

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

We welcome the opportunity to comment on these proposed revisions to the Code.

Moore Global is a leading mid-tier network with over 240 independent member firms in 113 countries. Our firms are multi-disciplinary practices, providing a wide range of professional services, which fall within the scope of this Exposure Draft.

Key points

Overall

We welcome the proposed revisions in the Code and the opportunity to provide input.

We support the general approach taken to strengthen auditor independence, the use of a broader definition of what constitutes a PIE, and the factors being proposed, subject to certain comments explained in the body of this response letter. We are also in support of the requirement for local jurisdictional amendments to the PIE definition. We do, however, not support the proposal that auditors define PIEs.

We agree with the underlying principle that some categories of entities require more stringent independence procedures, require more work effort such as an EQR, or require stronger rotation activities as it is in the public interest for such entities to be treated more robustly.

Our concern, however, is that the principle might be undermined as a result of the manner in which it is implemented. The proposed amendments do not consider all threats that might arise on implementation. The most significant threat identified in our discussion with member firms is that of inconsistency. This theme recurs throughout our responses to the specific questions below.

The proposed amendments place the onus for amending or adapting the definition of a PIE on regulators and individual auditors. We believe that IESBA should consider including addressing mitigation of this risks arising from this. We are further concerned that the onus placed on individual auditors are placing too much power and decision-making abilities in the hands of the auditor in determining whether an entity meets the definition of a PIE, creating a threat to the independence of the auditor. The code should require that auditors address risks integral to the audit, and that auditors do not solely rely on the legal definition of a PIE, but also consider other independence factors.

Not for profit entities (NFP) and charities also pose challenges in various jurisdictions. These are regulated entities so will be considered to be PIEs. The proposed disclosure of the entity's PIE status could lead to a perceived "two-tier" report with the perception that less reliance can be placed on the audit report of a non-PIE. An unintentional consequence of this may be that NFPs will all request to be treated as PIEs due to their reliance on public funding, and the perception that they will be less likely to receive funding if receiving a "second tier" or non-PIE audit report. We require more clarity on the issue from a not-for-profit entity's perspective. In addition, we suggest that specific entities such as charities are not named, but instead the definition of a PIE focuses on the characteristics of an entity that will result in a potential PIE.

Regarding the proposed change from Listed entity to Publicly traded entity, the term "publicly traded" may carry different meanings in different jurisdictions. We understand that the exchanges cannot be named, hence the use of a broader term, but feel that this requires further consideration.

Request for 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?

Yes. As mentioned in the summary above, we support the requirement for more robust approaches to the audit of entities in the public interest, and the subsequent need to ensure that entities are correctly identified and included in this definition.

We agree that the definition should be extended, and that independence should be strengthened for a wider range of entities.

We also support additional requirements, such as an EQR for example, for a wider group of entities, and are also not opposed to rotation requirements being applied more broadly.

Consistency issues, and threats that could arise from the potential of inconsistency within a jurisdiction and between firms within that jurisdiction are, however, concerning.

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?

Yes. We agree with the factors identified.

The proposed standard should make it clear that the list of factors should be considered in combination, rather than being considered in isolation. An example of a factor that could easily mislead if considered in isolation rather than in combination with the rest of the factors is the point regarding the replaceability of an entity in the event of financial failure. We acknowledge that the additional guidance mentions this approach, however it should also be reflected and made very clear in the standard itself.

We further have the following comments regarding specific factors:

- Size of the entity - this is a difficult concept to define without using any numerical calculations. As an example, some jurisdictions mandate the use of a Public Interest (PI) Score based on the revenue, number of employees, debt, etc. that gives an indication of the size of the entity. We are not suggesting that the IESBA should provide quantifications or determine size. This needs to rest with the local jurisdiction.
- Importance of the entity to the sector in which it operates, including how easily replaceable it is in the event of financial failure - if defined too broadly, this could result in the scoping in of entities with little or no public interest. This definition is subjective and could lead to inconsistencies when being applied.

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?

A broader definition is more helpful than the current PIE definition in the code. The high-level categories are a significant improvement on the extant definition that was somewhat restrictive. The definition is now more principles based.

