

2 May 2021

International Ethics Standards Board for Accountants
529 Fifth Avenue
New York
NY 10017
USA

Nexia International Response to International Ethics Standards Board for Accountants (IESBA) Exposure Draft: *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*

Dear Sir/Madam,

Nexia International is pleased to respond to IESBA (the board) on this exposure draft.

Nexia International, as the eighth largest accounting network, is made up of a wide range of accounting firms and their concerns about the proposed ED vary depending on their specific circumstances. We have therefore encouraged our members to submit their own comments, or to participate in responses from their national accounting bodies. Our member firms support the IESBA in its efforts to address the concerns that have been expressed about the definition of a public interest entity and the variations that have developed in considering these around the globe.

We appreciate the efforts to create consistencies in the approach and definition, yet also understand the nearly impossible task at hand.

GENERAL COMMENTS

We have general observations about the proposed standard and, in particular, its impact on clients and audit firms in many developing countries.

We have a concern with the proposed, relatively short, timeline between publication of the final standard and its effective date. Due to the proposed requirements, local regulators and standard setters, where they exist, must also follow a due process in deliberating, consulting constituents and then implementing a refined PIE definition. The length of this process may not allow firms and clients enough time to react to changes.

In addition, we acknowledge there may be markets where no such standard setting body exist or is one exists and is not truly engaged with the issues. The consequence of this is that, where a firm in such a market is expected to comply with the IESBA code (an obligation for firms which are members of networks who belong to the Forum of Firms), they will be having to apply a standard that is more restrictive than in markets which are considered to be highly regulated and have active standard setters.

We acknowledge that a global definition would be very difficult and appreciate that the proposed solution attempts accept national variations by allowing local regulatory bodies to

refine the list. However, by doing so this exposure draft may cause more confusion in the marketplace by encouraging variation. We are particularly concerned the proposed standard suggests refining the list which may encourage or allow certain categories to be excluded. Generally, member firms believe that if IESABA presupposes that certain categories will need to be excluded and certain entities may be exempt, then they should not be included in the list in the first place. Otherwise, the potential for inconsistent practices internationally will cause confusion and potentially other unintended consequences.

SPECIFIC 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

Generally, member firms support the overarching objectives set out in proposed paragraphs 400.8 and 400.9. Member firms responded in favour of an attempt to create a single standard and definition, however as noted above believe this is nearly impossible.

In addition, below are specific comments/responses received by members firms for topics and specific questions from the exposure draft (question numbered herein). These comments have been somewhat generalized in order to present to the board a collection of varying responses by individual firms.

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.

As a result of the above concerns noted in the "general comments section", we generally support the new term "publicly traded entity." However, we do strongly believe that the definition be consistent amongst all standard setters (IESBA, IAASB, and IASB). We believe this harmonization of terms is critical and necessary to avoid problems in application in various standards.

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?

Although, generally member firms do recognize that the role of local bodies is important in this process, there are some concerns with paragraph 400.15 A1, which links directly to, and is dependent on, paragraph 400.14 A1. Both paragraphs have the potential to create confusion, in particular the sentences "*However, if law or regulation designates entities as "public interest entities" for reasons unrelated to the objective set out in paragraph 400.9, that designation does not mean that such entities are public interest entities for the purposes of the Code.*" and "*Similarly, the Code provides for such bodies to exclude entities that would otherwise be regarded as falling within one of the broad categories in paragraph R400.14 for reasons relating to, for example, size or particular organizational structure.*"

As noted above, if IESBA presupposes there will be a need to exempt certain entities, then these entities should not be included, and the Code should remain silent on exclusions. It is understood that regulatory authorities have the option to make their own conclusions, for their own jurisdictions, for what entities are defined as PIEs and currently can already revise the definition. Therefore, we think this actually lessens the value of the Code and undermines its importance. In our view, if the Code establishes a clear way to ignore its contents, this also signals further undermining and lack of respect of Code.

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?

We are definitely concerned about the elevation of the obligation on an audit firm to consider whether a client should be treated as a PIE. We are not in support of this option.

We consider that such a review would be extremely judgemental and give rise to potential significant differences in interpretation between an auditor and its regulators. We do not believe that standards should have this impact.

Disclosure Requirement for Firms

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

We are concerned about the obligation to disclose that a client has been treated as a PIE. Unless extensive explanation is included and understood by the user of the financial statements, we believe that this could lead to an increase in the expectation gap. We support further education materials on what it truly means to be categorized as a PIE so that users are continually informed and updated.

Effective Date

In our view, in light of the significant impact the definition of PIEs will have, both the NAS ED and Fees ED projects should have been deferred pending the outcome of this ED. Our approach would therefore have been that the proposed effective date should have been set at, or before, the proposed effective for the revisions to the Code for NAS and Fees.

We hope the above is of assistance to you in your deliberations and are available to address any follow-up questions if you have them.

Yours faithfully



Paul Ginman

COO & Global Head of Quality

Nexia International