

Definitions of Listed Entity & Public Interest Entity

Mike Ashley

Task Force Chair, IESBA Member

Josephine Jackson

Task Force Correspondent Member, IAASB Member

IAASB Meeting

November 10, 2020

Virtual

Objectives of Session

**To provide views on
IAASB related issues**

Recap and Information Gathering

Overarching Objective

PIE Definition

Local Body Capacity to Refine Code

Firms & Transparency Disclosure

Other Matters

IAASB July 2020 PIE Session



- First opportunity for IAASB to discuss as a Board
- General support for shared overarching objective for additional independence and audit quality related requirements
- Recognized the direction of the Task Force’s work in exploring replacing the term “listed entity” with “PIE” in the ISAs
- Similar concerns about local body capacity to refine the high-level PIE definition
- Mixed views about suggested transparency disclosure requirement in ISAs

Information Gathering Since July 2020

NAS Exposure Draft

Exposure Draft
January 2020
Comments due: May 4, 2020

International Ethics Standards Board
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Proposed Revisions to the
Non-Assurance Services
Provisions of the Code

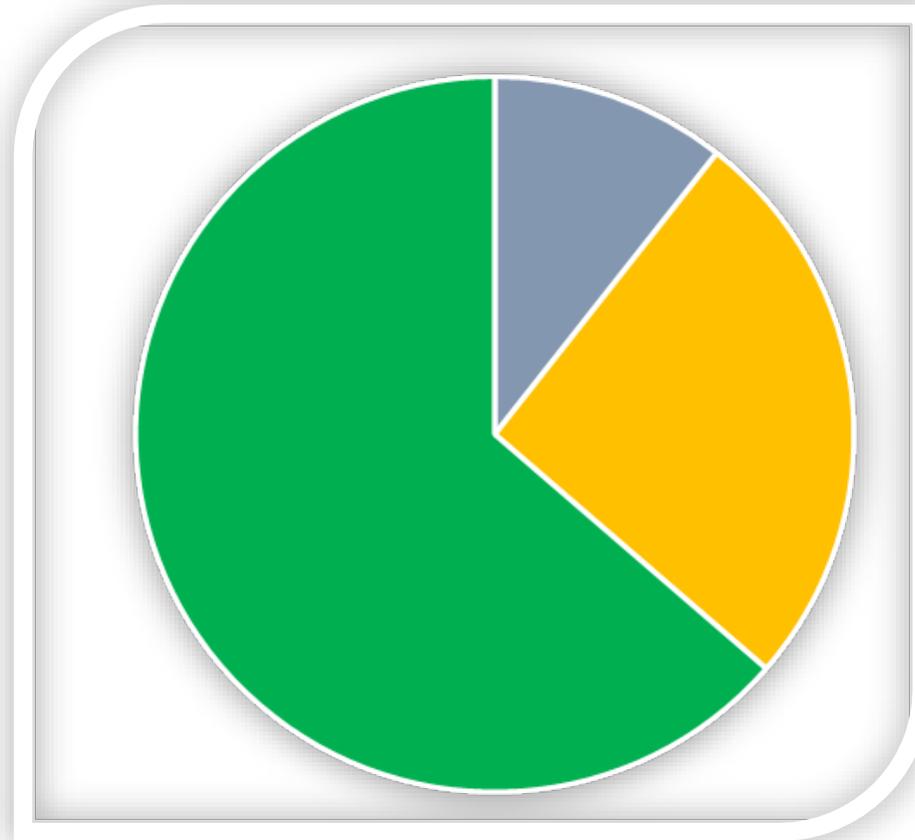
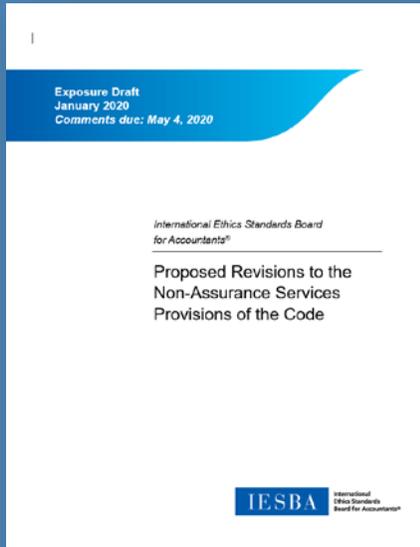
IESBA International
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Stakeholder Discussions

- **Joint IAASB-IESBA CAG Session**
- **PAO meetings & survey**
- **FoF questionnaire on related entity**
- **SMP Advisory Group (Nov 24)**

