

To/Location: International Ethics Standard Board for Accountants (IESBA)
Date: 22 April 2021
Subject: Request for comments IESBA Exposure Draft dated January 2021

Request for Comments - Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

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?
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?

Comments: We are in agreement with the overarching objective as outlined in paragraphs 400.8 and 400.9 as this is considered to be a reasonable rationale for focusing on entities requiring additional independence requirements. With increased scrutiny on the profession along with ever changing expectations of the public, any continued efforts to enhance our ability to maintain the trust and confidence of key stakeholders/users of the financial statements is critical. We believe that the list of factors outlined are considered to be comprehensive and we have identified no additional factors at this time. Also, the inclusion of too many factors could render the overarching objective to be too prescriptive or rigid, which would be contrary to its purpose.

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?

Comments: We are supportive of the broad approach adopted by the IESBA, as being more prescriptive may not eliminate the current challenges faced by different jurisdictions. Notwithstanding, there is a risk that local jurisdictions may adopt the broad approach without amendment at the local level if there is thought to be insufficient guidance on how to adopt and a lack of appropriate resources to support implementation. The current challenges with the definition may therefore persist.

Concerns may also arise around who is defined as the local body, as individual jurisdictions may have different legal bodies responsible for policy making, setting ethical standards and member oversight. Additionally, a collaborative effort with other key stakeholders such as regulatory bodies may be necessary to ensure the legal framework and the code are in sync. This could become difficult to coordinate and result in challenges in adoption and implementation.

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

Comments: There are entities which may be listed in our jurisdiction but not frequently traded and the level of public interest may not warrant additional independence requirements. We are therefore in agreement with the use of the term “publicly traded entity” in the revised definition.

At the local level, there may exist concern as to what level of trading constitutes an entity being publicly traded and whether local jurisdictions may set volume thresholds for refinement. Additionally, in such context clarity is required where trading fluctuation exists from year to year as well as circumstances where an entity is domiciled locally but, on another exchange or traded on multiple exchanges.

The remaining PIE categories in practice are entities with increased likelihood of being identified as PIE by law or as designated by larger audit firms currently. We consider these categories to be appropriate.

We would support the inclusion of the entities raising funds through ICO as part of “other categories” to be assessed by the local body rather than as a separate category outlined in the code. The circumstances may vary from jurisdiction to jurisdiction and therefore may be more appropriate for inclusion and assessment by the local body.

Issuance of ICO is not expected to significantly impact our environment, however we are of the view that such issuing entities should be regulated and subject to additional independence requirements.

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?
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?

Comments: We are supportive of the suggested categories included in the proposed revision as well as the role of the relevant local bodies outlined. The planned training and education support program is considered to be appropriate. We would also recommend the IESBA providing a resource as a point of contact to assist with implementation challenges as they arise.

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

Comments: The application of this requirement may be an efficient process for large audit firms. However, firms could have different views resulting in divergence, depending on firm’s risk appetites and evaluation criteria.

Transparency Requirement for Firms

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

Comments: Yes, we agree that it would be helpful to disclose in the audit report that an entity has been treated as PIE. Certain entities designated by nature for example pension funds, though regulated may not draw the same level of public interest as a deposit taking or publicly traded entity.

Where required, this can be communicated through the auditor's report as other transparency requirements are already communicated through this medium.

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?
 - (b) Propose any amendments to Part 4B of the Code?
14. Do you support the proposed effective date of December 15, 2024?

Comments: We are supportive of the IESBA's conclusion not to review paragraph R400.20 with respect to the definition of an audit client. A blanket revision may become onerous for entities with complex structures.

We are also in agreement not to propose any changes to Part 4B of the Code as well as the use of the proposed effective date of December 15, 2024, as it provides reasonable time period to engage stakeholders for the refinement process as well as to make changes where required by law.

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.
 - (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?

Comments: We are in agreement with the use of the overarching objective for both IESBA and IAASB for establishing differential requirement for certain entities only, in context of practicality in its application.

This would require more prescriptive definitions within the standard to support international consistency, as the local body and firm criteria will be subject to greater levels of variability in practice.

We believe it is appropriate to indicate in the audit report that the entity has been treated as a PIE, as this gives an indication of the way the audit is managed as compared to other audits.

On the matter of the practical implications, it will be necessary to provide guidance on the use of lower materiality and other effects on the execution of the audits for PIEs, which are beyond the independence requirements. These matters have significant cost implications in the performance of audits and therefore need to be thoughtfully considered in the standard setting and afterwards in the application by firms and engagement teams.