



SENT VIA E-MAIL: KenSiong@ethicsboard.org

May 7, 2021

International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

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

Dear Members of the International Ethics Standards Board for Accountants:

The AICPA Professional Ethics Executive Committee (PEEC) respectfully submits the following comments to the IESBA on its *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (PIE proposal).

The AICPA is the world's largest member association representing the CPA profession, with 431,000+ members in 130 countries and territories, representing many areas of practice, including business and industry, public practice, government, education, and consulting.

The AICPA sets ethical standards for its members and U.S. auditing standards for private companies, not-for-profit entities, and federal, state, and local governments; provides educational materials to its members; develops and grades the Uniform CPA Examination; monitors and enforces compliance with the profession's technical and ethical standards; offers specialized credentials; builds the pipeline of future talent; and drives professional competency development to advance the vitality, relevance, and quality of the profession.

Through PEEC, the AICPA devotes significant resources to ethics activities, including evaluating existing standards, proposing new standards, and interpreting and enforcing those standards. The PEEC's [strategy and work plan](#) outlines the committee's projects through 2023.

PEEC has the following comments regarding the PIE proposal.

### Overall approach

PEEC does not support the approach used by the IESBA to include a broad PIE definition as a *requirement* in the code because PEEC believes the proposal will result in significant unintended consequences including complexity, confusion, and inconsistent practice.

Because it is not feasible to develop a single global definition, a more practical approach would be to provide a PIE definition, using the proposed categories as guidance or examples (as opposed to required categories), and allowing the local bodies to refine the list as appropriate in

the jurisdiction. PEEC believes this approach will allow for less complexity, confusion, and more consistent practices.

Treating the categories as guidance or examples would help address the impact and potential implications on

- jurisdictions that are already highly regulated,
- smaller entities and firms,
- jurisdictions where there are multiple local bodies,
- firms practicing in jurisdictions where local bodies do not, or cannot, refine the categories, and
- the time and resources necessary for any refinements to be codified and implemented.

### *Highly regulated jurisdictions*

For highly regulated jurisdictions, where regulators have established customized independence regulations for a category of PIE, requiring auditors to comply with alternative independence standards is counterintuitive and has the potential to result in confusion and inconsistent treatment.

When a regulator of one of the PIE categories has established customized independence standards, that regulator is likely deeply familiar with the industry and its stakeholders and has taken that into consideration when customizing its regulations.

In the United States, the securities<sup>1</sup>, insurance, and banking regulators and the regulators of post-employment benefit plans have developed robust independence standards and as such, we currently have consistency in practice which will be degraded by this new approach.

Highly regulated jurisdictions may also have additional initiatives (for example, inspections) that are designed to enhance confidence in audits and therefore, the financial statements. When appropriate, local bodies should be permitted to factor these initiatives into determining whether enhanced confidence in independence can be achieved through these initiatives or if additional independence requirements are needed.

---

<sup>1</sup> For example, in the United States, we consider listed entities to be the equivalent of *issuers*, which are regulated by the Securities and Exchange Commission and outside the jurisdiction of the AICPA. The proposed change to publicly traded entities would encompass both listed entities and *publicly traded entities* that are not issuers. However, our national legislature and regulator have determined that the rules applied to listed entities are different than the rules applied to entities that are not listed. It would not be appropriate for the AICPA to second-guess that determination by imposing additional requirements on the audits of publicly traded entities that are not listed in our jurisdiction.

This is especially important when the IESBA requirements to enhance confidence in independence are not supported by empirical data and go beyond a regulator's independence requirements.

### *Small entities and firms*

Small business is the cornerstone of the global economy and limitations not grounded by empirical evidence, will affect

- a small firm's ability to compete in the PIE marketplace.
- the cost small business clients must pay for services. Increased costs could result because the small business client must secure nonaudit services from an additional provider or because the small business client will have to pay higher audit fees due to the enhanced safeguards being implemented.

### *Multiple local bodies*

For jurisdictions that have multiple local bodies, including a broad PIE definition as a *requirement* in the code exponentially increases the complexity and confusion and chances for inconsistent rules and practice to emerge.

In the United States, not only is the AICPA a local body but various federal and state regulators (for example, state insurance regulators and boards of accountancy) are also local bodies. Some of these have already established independence standards to enhance confidence in audits.

### *Inaction by local bodies*

It is unclear whether firms that are subject to the IESBA requirements and practice in jurisdictions where the local body does not or cannot take action to refine the definition will have to apply the definition without refinement. Doing so would seem contrary to the objective outlined in the explanatory memorandum.