Responses to NAS ED Question 4

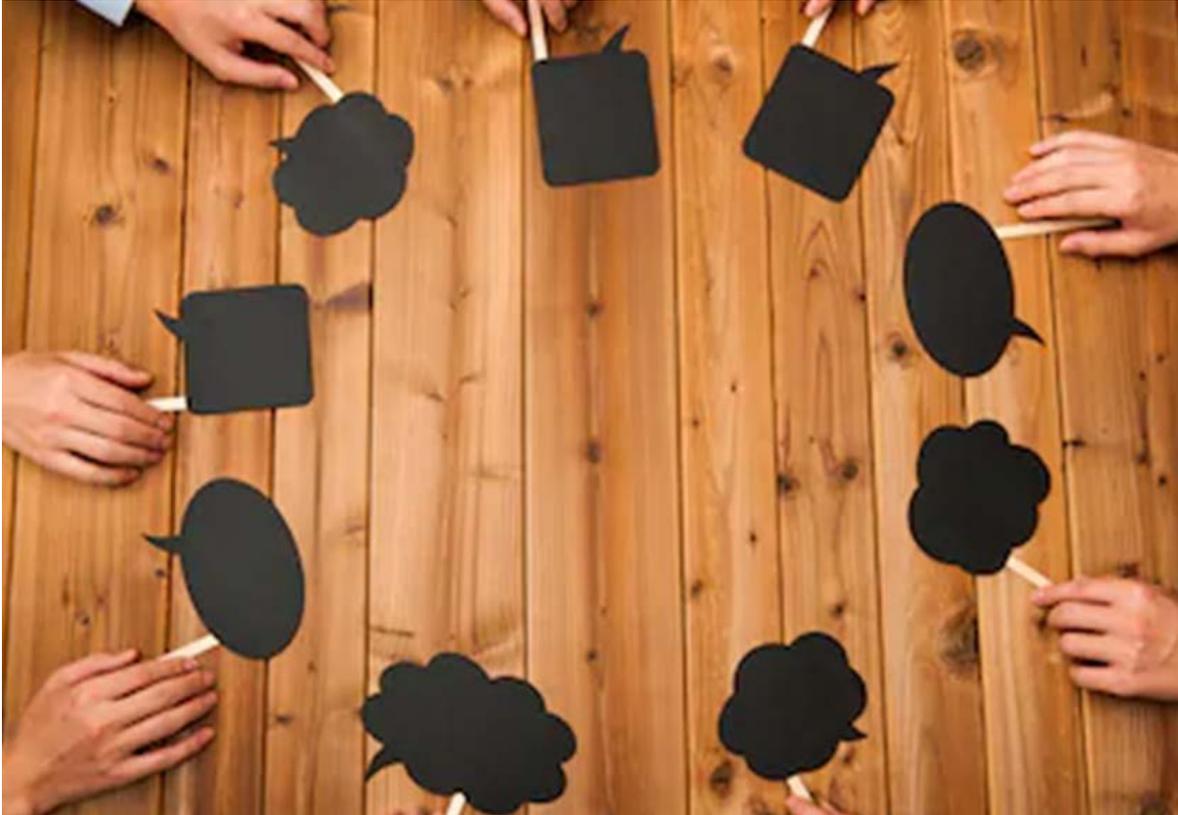
Respondents were asked to share views on whether the IESBA should consider in undertaking its project to review the definition of a PIE



No new significant issues raised by respondents

17 no comments, 42 support, 7 do not support

Oct 2020 Joint IAASB-IEBSA CAG



- Support for shared overarching objective and list of factors in paragraphs 400.8 and 400.9
- TF Chair clarified the focus of public interest is on financial condition
- A few queries/comments about the list of PIE categories and other categories considered but generally supportive
- A few queries/comments on the new requirement for firms to determine if additional entities should be treated as PIE

Overarching Objective for Additional Requirements

Overarching Objective

for additional requirements
(Proposed 400.8 and 400.9)

RECAP

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

Revised First Read – 400.8 and 400.9

Key changes to July version and other comments:

400.8

- Lead in - Retain “financial condition”
- Bullet #2 – A new factor about entities subject to financial and prudential regulatory supervision
- Bullet #4 – new material to capture the idea of “substitutability”, a characteristics common to some public utility entities and FMI entities

400.9

- Remove “additional” in to address IAASB concerns about perception of 2 tiers of audit quality
- No changes needed to reflect minor differences in how the overarching objective should be expressed in the two Boards’ standards
- No reference to independence requirements so it can also be adopted by IAASB

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 or activities, such as taking on financial obligations to the public as part of an entity’s primary business.
 - Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
 - Size of the entity.
 - The importance of the entity to the marketsector in which it operates including whether it is easily replaceable in the event of financial failure.
 - Number and nature of stakeholders including investors, customers, creditors and employees.
 - The potential systemic impact on other entitiessectors and the economy as a whole in the event of financial failure of the entity.
- 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.

