



Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York 10017

May 3, 2021

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

Dear Mr Siong,

Introduction

We¹ appreciate and thank you for the opportunity to comment on the IESBA's Exposure Draft (ED) regarding Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity ("PIE") in the Code.

Our understanding of the proposals is that they are designed to address two objectives:

1. To enhance confidence in financial reporting by applying the "PIE" independence requirements in the Code to a broader range of entities. This reflects that such entities may be considered to be in the public interest but may not currently be treated as PIE.

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

*PricewaterhouseCoopers International Limited
1 Embankment Place
London WC2N 6RH
T: +44 (0)20 7583 5000 / F: +44 (0)20 7822 4652*



2. To address the divergence in different jurisdictions in how the extant Code is applied and determine whether there is “merit in seeking a pathway to greater convergence at the global level” (paragraph 5 of the Explanatory Memorandum (EM)).

While we support these objectives, we set out in this letter certain suggestions related to aspects of the ED which we believe will help the IESBA achieve its aims.

In terms of the specific proposals in the ED, we support an overarching objective which considers a definition of PIE beyond entities with listed securities and which considers stakeholder groups beyond just stockholders. We agree that there is a role for the IESBA, local bodies, entities and firms in protecting the public interest. We also believe that some of the proposals will clarify certain matters in the extant Code (for example, use of the term “recognised stock exchange”) and we support replacing the term “listed entity” with “publicly traded entity” as being more reflective of the market and better aligned with the public interest.

Our principal concern with the proposals relate to the feasibility of the proposed model given the importance of the role of the local bodies and the fact that the proposals do not provide guidance for the eventuality where local bodies do not make the necessary refinements to the broad categories listed in the Code. Further, without additional clarification and refinement as mentioned in our responses to specific questions below and absent the anticipated engagement of local bodies, we believe the proposals would capture many entities which would not meet the Board’s proposed overarching objective of “significant public interest in their financial condition”. We also do not support the role of firms as proposed.

Conceptually, we support a model whereby:

- The Code includes a list of categories that should in principle be treated as a PIE (provided there is clarity on the key terms used).
- Local bodies can add categories to this list (as indeed per the extant Code) but should be encouraged to limit modifications, provide transparency as to their rationale for any modifications they make, and to be circumspect in creating additional categories for PIEs above and beyond those in the Code, to manage the amount of divergence between jurisdictions.
- In refining the categories included in the Code, local bodies would provide specificity and reference points (e.g. in law, regulation or other relevant materials) so that it is transparent which entities should be treated as PIE, and which may for example result in excluding certain entities within a particular category by reference to size.
- The role of firms would not extend beyond what is included in the extant application material which appropriately allows for those narrow circumstances where firms could encounter specific situations not envisaged by the Code or the local body and making a decision to treat the entity as a PIE may be in the public interest.

However, in such a model, taking into consideration the very broad categories in the proposal, the role of the local bodies is critical, and we have concerns that in practice not all jurisdictions would have the time and resources to support this. Without the involvement of the local bodies, the



conceptual model as described above is not workable. As stated in paragraph 35 of the EM, “if these categories were adopted by the relevant local bodies “as is” without any refinement, they will likely scope in entities that do not have significant public interest”. As such, it seems clear that without active involvement of the local bodies, the proposed model would not support achieving the second objective of the proposal as we understand it and could lead to significantly different outcomes in different jurisdictions for fundamentally similar entities.

To illustrate, the category relating to post-employment benefits is potentially very broad and without refinement has the potential to catch pension plans and vehicles that we would not regard as giving rise to a public interest. The same could apply to insurance and collective investment vehicles.

Further we recognise that the term “the public” is not defined and that the Board applies this to include both the “general public” but also, for example in the case of single employer pension plans, “specific members of the public” which is a narrower class of individual. We recommend that the Board clarify when such a narrower class of individuals are to be deemed relevant to the determination of a broader “public interest” and why.

