The issue lies in the proposed definition of the PIE itself and its proposed application. For example, in previous Board discussions, we had highlighted that it was unclear how the term 'main function' should be interpreted and applied in practice (R400.14 (b) & (c)). We further expressed concern over the requirement that allows the firm to make the determination of whether an entity should be treated as a public interest entity (R400.16). We expressed the view that allowing firms to make such a determination was not in the public interest as it would likely result in an inconsistent treatment of entities from one firm to another and opinion shopping by entities wishing to be classified in a specific manner. We believe that if any additional determination is to be allowed, that it should be done at the level of the national regulator or national member body rather than at the individual firm level.

In relation to the ISAs and ISQMs (the International Standards), the determination of which requirements would pertain to a newly defined public interest entity only would need to be a separate project, which is subject to IAASBs due process and include an analysis of requirements that form the body of the

International Standards on a case-by-case basis as to whether the requirement, or some part thereof, should be directed to a public interest entity. The requirements for consideration should be those that are currently directed at listed entities, although consideration could also be given to additional requirements, if any, directed at public interest entities in national adaptations of the International Standards.

(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.

GTIL agrees that this should be a case-by-case determination on whether requirements specific to listed entities should be revised to apply more broadly to entities determined to be public interest entities

(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?

GTIL does not support the proposal to include that the entity was treated as a public interest entity in the auditor's report. We are not aware of any investor need for this additional disclosure and it is a boilerplate disclosure that adds nothing to the auditor's report and has the potential to cause confusion to users of the report. In some jurisdictions, the form and content of the auditor's report varies based on the type of entity, which would render additional disclosure irrelevant. We are of the view that any changes to the auditor's report that are not required by local law and regulation, should be driven by an analysis of, and response to, the response to the recent IAASB Auditor's Report Implementation Review.

GTIL would like to thank the IESBA for this opportunity to comment. As always, we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek, Director - Global Independence at gina.maldonado-rodek@gti.gt.com.

Sincerely,



Trent Gazzaway – Global Leader - Quality

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