

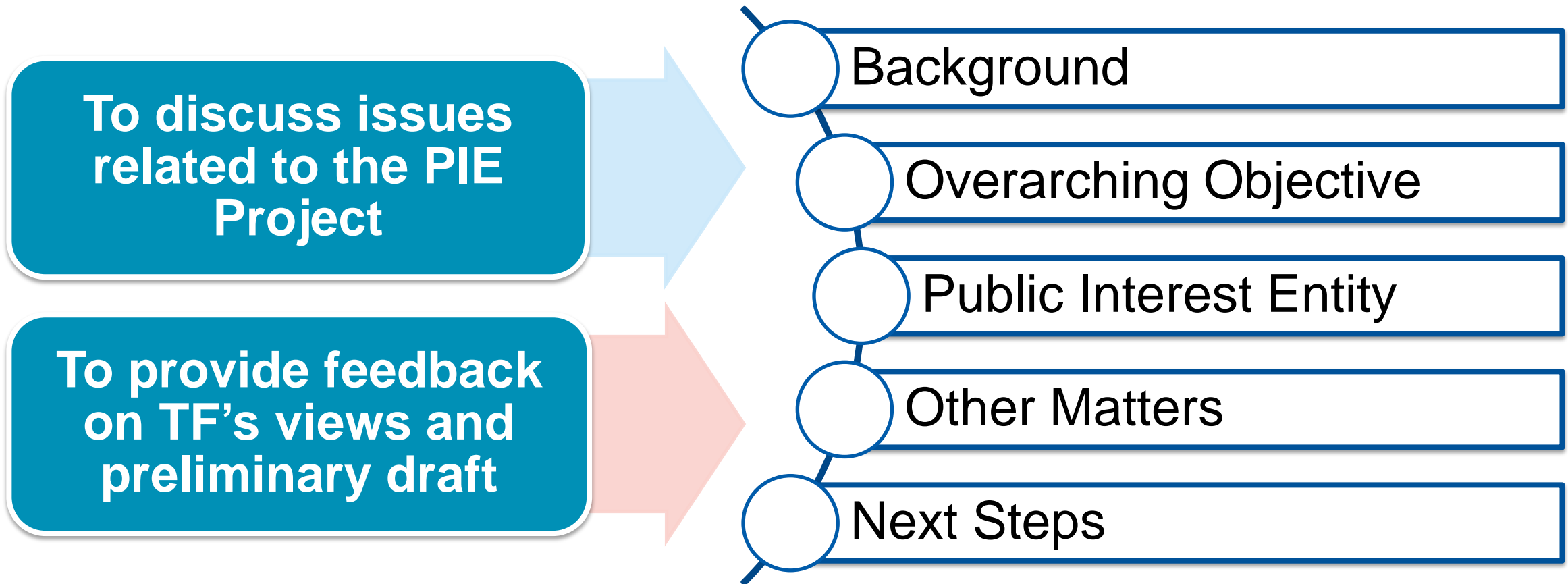
Definitions of Listed Entity & Public Interest Entity

Mike Ashley, Task Force Chair, IESBA
Member

IAASB Virtual Meeting

July 22, 2020

Objectives of Session



Background - Project Objectives and Focus



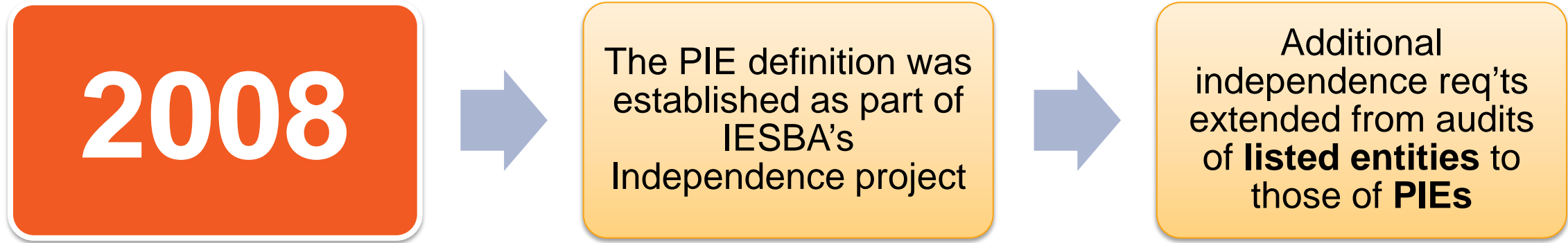
Review definitions of listed entity and PIE

- IESBA project in coordination with IAASB
- Develop common revised definition of listed entity and pathway of convergence between PIE and ESPI

Focus is on audits of financial statements and auditor independence (Part 4A)

- Focus on Part 4A of the International Independence Standards
- Implications for Part 4B to be considered

History of PIE Definition



In finalizing the PIE definition, the Board reached the following conclusions:

- Impracticable to develop a single global definition
- Listed entities should always be included in the definition
- Disagreed that certain listed entities should be scoped out as in some jurisdictions
- Did not specify any other categories (e.g., banking institutions, credit undertakings)
- The IASB definition of “public accountability entity” might inadvertently scope in small financial institutions

