

30 April 2021

Mr Ken Siong
IESBA Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017
USA

Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

Dear Mr Siong,

We appreciate the opportunity to comment on the IESBA's proposed revisions to the definitions of listed entity and Public Interest Entity ("PIE").

We agree with the overarching objective for additional independence requirements for entities that are PIEs as we believe this is important to help ensure public confidence in the financial condition of such entities.

We think that as far as possible, there should be consistency in the definition of PIE internationally because this consistency will help understanding and thus public confidence. However, we recognise that this is difficult to achieve and we agree that this can be helped by requiring local standard setters to modify the IESBA definition of PIE to be most relevant to the local territory.

We agree with the project objective that, as far as possible, there should be consistency with the IAASB as to the categories of PIEs that are subject to additional independence and auditing requirements. We believe that a consistent approach will help public understanding and therefore public confidence.

Given the proposed requirement on local standard setters to modify the IESBA's categories of entity, we do not understand the need for a requirement on audit firms to determine whether additional entities should be treated as a PIE. We feel that this approach will lead to greater inconsistency and could lead to unforeseen consequences if different audit firms reach different conclusions for the same entity.

We think that this a very complex and important topic and we are sympathetic to the IAASB's view expressed in paragraph 48 that it needs to "consider the impact of expanding the differential requirements of listed entities to all PIEs, taking into account the rationale for applying these requirements to listed entities in its current standards. Upon review, the IAASB may conclude that differential requirements relating to the audit may be appropriate for a subset of PIEs, such as listed entities, instead of all categories of PIEs."

We recommend that the IESBA adopt the same approach; ideally, the IESBA and the IAASB would work together to determine the subset of PIEs that should be subject to the differential requirements of both standards that currently apply to listed entities. We believe that this approach would help ensure consistency,

increased understanding and consequently increased confidence and would help ensure that the requirements were proportionate to the category of entity concerned.

We are supportive of the IESBA's outreach to local bodies to facilitate their implementation. We think there is an opportunity through this process to strive for consistency internationally. Given the importance of this topic, we feel that sufficient time should be made available for the IESBA to do this outreach before implementation.

Given the additional consultation that we are recommending, we feel that the proposed implementation date is too soon and would recommend that this be pushed back to December 2025.

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?

Yes, we support the overarching objective to help enhance confidence in the financial statements through enhancing confidence in the audit of those financial statements for certain types of entities that are in the public interest.

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 for determining the level of public interest in an entity, but note that in many jurisdictions, many entities included in the definition of public interest entities are subject to regulatory supervision by regulatory bodies that have the authority and responsibility to establish auditing and independence standards with respect to audits of those entities.

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?**

We agree with the broad approach to include a list of categories of PIEs that can then be refined by the relevant local bodies. Leaving the categories so broad, however, will inevitably lead to inconsistency internationally which might lead to confusion, particularly in group situations.

As stated in our general comments, we think that the IESBA and the IAASB should work together to determine the subset of PIEs that should be subject to the differential requirements of both standards that currently apply to listed entities.

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.

We support the proposals for the new term “publicly traded entity” as this would exclude entities subject to the extant definition of listed entity which do not attract significant public interest in their financial condition, for example, entities whose financial instruments are listed but which are not available for public trading.

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

As stated in our general comments, we think that, like the IAASB, the IESBA should consider the impact of expanding the differential requirements of the current definition of PIEs to all PIEs.

We recommend that the IESBA and the IAASB work together to determine the subset of PIEs that should be subject to the differential requirements of both standards that currently apply to listed entities. We believe that this approach would help ensure consistency, increased understanding and consequently increased confidence and would help ensure that the requirements were proportionate to the category of entity concerned.

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 that ICOs should be captured as a further PIE category given that there is already the category of publicly traded entities which would cover most ICOs. The IESBA notes that the form and nature of the obligations taken on by an entity through ICOs can vary significantly and so it does not seem appropriate to include ICOs within a broad category of entities that fall within the definition of PIE.

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?

