

Paris La Défense, 30 April 2021

International Federation of Accountants
Mr. Ken Siong, IESBA Senior Technical Director

Re: Comment letter on IESBA Exposure Draft on definitions of Listed Entity & Public Interest Entity

Dear Sirs,

MAZARS is pleased to submit this letter in response to your invitation to comment on the Proposed Revisions to the definitions of Listed Entity and Public Interest Entity in the Code.

MAZARS is an international, integrated, and independent partnership, specialising in audit, accountancy, advisory, tax and legal services. Operating in over 90 countries and territories around the world, we draw on the expertise of more than 42,000 professionals – 26,000+ in Mazars' integrated partnership and 16,000+ via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

MAZARS supports all initiatives taken to enhance professional independence and ethics and the future of the profession for the benefit of the public interest and welcomes the opportunity to add our views to the debate.

Overall, we understand the objective to clarify the definition of Listed Entity & Public Interest Entity.

However, we do not agree with the proposed broad approach which delegates significant responsibility to local bodies and firms.

In our view, an international code should provide clear and consistent guidelines to which all parties can adhere in all jurisdictions.

Rather than providing a “high level” list, which can then be adjusted by local bodies to meet their specific local needs, which could mean excluding certain categories of entities.

In the same way, we do not consider that it is necessary for firms to go beyond the Code and consider if other entities not falling into these categories should be treated as PIEs. As a firm, we have appropriate measures to manage risky clients without going through the identification of the audit client as a PIE.

Such approaches would be likely to lead to inconsistent application.

Also, we do not support the new term “publicly traded entity”, which seems to us insufficiently clear, to replace “listed entity”. The stated objective of this change is to scope in more entities and include second tier and over-the-counter markets. We do not see the benefits in creating so many additional PIEs from these categories. A better approach would be to define more clearly the term “recognized stock exchange” in the code.

As an example, some jurisdictions use “entity publicly traded on a regulated market”.

Our detailed comments to the questions raised in the exposure draft dated January 2021 are set out in the attachment to this letter.

We would be pleased to discuss our detailed comments with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

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Attachments: Completed Responses to IESBA - Proposed Revisions to definitions of Listed Entity & Public Interest Entity

Questions and responses

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?*

Response:

In principle, we support the overarching objective set out in proposed paragraphs 400.8 and 400.9. However, there are some terms included in these paragraphs which may not be clearly understood and therefore interpreted differently by users of the code.

IESBA has concluded, after consideration, that it is not necessary to define 'financial condition' which is a key driver in determining the extent of public interest in an entity but will instead rely on the judgement of users of the code. Without a definition, and as the term is not used elsewhere in accounting or auditing standards, there is a possibility that interpretation of the term will differ among users. Also, the term "taking on financial obligations to the public as part of an entity's primary business" used in para 400.8, is not entirely clear to us.

One of the factors to be considered when determining the extent of public interest in an entity is whether the entity is subject to regulatory supervision. We consider that while there are regulators in many sectors of the economy, e.g. telecoms/energy etc, this should not mean that the entities which they regulate are always considered to be PIEs.

We agree with the statement in para 400.9 that confidence in financial statements will be enhanced if a quality audit is performed on those financial statements. However, we consider that enhancing auditor independence standards does not automatically result in a quality audit being performed.

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?*

Response:

Please see our comments for Q1 above.

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?*

Response:

No, we do not support the approach outlined. We believe that an international code should provide clear guidelines to which all parties can adhere rather than providing a 'high level' list which can be adjusted by local bodies to meet their specific local needs which could include excluding certain categories of entity from the PIE definition. The proposed approach is likely to lead to inconsistencies in application and confusion amongst users.

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.*

Response:

We do not support the new term 'publicly traded entity' to replace 'listed entity'. The stated objective is to scope in more entities and include second tier and over-the-counter markets. We do not see the benefits in creating so many additional PIEs from these categories.

A better approach would be to define more clearly the term 'recognized stock exchange' in the code.

