

## Request for Specific Comments

### *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?

#### **Comments**

- 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?

#### **Comments**

- We agree with the factors noted but suggest adding more guidance around the “nature” of stakeholders in the penultimate bullet with a particular emphasis on providing clear thresholds to allow auditors to appropriately conclude whether a group of stakeholders should be considered “public”. This amendment, in conjunction with our recommendation under questions 3 and 4 to define ‘public’, will reduce the potential inconsistency in application and more importantly improve classification of entities as Public Interest Entities.

For example, in the context of the R400.14 categories, certain types of entities whose function is to act as a collective investment vehicle will offer products and services that are only accessible to high net worth individuals/institutional investors where there is a high minimum initial investment (e.g. US\$100,000 or higher) and/or are only able to be invested in by “qualified investors” (such as accredited investors as defined in SEC in Rule 501 of Regulation D, see <https://www.investopedia.com/terms/a/accreditedinvestor.asp>). We do not believe that such entities where there is a high minimum initial investment/deposit requirement and/or are only available to high net worth individuals should generally be treated as Public Interest Entities, unless, they are systemically important or have been so designated by local law or regulation. However, ambiguity around thresholds for determining the nature of shareholders or the definition of “public” could result in inconsistency in application of the definition.

- 400.8 - we recommend updating the criteria, bullet 2, as follows:
  - “Whether the entity is subject to regulatory supervision designed to provide [ADD: **public**] confidence that the entity will meet its financial obligations.”

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

#### **Comments**

- Yes, subject to providing a definition of “**public**” and/or further guidance on what is intended by the “nature” of stakeholders as per comment in 2 above. Alternatively, further guidance should be provided on characteristics of entities that would not be considered public interest

(although that approach could potentially result in entities being considered public interest if the guidance is not comprehensive). The lack of a proper definition will be problematic in the application of the revisions given the specificity provided by R400.14 and the Glossary definition of Public Interest Entity.

A suitable definition for “public” could be “all the citizens of the state/country but which would not include groups of stakeholders whose access to the entity was subject to financial, qualitative and/or legal or regulatory restrictions specifically intended to limit such access from being available to all or the majority of citizens.

- Yes, subject to clarification that “refinement” means Local Bodies are able to **add as well as exclude** entities as considered appropriate by 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.

#### Comments

- Yes
- In the Glossary, suggest the definition of “publicly traded entity” should include additional detailed guidance on factors that should be considered when assessing if an entity would meet the definition, similar to the items noted on pages 11 and 12 of the ED.
- However, we would also challenge the assertion on page 14 of the ED which states: *“If the financial instruments are not redeemable by the entity (for example in the case of investment trusts or closed end mutual funds), then the entities are likely to be included in the proposed new term “publicly traded entity” as that would be the only means for the public holders to readily “realize” their investment.”* Where restrictions are imposed by the entity on the types of investors who can hold interests in the entity, for example, where such interests can only be transferred to other investors who are “qualified investors” (see 2 above), then we do not believe that such entities should be classified as a “publicly traded entity”.

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

#### Comments

- Yes, subject to clarification of the meaning “public” and/or the “nature of stakeholders” as discussed in the response to question 2 above, especially with respect to subparagraph 400.14 (e).

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.

#### Comments

- The code should address companies that fall within the definition of PIE, rather than a focus on the form of instruments used. The principles of when to apply the PIE level of auditor independence should be applicable irrespective of the form of issuance. This reemphasizes the need to define the ‘public’ so as to ensure that it appropriately addresses evolving and

emerging/non-conventional forms in the future. Local bodies should be able to define these based on the investor qualification requirements and minimum amounts of investment required to determine whether or not they are able to be held by the general public.

#### *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?

#### **Comments**

- Yes, subject to clarification that “refine” means Local Bodies are able to **add as well as exclude** entities as considered appropriate by local bodies.

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?

#### **Comments**

We believe that the outreach and education program which includes webinars and targeted stakeholder meetings will be important to ensure the appropriate understanding of the impact of the classification as a Public Interest Entity on the auditor’s obligations.

This is particularly important given the intention to have the Public Interest Entity classification made as “public disclosure”.

#### *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?

#### **Comments**

- Yes in principle on the basis that Firms could encounter situations not envisaged by the Code or the local body and therefore may need to be able to make a decision pending determinations made by local bodies or other regulators as to whether an entity should be considered public interest. We would expect this to be used in narrow circumstances, as this could lead to differences in treatment of entities between firms.

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

#### **Comments**

Yes, subject to:

- we recommend updating the criteria, bullet 1, as follows: *“Whether the entity has been specified as not being a public interest entity by law or regulation [ADD: “or by relevant local bodies”].*
- further clarification/guidance on the second factor regarding the parameters that should be considered when applying the “likely” and “near future” criteria.

*Transparency Requirement for Firms*

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

**Comments**

Yes, but only if such disclosure is intended to be made through the auditor's report on the financial statements (subject to the IAASB approval or equivalent audit standard setter [where national regulations apply]).

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.

**Comments**

- See response to 11.

*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?

**Comments**

- Yes

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

**Comments**

- Yes

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

**Comments**

- 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.

**Comments**

- 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.

**Comments**

- Yes, there is a case to apply some of the requirements (for example ISA 701) only to listed 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?

**Comments**

- We believe that, if disclosure regarding whether an entity has been treated as a PIE entity is to be made, the best place for such disclosure to be made would be in the audit report.

**Request for General Comments**

1. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- *Small and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
  - *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
  - *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
  - *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

**Comments**

- No further comments