We support the provision of guidance for relevant local bodies in determining PIEs within their jurisdiction but, as outlined in questions 3, we are concerned that this would lead to divergence internationally which might lead to confusion, particularly in group situations. As far as possible the IESBA should try to reduce the level of inconsistency.

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?

As stated above, we believe this is a complex and important topic and agree with the proposed outreach and education support to relevant local bodies especially those in smaller and less developed jurisdictions. We recommend that one objective of the outreach should be to help ensure adoption and strive for consistency in approach internationally. It might therefore be helpful to share approaches of countries that have already determined their own definition of PIE.

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?

Given the proposed requirement on local standard setters to modify the IESBA's categories of PIEs we do not understand the need for a requirement on firms to determine their own policies. We believe that different firms may have different views on whether a particular entity meets the definition of PIE. This diverse approach will likely lead to confusion in the public and thus not help improve public confidence in the financial condition of entities and might lead to unforeseen consequences. For example, the approach could drive a Company to change auditors if one audit firm were to characterise an entity as a PIE and another audit firm were to decide it is not.

In many countries and jurisdictions, the status of being a PIE is usually defined by law or regulation and it usually creates additional requirements for the entities themselves (in terms of Governance for example, such as the obligation to have an audit committee and a requirement to obtain pre approval for non-audit services) as well as it creates additional obligations to the auditor (for example, rotation, concurring review, specific reporting to the audit committee). It also entails additional obligations for the supervisory authorities, such as the prohibition to delegate the inspection of PIE audit firms to the professional institute.

If the audit firm was to consider an entity as a PIE, based on its own criteria, it would nevertheless not be able to impose to the client entity the other requirements imposed by law to a PIE and the Public may be misled, especially if the audit firm discloses that it has considered the entity as a PIE, in believing that the entity has met all the requirements imposed to a PIE.

An alternative approach might be to encourage firms to make the consideration if its local standard setter has not modified the IESBA's category of PIEs.

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

Since we do not agree with the requirement in paragraph R400.16, we also do not agree with the inclusion of paragraph 400.16 A1.

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

No, given that we do not believe that the audit firm should amend the definition of PIE as determined by its relevant local body, there would be no need for the auditor to disclose that they have 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.

As above, we do not support the requirement for firms to determine if an entity is a PIE. However, if disclosure of an entity's status as a PIE is deemed necessary, we believe the entity and not the auditor would be the appropriate party to make such disclosure.

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?

Yes, although if the intention is ultimately to extend the definition of audit client for listed entities to all PIEs, then it would seem sensible to assess the impact of extending the definition to all the proposed categories of PIEs **before** it is determined what the definition of PIE should be. This further emphasises the need to determine the impact of extending the requirements of listed entities to all categories of PIE.

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

Yes.

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

Given that we feel there is a need to do more work to align with IAASB to agree an aligned definition of PIE and that we think it is important for the IESBA to perform an education outreach internationally, we feel that the proposed date is too soon and would recommend an effective date of December 2025.

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.

Yes, we believe it would enhance public confidence if there was a consistent approach for the IESBA and IAASB in classifying the type of entity in the public interest that should be subject to additional requirements. It does not seem to make sense that there would be a difference. However, we believe that it is necessary to assess the impact of expanding the differential requirements of the IESBA Independence Standards and the IAASB requirements to the different categories of PIEs. We believe that further joint work should be carried out by the IESBA and IAASB to strive to agree on a consistent approach before releasing an ED.

- (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.

No, we believe that it would be more helpful to consider whether additional types of entities should be subject to the additional requirements of listed entities and that that should be consistent with the IESBA definition.

- (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?

As above, we do not support the requirement for firms to determine if an entity is a PIE. As indicated above, any requirement to disclose that an entity is a PIE should rest with the entity issuing its financial statements, not the auditor

We would be pleased to discuss our comments further with members of the IESBA or its staff. If you have any questions or comments please do not hesitate to contact Pete Oastler (+44 (0) 7799 510 816) or me (+44 (0)207 601 1077).

Yours sincerely



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