



May 3, 2021

International Ethics Standards Board for Accountants (IESBA)  
Via electronic submission

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

Dear IESBA,

CohnReznick appreciates the opportunity to comment on the exposure draft: *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

CohnReznick is the 16th largest accounting firm in the United States of America, with its origins dating back to 1919. We support the IESBA in its overall efforts to serve the public interest by setting ethics standards, including auditor independence requirements. While our domestic and international capabilities (including through our Nexia International membership) allow us to serve a broad array of clients, we are a significant provider of services to the smaller and middle market. Our desire is that our response to the exposure draft will give you perspective into the unique impact these changes might have on small and medium size entities and their ability to attract capital.

Our responses to specific questions on which the IESBA is seeking comment are included in the attachment to this letter.

If you have any questions concerning our comments or would like to discuss any of our responses or recommendations in more detail, please feel free to contact Steven Morrison, Partner, Audit Quality Group, at +1.646.601.7740 or [steven.morrison@cohnreznick.com](mailto:steven.morrison@cohnreznick.com).

Yours truly,

A handwritten signature in black ink that reads 'CohnReznick LLP' in a cursive, professional script.

## ATTACHMENT

### **DRAFT comments on *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code.***

#### ***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?**

Yes. We support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs. We do have concerns about the explicit intent around the use of “financial condition” given the potential for diverging interpretations of the term in various jurisdictions leading to varying levels of application that may harm the public interest. To provide further context to the intent of the use of “financial condition”, we recommend the wording from paragraph 21 of the exposure draft (below) be adapted and incorporated as application guidance.

21. As highlighted in the lead-in sentence in proposed paragraph 400.8, additional requirements for the audits of PIEs are a reflection of the “significant public interest in the financial condition of these entities.” In this regard, the IESBA is proposing the more general term “financial condition” instead of narrower terms such as “financial statements,” “financial performance” or “financial position” for the following reasons:

- The term “financial statements” might place too much emphasis on the financial statements alone as opposed to the role of financial statements in enhancing confidence in the overall financial well-being of an entity.
- The terms “financial performance” and “financial position” are closely linked with two of the primary statements in the financial statements whereas the public interest is in the broader financial well-being of the entity (recognizing that the auditor’s work under the International Standards on Auditing (ISAs) extends to all the financial statements of the entity).
- The phrase “public interest in the financial statements” might be perceived as restricted to the interest of investors only.
- Paragraph 400.8 is only application material which sets up the context for the overarching objective in paragraph 400.9 and the list of PIE categories in paragraph R400.14. Therefore, it is not necessary that the term “financial condition” be a defined term or used in international financial reporting or auditing standards.

#### **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. We do agree with the proposed list of factors set out in paragraph 400.8. To avoid one factor being inappropriately weighted, particularly given concerns in individual jurisdictions, we recommend the following wording, adapted from paragraph 24 of the exposure draft, be added: “Each of these factors on its own may not amount to significant public interest in the financial condition of an entity and should not be considered in isolation.

#### ***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?**

Yes. We are supportive of the abovementioned broad approach. Given the Code’s global applicability, we believe such an approach should be the most beneficial to the public.

### ***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.**

We are generally supportive of the proposals for the new term “publicly traded entity.” However, we have concerns about the broad nature of the definitions and the potential for unintended consequences.

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

Yes. We agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14(b) to (f)

**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.**

Currently, we do not believe there should be a further PIE category in the IESBA Code. We believe the proposed framework, with transparent disclosure in the audit report, is appropriate.

### ***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. Given the global nature of the application of the IESBA Code, at this time, we support the proposed paragraph 400.15 A1.

**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?**

We agree with the IESBA’s proposed outreach and education support relevant to local bodies. In particular, we believe non-authoritative guidance material may be particularly helpful. We encourage the IESBA to appropriately allocate its time in this effort. Generally, the larger the capital markets, the more time IESBA should dedicate to addressing issues in those markets.

### ***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?**

No. We do not believe it is appropriate to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. Absent clear regulatory requirements, we believe the responsibility lies with management or those charged with governance to determine if additional entities should be treated as PIEs. If clear disclosure is made in the auditor’s report (see our response to question 15c below), we believe market users will determine whether these additional entities should be treated as PIEs.