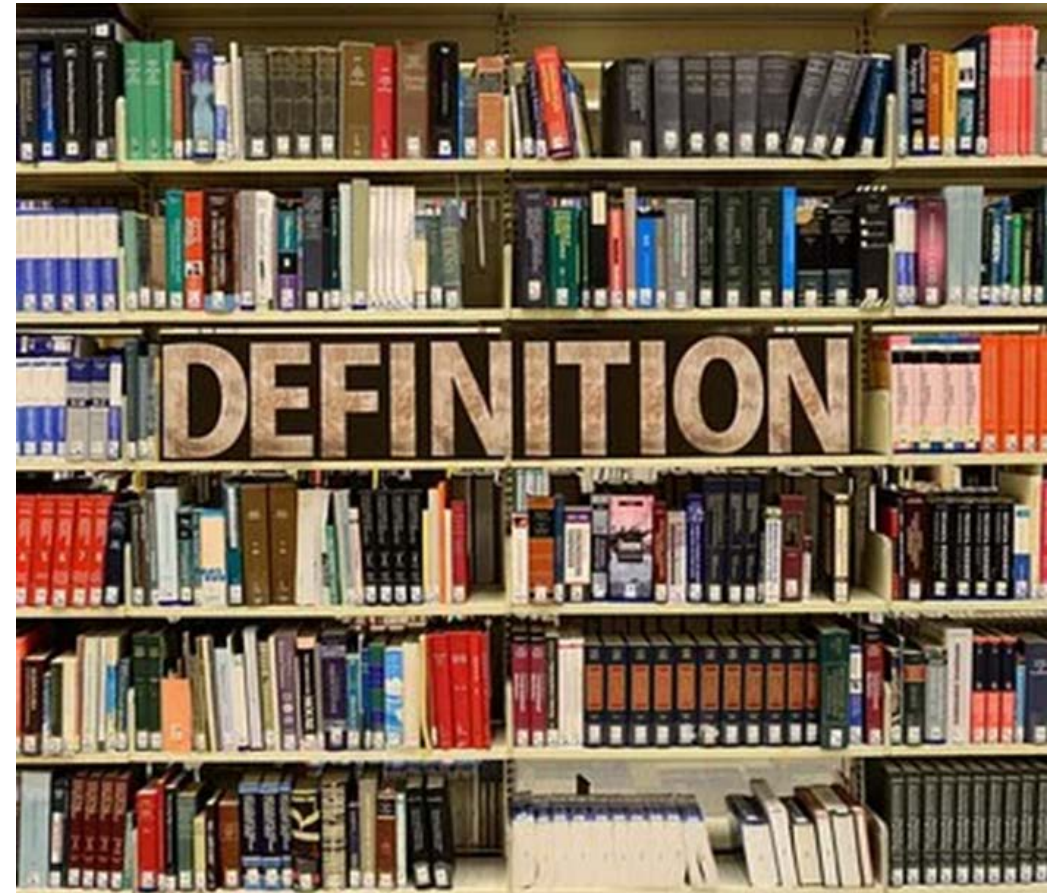
Feedback on Current Definitions

PIE

- Regulatory concerns:
 - Financial institutions not explicitly scoped in
 - Some regulators do not have capacity to set their own PIE definitions
- SMP concerns re making sure PIE requirements in the Code are proportionate

Listed entity

- Meaning of “recognized stock exchange” unclear
- Relevance of definition in light of developments in capital markets and new ways of capital raising



Approaches Taken by IAASB and IASB

- **Listed entity**
 - IAASB's definition identical to IESBA's definition
 - Currently used by IAASB re requirements for communication with TCWG, auditor reporting and performing EQCR
- **Entity of Significant PI/Public Accountability Entity**
 - IAASB's ESPI established to allow the requirements for listed entities to extend to other entities according to specified criteria similar to the Code's
 - IAASB's approach intended to avoid challenges in applying a global definition of PIE re variability and undue burdens on small entities
 - IASB introduced the concept of an entity having "public accountability" for SMEs applying IFRS (e.g., entities that hold assets in a fiduciary capacity)



Listed Entity	ESPI
ISA 260	ISA 260
ISA 700	ISA 700
ISA 701	
ISA 720	
ISQC 1	

Activities since January 2020



Meetings

IESBA March and
June 2020

CAG March

Stakeholder discussions

FoF Meeting

IESBA-IAASB NSS joint Session

IFIAR SCWG

FSB

PAOs (IRBA, APESB, XRB, ZICA)

PIOB Comments – As of April 2020



- Definition of PIE is crucial to determine categories of entities that are subject to stricter provisions under the Code
- Alignment b/w IESBA and IAASB approaches helps with consistent application of the two sets of standards
- PIE definition should include all entities which have a public impact on society
 - E.g., financial institutions, listed companies, significant utility companies
 - Entities defined as PIEs by national regulators

Overarching Objective for Additional Requirements

Overarching Objective

for additional
independence
requirements



Overarching Objective for Additional Requirements

Overarching Objective

for additional requirements

Significant public interest in the financial condition of certain entities



Public confidence in those financial statements are important



Confidence in their audits will enhance public confidence in those financial statements