We understand the need to have a broad approach, or indeed a high-level category of PIE.

There are currently existing inconsistencies across jurisdictions due to different PIE definitions and the absence of a universal definition. This is unavoidable due to the very different economies and legislative requirements between countries meaning that honing the definition at a local jurisdiction level will always be necessary.

It is therefore unavoidable that each jurisdiction will have differential PIE definitions.

However, the proposed approach will not only result in different definitions from jurisdiction to jurisdiction, but also potentially between firms within a jurisdiction due to the ability given to firms to amend the definition. We do not agree with firms arbitrating whether an entity is a PIE and consider that jurisdiction regulators should retain that responsibility.

Whilst each firm must implement appropriate responses to the unique risks presented by a client and should be able to implement additional safeguards to address these threats, auditors do not need to re-define a client as a PIE in order to implement additional safeguards.

Giving firms the ability to define what entities are PIEs, could lead to unintended consequences which could give rise to threats, for which we would highly recommend safeguards are considered and discussed. Examples of such consequences could include “definition shopping”, where entities “shop” for an auditor with the most beneficial approach for them to the definition of a PIE entity, therefore safeguards are needed. We have, in our introduction, given the example of NFPs moving towards more entities being classed as PIEs due to the reliance on public funding. By contrast, some audit clients may be attracted to auditors who do not assess the client as a PIE, in order to reduce the costs of the audit.

There will also be an impact on the definition of transnational audits that could potentially cause problems during the performance of such engagements. Although transnational audits are not defined by the IESBA, consideration should be given to the implications of this proposed amendments on the definition.

Group audits and shared or joint audits are also an area of concern. In a group situation, the question may be raised as to which party decides whether the entity is a PIE, with potential negative impact if the group auditor’s local definition differs from that of the component auditor.

The potential for inconsistencies arising from jurisdictional rules exists currently and is cause for concern, however, we suggest that, in attempting to remedy these concerns, any unanticipated consequences are considered.

- [Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?](#)

Yes, we concur that refinement by relevant local bodies is required as part of the adoption and implementation process.

We agree that local bodies should determine the size, as this in particular cannot be determined in any other way than by that jurisdictional entities.

It should be noted, however, that independence and conflict checking mandated within global networks of member firms will be complicated by the inconsistency in definitions between jurisdictions. Networks might therefore end up taking the conservative approach to include all entities considered a PIE in one of the jurisdictions. This could result in challenges in competitiveness.

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.](#)

The term “listed entity” is problematic in some jurisdictions. We therefore support the replacement of the term. However, the term “publicly traded” also carries different definitions in different jurisdictions. We understand that the exchanges cannot be named, hence the use of a broader term.

The definition “publicly traded” however needs to be further clarified and tightened, as it is currently too broad with too many anomalies in the implication of the definition.

For example, secondary markets are scoped out in many jurisdictions, but not all. It is unlikely that secondary markets will disappear, and more likely that innovative and new ways of trading emerge. These might not be “caught” in the new definition, whilst it would be in the public interest for it to be included. The recent WireCard fraud, although a PIE entity anyway, demonstrated how people are constantly innovating and designing new ways of trading.

The proposed revisions require more safeguards that are needed because of the existence of definitions.

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

Yes, with the understanding that relevant local bodies should refine the definition by incorporating guidance in terms of size and impact of entities on local sectors and markets.

Further refinement of the definition might be required to clarify, for example including medical and life assurance, but excluding brokers that only provide consulting advice.

In terms of entities whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public, whilst we agree that the “and” is required to specify only those issuing redeemable financial instruments, the concern lies with the definition of a redeemable financial instrument and the interpretation thereof, particularly given the level of innovative new instruments being issued. Complicated financial instruments should be scoped in, as these are a means of raising capital and hence in the public interest.

The definition of redeemable financial instruments should therefore be further defined. Currently the definition could result in further misunderstandings or inconsistencies, for example resulting in locally listed debt being scoped in. We agree that it should not refer to specific markets, but instead be principles based and clearly defined.

Similarly, collective investment vehicles as a broad definition could scope in closed private investment funds, such as high net worth individuals' investment funds. We assume that this is not the intention, as those are not of public interest.

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.

