

May 3, 2021

International Ethics Standards Board for Accountants

Via online submission: <https://www.ethicsboard.org/publications/proposed-revisions-definitions-listed-entity-and-public-interest-entity-code>

Dear Sirs/Mesdames:

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

Thank you for the opportunity to comment on the above-noted Exposure Draft (the “ED”).

Overall, we support the International Ethics Standards Board for Accountants’ (the “IESBA”) project to revise the definition of listed entity and public interest entity (“PIE”) in the Code. We agree, in principle, with the holistic approach adopted with respect to the high-level PIE categories and factors to consider when determining the level of public interest in an entity. Further, we echo the IESBA’s views that regulators, national standard setters, or other relevant local bodies are integral in defining which entities should be captured within the PIE definition. This allows for a tailored approach based on a specific jurisdiction’s environment.

We provide our responses to the IESBA’s specific questions below.

**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?***

We support the overarching objective for defining entities as PIEs, that being the assessment of the level of public interest in the financial condition of those entities. Clarification on whether the level of public interest is intended to be assessed from the perspective of the general public or a narrower segment of the general public would be beneficial.

***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?***

We agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity. However, we recommend including the term “members” to the list of potential stakeholders within the fifth bullet of paragraph 400.8. This term is often used to describe stakeholders of certain entities which may meet the definition of a PIE, such as deposit-taking institutions.

### *Size of the Entity Factor*

We wish to emphasize that the size of the entity factor included within paragraph 400.8 of the IESBA's ED should be a key factor adopted by local regulators in further refining the revised PIE definition. From a Canadian perspective, we have a significant number of less sophisticated small and mid-sized public companies, private companies, public sector entities and not-for-profit organizations who, therefore, place increased reliance on their professional service providers to act as a trusted advisor in both the provision of assurance and non-assurance services. While, it may be feasible for larger entities to engage a separate professional service provider for non-assurance services, we believe it could be onerous for many small and mid-sized entities to do the same. We note that the CPA Canada Harmonized Rule of Professional Conduct already contemplates the differentiation in size of entities as a factor for determining the significance of independence threats and level of safeguards required to be applied. Specifically, paragraph 42 to Rule 204.1 to 204.3 acknowledges that:

- The size and structure of the firm and the nature of the assurance client and engagement will affect the type and degree of the threats to independence with smaller clients often relying on firms to provide a broad range of accounting and business advice; and
- Independence will generally not be impaired provided such services are not specifically prohibited by Rule 204.4 and the provided safeguards are applied. In many circumstances, explaining the result of the service and obtaining client approval and acceptance for the result of the service will be an appropriate safeguard for smaller entities.

We believe that for small and mid-sized entities that the existing language in the CPA Canada Harmonized Rule of Professional Conduct referred to above continues to be relevant and that potential independence threats arising from the provision of non-assurance services can be appropriately mitigated through the application of safeguards such as, the use of separate engagement teams.

Furthermore, with respect to public companies, the local Canadian bodies currently define a PIE as a publicly traded company with market capitalization and/or total assets that equal or exceed \$10 million. Canada is unique in that we have a large number of small public company clients for which we believe it would be onerous to treat them as PIE. Therefore, in line with our views noted above, we support retaining the differentiation between reporting issuer and non-reporting issuer publicly traded entities within the Canadian independence requirements.

### *Geographic Location Factor*

Finally, we believe the geographic location of the entity should be added as an additional factor to paragraph 400.8 of the IESBA's ED. Although this factor may often be connected to the size of the entity factor, we believe it is a key factor which local regulators should consider in refining the PIE definition for their jurisdictions. There are various clients who operate in small remote rural markets in which they have limited access to professional service providers, specifically those who provide specialized services other than assurance and tax services. Therefore, if these entities are scoped into the PIE definition, it would be more challenging for them to access necessary non-assurance services at a feasible cost. For example, Indigenous clients who

reside in remote areas that, if scoped into the PIE definition, may face onerous costs if required to engage another professional advisor to perform non-assurance services.

### **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?***

We support the broad approach adopted by the IESBA in developing its proposals. We believe this approach will allow the relevant local bodies to apply the PIE definition and related requirements in a refined manner relevant for their local jurisdiction(s).

