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Submitted electronically to kensiong@ethicsboard.org

Mr. K Siong
Senior Technical Director
International Ethics and Standards Board for Accountants (IESBA)
529 Fifth Avenue
New York
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Dear Mr Siong

COMMENT LETTER ON THE IESBA'S EXPOSURE DRAFT – PROPOSED REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE CODE

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa – we currently have approximately 47 000 members globally from various constituencies, including members in public practice, members in business, in the public sector, education and other members. In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the Audit Regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

SAICA adopted the IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) in November 2018 as the SAICA Code of Professional Conduct (the SAICA Code), with certain additional national requirements. The SAICA Code, with its Bylaws, provides the basis for disciplinary action against members and associates.

We thank you for the opportunity to comment on the **Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (Exposure Draft)**.

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to contact Jeanne Viljoen (jeannev@saica.co.za) or Hayley Barker Hoogwerf (hayleyb@saica.co.za).

Yours sincerely

Signed electronically

Hayley Barker Hoogwerf
Acting Senior Executive: Audit and Assurance

Signed electronically

Jeanne Viljoen
Project Director: Practices and Ethics

SAICA'S APPROACH TO RESPOND

1. SAICA recognised the pervasive effect that the PIE definition has and as such, have created awareness among our members and associates of the Exposure Draft and its contents. This included various outreach activities requesting all SAICA members and associates to provide their inputs on the Exposure Draft, either in their own capacity or through the Ethics Division of SAICA.
2. SAICA established an internal working group that studied and debated the Exposure Draft and prepared initial thoughts and inputs pertaining to the questions that have been posed.
3. A Working Group was also established from members of various SAICA Committees and interest groups, as follows:
 - SAICA Ethics Committee (EC);
 - SAICA Assurance Guidance Committee (AGC); and
 - SAICA National Small and Medium Practice Interest Group (NSMP-IG).

In the various SAICA outreach activities, an invitation was extended to other SAICA members and associates to participate in the activities of the Working Group.

4. In soliciting input to inform this comment letter, SAICA analysed the impact that the proposed amendments to the definition of PIE will have from a local perspective, taking into account the local amendments that are already effective to determine whether the overall objective of the IESBA in proposing the amendment will be achieved.
5. The comment letter encapsulates the results of the SAICA outreach activities as outlined above.

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6. The SAICA comment letter is structured in the following sections:
 - a. Overall Comments
 - b. Response to specific questions.
7. SAICA has no comments relating to the request for general comments.

OVERALL COMMENTS

8. The PIE definition plays a key role in all jurisdictions that have adopted the Code. As recognised in the Exposure Draft and related Supplementary Guidance, various countries, including South Africa have developed their own definitions of PIEs for the purposes of imposing additional local independence requirements. The South African definition is specific in defining entities subject to certain local regulations. SAICA recognises that this is not possible on a global level and we thus commend the IESBA in maintaining a principles-based approach to the definitions, with specific responsibility assigned to local bodies to further refine the definition of PIEs to ensure global applicability.
9. SAICA supports the objective of the IESBA in proposing revisions to the Code that broadens the definition of a PIE for the purpose of additional independence requirements to enhance public confidence in an audit of these entities.

RESPONSE TO SPECIFIC QUESTIONS

10. Our comments are presented in the sequence of the questions as they have been included in the Exposure Draft. We have responded to all 15 questions.

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?

11. Although SAICA and members of the working group are in support of the overarching objective as set out in proposed paragraphs 400.8 and 400.9, we have the following proposals that we believe will provide further clarity:

- a. Proposed paragraph 400.8 sets out the factors to be considered in determining the extent of public interest, while proposed paragraph 400.9 sets out the purpose of the various requirements and application material. SAICA is of the opinion that the order of these paragraphs be changed with the purpose of the various requirements and application material placed first, followed by the list of factors, as illustrated below:

400.8 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities. The purpose of these requirements and application material for public interest entities is to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements. ~~The extent of public interest will depend on factors to be considered including:~~

- ~~• The nature of the business or activities~~
- ~~• ...~~

~~*400.9 The purpose of these requirements and application material for public interest entities is to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements.*~~

~~*The extent of public interest in the financial condition of an entity will depend on factors to be considered including:*~~

- ~~• The nature of the business or activities~~
- ~~• ...~~

- b. If the change suggested in paragraph 11a of this comment letter is accepted, SAICA would like to highlight that referencing to proposed paragraphs 400.8 and 400.9 throughout the Code would have to be updated.