Yes, such entities should potentially be included as they raise funds from the public. This is however an area that needs to be investigated further, potentially involving specialists.

A potential concern with including such entities relates to the responsibility for regulation of entities, and potentially moving the onus of regulation to auditors away from regulators. Whilst agreeing that some should be scoped in, auditors should not be seen as a means of policing these unconventional/new types of capital raising entities.

We must again reiterate that the responsibility should not be with the auditor to be involved in defining entities as PIEs or not. The auditors should respond to the risks identified during any given engagement and based on the assessment of these risks or threats implement additional safeguards such as the use of an EQR on the engagement, rather than being involved in the decision making of determining if an entity is a 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?

Yes, we believe this necessary and appropriate. As described earlier in this response, consistency is however a concern that needs to be addressed with suitable safeguards.

Please also refer to our comment under question re developing nations.

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?

A particular area where local bodies would benefit from assistance from regulators is with governmental agencies. This is particularly pertinent in jurisdictions where PIE definitions are legislated in regulations or legislation.

Role of Firms

Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs?

We disagree with the proposition to require individual auditors to define PIEs. This could lead to further conflicts in independence without necessary safeguards available. The auditor should be able to respond to the risks of the specific client engagement and have the ability to address such risks identified through the addition of safeguards or additional “work” such as performing an EQR on the engagement. The auditor however should not be involved directly in determining which entity meets the PIE definition.

As noted earlier, the inconsistency concern may no longer only be between jurisdictions, but also between auditors within jurisdictions. This could have unintended consequences such as opinion shopping between auditors to find the most beneficial approach to the definition of a PIE. There is therefore a need to introduce safeguards against these unintended consequences.

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

We agree with this list of factors. However, the approach of individual firms amending the definition is problematic.

Specific comments:

- 3rd bullet point relating to whether the predecessor auditor treated the entity as a PIE, presupposes the disclosure of the entity’s status as a PIE. There is also an expectation raised that the mere fact that the predecessor auditor treated the entity as a PIE must result in the new auditor doing the same which, given the inconsistencies in definitions as previously mentioned, might not be the case.
- 5th bullet point regarding whether the entity requested the firm to treat it as a PIE might result in all NFP or charities being scoped in. This factor takes the control away from the auditor into the hands of the charities. Boards of charities might not understand the full implications of being categorised as a PIE, and public pressure might force them into requesting such a categorisation to potentially access funding. Users of audit reports would require extensive education to avoid this becoming a problem for such entities.

Transparency Requirement for Firms

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

Yes, as this is in the best interest of the public users. Disclosure could however have potential unintended consequences where users do not understand the difference between a private company, a public company, and a PIE.

The above is however based on the approach that the local jurisdiction is the final determination of the PIE definition, and that the individual auditor does not have the ability to further determine if the entity is a PIE. In that event, disclosure of the treatment of the entity as a PIE could lead to further complications.

11. 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.

The audit report is appropriate for this disclosure to the public as this is frequently the most read document by users of the financial statements.

The engagement letter can serve as disclosure to the board / audit committee of the entity at the start of the engagement to avoid misunderstanding at the reporting stage.

Other Matters

12. 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.

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

Yes.

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

Yes.

Matters for IAASB consideration

14. 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 agree with the underlying principle that some categories of entities requirement more stringent independence procedures, require more work effort such as EQR or require more stringent rotation activities given public interest.

Any proposed provisions must mirror the requirements in the ISAs and ISQM, for example rotation periods required.

- (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 specific comments on this area.

- (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?

Yes. Consider the disclosure forming part of the Key Audit Matters paragraph.

Request for General Comments

3. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- *Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

The inconsistency between jurisdiction and firm definitions of PIEs will complicate independence checking and conflict checking between member firms of networks, potentially pushing networks to revert to using the most conservative definition of a PIE.

- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

n/a

- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

Developing nations could experience additional threats if the local bodies do not sufficiently amend the broad definition and high-level categories proposed to account for size and other necessary factors.

- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

No specific translation issues identified; however, we recognize that translations of technical material can easily lead to incorrect interpretation and would recommend that IESBA be involved with each country translating the code to avoid inconsistencies between countries.