### **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.***

We support the proposals for the new term “publicly traded entity” to replace the term “listed entity”. The term “publicly traded entity” is a widely used term in Canada; therefore, we do not anticipate any significant concerns with its adoption. In addition, we believe the revised term reduces the uncertainty of whether an entity meets the definition by expanding the scope to encompass entities that issue various different types of financial instruments. The change in term also addresses the question of whether secondary markets are considered a recognized stock exchange.

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

We agree with the proposals for the remaining PIE categories in subparagraphs R400.14(b) to (f); however, we request clarification with respect to subparagraph (d) and (e).

With respect to subparagraphs R400.14(d) and (e), we noted a differentiation in the wording from subparagraphs R400.14(b) and (c) when referring to “an entity’s whose function” vs. “an entity’s whose **main** functions”. Was such a differentiation intentional and, if so, how may this be applied in practice?

We also request clarification on whether a mortgage investment corporation (“MIC”) may be scoped into the PIE definition category in subparagraph R400.14(e), ignoring other factors such as size of the entity. A MIC is an investment and lending company that pools shareholder capital and lends that capital out as mortgages in order to earn income through interest and fees with 100% of its net income (after management fees) being paid to its shareholders. In accordance with the Canadian Income Tax Act, a MIC must have at least 20 shareholders.

***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.***

We believe entities that raise funds through less conventional forms of capital raising such as an ICO, companies operating cryptocurrency trading platforms, or cryptocurrency mining companies, should be captured as a further PIE category within the IESBA Code. With the growth of cryptocurrency comes increased public scrutiny and interest in both the products and services of these companies as well as their financial condition. Hence, we believe these entities would fall within the overarching objective established by the IESBA.

In defining this for purposes of the Code we suggest “an entity whose main function is to exchange, mine or issue cryptocurrency and/or publicly tradeable tokens”.

### **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?***

We support the IESBA’s proposals to provide the relevant local bodies the authority to determine which entities should be scoped in or out of the PIE definition based on the issues, concerns, and nuances specific to the local environment and how these impact the public interest in their jurisdiction(s).

***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?***

We believe educational support will be crucial for the relevant local bodies to appropriately apply the proposed revisions. As part of the IESBA’s outreach and education program, we recommend holding roundtable sessions with representatives from the ethics standard setter bodies from various countries to provide them the opportunity to confer on how the PIE definition may be defined within their and other local jurisdictions.

In addition, if the IESBA intends to retain the requirement for firms to make their own determination of whether additional entities should be treated as PIEs, we believe further guidance will be needed to support the consistent application of this requirement between the firms’.

Furthermore, if the IESBA intends to retain the requirement for public disclosure of PIEs within the auditor’s report, we believe it is necessary that public guidance be issued to explain the types of entities treated as PIEs and the implication is solely to identify the entities for which more stringent independence rules must be complied with by firms.

## **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?***

We do not support firms having the ability to determine if any additional entities should be treated as PIEs as we believe that this will result in inconsistent application. We are concerned that firms may choose to scope in additional entities depending on a firm's specific circumstances such as risk tolerance, client base, geographic footprint, service line offerings, etc. The risk tolerance and lens that a global or national firm applies when assessing which entities shall be treated as PIEs may be different than that of a local or regional firm. As such, where a firm identifies an additional entity as a PIE, they may in effect be committing any successor firm of that entity to also treat the entity as a PIE, despite whether this is consistent with the successor firm's policy on which entities should be treated as PIEs. The pressure by a successor firm to remain consistent is heightened by the requirement to disclose whether an entity has been treated as a PIE within the auditor's report. We believe that this will induce a successor auditor to continue to treat that entity as a PIE, given that it is public knowledge and a change would likely cause confusion amongst the financial statement users and potentially adverse implications to the entity. Conversely, if the successor is not bound to treat the entity as a PIE, a firm's definition of a PIE would become a market differentiator.