- c. When reading the proposed list of factors as contained in proposed paragraph 400.8 of the Code, it is not clear if the proposed factors should be considered in isolation or as a collective in determining the extent of public interest in the financial condition of an entity. Paragraph 24 of the explanatory memorandum of the Exposure Draft states that as it could be that each of the proposed factors on its own may not amount to significant public interest in the financial condition of an entity and that the factors

should not be considered in isolation. SAICA suggests that this explanation be included as part of the application material to the list of factors provided to further clarify the intention in considering the list of factors.

12. The term “financial condition” may not be understood as it remains undefined in the Code. SAICA therefore recommends that the term is further defined either through application material or guidance. The explanation contained in paragraph 21 of the explanatory memorandum of the Exposure Draft could provide such clarification.

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?

13. SAICA and members of the working group agree with the proposed list of factors set out in proposed paragraph 400.8 for determining the level of public interest in an entity.
14. SAICA believes that the list of factors included in proposed paragraph 400.8 of the Code are comprehensive. SAICA is, however of the view that the overarching objective and the resultant categories are strongly focused on the qualitative impact of the financial condition of the entity, with little focus on the importance of the nature of the service provided by the entity within its jurisdiction and the potential public interest impact of lack of service delivery.
15. SAICA recognises that some of the terms relating to subjective measurements, namely “size” and “number and nature of stakeholders”, may be interpreted and applied differently across jurisdictions and therefore appreciate the principles-based approach followed. It is SAICA’s view that the important role that local bodies have to play in refining these measures to ensure consistent application is achieved in the local jurisdiction needs to be emphasised.

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?

16. SAICA and members of the working group are in support of the broad approach adopted by the IESBA in developing its proposals for the PIE definition by replacing the extant PIE definition with a list of high-level categories and allowing for further refinement by the relevant local bodies as part of the adoption and implementation process.
17. This approach has already been adopted by South Africa with the local body (the IRBA) including a list of entities considered as PIEs. With the proposed change, global consistency can be achieved.
18. It was noted that, although reference is made in proposed paragraph 400.15 A1 of the role of local bodies to refine the categories in proposed paragraph R400.14, SAICA’s view

is that this is better positioned as one of the categories listed in proposed paragraph R400.14.

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.

19. SAICA and members of the working group are in general support of the proposal to replace the term “listed entity” with the new term “publicly traded entity” to scope in more entities. Having said that, SAICA is concerned that the term “publicly traded entity” may be misunderstood.
20. The confusion pivots around what is meant by “publicly traded”. The frequency of trade is not addressed within the explanatory memorandum of the Exposure Draft or proposed definition and questions around whether an entity that is trading thinly would be considered to be a “publicly traded entity”. SAICA encourages the IESBA to carefully consider the intention behind broadening the definition in clarifying what is meant by “publicly traded” as this may have the unintended consequence of excluding certain entities that are listed but not considered to be “publicly traded”.
21. SAICA suggests that the new term “publicly traded entity” is clarified to ensure consistent application by providing additional guidance through application material or non-authoritative guidance outside of the Code. Such guidance should for example capture the elements of a publicly traded entity as included in paragraph 37 and 38 of the explanatory memorandum of the Exposure Draft.

Question 5

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

22. SAICA and members of the working group agree with the proposals for the remaining PIE categories set out in proposed subparagraphs R400.14 (b) to (f), but would like to draw attention to our response in paragraph 15 of this document to elevate the role of local bodies as one of the categories for consideration in proposed paragraph R400.14.

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.

23. Entities raising funds through less conventional forms are likely to already meet the definition of a PIE in considering the overall objective stated in proposed paragraph 400.8 and within the newly defined term “publicly traded entity”.
24. SAICA and majority of the members of the working group are therefore of the opinion that the responsibility of recognising and further refining the PIE categories should rest with local bodies.
25. Less conventional entities might become more prominent in future; specific consideration should thus be given by local bodies for including these entities in the future. With this in mind the frequency of local bodies to consider additional entities to be considered as PIEs should be addressed. We are of the opinion that this should not be dealt with by the Code, but rather through implementation support or non-authoritative guidance.