Additional requirements will enhance confidence in their audits which in turn will enhance confidence in those financial statements

Overarching Objective for Additional Requirements

Overarching Objective

for additional
requirements

To promote confidence in the audit of certain entities, **additional requirements** will likely be a mixture of **BOTH** independence and audit/quality control requirements:

- This is why the PIOB, as already noted, strongly supports alignment between IESBA and IAASB approaches on the PIE concept
- E.g., the EU audit regulation contains enhanced requirements for both independence and audit for PIEs

Overarching Objective for Additional Requirements

Overarching Objective

for additional requirements

Do you agree with:

- The idea of an overarching objective for additional requirements to enhance confidence in the audit of certain entities; and
- if the same overarching objective should support application of additional requirements as specified by both Boards



Overarching Objective

June 2020 Proposals

TF view and proposals:

- Additional independence requirements and AM for PIEs because of significant PI in their financial **condition**
- Not about having a different “level” of independence
- Focus of PI is on an entity’s financial condition as Part 4A is about audit of financial statements
- Focus is not on other matters (e.g., PI in the entity’s operations or quality of services)
- Sufficiently broad to cover not only those in financial sector but also entities of systemic significance from a financial perspective

Public Interest Entities

400.8

Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities. The extent of public interest will depend on factors including:

- The nature of the business, such as taking on financial obligations to the public as part of an entity’s primary business.
- Size of the entity.
- The importance of the entity to the markets in which it operates.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other entities and the economy as a whole in the event of financial failure.

400.9

The purpose of these additional requirements and application material for public interest entities is to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements. |

Overarching Objective

June 2020 Proposals

TF view and proposals:

- A non-exhaustive list of factors to determine the level of PI
 - Drawn from the extant 400.8
 - Bullet 3 - impact on its market
 - Bullet 4 - impact on an entity's stakeholders
 - Bullet 5 - impact on the overall economic system

Public Interest Entities

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Overarching Objective

June 2020 Proposals

Board comments in June:

- Supportive of proposed overarching objective
- Whether the list of factors should cover
 - impact on society as a whole (eg ESG criteria)
 - Market infrastructure entities, stock exchange, commodity exchange
- Whether bullet 5 should form part of the overarching objective
- Need to distinguish between financial failure and operational failure

Public Interest Entities

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Overarching Objective

Comment/view on

- Proposed overarching objective set out in proposed paragraphs 400.8 and 400.9
- Subject to view on the proposed overarching objective, whether PIE should replace listed entity in ISAs?



Replace
Listed entity with PIE?

Definition of Public Interest Entity

TF preliminary observations of local definitions:

- Some categories of entities in PIE definitions are further defined by other legal instruments or by certain thresholds
- Some jurisdictions use the IESBA definition but with added entities (e.g., Australia, South Africa, Singapore)
- Some jurisdictions elevated **AM** for firms to determine if additional entities should be treated as PIE to **requirement**
- Difficult, if not impossible, to develop a single definition of PIE at a global level without needing significant modification and refinement at local level



Example of EU PIE Definition



Approach to Developing Definition of PIE

2 possible approaches

Narrow

A short and narrow list of categories, similar to the current definition of PIE in the Code, to which local regulators and authorities may continue to add

Broad

A longer and more broadly defined list which local regulators and authorities can modify by tightening definitions, setting size criteria and adding or exempting particular types of entities

Definition of Public Interest Entity

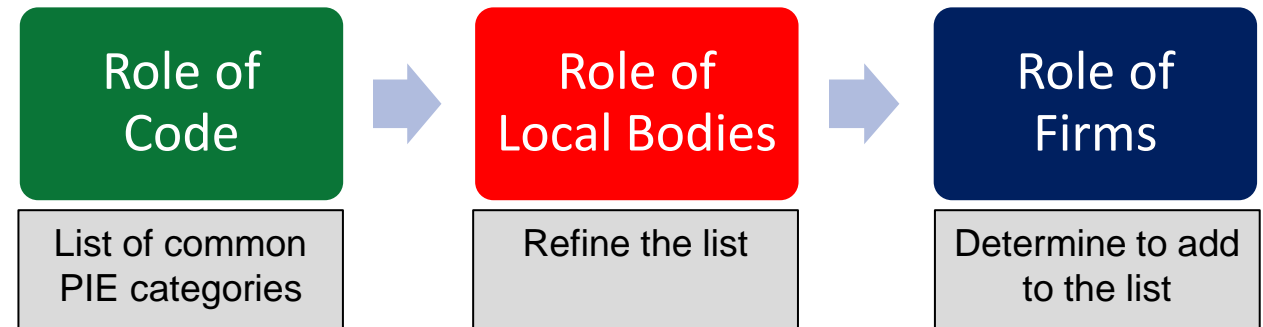
Approach 1 (Narrow)

A short and narrow list of categories, similar to the current definition of PIE in the Code, to which local regulators and authorities may continue to add

Approach 2 (Broad)

A longer and more broadly defined list which local regulators and authorities can modify by tightening definitions, setting size criteria and adding or exempting particular types of entities