We would ask the Board to further consider the potential outcomes and related risks if local bodies were not to be appropriately engaged and we recommend that the Board’s finalisation of the proposals should address this eventuality. A decision on this proposal should be based on further outreach conducted by IESBA, designed to assess whether smaller jurisdictions support and are able to apply the proposed model and to obtain a commitment that they will make the appropriate local determinations. To this end, and to ensure consistency of understanding and application, we recommend that the effective date should be aligned to the date the local jurisdictions have issued authoritative refining guidance.

If this is not the case, we believe that the only alternative would be for the Board to further explore the “Narrow” approach as described in the EM. This would need to result in a clear and precise definition of those entities that the Board, in consultation with stakeholders, would regard as of public interest.

We do not support the role of firms as proposed and we have concerns about the role the firms might be required to play absent the necessary involvement of the local bodies as per the proposed model. Where this process is not undertaken by the local bodies, the proposals would suggest that the responsibility would fall to firms to make the determination of whether an entity is in the public interest. We do not agree that this is an appropriate role for firms. In line with corporate governance principles and the respective responsibilities of management for the preparation of financial statements and auditors for their opinion upon them, responsibility for determination of whether an entity meets the definition of a PIE as defined by the Code and local bodies, or, beyond this, whether an entity should voluntarily be treated as a PIE should rest in the first instance with those charged with governance. However, if the proposed model is adopted, where guidance from the Code and local bodies is not sufficiently clear, such that the decision to treat an entity as a PIE essentially rests solely with those charged with governance, the Board needs to be aware that this will likely lead to greater divergence and outcomes as to when entities are treated as PIE or not.



The responsibility of the auditor in determining whether an entity is a PIE should be to examine the basis for management's conclusions (based on the local framework) and decide whether the evidence presented supports management's assertion. It is not the role of the auditor to come to a different conclusion where IESBA and the local bodies do not view specific types of entities to be PIEs, nor is it in the public interest to have inconsistent definitions of PIE based on a particular firm's view. This could result not only in inconsistencies across jurisdictions but also within the same jurisdiction. Furthermore, there is an argument, even if in perception only, that firms might have a self-interest in determining that an entity is not a PIE, given that treating an entity as a PIE has consequences for the firm, notably regarding the provision of certain non-assurance services.

We support greater transparency in general, and support disclosing that the audit client has been treated as a PIE in the auditor's report, but only where that determination has been made either by local bodies or by the entity itself, and not otherwise making such a disclosure public beyond where the auditor's report is already public.

We would encourage the Board to include a clear articulation of the objective of making the proposed changes including an analysis of the related benefits and risks. Some of the potential risks/costs of the proposals relate to confusion in the market where similar entities may be treated differently, undue restrictions on the auditor's ability to provide certain non-assurance services to clients (in particular smaller entities which may not currently be considered PIE), and increased costs of compliance and risk of non-compliance.

Our responses to the Board's request for specific comments is included in the Appendix to this letter.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at samuel.l.burke@pwc.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sam', written in a cursive style.

Sam Burke
Global Independence Leader



Appendix: Requests for specific comments

Our responses to the specific questions raised in the ED follow.

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?*

As noted in our cover letter, our understanding of the objectives of the proposals is (1) to enhance confidence in financial reporting by applying the PIE independence requirements to a broader range of entities. This reflects that such entities may be considered to be in the public interest but may not currently be treated as PIE, and not necessarily that different entities should be subject to different “levels” of independence, as noted in paragraph 17 of the EM and (2) to address divergence in different jurisdictions and determine whether there is “merit in seeking a pathway to greater convergence at the global level” (paragraph 5 of the EM).

We support considering a definition of PIE (or categories) beyond entities with listed securities and which considers stakeholder groups beyond just stockholders.

While conceptually we support maintaining a principles-based approach to the categories in the Code and avoiding undue prescription, this may create practical challenges in terms of the workability of the model in this case as described further in our cover letter and in our response to Question 3 below.

Further, we have concerns related to aspects of the ED and whether they would achieve the two objectives of the ED as we understand them; these concerns are further detailed below.

