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KICPA's Comments on IESBA's Exposure Draft on Proposed Revision to the Definitions of Listed Entity and Public Interest Entity in the Code

Dear Ken Siong

We, at the Korean Institute of Certified Public Accountants (KICPA), strongly support the International Ethics Standards Board for Accountants (IESBA) for its commitment to developing high-quality professional ethics standards to raise the bar for ethical conduct expected from professional accountants and to serve the public interest. We are also very pleased to have opportunity to provide our comments on IESBA Exposure Draft, "Definitions of Listed Entity and Public Interest Entity Project". Please see below for our comments on the ED.

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?

<p>The KICPA supports the overarching objective described in paragraphs 400.8 and 400.9. We believe that the overarching objective is helpful for not only understanding what the</p>

Code intends to achieve by prescribing additional independence requirements for PIEs but also determining additional entities as PIEs.

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?

The KICPA agrees with the proposed list of factors. However, we are of view that some of them, such as the size of entity, reinforce the importance of other factors in terms of the public interest, rather than indicating the level of public interest per se. We hope that this is be noted either in the Code or in additional non-authoritative guidance to be issued.

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?

The KICPA supports the broad approach adopted by the IESBA as it seeks international convergence while sticking to the Code's principles-based approach. We also understand that opinions were extensively sought and gathered on the validity of such approach as part of ED development process. However, the approach has drawbacks; as it gives the national standard setter a greater role to play, the likelihood of implementing the Code may reduce depending on institutional environments in each country and international convergence can also be undermined. In this regard, we hope that the IESBA will provides all the necessary guidance and make further efforts to coordinate with oversight

bodies (including IOSCO) as part of outreach activities as they have great authority and role to play in developing criteria for defining PIEs.

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.

The KICPA understands that the new term, publicly traded entity, was proposed to address the lack of clarity that may arise from the definition of the existing term “listed entity”. We support what the Code intends to achieve by replacing listed entity with publicly traded entity. We believe that PIEs should include the entities issuing publicly traded financial instruments, in addition to the listed issuers of stocks and bonds traded in recognized markets, considering that the strengthened independence requirement is proposed for PIEs to protect the public interest in case their financial condition has significant implications for the public interest. However, in our opinion, the new term used in the proposed revisions to the definition, “transferrable and publicly traded”, can be as confusing in terms of interpretation and application as the relevant existing term, “recognized market”. If any term used in the Code hinders consistent interpretation and application, it has a risk of undermining the purpose of the revisions.

Therefore, if the existing term has to be changed, we hope that a new term that is able to specify target entities more clearly than “publicly traded entity” is suggested in the final revision.

In addition, we suggest that the examples of entities that are not “listed entities” but can be included in the scope of “publicly traded entities” should be provided if the new term used in the proposed revisions is going to be adopted.

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

The KICPA understands that many countries regard listed entities and financial institutions as most common categories of PIE. This is consistent with the PIE categories defined in the proposed revisions. Thus, we agree with them. In addition, we agree with the proposed categories described in paragraph R 400.14, considering national standard setters can broaden or narrow the scope of PIE as prescribed in paragraph 400.15 A1.

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.

The emergence of new technology, its advancement and financial market evolution can have impact on PIE categories. Therefore, it is not possible to capture all such developments in the Code as further PIE categories. We understand that it is why the overarching objective is proposed as set out in paragraphs 400.8 and 400.9. To make decision on whether the financial conditions of an entity raising funds by selling cryptocurrency (“ICO entity”) is important for the public interest, technical research and assessment must be conducted to understand the nature of transactions involved, including whether the financial obligations such entity is going to fulfill for investors is important in terms of the public interest. However, it is still possible to identify ICO entities as a PIE although they are not specified in the PIE categories, considering that the proposed revisions define the overarching objective.

We respectfully request the IESBA to have further review of the abovementioned point in terms of international convergence and to provide guidance accordingly if it is deemed necessary to define such entities as PIEs consistently.

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?

The KICPA supports the approach adopted by the IESBA as it seeks international convergence while sticking to the Code's principles-based approach. However, we hope that the IESBA will provide all the necessary guidance to national standard setters and make further efforts to coordinate with oversight bodies including IOSCO as they have great authority and role to play in developing criteria for defining PIEs, as described in our response to Question 3.

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?

The biggest difference between the proposed revisions and the extant Code is the fact that the proposed revisions set out the roles of national standard setters and firms. We respectfully request for further details of such roles including intension, requirements and how to fulfill them to ensure the new roles can be played successfully. In addition, PIEs are often prescribed by laws and regulations in some jurisdictions, as opposed to the Code. In this regard, outreach program is necessary with focus on coordination with oversight bodies.

