

3 May 2021

Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants

Via website: <https://www.ethicsboard.org/exposure-draft/submit-comment?exposure-draft=286102>

Dear Ken

Submission on Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to make a submission to the International Ethics Standards Board for Accountants (IESBA) on its Exposure Draft (ED) *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (“the ED”).

Overall, we support the IESBA’s proposals to revise the global definition of a Public Interest Entity (PIE) in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (International Code). In Australia and New Zealand, the local standard setting boards have adopted a more specific PIE definition that is broader than the extant PIE definition in the International Code, and broadly consistent with the expansions proposed in the ED.

We support the objectives set out regarding enhancing confidence in the audit of financial statements. However we are concerned the way the objectives are currently drafted could imply there are two levels of independence for the audit of PIEs and non-PIEs. In particular, proposed paragraph 400.9 could be amended to more directly express that PIEs, due to their significant public interest, are subject to heightened independence threats (actual and perceived) and therefore there is a need for additional independence requirements intending to achieve the same level of confidence in the audits of PIEs.

We appreciate the IESBA’s proposal to develop a list of high-level categories for PIEs which also broadly align with the PIE definition in the local ethical standards in Australia and New Zealand. We understand that a global set of definitions that can be consistently applied by local jurisdictions may not always be possible without further refinement at a local level. But to promote global consistency, we recommend, as these proposals are finalised, the IESBA facilitates focused education sessions/webinars in conjunction with local bodies to assist in harmonising the jurisdictional requirements where possible.

We generally support the proposed list of factors set out for determining the level of public interest in an entity and, based on feedback from members and other stakeholders, we did not identify significant concerns with the factors described in proposed paragraph 400.8. However, it is important to provide clear emphasis on balancing these factors against each other when applying the proposed requirements to avoid an entity being classified as a PIE based on one factor alone. The IESBA could also consider providing practical examples based on the most common type of PIEs to ensure these factors can be applied consistently.

In our view, the proposal to create a new general requirement for firms to disclose whether an entity has

been treated as a PIE requires further outreach and clarification. There is a risk of confusion and misunderstanding amongst investors and users which has the potential to widen the expectation gap. We suggest the IESBA considers what further targeted outreach should be carried out to understand the precise information needs of investors and other users and what, if any, additional disclosure/information is necessary to achieve the intended benefits of providing this disclosure.

We acknowledge and support the ongoing efforts between the IESBA and International Auditing and Assurance Standards Board (IAASB) to achieve global consistency in setting international standards. The proposals to replace the term “publicly traded entity” with “listed entity” is generally supported. We recommend the IESBA and the IAASB continue to work together to harmonise definitions and other requirements in the standards and, where possible, ensuring investors and other key stakeholders continue to have confidence and trust in auditing and corporate reporting.

Appendix A to this letter sets out our responses to the specific questions posed in the ED and Appendix B provides information about CA ANZ. If you have any questions about our submission, please contact Amir Ghandar, Assurance and Reporting Leader at Amir.Ghandar@charteredaccountantsanz.com.

Yours sincerely

Amir Ghandar FCA
Leader, Reporting and Assurance

Simon Grant FCA
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Appendix A

Specific matters for 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?

Subject to our comments below, we generally support the overarching objectives set out in the proposals to enhance confidence in the financial statements of a PIE through enhancing confidence in the audit of those financial statements.

- The overarching proposed objective as set out in paragraphs 400.8 and 400.9, as currently drafted, may create confusion and misinterpretation by investors and other users in implying that there are two levels of independence for PIE and non-PIE audits. Although, the IESBA comments in the supporting material that additional independence requirements applicable to PIE audits are not about having a different “level” of independence as all firms must be independent when performing an audit engagement but rather about enhancing confidence in that independence, feedback we have garnered from a range of stakeholders suggests this distinction needs to be more clear. In our view, the proposed rationale in paragraph 400.9 could be better expressed to expand that PIEs, due to their significant public interest, are subject to heightened independence threats (actual and perceived) and therefore there is a need for additional independence requirements intending to achieve the same level of confidence in the audits of PIEs.
- The IESBA is proposing a more general term, “financial condition”, that encompasses the broader financial well-being of an entity however this term is not defined in the proposals. We are concerned that there may be divergence in how “financial condition” is interpreted by investors and other stakeholders. We recommend defining and provide more guidance on what constitutes “financial condition” and clarify the wording in the proposed paragraph 400.9 ensuring users understand the broader term and its purpose.