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?

26. SAICA and members of the working group support proposed paragraph 400.15 A1, which explains the high-level list of PIE categories.
27. The concern raised that, with the role of the relevant bodies only included in application material and not elevated as a requirement, that where local bodies do not provide further refinement, a possible unintended consequence could be that entities that should not have been considered as a PIE is treated as such. Therefore, as mentioned in both paragraphs 15 and 22 in this comment letter, we recommend the elevation of the role of local bodies to be listed as an additional category in proposed paragraph R400.14 rather than only including it in application material.

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?

28. SAICA and members of the working group are in support of the proposed outreach and education plan of the IESBA as stipulated in paragraph 59 of the explanatory memorandum of the Exposure Draft.
29. SAICA believes that working with those local bodies that have taken a specific approach to defining and scoping the concept of a PIE for their local purposes would be beneficial to help identify specific implementation support.

Question 9

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

30. SAICA and members of the working group are in support of the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. Members recognised that proposed paragraph 400.16 clearly stipulates what is required from a firm perspective. It was noted that local larger firms already have policies in place to designate entities as PIEs.
31. It was however noted that the role of the local bodies is critical in refining the list of PIEs. The lack of such a list may give rise to an excess burden being placed on smaller audit firms in identifying PIEs.
32. From a local perspective, the Auditor-General of South Africa, being the supreme audit institution of South Africa has identified a specific need to identify which of their auditees should be treated as PIEs due to their public relevance and service delivery impact.

Question 10

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

33. SAICA and members of the working group are in general agreement with the proposed list of factors for consideration by firms, with the following comments being noted:
 - a. *Whether the entity has been specified as not being a public interest entity by law or regulation* – this could prove to be a difficult task as laws or regulation might not specifically refer to entities as being PIEs or not, but rather include characteristics as defined by the proposed revision in paragraphs 400.8 and 400.9 of the Code.
 - b. *Whether the entity is likely to become a public interest entity in the near future* – the term “near future” is a subjective concept, open to differences in interpretation. SAICA recommends including application material or further guidance to clarify the intended term.
 - c. *The entity’s corporate governance arrangements, for example whether those charged with governance are distinct from the owners or management* - this could lead to the evaluation of an exhaustive list of clients which is not the intention of the IESBA.
34. During SAICA’s outreach activities, some members raised questions around the circumstances where a firm should determine whether to treat additional entities as PIEs. To clarify this, SAICA recommends the following proposed wording for proposed paragraph R400.16:

For other entities that are not considered to be PIEs in accordance with R400.14, a firm shall determine whether to treat such additional entities, or certain categories of entities, as public interest entities. When making this determination...
35. The Code is not clear in terms of when firms are required to undertake the evaluation required in terms of proposed paragraph R400.16 of the Code. SAICA recommends that the Code clarify when firms are required to perform both the initial and subsequent evaluations.
36. SAICA recommends that the Code specifically include an option for local bodies to extend the list of factors outlined in proposed paragraph R400.16 of the Code in the interest of achieving consistent application of the PIE definition within a specific jurisdiction.

Question 11

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

37. SAICA and members of the working group are in support of the proposal for firms to disclose if they treat an audit client as a PIE as this will enhance public confidence in the audits where auditees are treated as PIEs.
38. SAICA would like to alert the IESBA to the potential risk of all users of financial statements not understanding the implications of the entity being designated as a PIE and that it may not be sufficient to merely disclose the treatment but include additional information to explain the impact of this. To this end, SAICA recommends that the IESBA collaborate with the International Auditing and Assurance Standards Board (IAASB) in developing illustrative wording relating to this disclosure.

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.