- IESBA was generally supportive of Approach 2 (TF's preferred approach)
- Stakeholders (including IFIAR SCWG) also supportive of Approach 2
- Three key components to this approach:



- TF noted concerns about capacity of regulators/local bodies raised by IESBA members and other stakeholders (Discussed in later slides)

Expanded List of PIE Categories

Role of
Code



Role of
Local
Bodies



Role of
Firms

TF view and proposals:

- List in proposed R400.14 is based largely on review of PIE lists in other jurisdictions
- TF rationale:
 - **“80/20” rule** – include categories that will be likely to be adopted by most jurisdictions
 - **Include** categories if only excluded by local bodies because they are very small
 - **Exclude** categories that are only included by local bodies because they are very large
- General support for the proposed categories, except
 - A few queried (d) re post-employment benefits

- a) An entity whose shares, stock or debts are publicly traded
- b) An entity one of whose main functions is to take deposits from the public
- c) An entity one of whose main functions is to provide insurance to the public
- d) An entity whose function is to provide post-employment benefits
- e) An entity that pools money from the public to purchase shares, stock and debts
- f) An entity specified as such by law or regulation

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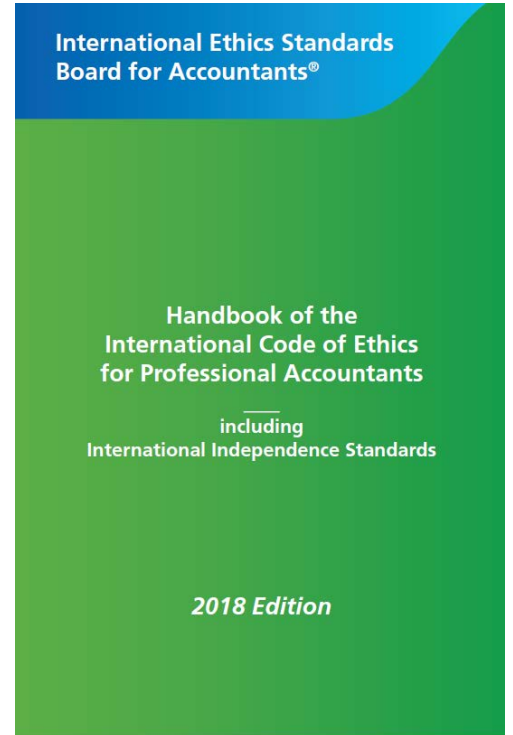
Listed Entity



Extant Code Definition

Listed Entity -

An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body



Listed Entity



- FoF participants:
 - “recognized stock exchange” in the Code is treated as broader than “regulated market” in the EU PIE definition
 - When applying the Code’s PIE definition, FoF members do not appear to exclude any securities markets open to public
- NSS participants:
 - “listed entity” or an equivalent term includes not only the primary markets but also other secondary or alternative markets
 - Canada has a size test
 - US PCAOB and SEC use “issuer”
 - In UK, does not include entities whose securities that cannot be traded

Listed Entity



(a) An entity whose shares, stock or debts are publicly traded;

TF view and proposals:

- Category (a) of 400.8 = A proposed a new definition or replacement for “listed entity”
- Removes confusion of “recognized stock exchange”
- Both FoF and NSS participants generally include other secondary markets

Listed Entity

IFRS for SMEs definition of public accountability entity

public accountability

An entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or*
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.*

publicly traded (debt or equity instruments)

Traded, or in process of being issued for trading, in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(a) An entity whose shares, stock or debts are publicly traded;

TF view and proposals:

“...In the process of being publicly traded”:

- A number of stakeholders have asked the TF to consider entities “in the process” of being listed
- IFRS for SMEs definition of public accountability
- TF agree can be PI in the financial condition of such entities
- Issues:
 - At what stage of the process should an entity be included and how to articulate in the Code?
 - Should other PIE categories be similarly expanded?
- Option: include in the additional factors for firm consideration

Whether the entity is likely to become a public interest entity before the conclusion of the subsequent year's audit

Expanded List of PIE Categories

**Role of
Code**



**Role of
Local
Bodies**



**Role of
Firms**

Comment/view on

- Category (a) in paragraph R400.14 as a possible replacement for listed entity in the Code
- How should entities about to enter the public market be addressed?
- Categories (b) – (f) in paragraph R400.14



- a) An entity whose shares, stock or debts are publicly traded
- b) An entity one of whose main functions is to take deposits from the public
- c) An entity one of whose main functions is to provide insurance to the public
- d) An entity whose function is to provide post-employment benefits
- e) An entity that pools money from the public to purchase shares, stock and debts
- f) An entity specified as such by law or regulation

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- e) An entity that pools money from the public to

Expanded List of PIE Categories

**Role of
Code**



**Role of
Local
Bodies**



**Role of
Firms**

Custodians

Charities

Public Utility
Entities

Public Sector
Entities

Large Private
Companies

Private Equity
Funds

Systemically
Significant
Entities

Public
Accountability
Entity

Others?