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?

We generally support the proposed list of factors set out for determining the level of public interest in an entity and have outlined some specific comments identified through our outreach in regard to the factors described in paragraph 400.8.

- The factor *“Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations”* could be misinterpreted if considered in isolation. This factor may capture low risk entities that are generally subject to regulatory supervision for compliance purposes, but which may not currently meet the criteria to be PIEs. We recommend clarifying in the International Code, in addition to mentioning in the explanatory memorandum, that these factors should not be read in isolation.
- The factor *“The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure”* is subjective and could lead to inconsistency. What is “easily replaceable” should be further defined with examples.
- The factor *“Number and nature of stakeholders including investors, customers, creditors and employees”* was considered too broad. Further guidance would be helpful to clarify whether some

factors take precedence over others when determining whether an entity is a PIE.

For these factors to promote consistency, we suggest the IESBA provides clear emphasis on balancing these factors against each other when applying the proposed requirements and provide practical examples based on the most common types of PIEs in practice.

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?**

We support the approach adopted in developing a list of high-level categories of PIEs, which also broadly aligns with the PIE definition in the jurisdictional ethical standards in Australia and New Zealand. We believe this approach is a step towards promoting global consistency in defining PIEs. The following specific comments were identified through our outreach:

- Further refinement by national standards setters may be needed to avoid inadvertently scoping in entities that do not pertain to the public interest. As an example, the category of *“An entity whose function is to provide post-employment benefits”* could be amended to include the wording *“served to the public”* to address unintentionally capturing the privately held and individual/family retirement funds (self-managed superannuation funds) which exist in Australia but are not appropriately classified as PIEs.
- We recognise that no matter how well the definitions are framed at a global level, there will still be the need for these kinds of jurisdictional amendments and refinements. We suggest focused efforts are required by means of education and involvement by the IESBA with local standard setters and regulators in harmonising the jurisdictional requirements where possible. The risk otherwise is that local amendments could result in inconsistent PIE definitions. This could for instance mean larger group audits where the parent and subsidiary are subject to different PIE requirements.

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 generally heard supportive feedback to replace the term “listed entity” with the new term “publicly traded entity”. We further note the following comments:

- The IAASB’s auditing standards currently use the term “listed entity”. We recommend the IAASB and the IESBA work closely together ensuring the new term can be defined and applied consistently across the auditing standards and the ethical standards.
- There is a need to provide more application guidance on how to apply the new term “publicly traded” in practice i.e., whether it covers second-tier markets and other over-the-counter trading platforms, and also clarify whether the term “financial instruments” is meant to include various instruments such as shares, debt instruments, bonds etc. to avoid confusion.

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

Subject to our response to question 3 above, we agree with the remaining categories set out in proposed paragraph R400.14 (b) to (f). The categories of entities that are captured by the proposed paragraph are broadly covered in the existing PIE categories in the local ethical standards in Australia and New Zealand.

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.

We consider the proposed list of factors in paragraph 400.8 should be applied to determine whether entities using less conventional forms of capital raising could be captured as PIEs. Through our outreach we understand that it could be challenging to constantly revise the definitions to capture various forms of less conventional ways of capital raising, especially that these forms of capital raising are emerging and as technology evolves may take a different form.

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?

We generally support proposed paragraph 400.15 A1 that allows local bodies responsible for setting ethical standards to further refine the categories covered in proposed paragraph 400.14. However, as mentioned above, recommend efforts to educate and work with local jurisdictions as these proposals are developed.

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?

To ensure consistent adoption and implementation of the proposed new PIE definition, it is crucial the IESBA develops non-authoritative guidance, such as the one already issued "*Supplementary Guidance to Exposure Draft to Aid Local Body Considerations Regarding Adoption and Implementation*", arrange focused webinars and perform targeted outreach with local bodies and other key stakeholders. Since the determination and scoping of what constitutes a PIE can involve a high degree of judgement, we also recommend practical examples and case studies could be very beneficial.

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?

The current Australian ethical standard already 'requires' firms to determine whether to treat additional entities as PIEs. However, we suggest the IESBA provide detailed guidance with examples that should assist firms in their determination of PIEs and how a reasonable and informed third party would be likely to conclude that an entity should be treated as a PIE.