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

We understand that it is practicable to some extent for national standard setters (NSS) to refine the scope of PIEs. However, it is less practicable for firms to determine additional entities to be treated as PIEs. We believe that meeting the above requirement is only possible when countries put in place criteria and processes that are objective, comparable and also understandable by stakeholders. However, it makes more sense that

such criteria are developed by standard setters, rather than firms, which again limits the possibility of firms fulfilling the requested role. We fully understand and respect the purpose and intention of introducing the role for firms, but with all due respect, it is questionable whether such requirement can actually work as intended.

We also hope that the IESBA will monitor how PIEs are identified by national standard setters or firms so that it can play its role in reinforcing international convergence (as part of post implementation review (PIR) activities)

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

The KICPA is of view that factors for consideration are properly defined.

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

The KICPA agrees with the principle that transparency must be improved in case a firm identifies an additional PIE. However, as described in our response to Question 9, it is less practicable for firms to determine additional entities as PIEs in addition to the ones proposed by the Code and national standard setters. In the same light, we believe that the additional disclosure requirement for firms is unlikely to work as intended as is the case with the proposed role of firms. If firms rarely determine additional entities as PIEs and only follow the standards set by standard setters, the disclosure requirement is unlikely to work effectively.

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.

If stakeholders properly understand the implications of an audit client being determined as PIE by a firm, there may be no issue in disclosing it in the auditor's report. However, there is a risk of increased expectation gap about the auditor's report if the user of the auditor's report does not have a clear understanding of such implications (for example, they might mistakenly believe that the auditor provides a higher level of assurance). And this risk may make firms reluctant to identify additional PIEs due to litigation risk, etc., undermining effectiveness of the disclosure requirement.

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?

(1) The KICPA is of view that the independence requirement for related entities should continue to apply to listed entities only as it does now. We believe that whether or not to extend the requirement to PIEs should be decided after sufficient review of its necessity and practical impact upon request made by stakeholders.

(2) We support the IESBA's conclusion. What is requested by stakeholders is the reinforced confidence in the audits of financial statements. Therefore, whether or not to revise the independence requirement for assurance engagement other than audit and review engagements should be decided after sufficient review of its necessity and practical impact upon request made by stakeholders.

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

The KICPA supports the proposed effective date if the Code will be revised by the end of 2021, which will give us approximately 3 years as transition period. If the recently revised NAS and FEE are to take effect earlier than that, we hope that enough time will be given

to apply them to current PIEs before the revised PIE criteria becomes effective, considering that the NAS and FEE contain stronger requirements for PIEs as the result of the recent revisions.

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.

The KICPA supports having differential requirements established as one of the ways to meet the stakeholders' requirement for higher level of confidence in the audits of financial statements of PIEs. In this regard, we support the proposed paragraphs 400.8 and 400.9 as they describe such objective.

However, the ISA and ISQM set out differential requirements for listed entities only without using the concept of PIE, unlike the Code. We are against extending such differential requirements to PIEs. The Code's objective to impose the strengthened independence requirement for PIEs is not entirely same as the ISA's objective to prescribe additional audit requirement for listed entities based on risk-based approach. We believe that it is necessary for the ISA and ISQM to refer to the Code's definition of PIEs as long as they deal with ethics requirements relevant to audit and quality management. But we are opposed to expanding the application scope of all other differential requirements to PIEs.

Whether or not to change the term, listed entity, or to extend differential requirements to PIEs with regard to the ISA must be only decided after sufficient review of its necessity

and practical impact. We hope that the IAASB reviews the feasibility and necessity of extension based on sufficient research and opinion gathering.

(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.

As mentioned in our response to Question 15(1), we are against broader application of differential requirements established within the IAASB Standards to other categories of PIE.

We support applying the definitions consistent with the Code's categories of PIE to the extent that the IAASB Standards deal with ethics requirements as is the case with extant ISA 260.A32, as opposed to extending all differential requirements to 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?

Please refer to our responses to Questions 9, 11 and 12. We are against the proposed requirement to disclose in the auditor's report when a firm determines an audit client as PIE. If the objective is to improve transparency, it is recommended that the objective should be achieved by making oversight bodies or standard setters establish consistent and objective criteria applicable to firms.

We have concerns about potential increase in expectation gap about the auditor's report and in confusion among users if a firm discloses such information in the auditor's report without stakeholders' proper understanding of the implications of an audit client being determined as PIE by a firm.

We hope that you find our comments helpful for the IESBA's project aimed to improve the Code's definition of PIE. Please contact us at jjilverk@kicpa.or.kr for any further question regarding our comments.

Thank you.