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

The proposed list of factors includes whether in similar circumstances the firm or a predecessor firm has treated the entity as a PIE. We understand that this factor was included in part to prevent an entity from "opinion shopping" on whether it shall be treated as a PIE. As noted in our response to Question 9, we are concerned that this factor may in effect commit any successor firm to continuing to treat an entity as a PIE, despite whether such treatment is based solely on the predecessor's firm's circumstances such as risk tolerance client base, geographic footprint, service line offerings, etc. Conversely, if the successor is not bound to treat the entity as a PIE, a firm's definition of a PIE would become a market differentiator. Therefore, this factor may cause "opinion shopping" which the IESBA was attempting to avoid.

## **Transparency Requirement for Firms**

### ***Question 11: Do you support the proposal for firms to disclose if they 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.***

We do not support the proposal for firms to publicly disclose if they treated an audit client as a PIE. We are concerned that by widely disclosing whether an audit client is treated as PIE, the public may not understand the implications of an entity being treated as PIE, leading to the users of those financial statements placing increased reliance on the audit opinion of entities that are treated as a PIE compared to entities that are not. Given that the audit requirements are generally consistent regardless of whether the entity is a PIE, this increased reliance by the

users is unwarranted. Furthermore, there may be additional misunderstanding by the users given that firms may have differing views on the types of entities they treat as a PIE.

Another factor to consider is the impact this may have on the insurance held by public accounting firms, from both the perspective of amount and cost. While the audit opinion is addressed to the shareholders of the entity, by referring to an entity as a PIE, this may infer that the auditor's responsibilities extend to beyond the shareholder's group which increases the potential risk to the firm of undue reliance. Therefore, we believe insurers may perceive such disclosure as an increase in the firm's risk given the expected increased reliance by the public on the auditor's report.

We are also mindful of the potentially negative connotations this disclosure may have on an entity that is not treated as a PIE – these entities may face adversity in accessing capital or other business ventures, because of the public perception that the standard of audit performed is less than that of an entity that was treated as a PIE. Furthermore, in situations where an entity changes from a PIE to a non-PIE, this could create confusion for the financial statement users and influence their views of the audit opinion and the entity's financial condition, causing undue financial hardship for the entity.

It is our understanding that the purpose of identifying an entity as a PIE is to determine whether the audit firm should be subject to increased independence requirements with respect to the provision of non-assurance services for that entity. As noted in Canadian Auditing Standard 260 *Communication with Those Charged with Governance*, it is those charged with governance with which the audit firm is responsible for communicating and discussing their independence. Furthermore, in Canada, it is those charged with governance that have the responsibility to approve the provision of non-assurance services for entities currently considered to be PIEs (i.e., reporting issuer public company audit clients). As the fact that the firm is independent is communicated within the auditor's report, we believe that this is sufficient disclosure for purposes of the financial statement users. Therefore, we recommend that the determination and identification of an entity as a PIE should be discussed with those charged with governance for the entity, through disclosure in the Audit Service Plan or Independence Letter, rather than disclosed within the auditor's report.

### **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?***

We support the IESBA's conclusions.

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

We support the proposed effective date of December 15, 2024 as we believe it will provide both local bodies and firms sufficient time to refine and implement the proposed revisions.

**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.**

**(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.**

While we appreciate the opportunity to consult on this matter and, in theory, agree with the IAASB reviewing whether differential requirements for PIEs should exist, we find it challenging to provide valuable comments without a complete understanding of the proposed changes and the context in which these differential requirements would apply. We look forward to the opportunity to consult as part of the IAASB's general consultation process on this matter.

**(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 response in Questions 11 and 12 above in which we raise our concerns with respect to the public disclosure of an audit client as a PIE.

**Additional Comments**

We are interested in understanding how a PIE shall be treated upon no longer meeting the definition of PIE. Would the entity:

- (a) Continue to be treated as a PIE and, therefore, be subject to additional independence requirements for a certain period of time (e.g., one to two years from the date at which the entity no longer meets the definition/factors to be considered a PIE); or
- (b) Immediately cease being treated as a PIE upon no longer meeting the definition/factors?

We appreciate the opportunity to provide feedback on this ED and look forward to reviewing the IESBA's deliberations and responses to comments received.

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Yours truly,

**MNP LLP**

*Monique Côté*

Monique Côté, CPA, CA  
Ethics Officer, Ethics and Independence