The overarching objective set out in proposed paragraphs 400.8 and 400.9 defines public interest in the entity in this case to be public interest in the financial condition of the entity. However, the term “financial condition” is likely to mean different things to different stakeholders and there is a risk that this contributes to the expectation gap in an audit of financial statements. Further, this reference seems to be a deviation from the purpose of an audit, which is to opine on the truth and fairness of the financial statements. Consistent with this purpose, our preference would be to refer to “financial position and performance”.

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 believe that some of the factors listed in 400.8 are subjective and their application may differ, for example from industry to industry and depending on the relevance of the factor over time (e.g. changes in size). However, we believe that they are broad factors that are relevant for consideration by local bodies in evaluating whether an entity (or class of entities) should be treated as of public interest.

We believe that these factors listed for consideration are broadly drawn, and this increases the relevance of our comments on the role of local bodies and the role of firms, included in response to questions 3 and 7-9 below.

400.15 A1 states that entities should not be included merely because of their size, yet it is given significant prominence as one of the factors in 400.8. Given that the other factors included in 400.8 would likely already capture entities of a certain size, we recommend that consideration is given to clarifying that “size” should not be considered in isolation from the other factors referenced in 400.15 A1. Perhaps as stated in paragraph 24 of the EM, it should be noted in 400.8 that each of the proposed factors on their own may not amount to significant public interest in the financial condition of the entity and should not be considered in isolation.

In addition, we suggest the following revisions:

- “Whether the entity is subject to regulatory supervision designed to provide public confidence that the entity will meet its financial obligations”
- Combine 2 of the factors as follows: “The importance of the entity to the sector in which it operates, including how easily replaceable it is in the event of financial failure and the potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity”
- Replace “how easily replaceable it is” with “whether there are other comparable market participants”.

We would welcome more specific guidance on the interpretation of an “entity subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations”, and specifically around what is meant by “financial obligations”. Entities may have obligations for non-financial service provisions that can only be met through a position of financial stability but which of themselves are not financial obligations.

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 proposed; having a high-level list of categories of PIE as a starting point for local adoption and interpretation. However, we have concerns regarding the practicality of applying a model based on such a broad approach. For this to work effectively, the role of the local



bodies is critical, and we have concerns about the implications where local bodies may not fulfil this role.

Conceptually, we support a model whereby:

- The Code includes a list of categories that should in principle be treated as a PIE (provided there is clarity on the key terms used).
- Local bodies can add categories to this list (as indeed per the extant Code) but should be encouraged to limit modifications, provide transparency as to their rationale for any modifications they make, and to be circumspect in creating additional categories for PIEs above and beyond those in the Code, to manage the amount of divergence between jurisdictions.
- In refining the categories included in the Code, local bodies would provide specificity and reference points (e.g. in law, regulation or other relevant materials) so that it is transparent which entities should be treated as PIE, and which may for example result in excluding certain entities within a particular category by reference to size.
- The role of firms would not extend beyond what is included in the extant application material which appropriately allows for those narrow circumstances where firms could encounter specific situations not envisaged by the Code or the local body and making a decision to treat the entity as a PIE may be in the public interest.

However, where local bodies do not provide this guidance and refinement, we do not think the proposed model is workable.

The cost of local interpretation could be significant both in terms of timing and resources and not all jurisdictions may be able to support this. This could also lead to significantly different outcomes in different jurisdictions with respect to what are fundamentally similar entities. The ability of local bodies to do this will also impact the timeline to adoption.

A decision on this proposal should be based on further outreach conducted by IESBA that indicates support specifically by smaller jurisdictions that they are able to apply the proposed model and a commitment that they will make the appropriate local determinations. To this end, and to ensure consistency of understanding and application, we recommend that the effective date should be aligned to the date the local jurisdictions have issued authoritative refining guidance.

We note that paragraph 50 of the EM states that “the second key component to the IESBA’s approach **requires** (emphasis added) the relevant local bodies to refine the IESBA’s PIE definition as part of the local adoption and implementation process” and as indicated in our response, we agree that this is critical to making the proposed model workable. However, we believe the Board should further consider the outcome if local bodies do not take this step and that the Board’s finalisation of the proposals should consider this eventuality.

