

April 15, 2021

The Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 5th Avenue
6th Floor
New York 10017
United States of America

Via Online Submission

Dear Mr Ken Siong

COMMENTS ON IESBA EXPOSURE DRAFT '*PROPOSED REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE CODE*'

The Malaysian Institute of Certified Public Accountants ("MICPA") appreciates the opportunity to comment on the IESBA Exposure Draft '*Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*'. We also applaud the effort of the IESBA to enhance the Code.

In this regard, we are pleased to attach MICPA's comments as set out in Appendix I for your consideration.

We trust our comments and accompanying recommendations to be of value and useful to the IASB, in your onward deliberation. MICPA looks forward to further strengthening such dialogues with your organisation.

Please do not hesitate to contact the undersigned or the Technical Director, Ms Chiam Pei Pei, at +603-2698 9622 should you require any clarification.

Thank you.

Yours faithfully



NOVIE TAJUDDIN
Chief Executive Officer

Our responses to the specific questions are as follows:

Overarching Objective

Question 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?

Comment:

We are supportive with the overarching objective set out in proposed paragraphs 400.8 and 400.9.

The definition of Public Interest Entities (PIEs) provides guidance to identify entities whose financial conditions are significant public interest and accordingly, the financial statements audits of these entities should be subject to more stringent and additional requirements under the Code to enhance public confidence in these financial statements.

Question 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?

Comment:

We would like to highlight the following concerns for the IESBA's consideration:

Bullet Point #5: We recommend to add on 'beneficiaries' that serves as a reminder to the users of the Code, though this is a non-exhaustive list.

Bullet Point #6: A typically larger entity, say a financial institution though likely to be important to its stakeholders but it's failure may not have a systemic impact to the market or economy. In contrast, an entity which may be smaller in size and operations but could have a systemic impact to the market or economy. In view of this, we suggest the Board to provide greater clarity in this area as to which criteria will prevail, i.e. Bullet Point #3: size of the entity or Bullet Point #6: potential systemic impact.

Approach to Revising the PIE Definition

Question 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?**

Comment:

We agree in principle with the Board's approach in developing its proposals for the definition of PIEs by replacing the extant PIE definition with a list of high-level categories of PIEs in the Code and with further refinements of the global list by the relevant local bodies.

In addition, we would like to request the Board to provide a set of robust guiding principles and non-authoritative guidance to help the local bodies in their determination and identification of PIEs in the local markets to ensure consistency in implementation and adoption.

PIE Definition

Question 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.

Comment:

The term of 'publicly traded entity' is defined as an entity that issues financial instruments that are transferable and publicly traded.

We would like to remind the Board to ensure that the definition of financial instruments in the Code is consistent with the one that is widely applied by the users of financial statements, i.e. definition of financial instruments in the International Financial Reporting Standards (IFRS) to ensure consistency in application.

We would therefore suggest that the Board to include additional guidance on the definition of financial instruments which either cross-references to the definition of financial instruments in IFRS or reproduces IFRS definition in the Code.

Question 5

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

Comment:

We generally agree with the proposals set out in subparagraphs R.400.14 (b) to (f).

For subparagraph R.400.14 (d), we would like to clarify as to whether the definition is supposed to cover only entities whose 'primary business or function' is providing post-employment benefits. If yes, we suggest to indicate clearly as the current definition may be too wide and may scope in unlisted entities which may have small retirement or post-employment benefits plans for their employees.

For subparagraph R.400.14 (e), we suggest the Board to further define financial instruments or provide guidance as to whether cryptocurrencies should be categorised as financial instruments, as they are both tradeable and redeemable instruments.

We would highlight that in Malaysia, there are a number of sovereign-funded and government-linked corporations (GLC) which are not listed but are sizeable corporations whose financial conditions are of significant interest to the public. We suggest the Board to provide a set of robust guiding principles and non-authoritative guidance to guide the local bodies in their determination and scoping of PIEs which should include the above-mentioned sovereign-funded and GLC and drive consistency in the application of subparagraph R.400.14 (f).

Question 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.