39. Since the auditor's report is the mechanism used by the auditor to communicate with the users of the financial statements, SAICA and the majority of the members of the working group are of the opinion that this is the most appropriate mechanism to disclose the auditor's treatment of the entity as a PIE. The advantage of this is that the information is immediately evident to the users of the financial statements as it would be if the disclosure was included in the auditor's report that accompanies the financial statements.
40. Proposed paragraph R400.17 requires a firm to publicly disclose if an audit client has been treated as a PIE. The Code is, however not clear in terms of what is meant by "publicly disclose". If SAICA's recommendation to make such disclosure in the auditor's report is accepted, we caution against assuming that the financial statements including, the auditor's report an entity that has been classified as a PIE are automatically publicly available. SAICA therefore recommends that the Code clarify the meaning of "publicly disclose". To this end, the IESBA may consider including application material to provide clarity on the proposed paragraph R400.17.
41. Other possible disclosure mechanisms include:
 - a. The firm's Transparency report. The disadvantage here is that not all firms are required to compile a Transparency report.
 - b. The firm's website.
 - c. Local bodies or other governing body's website. This may also place an undesirable administrative burden on these bodies.

An advantage common to all the above options is that the information is contained in one place. However, this is not immediately evident to the users of the financial statements as it would be if the disclosure was included in the auditor's report that accompanies the financial statements.

42. With the proposed revisions that extend the definition of a PIE and require additional public disclosure, it is important for the auditor to openly communicate with those charged with governance, the rationale behind defining the entity as a PIE and the additional requirements that exist. SAICA recommends that the Code clarifies this.

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?

Part (a)

43. SAICA and members of the working group support IESBA's conclusion to not extend the definition of an "audit client" for listed entities to all PIEs in proposed paragraph R400.20 and to review the issue through a separate future workstream.
44. SAICA recommends that the future workstream consider the impact that extending the definition of "audit client" as contained in proposed paragraph R400.20 to a PIE may have. Entities with little public interest may end up being scoped in purely due to their relationship with the PIE, which may result in undue audit effort and cost.

Part (b)

45. Possible proposed amendments to Part 4B of the Code include:
- a. Paragraph 900.13 which indicates that where a firm also performs an audit or review engagement for the same client for which an assurance engagement subject to Part 4B of the Code is performed - the requirements of Part 4A continues to apply. We propose that it be clarified whether this would also extend to the designation of the client as a PIE. Paragraph 79 of the explanatory memorandum of the Exposure Draft seems to imply that an assurance engagement for an entity considered as a PIE for audit purposes will not necessarily be an assurance engagement for a PIE and vice versa.
 - b. Furthermore, it should be considered whether when another firm that performs the audit or review and designated the client as a PIE, the firm responsible for the Part 4B assurance engagement should not also treat the client as a PIE.

Question 14

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

46. Given the local amendments in the development of our own definition of a PIE, South Africa has an advantage in implementing the proposed changes. SAICA and members of the working group are therefore in support of the proposed effective date of December 15, 2024 (with early adoption allowed), as we believe that it provides sufficient time for implementation.

47. SAICA encourages the IESBA to pay careful attention to the responses received from local jurisdictions that have not made local amendments to the Code. This is seen as the area where the proposed amendments will have a greater impact and require additional time to implement the consequential requirements of the widened definition of a PIE.

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.

(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?

Part (a)

48. SAICA and members of the working group are in support of the overarching objective set out in proposed paragraphs 400.8 and 400.9 to be used by both the IESBA and the IAASB in establishing differential requirements for certain entities. It is however important that the overarching principles are consistently defined and applied by both the IESBA and the IAASB. To this end, SAICA has identified the following references to a PIE (or entities of significant public interest) in the International Standards on Auditing (ISAs) that the IESBA and the IAASB should collaborate on in achieving consistency:
- a. Paragraph A32 of ISA 260 (Revised) : *Communication with Those Charged With Governance*
 - b. Paragraph A15 of ISA 265 : *Communicating Deficiencies in Internal Control to Those Charged With Governance and Management*
 - c. Paragraph A40, A41 and A43 of ISA 700 (Revised) : *Forming an opinion and reporting on financial instruments*
 - d. Paragraph A133 of International Standard on Quality Management (ISQM) 1 : *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
 - e. Paragraph A134 of ISQM1 : *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

Part (b)

49. The proposed case-by-case approach in determining whether differential requirements already established with the IAASB Standards is supported being applied more broadly to other categories of PIEs.

Part (c)

50. As indicated in our response to question 12 above, since the auditor's report is the mechanism used by the auditor to communicate with the users of the financial statements, SAICA and the majority of the members of the working group are of the opinion that this is the most appropriate mechanism to disclosure the auditor's treatment of the entity as a PIE.