We do not believe that the introduction to paragraph 400.14 A1, “*when terms other than public interest entity (such as listed entity) are applied to entities by law or regulation...*”, makes sense



given that “listed entity” or equivalent is proposed as a sub-set of PIE and is not an equivalent. We recommend that the words in brackets are deleted.

To further assist local bodies, we recommend that key terms are further defined (i.e. take deposits, provide insurance, provide post-employment benefits, the public).

See our further comments in response to question 7 below.

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 replacing the term “listed entity” with “publicly traded entity” as this is more reflective of the market and is better aligned with the “public interest”. Furthermore, it addresses the current interpretation difficulties around “recognised stock exchanges”.

We believe that local bodies have an important role to play here in determining which local trading markets or exchanges should be treated as publicly tradable, and that this should be made clear in the Code.

However, we believe that use of “publicly traded” also requires additional clarification/guidance to ensure consistency of understanding and application:

- We recommend that the key considerations included on pages 11 and 12 of the EM be included as explanatory material (or at least be covered in the Basis of Conclusions).
- We do not believe the definition should capture trading mechanisms which are in substance designed to assist individuals conduct a private sale, rather than genuine trading in the stocks of the entity. The definition of publicly traded needs therefore to also consider the size of the entity, the degree of sophistication of its governance structure, the depth of the market and liquidity of its stocks in deciding whether the securities are truly “publicly traded”.
- As example of a potential scenario which may be captured in the definition of “publicly traded entity” which we do not believe the Board intended to capture, nor do we believe it would be appropriate to capture, is where state and local governments finance their capital needs through the issuance of long-term debt, primarily tax-exempt municipal bonds. In addition, government entities sometimes issue conduit debt securities, the proceeds of which are used by third parties. These third parties are often not-for-profit or healthcare entities, and legally are the obligors for the conduit debt. These third parties are often referred to as “conduit debt obligors”. The debt issuer (the governmental entity) does not bear any responsibility for the repayment of the bonds. These municipal bonds often trade in OTC markets, and thus either the governmental/municipal issuer and/or the conduit debt obligor may fall under the proposed definition of “publicly traded” without further clarification/guidance.



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

We are concerned that categories (b) to (e) lack specificity and adequate definition and that this will lead to inconsistency in application and an overly broad application. The ED itself (400.15 A1) recognises that the categories are “broadly drawn” and absent more specific guidance provided by local bodies responsible for setting ethics standards for professional accountants by, for example, making reference to local law and regulation governing certain types of entities and/or excluding 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, we do not believe that the approach is workable. The role of local bodies is critical, as noted in our response to question 3 above.

This said, we can envisage that some local bodies might find it difficult to provide adequate reference points (e.g. in local law) as to what entities fall into certain categories, notably those that provide post-employment benefits.

Certain of our comments below on certain categories may be resolved by including a clear definition of “the public”.

In R400.14(b) and (c) we note that “main function” is not a defined term, although in many cases it may be straightforward to determine. We suggest the considerations included on page 13 of the EM be included as guidance to clarify the intended distinction between an entity “one of whose main functions” and “whose function”.

We comment on certain categories below:

(c) Insurance

The reference to insurance companies is vague and far-reaching, and it is not clear what entities this would include. For example, the proposed definition might capture captive insurers, and other insurers/reinsurers that are not writing business directly with the public, such as insurers/reinsurers only reinsuring groups risks, and insurers/reinsurers only taking business from other insurers/reinsurers, which we do not believe was intended as such entities would not generally be of significant interest to the public. This could be clarified by defining “the public” as excluding corporate entities.

It should be clarified that the entity intended to be captured by this provision is the entity that is exposed to the risk of the policy. Insurance brokers, who may be considered to “provide insurance” should not be captured by this definition as their financial condition is not relevant to the risk of the policy being honoured.

(d) Post-employment benefits

This definition is very broadly drawn and it is not clear what types of schemes would be included based on the additional guidance included in the EM. The EM states the proposals are intended to capture both pension funds available to the public and those that are restricted to the employees of specified entities. However, we do not consider that including all entities whose function is to



provide post-employment benefits are appropriately caught, in particular certain schemes that are restricted to employees of specified entities, on the basis of an absence of a broader public interest in certain such cases.