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

We do not agree with the proposed requirement in paragraph 400.16 to determine whether to treat additional entities, or certain categories of entities, as public interest entities. While this is similar to extant requirements, we believe evolving markets and a new focus on PIEs created by the proposed standard put an undue burden on firms and potentially harm the public interest. Some firms may treat an entity as a PIE simply because the entity was treated as such previously, regardless if the criteria for a PIE are clearly met, or just out of being overly conservative. Such an exercise may cause an entity to allocate additional resources to the audit exercise needlessly, thus potentially harming investors. We believe with transparent

disclosure in the audit report that the market will decide which entities should and should not be treated at PIEs.

### ***Transparency Requirement for Firms***

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

Yes, but with concerns. Overall, we do support the proposal for firms to disclose if they treated an audit client as a PIE. Such is consistent with recent changes to both ISA 700 and AU-C 700 requiring auditors to include a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. Indicating if the auditor treated an audit client as a PIE is consistent with already existing requirements and also provides appropriate context to users.

However, we have concerns if the IESBA finalizes this proposal and allows for the auditor to determine if the entity should be treated as a PIE. In certain litigious jurisdictions, such as the United States, firms may be subject to extensive legal liability through "privity" or "privity of contract" – which may give a non-client a direct right to sue firms for services provided to the audited entity. By having the firm able to determine if an entity should be treated as a public interest entity may indicate a firm is in privity with a non-client user, thus giving that non-client user the right to sue the firm, even though the non-client user is not the client of the firm.

#### **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.**

Please see our response to 15(c) below. We encourage the disclosure of whether an entity is treated as a PIE to be in the auditor's report. While such disclosure does add to the length of the audit report, such additional length is minor and may be decision-useful to a number of users.

### ***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?**

We agree with the IESBA's conclusions to review the issue through a separate future workstream. We encourage the IESBA to consider recent SEC independence rule changes in late 2020.

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

We agree with the IESBA's conclusions not to propose any amendments to Part 4B of the Code but encourage IESBA to remain vigilant for unforeseen matters that may arise and emerging issues.

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

Yes. We agree with the proposed effective date and believe it is operational.

### ***Matters for IAASB consideration***

#### **15. To assist the IAASB in its deliberations, please provide your views on the following:**

- c) 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.**

We 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. We do recommend that if the ISAs and ISQMs establish differential requirements for certain entities that such differential requirements be separate paragraphs in the appropriate section with an appropriate header calling attention to the fact that this is a differential paragraph. We believe the differential requirements in the ISAs and ISQMs may best be applied by auditors if it is visibly clear in the standards themselves what is in fact different and that the remainder of the ISAs and ISQMs, that is, the “base package,” are kept identical for PIEs and non-PIEs.

- d) **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.**

We are supportive of the case-by-case approach. We believe a case-by-case approach allows for appropriate deliberation and helps avoid unintended consequences.

- e) **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?**

We believe it is appropriate to disclose in the audit report and believe such would be in the public interest and help the market determine when and when not to require an entity to be treated as a PIE. We have drafted proposed updates to requirements and illustrative reports below:

Requirements:

**Basis for Opinion**

28. The auditor's report shall include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (Ref: Para. A27)

(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code); and if **the auditor was engaged to treat the Company as a Public Interest Entity, the auditor should make an explicit statement as to such** (Ref: Para. A29–A34).

Illustrative report wording:

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. **In our consideration of the IESBA Code, we were engaged to treat the Company as a Public Interest Entity (PIE).** We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We also considered whether listing the determination of whether the entity was treated as a PIE as an explicit management responsibility to make the determination with a corresponding auditor responsibility to conduct the audit accordingly. However, we believe

the discussion of PIE should be adjacent to the discussion of independence in the Basis for Opinion. We also believe that having two additional mentions related to independence, in management's and auditor's responsibilities, were potentially excessive and contributed to an already-long audit report.

We already have significant concerns about the discussion of going concern in the management's and auditor's responsibilities where there is not a material uncertainty (substantial doubt).