Matters for IAASB Consideration



1. Does the Board (continue to) support:

The proposed overarching objective as expressed in paragraph 400.9 of the IESBA Code (read together with paragraph 400.8) for use by both the IESBA and IAASB in establishing differential requirements for certain entities?

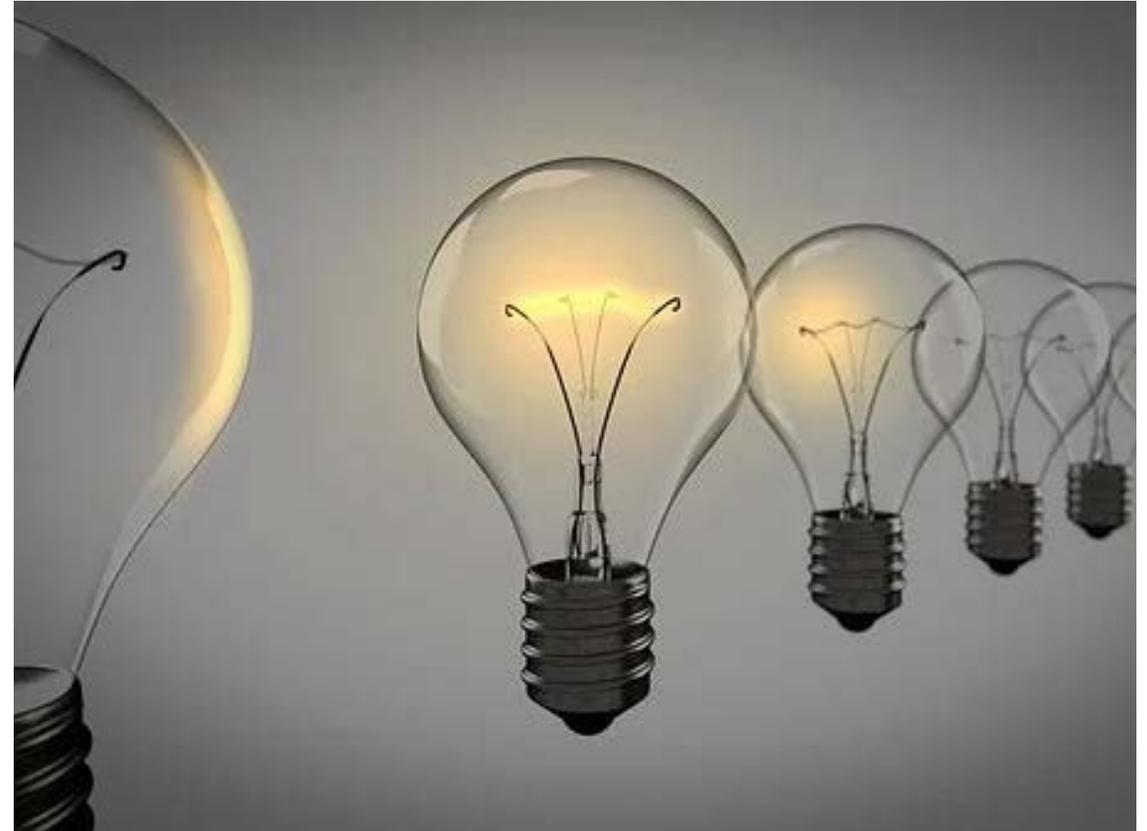
Use of Listed Entity and PIE in ISAs

- Current differential requirements in ISAs only for listed entity
 - ❖ Focus on enhancing transparency to TCWG or intended users of auditor’s report
 - ❖ Exception in ISQM 1 para 34(f) which relates to when EQR is required
 - ❖ These differential requirements do not directly affect the auditor’s work effort to draw reasonable conclusions
 - ❖ AM includes consideration of entities with similar public interest issues but ISAs do not currently use the term “PIE”

ISAs/ ISQM 1	Listed Entity	Consideration of other entities
ISQM 1	34 (e), 34 (f)	A128, A134
ISA 260 (Revised)	17	A32
ISA 700 (Revised)	30, 31, 40, 46, 50	A40, A41, A62
ISA 701	5	
ISA 720 (Revised)	21, 22	A52

Use of Listed Entity and PIE in ISAs

- A case-by-case approach in determining whether PIE or a subset of PIE should be applied may be more appropriate
 - ❖ Maybe compelling reasons to retain “listed entity” without being inconsistent with a common overarching objective
 - ❖ Allow for consideration of any unintended consequences
 - ❖ Listed entities are referred to throughout ISAs and ISQMs
 - ❖ Use of IESBA ED to draw out initial input from IAASB stakeholders



Matters for IAASB Consideration

2. What are the Board's views on:

- The continued use in the ISAs and ISQMs of Listed Entity, and then incorporating the use of PIE, based on the outcome of the PIE Project, in particular extending Listed Entity requirements to PIEs?