Further, if the intent, as we understand it, is to limit this to certain pension arrangements, as opposed to other post-employment benefits like health insurance, we recommend that this be clarified.

This seems to be an area where a number of regulators have considered, and rejected, treating certain pension schemes (or indeed their sponsor or employer) as PIEs and may quite reasonably use 400.15 A1 to exclude these entities under the proposed revisions.

Page 13 of the EM notes that “this category might include very small entities, particularly in the case of single employer-sponsored plans. Questions such as which types of post-employment funds should be included or whether there should be any size threshold are therefore left to be addressed at the local level as part of the adoption and implementation process.” However, this is a particular example of where there could be disproportionate and unintended consequences where local bodies are not sufficiently involved to appropriately refine such broadly drawn definitions and additional clarifying guidance in the Code to explain how “significant public interest in the financial condition of the entity” applies to this category, would help manage this risk.

For example, in certain jurisdictions, post-employment benefit plans that are defined benefit plans may be effectively secured by the state, depending on how the scheme is structured to protect the employees, and therefore potentially be of interest to the public. It should be clear from the Code that these types of arrangements should be distinguished from plans that are not protected in this way, or defined contribution plans, which would not have any direct impact on the public and therefore should not be considered to be in the public interest. Other examples may also provide helpful guidance, for example that multi-employer plans have a different risk profile than single employer plans that may impact the consideration of public interest given that single employer plans are not accessible to the public.

The size of pension schemes is a particularly relevant factor in determining the level of public interest. Size criteria, especially those linked to numbers of members or size of funds invested, will be relevant to determining the level of public interest in such schemes, for example, the FRC Ethical Standards definition of an OEPI (i.e. schemes with more than 10,000 members and more than £1 billion of assets, by reference to the most recent set of audited financial statements).

We would suggest it would be clearer to make the intended scope more explicit in R400.14 by adding “to the public and to the employees of specified entities, where the public has a significant interest in the financial condition of that entity” to the current proposed wording.

The EM also states the term “whose function” is used instead of “one of whose main functions” in order not to include all employers that just contractually provide post-employment benefits to their employees. It would be clearer to explicitly state this point.

(e) Fund vehicles

Without refinement of this category through involvement by the local body, this category would likely capture many entities that would not necessarily be public interest in certain jurisdictions, leading to inconsistency for substantially similar entities.



We question the assertion on page 14 of the EM which states “If the financial instruments are not redeemable by the entity (for example in the case of investment trusts or closed end mutual funds), then the entities are likely to be included in the proposed new term “publicly traded entity” as that would be the only means for the public holders to readily “realise their investment.”

We consider that “non-public” funds should be excluded from the proposed revised definition of PIE by IESBA.

We believe that an extremely important consideration for public interest entities in the context of funds are the investors as key stakeholders who bear the risk / reward (on a voluntary basis) of investing and engaging with such funds. As background, looking at the universe of “funds” they can broadly be divided into two categories as follows:

- “Public interest” funds could include funds that are widely distributed, or that have investment from a large number of retail / non “qualified” investors and could include some US mutual funds (‘40 Act funds), UCITS and unit trusts. However, there may be exceptions to those broad categories, for example, non-widely distributed UCITS or such funds with a small number of qualified investors. We recommend that guidelines be provided regarding what would qualify as true “public interest”.
- “Non-public interest” funds could include funds that are privately sold and distributed, or where restrictions are imposed by the fund on the types of investors who can hold interests in the fund, and therefore only available for investment to qualified / sophisticated and professional investors and, given their narrow distribution, whose financial condition will really only be of interest to a much smaller population (see our response to question 4 above). Such funds are typically subject to a private “subscription” document between the investor and the fund, and subscription and redemption activity is not on a facilitated market exchange. This could include US “non-public investment companies”, non- UCITS or Alternative Investment Funds, Private equity / debt/ credit funds etc. However, given there may be exceptions, we recommend that guidelines be provided regarding what would qualify as true “public interest”.