Comment:

We recommend that such entities be categorised as PIEs in view that they are essentially raising capital from the public and there is therefore a public interest element.

We would also like to seek clarification as to whether entities raising funds through ICO or less conventional forms would be defined as publicly traded entity under the Code. This should be clearly defined in the Code.

Role of Local Bodies

Question 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?

Comment:

We are supportive for relevant local bodies to refine the list of PIE categories that are applicable to each local market and agree that there is no one-size fits all definition globally that could be consistently applied by all jurisdictions without modification and further refinement at a local level.

Question 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?

Comment:

We suggest to provide a non-authoritative guidance material including jurisdictional studies i.e. common and complex definitions of PIEs that have been applied in different jurisdictions. These examples are helpful for local bodies to consider and apply for their own markets.

Role of Firms**Question 9**

Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs?

Comment:

We agree with the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. There are significant implications once an entity is identified as a PIE by a firm including requiring the entity to change to a different accounting standards framework, (i.e. IFRS vs IFRS for SMEs), as well as requiring the entity to be subjected to the scrutiny of oversight regulator. A reasonable transitional period should be provided to entities that have been identified by firms as PIEs.

We also suggest the Board to provide clear and comprehensive guiding principles for firms in formulating their criteria for determination and identification of entities as a PIEs, to ensure consistent application and to minimise opportunities for entities to choose their auditors principally based on whether they would be classified as a PIE.

Question 10

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

Comment:

In our view, the proposed list of factors in paragraph 400.16.A1 is more appropriate for consideration by local bodies instead of by the firms.

Transparency Requirement for Firms**Question 11**

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

Comment:

We are supportive of the proposal for firms to disclose if they have treated an audit client as a PIE.

Question 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.

Comment:

Please see our response in Question 15(c).

Other Matters

Question 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?**

Comment:

- (a) We are supportive of the conclusion not to review the extant paragraph R400.20 and to review the issue through a future workstream.
- (b) We agree with the conclusion not to propose any amendments to Part 4B of the Code.

Question 14**Do you support the proposed effective date of December 15, 2024?****Comment:**

The proposal involves determination of PIEs by the Code, the local bodies and the firms. It is foreseeable that additional entities will be categorised as a PIE pursuant to either the new requirements in the Code or refinements prescribed by the local bodies or the firms. Such change would involve readiness of the affected entities to comply with new reporting regime. It also impacts the adequacy of audit firms' resources to cater for such change, due primarily to partners rotation and EQRP requirements.

While we have no objection to the proposed effective date, it is essential due consideration has been given to ensure new PIEs and affected audit firms having adequate time to adapt and prepare for the change. In this respect, perhaps a two-tier effective date can be considered namely:

- 1) an effective date for the Code and announcements of refinements by local bodies and by the firms, followed by
- 2) a transitional period for implementation

Matters for IAASB consideration

Question 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.**

Comment:

We are supportive of the proposal to establish the differential requirements for certain entities by both the IESBA and IAASB due to increasing public scrutiny on PIEs. Broadly, ISAs and ISQMs will need to have additional requirements relating to PIEs.

- (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.**

Comment:

Due to risk and cost implications, the differential requirements should be made at a more granular level. The differential requirements should be applied only to listed entities, as certain smaller entities with straight-forward business models (for example, certain smaller collective investment schemes which typically are low risk) which may be defined or regarded as a PIE should not need to apply the same requirements as those of listed entities. The standards therefore would need to be commensurate with the risks associated with these entities and should be different for say, multi-billion ringgits publicly traded companies and have a right balance between costs and benefits.

Question 15 (continued)

- (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?**

Comment:

We agree with the proposal to disclose an entity which has been regarded as a PIE in the auditor's report.

However, we believe that many users or readers of the financial statements may not comprehend the rationale of such disclosures in the auditors' report. We suggest the Board to provide guidance which includes explaining the rationale of such a disclosure, so that users and readers of the financial statements appreciate the implications (including adherence to higher standards and scrutiny) of an entity being classified as a PIE and instill greater confidence in those financial statements.