### *Refinement*

If the current approach is not revised to consider the PIE categories as guidance or examples, PEEC believes the proposal should clarify that local bodies may eliminate or replace a category during their refinement process to ensure the categories included in their definition of PIE clearly articulate the entities that should be covered.

For example, if a local body believes that the category "publicly traded entity" would be more clearly understood if it was replaced by three other categories, the proposal should allow for the local body to eliminate the category "publicly traded entity" and replace it with the categories that it believes will minimize complexity and confusion and drive consistent practice.

## Disclosure requirement

PEEC does not support the requirement for a firm to publicly disclose whether an audit client has been treated as a PIE and recommends the requirement be removed from the standard.

PEEC has the following concerns with this requirement:

- Disclosure by itself, without educating stakeholders, will not achieve the desired goal of enhancing confidence in the entity's financial statements or in independence. Stakeholders are unlikely to understand what treating an entity as a PIE entails or means, and therefore, this requirement does not further the objective of the proposal.
- A standard is effective only if it can be operationalized. Because there is no mechanism in place to include the disclosure somewhere specific, stakeholders will not know where to look for this information, assuming they are informed enough to know that they should be looking for such disclosure.
- Requiring the firm to disclose the name of an audit client, anywhere aside from its report, raises confidentiality concerns. If the local body's audit standards do not permit disclosure that an entity was treated as a PIE in the audit report and the audit client chooses not to disclose that it was treated as a PIE, the firm would be forced to disclose this information somewhere else.

In addition to the concern noted above related to stakeholders being informed enough to know where to look, disclosing the name of an audit client and that it was treated as a PIE on a platform that would be publicly available, could breach confidentiality when it is not public knowledge that the professional accountant is the auditor of the entity.

- Given the variety of methods that firms and audit clients could use to disclose PIE status, the goal of improving consistent application would not be achieved.

## Firm assessment

PEEC does not support the requirement that firms determine whether to treat additional entities or certain categories of entities as PIEs. PEEC recommends the requirement be removed from the standard because it will lead to inconsistent application and will counteract the uniformity created by the refinement process undergone by local bodies.

Since local bodies will need to refine the categories of PIEs, firms should be permitted to rely on the extensive work performed by that local body. This does not mean that firms or clients can't choose to treat an entity as a PIE, but rather, firms should not be *required* to evaluate every audit client that is not already defined as a PIE and should be able to rely on the conclusions reached by their local bodies.

### Entity whose function is to provide post-employment benefits

PEEC does not support including “An entity whose function is to provide post-employment benefits” as a category of PIE. This category is too broad in that it does not account for the significant variation in legal structure, governance, regulatory oversight and type of arrangements covered (that is, limited to certain pension arrangements as opposed to other post-employment benefits like health insurance). Additionally, as drafted, it could pull in entities where interest in the financial statements is limited to participants as opposed to the broader public interest.

### Effective date

PEEC does not support the December 15, 2024 effective date and does not believe this timing takes into account the strain<sup>2</sup> on resources experienced by local bodies due to the significant other standards issued by the IESBA and the pandemic as well as the timing needed for local bodies to

- refine the categories,
- go through their required due process,
- perform the necessary educational efforts to drive consistent practice and minimize unintended breaches,
- provide their members/stakeholders time to implement the new requirements, and
- converge with the necessary IAASB’s standards.

So that consistent practice is achieved, we recommend the effective date be tied to the local bodies’ effective date for the refined PIE definition or include a transition provision so that firms (subject to IESBA requirements) will *not* be required to implement the broad unrefined standard while their local body goes through their required due process to refine and implement a revised PIE standard.

### Professional standard setting bodies

Because not all professional standard setting bodies issue laws or regulations, references to laws and regulations throughout the proposal should be replaced with a general term like “professional standards” or expanded to include professional standards.

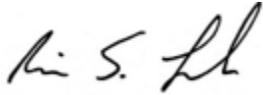
In addition, the phrase “regulatory supervision” as used in paragraph 400.8 and the term “legislation” as used in paragraph R400.15 give rise to similar concern and should be addressed similarly.

---

<sup>2</sup> See PEEC’s [strategy and work plan](#) through 2023.

We appreciate this opportunity to comment. We would be pleased to discuss in further detail our comments and any other matters with respect to the *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian S. Lynch". The signature is written in a cursive style with a large initial "B" and "L".

Brian S. Lynch, Chair  
Professional Ethics Executive Committee

cc: Andrew Mintzer, CPA, IESBA Member  
Toni Lee-Andrews, CPA, PFS, CGMA, Director – Professional Ethics