Following the logic of the exposure draft and considering the true “public interest” nature of funds, we note that the ED proposes moving from a “listed entity” being considered a PIE to a “publicly traded entity” being considered a PIE. The rationale per the consultation is that many listed entities that are not publicly traded do not attract significant public interest in their financial condition. Accordingly, it would seem counterintuitive to include “non-public” or private funds in the definition of a PIE.

The deepest and most mature market in the funds industry is the US and this revised approach would align closely with the way the SEC considers these funds. Mutual / 40 Act funds sold broadly are considered PIEs and essentially all others are considered non-public entities. Not only would this be consistent with the overall goal of the ED to identify true public interest entities, but it would



provide alignment and consistency in the industry which would clearly understand the delineation of the Funds Universe.

(f) Other

The current wording may be subject to differing interpretations as it is unclear whether there is a suggestion that the law or regulation would need to make reference to the objective specified in 400.9. We suggest revising this to “An entity specified in law or regulation for purposes of achieving an objective consistent with that described in paragraph 400.9.”

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 do not believe there is a need to provide a specific category for these situations as we do not consider entities that raise funds through ICOs to have public interest on that basis alone. However, the issuing entities typically have an underlying "White Paper" which states the objective of the fund raising, effectively a statement about the intended “use of proceeds” which could be assessed for elements of public interest. For example, the White Paper may indicate the proceeds will be used to develop a new Blockchain ecosystem that the White Paper asserts will be in the public interest because it will introduce a trust-based system for facilitating existing market transactions in a more transparent and trustworthy manner. This means that investors may be making ICO participation decisions not based solely on potential appreciation of their crypto-assets but also because of the purpose of the ICO articulated by the White Paper.

We support inclusion of such guidance/considerations in assessing whether ICO issuers should be considered as PIE based on the relevant facts and circumstances.

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?*

As indicated above in our response to question 3, local bodies play a vital role in making the proposed approach work. It is heavily reliant on these local bodies to provide reference points that are transparent and can be applied consistently. For example, the Australian bodies refer to the following, with further supporting reference points:

- *Prudential Regulatory Authority (APRA) under the Banking Act 1959;*
- *Authorised insurers and authorised NOHCs regulated by APRA under Section 122 of the Insurance Act 1973;*
- *Life insurance companies and registered NOHCs regulated by APRA under the Life Insurance Act 1995;*
- *Private health insurers regulated by APRA under the Private Health Insurance (Prudential Supervision) Act 2015;*



Absent sufficient and appropriate involvement of local bodies in fulfilling their role as proposed, we do not believe the proposed model is workable as the proposals would suggest that the responsibility would fall to firms to make the determination of whether an entity is in the public interest, which we do not agree is an appropriate role for firms, as addressed in our response to question 9. Further, we note that as the proposed role of firms is different from the proposed role of local bodies (determining if any additional entities or certain categories of entities should be treated as PIEs versus refinement of the IESBA definition), there is a potential gap in application/implementation that is not addressed in the proposals.

The decision to treat an entity as a PIE would, and should, rest with those charged with governance, although the Board needs to be aware that this will likely lead to greater divergence and outcomes as to when entities are treated as PIE or not.

We would ask the Board to further consider the potential outcomes and related risks in those jurisdictions, and specifically whether a decision on this proposal should be based on outreach conducted by IESBA that indicates support by smaller jurisdictions that they are able to apply the proposed model and a commitment that they will make the appropriate local determinations within the proposed timeline.

Local bodies within a jurisdiction, for example the audit regulator and the stock exchange regulator, should be encouraged to collaborate in agreeing common local definitions and in establishing the appropriate reference points to facilitate consistent implementation of the PIE definition in the jurisdiction. It is important that there is consistency of application and implementation within a jurisdiction.

The implication of this approach is that the guidance issued by local bodies should be more than “non-authoritative” so that entities and firms can place reliance thereon.