- a) An entity whose shares, stock or debts are publicly traded
- b) An entity one of whose main functions is to take deposits from the public
- c) An entity one of whose main functions is to provide insurance to the public
- d) An entity whose function is to provide post-employment benefits
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Expanded List of PIE Categories

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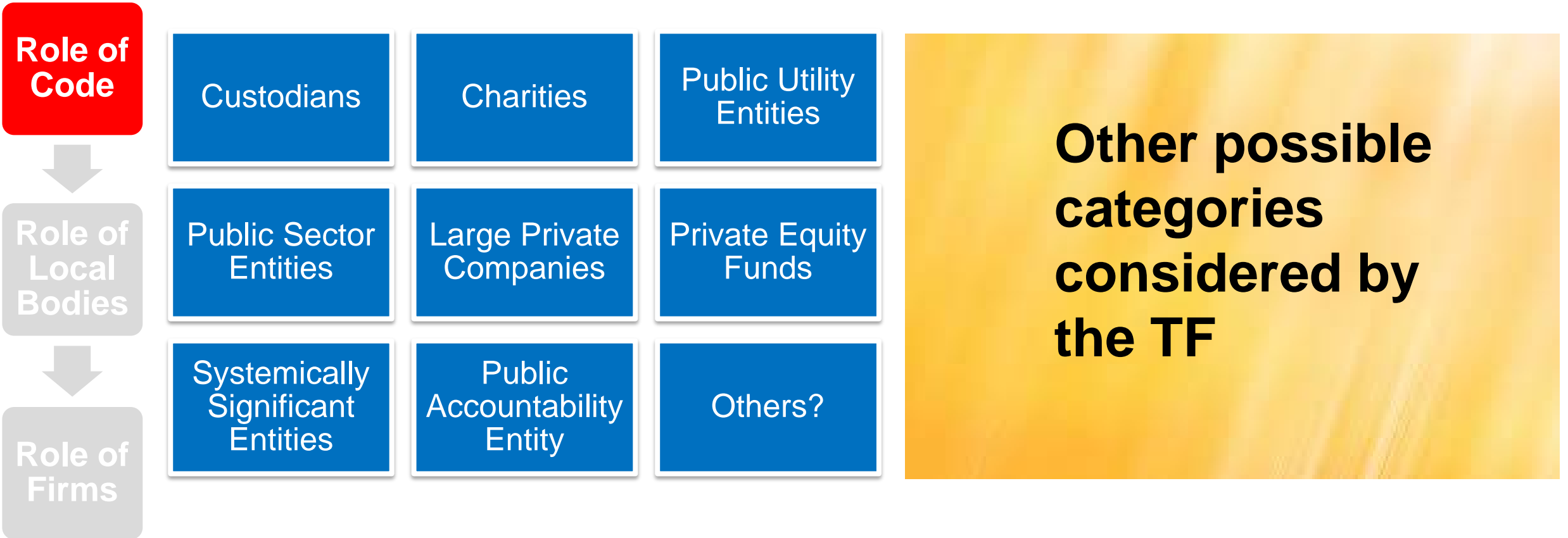