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

Response:

Subject to the comments below, we agree that banks and insurance companies should be classified as PIEs. This is already the case in many parts of the world including in the EU.

In paragraph 35 of the ED, IESBA concluded that it was not practicable to define a size threshold and that this would be considered by relevant local bodies. Whilst we understand the thought process, we do believe that there should be specific exclusions for small non publicly traded entities such as mutual insurance companies, credit unions etc. Failure to do this risks additional audit costs, and other implications such as audit rotation for these small entities which is disproportionate compared to any public interest benefit which might arise.

We do not agree that an entity providing post-employment benefits is always a public interest entity. Similarly, we are not persuaded that collective investment vehicles, as defined in paragraph R400.14 (e) should be included in the definition. Incorporating these categories would significantly increase the number of PIEs many of which would be small with comparatively few stakeholders.

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.*

Response:

Considering the overarching objective, we do not believe that such entities should be captured as a further PIE category. The risks associated with such investments should be addressed by the relevant market regulator(s). Classifying them as PIEs will not mitigate the risks associated with such investments.

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?*

Response:

As per our response to Q3, we do not agree with the proposed approach of having a broad definition of PIEs in the Code which is expected to be tailored by local regulators or local bodies to meet their local needs.

In paragraph 56 of the Exposure Draft, a concern is expressed that “the local bodies may not have the requisite capacity, in the sense of capability, knowledge and resources, or the authority to make the necessary assessment and refinements of a list of high-level PIE categories in their local codes”. Additionally, IESBA recognized that “some jurisdictions might simply adopt the Code as is without much or any refinement, a situation which would undermine the IESBA’s broader approach”. We are not convinced that the steps proposed will be sufficient to mitigate these risks and therefore do not support the proposed approach.

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?*

Response:

We have no specific recommendations in this area.

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?*

Response:

We believe that firms should follow the requirements set out in the code in determining whether an entity is a PIE. We do not consider that it is necessary for firms to go beyond this and consider if other entities not falling into these categories should be treated as PIEs. Such a requirement would be likely to lead to inconsistent application.

In several countries auditing PIEs is licensed so a change in category will mean that the choice of audit firms is limited which does not encourage competition in the market for audit services.

Firms already have policies for 'higher risk' clients which are not PIEs such as appointment of EQCR and categorising additional entities as PIEs would not change these procedures.

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

Response:

Considering our response to Q9 above, we have no further comments.

Transparency requirement for firms

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

Response:

We do not support the proposal. It could lead to confusion for readers of the Annual Report. The implications of being a PIE extend beyond the audit relationship and if an entity was treated as a PIE purely for audit purposes but did not comply with other requirements of a PIE such as corporate governance or provision of non-audit services, there is scope for confusion and misunderstanding for stakeholders.

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.

Response:

N/A based on our response to Q11.

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?*

Response:

We agree with the first bullet point in paragraph 75 of the Exposure Draft, that there is no strong philosophical reason for not extending the definition of audit client for listed entities in paragraph R400.20 to all PIEs. If the issue is to be reviewed through a separate future workstream, the impact of further changes on users of the code needs to be considered. Any changes arising from the future workstream should be effective at the same time as changes from this exposure draft.

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

Response:

Yes, we support.

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

Response:

As the proposed changes from this Exposure Draft and other changes to the code in relation to fees and non-assurance services will have a significant impact on firms and require changes to policies and procedures, we agree that sufficient time should be allowed for firms to implement the necessary changes. However, 3 years from issue of the final pronouncement to implementation does seem excessive and we recommend that the effective date is brought forward, perhaps by 1 year.

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.*

Response:

See our response to Q1 in relation to proposed paragraphs 400.8 and 400.9.

We do not consider that expanding the PIE definition in the IESBA code should automatically create additional requirements in the ISAs for all PIEs.

The status of PIE is defined by law or regulation in many countries which imposes additional requirements for the entities and their auditors.

- 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.*

Response:

We agree that a case-by-case approach should be adopted to establish differential requirements.

- (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?*

Response:

See our response to Q11 & 12 above.