To make this clear, the role of local bodies could be clarified, through a combination of R400.14 with the substance of paragraph 400.15 A1, as follows:

“Bodies responsible for setting ethics standards for professional accountants shall consider each of the following categories in their definition of PIE, and [should] refine these categories by, for example, making reference to local law and regulation governing certain types of entities, and excluding entities that would otherwise fall within one of these categories for reasons relating to, for example, size or particular organizational structure:

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 that the supporting guidance issued by the IESBA to assist local bodies is a helpful start.

This will need IFAC resources to support and educate local bodies and this process will take time.



Please also see our comments in response to question 3 above where we highlight the critical role that local bodies will need to play in making the proposed model workable.

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 elevating the extant application material on this point to a requirement. The extant application material appropriately allows for those narrow circumstances where firms could encounter specific situations not envisaged by the Code or the local body and making such a decision may be in the public interest. It is not the role of the auditor to come to a different conclusion where IESBA and the local bodies do not view specific types of entities to be PIEs, nor is it in the public interest to have inconsistent definitions of PIE based on a particular firm's view. This would result in not only inconsistencies across jurisdictions but also within the same jurisdiction. Furthermore, there is an argument, even if in perception only, that firms have a self-interest in this determination, given that treating an entity as a PIE has consequences for the firm, notably regarding the provision of non-assurance services.

We do not believe it is appropriate for auditors to determine, for example, the potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity, or the importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure. Governments, regulators and/or local bodies are better placed to determine which entities meet these criteria.

Firms may provide guidance to their clients. The responsibility of the auditor in determining whether an entity is a PIE should be to examine the basis for management's conclusions and decide whether the evidence presented supports management's assertion.

In line with corporate governance principles and the respective responsibilities of management for the preparation of financial statements and auditors for their opinion upon them, responsibility for determination of whether an entity meets the definition of a PIE as defined by the Code and local bodies, or beyond this, whether an entity should voluntarily be treated as a PIE, should rest in the first instance with those charged with governance.

We further note that some of the data suggested which may appear to be simple to assess, such as number of stakeholders, could actually be onerous to gather and maintain.

Accordingly, we recommend that the introduction to paragraph R400.14 could be amended to read as follows (but see comments above):

For the purposes of this Part, a firm shall treat an entity as a public interest entity in accordance with definitions provided by local bodies or if so otherwise determined by those charged with governance. Such entities may fall within any of the following categories:

For this same reason, we do not support R400.16 nor 400.16 A1.

We do not believe that the reference to the "reasonable and informed third party" is appropriate or necessary. In broad terms we believe that these are factors that those charged with governance might wish to consider in their own evaluation.



Subjective considerations such as “when an entity is likely to become public interest”, “in the near future”, “similar circumstances” all lead to risk of increased inconsistency and confusion. Practically speaking, many entities already adopt many of the practices of a “publicly traded entity” prior to becoming listed in anticipation of a listing as part of their preparations, including application of any additional independence restrictions or other considerations, or changes in governance arrangements including establishing an independent board. As a Network, we support such steps taken by entities as part of the listing process, however, this should remain as a decision for the entity to make as, given the inherent uncertainty involved in the listing process, it would be difficult to provide meaningful and helpful guidance on when these structural changes should be made.

If this proposal remains unchanged, a provision that deals with circumstances where the entity disagrees with the auditor’s judgment would be needed. Without additional restrictions, the entity could simply appoint an audit firm who agrees their entity is not a PIE (thus extending non-assurance services that could be provided for example). It may also be helpful for the Board to contextualise this obligation for auditors with an expectation that it would be rare for an auditor to identify an entity with public interest that has not already been identified by local regulatory bodies. However, as noted above, this can also already be achieved with the extant provisions.

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

See above. We do not support inclusion of paragraphs 400.16 or 400.16 A1.

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

We do not support this proposal as we do not consider it appropriate for the auditor to make a statement on this matter when management does not also have obligations to determine and disclose whether an entity is a PIE. To do so risks the regulation of the behaviour of entities through regulation of the auditor, and the auditor should not be used as an agent of change in this way.