Additional guidance and examples are particularly important to mitigate possible disagreements where

firms and regulators may arrive at different assessments on the treatment of additional entities as PIEs. Furthermore, the determination to treat additional entities as PIEs will require detailed documentation and guidance/scenarios could be particularly helpful for SMPs determining a proportionate approach.

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

Based on our outreach, the proposed list of factors for consideration by firms when determining whether additional entities or certain categories of entities should be treated as PIEs are useful. However, as mentioned in our response to question 9, to promote consistency in the application of these proposed list of factors and to mitigate possible disagreements where firms and regulators may arrive at different assessments on the treatment of additional entities as PIEs, we suggest the IESBA should provide additional guidance and examples.

Transparency Requirement for Firms

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

As discussed below, our members and key stakeholders expressed concerns on the proposed requirements for firms to disclose when an entity has been treated as a PIE.

- The proposed disclosure may cause confusion and could be open to misinterpretation by investors and other users. The definition and scope of what constitutes a PIE is not simple and the experience to date suggests that this concept can be easily misunderstood. Our members and other stakeholders' questioned what value this disclosure will add without providing further context and the rationale behind what this disclosure is intending to achieve. This is exacerbated by the fact that there are likely to be some jurisdictional differences.
- While the disclosure may appear conceptually simple to apply, it poses a risk of increasing the expectation gap where users, without the full disclosure of all the additional independence requirements that apply to PIEs and factors considered by the firm to classify an entity as a PIE, may misinterpret the purpose of the disclosure, for instance as different 'classes' or 'levels' of audit and independence.
- There is another risk that investors and other users may misinterpret that some auditors are more independent than others. Even if firms decide to disclose other information to provide clarity on this transparency requirement, such as what factors have been applied by the firm that led to the PIE determination, what additional audit procedures were undertaken and how these different from an audit of a non-PIE, it could raise more questions and without appropriate education of investors and other users may increase the audit expectation gap.

We recommend the IESBA in collaboration with the IAASB conducts further outreach to assess the benefits and rationale behind this disclosure and what, if any, additional information may be necessary to achieve the intended benefits and the value of the disclosure from a cost-benefit perspective.

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.

As indicated above, we believe more outreach, including particularly with investors and users of audited financial statements, is important to be able to clarify the objectives of these disclosures and hence what appropriate mechanisms may be.

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?**

The feedback we have garnered in our region did not identify any reasons to review extant paragraph R400.20 at present. However, we wish to highlight that the term “audit client” can be ambiguous in practice and there are arguments as to whether this reflects the shareholders or other users and stakeholders. We suggest terms such as “audited entity” or “entity subject to audit” may help clarify this aspect.

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

We did not hear any compelling reasons against the IESBA’s conclusion that changes to Part 4B are not necessary as part of the current project. However, we would highlight the global demand for other assurance engagements, such as assurance over climate-related disclosures and integrated reporting is increasing. These engagements carry significant public interest. Therefore, the IESBA may wish to consider a project in near future to determine how PIE requirements will apply to these other assurance engagements.

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

We support the proposed effective date.

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.**
- 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.**
- 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?**

Ensuring consistency between the IESBA and IAASB’s pronouncements is particularly important to maintain and further enhance public trust in high quality audits and reporting. We refer to our response to question 1 about our feedback on clarifying the proposed overarching objectives. Our recommendation is that the IESBA consider whether proposed paragraph 400.9 should also clearly articulate the additional independence requirements that apply to the audits of PIEs.

We generally support the IESBA and the IAASB establishing differential requirements for certain entities subject to addressing the concerns highlighted above. We see a number of proposed key projects including the less complex entities project, where it is in the public interest for the two boards to coordinate closely to establish differential requirements and also ensure sufficient outreach with key

stakeholders to avoid undermining the level of trust and confidence in high quality audits and reporting.

With regards to the IESBA's proposals relating to transparency, please refer to our responses to questions 11 and 12 where we mentioned that based on our outreach, the rationale of the IESBA's proposals to create a new general requirement for firms to disclose whether an entity has been treated as a PIE needs to be clarified. Without providing further context, we believe there is a risk of confusion and misunderstanding amongst investors and users which has the potential to widen the expectation gap.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 128,000 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 13 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.