Role of
Firms

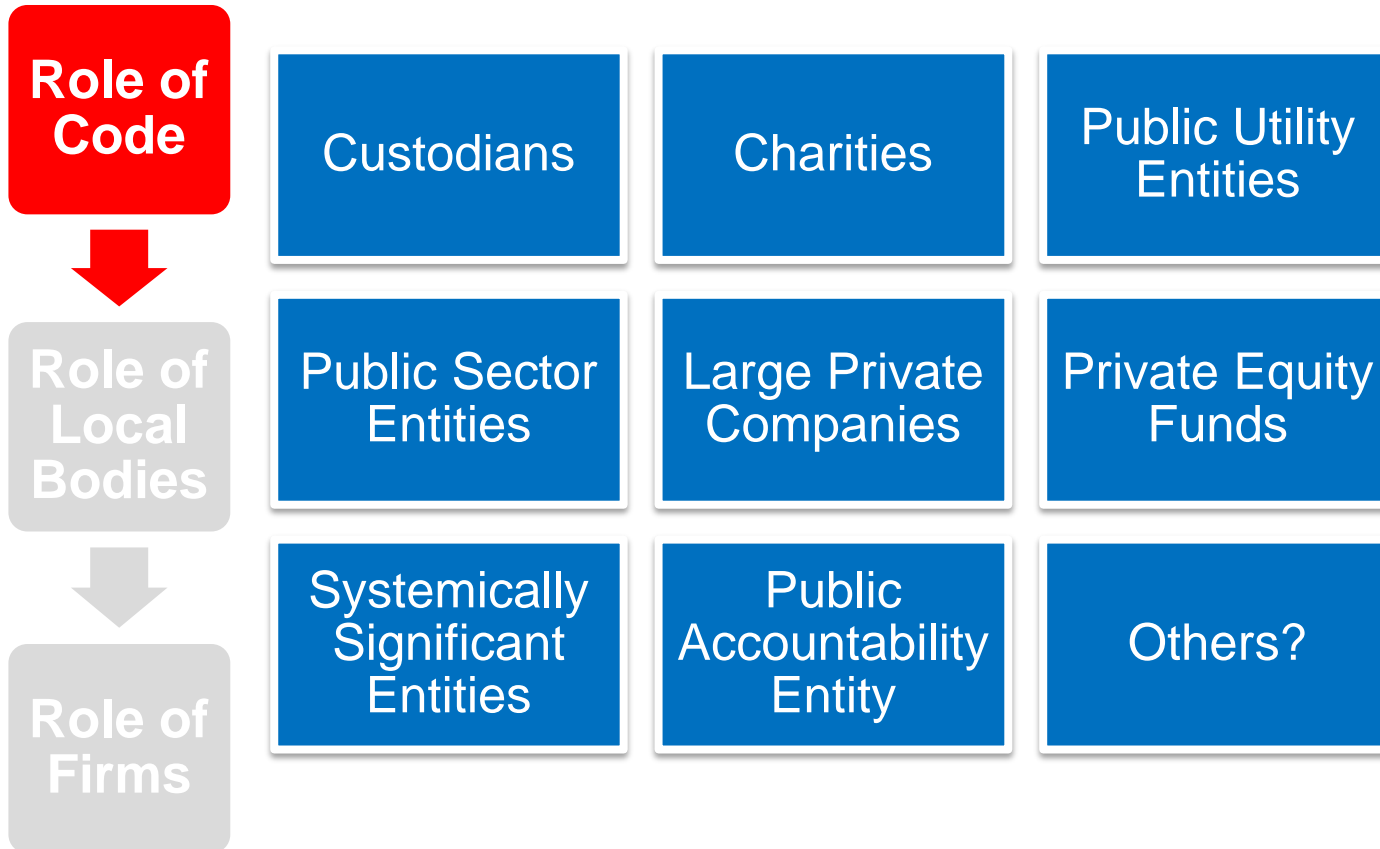
Custodian

- Custodian is an entity, often a financial institution, which maintains assets on behalf of a third-party client; may also provide a range of services including advisory or discretionary investment management
- There is PI in the proper maintenance and integrity of systems used to control and report on the client assets.
- Such assets are not generally included in the entity's own financial statements (and hence not subject to audit as such); separate reports on the systems of control over such assets may however be provided by the entity's auditor
- Some stakeholders felt that custodians should be included as a PIE because of the potential financial impact on a custodian's clients if assets are misappropriated by the custodian.
- The TF has not reached consensus if custodians should be included as PIE. The TF is also exploring if the PI in reporting on the safe custody of assets might be better fit under Part 4B

Expanded List of PIE Categories



Expanded List of PIE Categories



Comment/view on

- Categories considered by the TF
- Other possible categories



Expected Role of Local Bodies

Role of
Code



Role of
Local
Bodies



Role of
Firms

- Under this approach, the Code's list needs to be refined because of its high-level nature.
- If not, the standards might inadvertently scope in the wrong entities or not scope in others where appropriate.
- TF is of the preliminary view that this can and should be only be done at a local level.
- Many more developed jurisdictions have already implemented an expanded list:
 - E.g., EU member states, UK, Aust, NZ, South Africa
- IRBA, APESB and XRB:
 - Experience with their expanded lists is positive
 - List heavily influenced by other regulators