We note that the auditing standards, for reasons explained in the IAASB’s Basis for Conclusions when revising its auditor reporting standards, do not include a requirement for the application of ISA 701 for entities that are PIE but not listed. It seems inconsistent to mandate the auditor making a specific statement regarding the level of public interest in an entity, but not requiring that same auditor to give additional insights into their audit judgments to stakeholders. In addition, a requirement to publicly disclose whether an entity has been treated as a PIE does not make sense where the financial statements (and audit report) themselves are not publicly disclosed.

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.

See response to questions 11 and 15(c).

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 agree this is a complex area that requires fulsome consideration given the potential wider impacts of the revised PIE definition and, as such, that this warrants consideration through a separate workstream.

In particular, use of the term “related entities” requires careful consideration in the context of a broadened definition of PIE.

We understand that the Board’s project on “Group audits” will also bring some clarity on the application of the PIE requirements to the audit of group financial statements of a PIE. It is important that the IESBA coordinates with the IAASB on this project.

We support the Board’s proposal not to make any conforming changes to Part 4B.

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

The effective date of December 15, 2024 is likely not sufficient considering the work required at a local body level and the potential impact to entities and firms. Based on our comments regarding the required involvement of local bodies to make the proposed model workable, and to ensure consistency of understanding and application, we recommend that the effective date should be aligned to the date the local jurisdictions have issued authoritative refining guidance.

A longer transition period would be beneficial, particularly to allow smaller audit firms to understand the necessary revisions to their systems, processes and controls and to assess and manage the impact on their business due to greater service restrictions to their audit clients.

A longer timeline to implementation would also allow the IAASB to deliberate fully upon the proposals, and to decide if amendments to auditing standards may be appropriate, and then have sufficient time to consult upon these proposed amendments and implement any agreed changes.

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?*

We support seeking consistency and alignment of important principles and terms across both the Code and IAASB standards.

In particular, we consider greater transparency in auditor reporting to be an important aspect of enhancing confidence in the financial statements of PIEs, however, this should be read in conjunction with our other comments above, including management leading in the declaration that the entity is treated as a PIE, and below regarding providing further content in the auditor's report that is meaningful and avoids undue length and boilerplate text.

Subject to our comments on 400.8 and 400.9, the principle and factors seem suitable for use, across both the Code and the IAASB's standards, for the intended purpose of explaining factors that drive the extent of public interest and objective of local bodies designating an entity as PIE.

We support the IAASB's approach of evaluating the potential impact of a change in the context of the requirements and standards in which the term "listed" is currently used.

While there are relatively few references to "listed" across the IAASB standards, this will enable the IAASB to reach appropriately informed decisions, ensure there are no unintended consequences, and fulfil its due process.

For example, the additional disclosure requirements relating to Other Information in ISA 720 (Revised) may be one instance where retaining a differential requirement for listed (publicly traded) entities may be appropriate, in light of the relevant public listing obligations associated with such entities and taking into account the broader challenges reported in feedback to the IAASB's Auditor Reporting Post Implementation Review that may be exacerbated by extending the requirement more broadly.

Transparency Requirement for Firms (see also questions 11 and 12 above)

Where management has disclosed the fact that an entity has been treated as a PIE, we do not have an objection to Firms also disclosing this fact (see our comments above). However, as with any public disclosure, transparency needs to be evaluated in light of whether the matter being disclosed is meaningful to the intended user. Acknowledging that this is already practice in some jurisdictions, we would emphasise that such disclosure only has value if the reader has an understanding of what that means. The accompanying context for such disclosure, explaining the implications of such a designation, is therefore equally, if not more, important.

For this reason, inclusion of a detailed description of the context describing the implications of a PIE designation within the auditor's report would not be an optimal solution, adding further boilerplate text and length to a report that some feedback to the IAASB's Auditor Reporting Post Implementation Review has already noted contains too much boilerplate content and is too long.



We therefore support the IAASB's decision to consider this matter as part of its Post Implementation Review.

That being said, the auditor's report is likely the most accessible mechanism to share such information for users of the financial statements (and auditor's report thereon).

Firms that currently produce transparency reports could also use this as a mechanism for providing the relevant disclosure, which may already be the practice in some jurisdictions, however, such disclosure should be limited to information that is already otherwise public.