Expected Role of Local Bodies

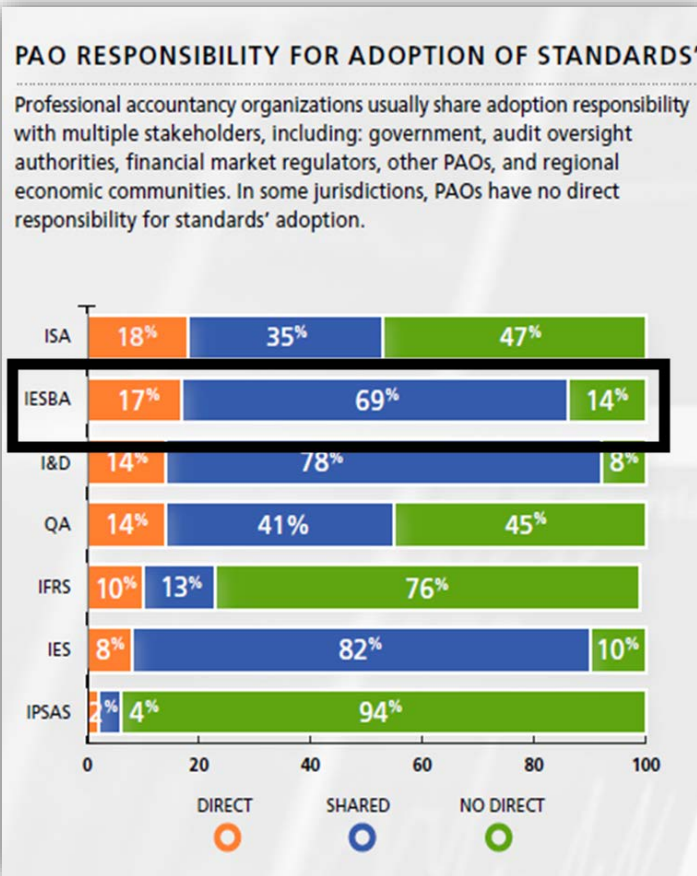
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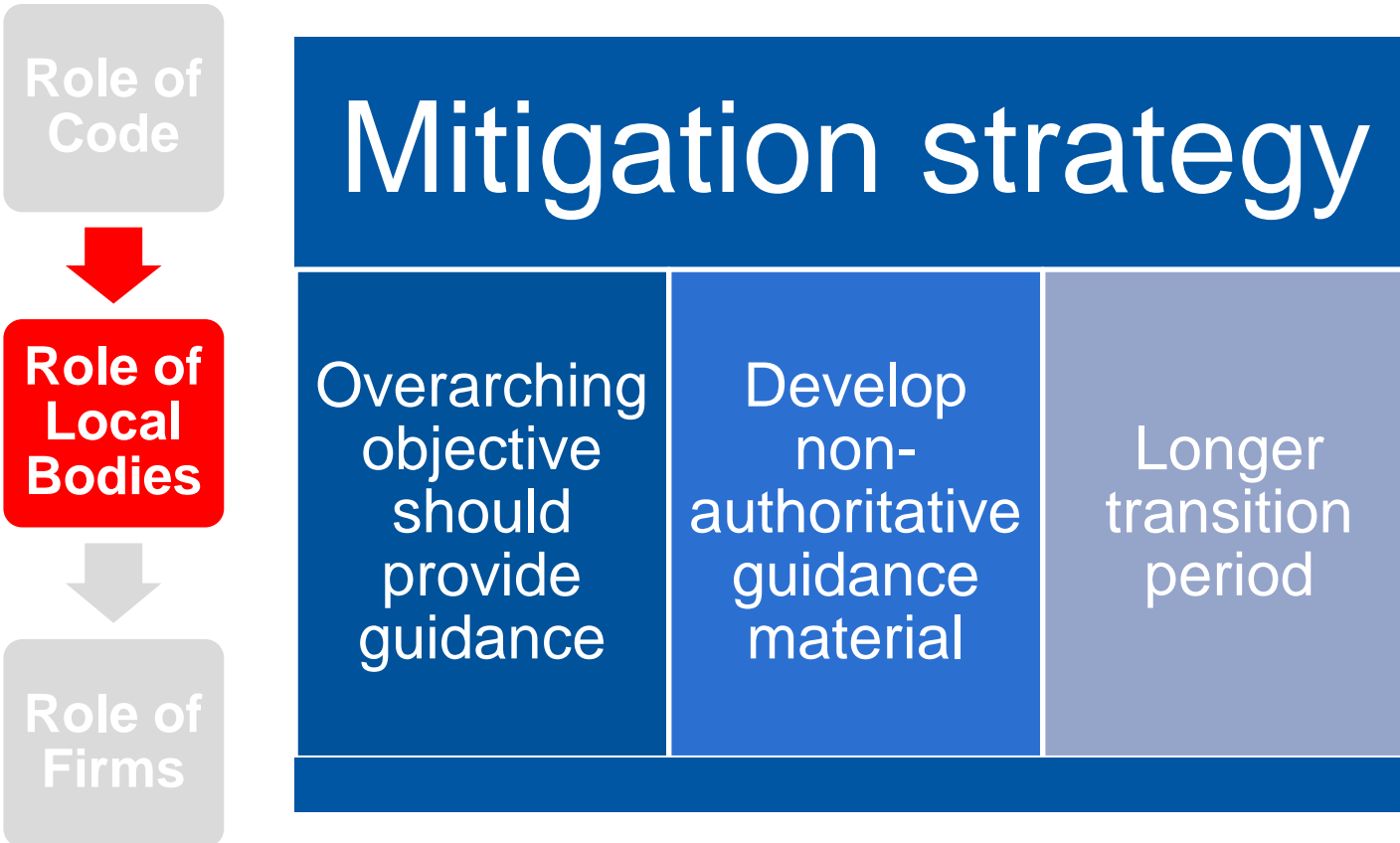
key issues

- Some developing jurisdictions might not have the capacity (capability, knowledge or resource)
- Some jurisdictions might adopt the Code as is or simply reference the Code in law or regulation

Further investigation

- Working with IFAC to gain a better understanding of which PAOs have authority to adopt the Code
 - 86% have full or partial responsibility
 - Approx. 1/3 with direct responsibility from Africa
 - “No direct responsibility” jurisdictions include EU states, Aust and NZ
- Stakeholder outreaches:
 - Global level – e.g., IOSCO
 - Local level - PAOs, NSS, regulators

Expected Role of Local Bodies



Expected Role of Local Bodies

Role of
Code



Role of
Local
Bodies



Role of
Firms

Comment/view on

- Expected role of local bodies under the TF's current approach, including the risk of a lack of capacity



Role of Firms

Role of
Code



Role of
Local
Bodies



Role of
Firms



- TF proposed firms should be **required** to determine if additional entities be treated as PIEs
- IESBA was generally supportive of proposed changes in role of firms – Elevate AM to requirement
- Stakeholders incl. FoF and NSS also supportive
- APESB and IRBA both elevated AM to requirement:
 - Both did not have concerns from firms
 - Inspections leading to greater level of consistency
 - Example of treatment of universities in South Africa

Role of Firms

Role of
Code



Role of
Local
Bodies



Role of
Firms



List of additional factors (R400.17)

- In addition to factors in 400.8:
 - Whether the entity has been specified as not being a PIE by law or regulation.
 - [Whether the entity is likely to become a PIE before the conclusion of the subsequent year's audit]
 - Whether request to treat the entity as a PIE and, if so, whether there are any reasons for not meeting this request.
 - The entity's corporate governance arrangements

Role of Firms

Role of
Code



Role of
Local
Bodies



Role of
Firms



Transparency (R400.18)

- One effect of the TF's proposals is potential lack of clarity of whether an entity has been treated as PIE
- It would assist to be explicit in either the financial statements or audit report
- Proposed requirements for firms to publicly disclose if an audit client was treated as PIE
- ISAs 700 and 260

Role of Firms

Role of
Code



Role of
Local
Bodies



Role of
Firms



Comment/view on

- Proposed requirement to disclose in audit report (R400.18)
- Other proposals for the role of firms



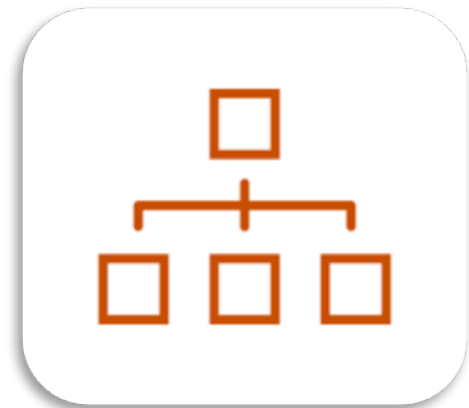
Other Matters

PIE vs SPIE

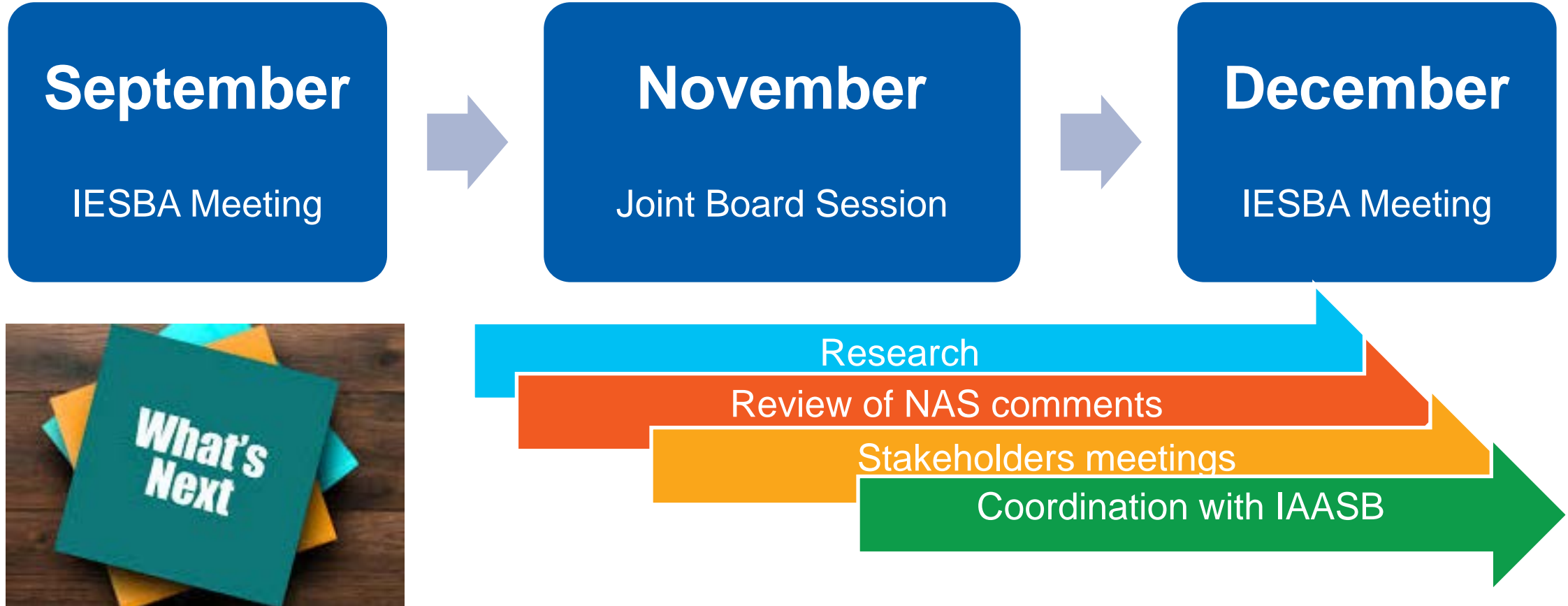
- Both Board and stakeholders preferred the “Public Interest Entity” (PIE) to Significant Public Entity (SPIE)
- TF agreed to retain “PIE” but retain phrase “significant public interest” in 400.8

Related Entity

- TF acknowledged concerns with extending the inclusion of related entities from listed entities to PIEs
- TF will determine in Q3 how it should continue with its proposals
- TF will develop its view in conjunction with the ET-GA TF



Next Steps



Any Other Comments





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