3. Does the Board agree with:

- An approach of utilizing IESBA's ED process to obtain targeted input for purposes of the IAASB deciding how to address the matters in questions 1 and 2? If so, the Board is asked for suggestions for IESBA's consideration in finalizing their EM

Definition of Public Interest Entity

IESBA, IAASB and other stakeholders were generally supportive of the TF's preferred approach (broad approach)

Three key components to this approach

Broad Approach

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



Expanded List of PIE Categories

Role of Code



Role of Local Bodies



Role of Firms

R400.14 (Mark-up from Jun 2020)

Category (a)

- A new term in the glossary – “publicly traded entity”
- Uses the broader term “financial instruments”
- Instruments should be [freely] transferrable
- Excludes entities whose company interests are traded without their knowledge

Category (d) – no change

- The definition should not include employers that provide such benefits only as one of its functions

Category (e)

- More succinctly describe investment funds available to the public

Category (f)

- Ties in the overarching objective

For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) ~~An entity whose shares, stock or debts are publicly traded~~ A publicly traded entity;
- (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~~ whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public ~~to purchase shares, stock, or debts~~; or
- (f) An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9.

Publicly traded entity:

An entity that issues financial instruments that are [freely] transferrable and publicly traded

Other Related Changes

Role of Code



Role of Local Bodies



Role of Firms

400.14 A1 & 400.15 A1 (Mark-up from Jun 2020)

400.14 A1

- Revisions made to 400.16 A1 to address concerns that entity being categorized by law or regulation as a PIE not for the purpose

400.15 A1

- A new paragraph that aims to clarify the high-level nature of the high-level nature of the Code's categories and the role of the local bodies
- IESBA will discuss this in the Dec meeting

400.146 A1

When terms other than public interest entity (such as listed entity) are applied to entities by used in law or regulation to achieve meet the objective set out in paragraph 400.98, such terms are regarded as equivalent terms. However, if law or regulation designates entities as "public interest entities" for reasons unrelated to the objective set out in paragraph 400.9, that designation does not mean that such entities are public interest entities for the purposes of the Code.

400.15 A1

The categories set out in paragraph R400.14 are broadly defined and no consideration is given to any size or other criteria that can be relevant to the local context. The Code therefore allows for those bodies responsible for setting ethical standards for professional accountants to further refine these categories by, for example, making reference to local law and regulation governing certain types of entities. Similarly, the Code also allows such bodies 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.

Expanded List of PIE Categories

Role of Code



Role of Local Bodies



Role of Firms

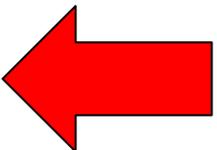
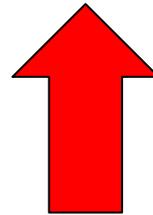
Other possible categories considered by IESBA in June 2020

2 additional categories considered in Sept 2020

- Custodians
- Charities
- Public Utility Entities
- Public Sector Entities
- Large Private Companies
- Private Equity Funds
- Systemically Significant Entities
- Public Accountability Entity

FMI, Stock & Commodity Exchanges

Audit Firms



IESBA agreed not to add

Expected Role of Local Bodies

Role of Code



Role of Local Bodies



Role of Firms

Current Approach

- Proposed definition needs to be refined as appropriate at local level because of its high-level nature
- If not, the new definition might inadvertently scope in the wrong entities or not scope in others where appropriate

Concern

- Some local bodies do not have capacity to refine the high-level definition or simply adopt it as is



Expected Role of Local Bodies

Role of Code



Role of Local Bodies



Role of Firms

Mitigation strategy

Overarching objective guidance

PAO questionnaire

Develop non-authoritative guidance material

Longer transition period

Mitigation Strategy – PAO Questionnaire

PAO Questionnaire

- In collaboration with IFAC's Quality & Development team
- Questionnaire circulated to about 40 PAOs in July-August
 - ❖ Mostly smaller and less developed jurisdictions including francophone African jurisdictions
- 22 responses received as of September
- TF will give an update to the IESBA in Q4

Role of
Code



Role of
Local
Bodies



Role of
Firms

Mitigation Strategy – PAO Questionnaire

Picture so far...

- Responses from a mixture of PAOs with direct, shared or no authority to revise the PIE definition
- Majority already have local PIE definitions
- Strong indication from responses that refinement of the PIE definition can be achieved at these jurisdictions
 - ❖ Some expressed their view that the draft definition is sufficient to develop their local definitions
 - ❖ 1 PAO noted that substantial work needed to persuade local regulator to revise the local law

Role of
Code

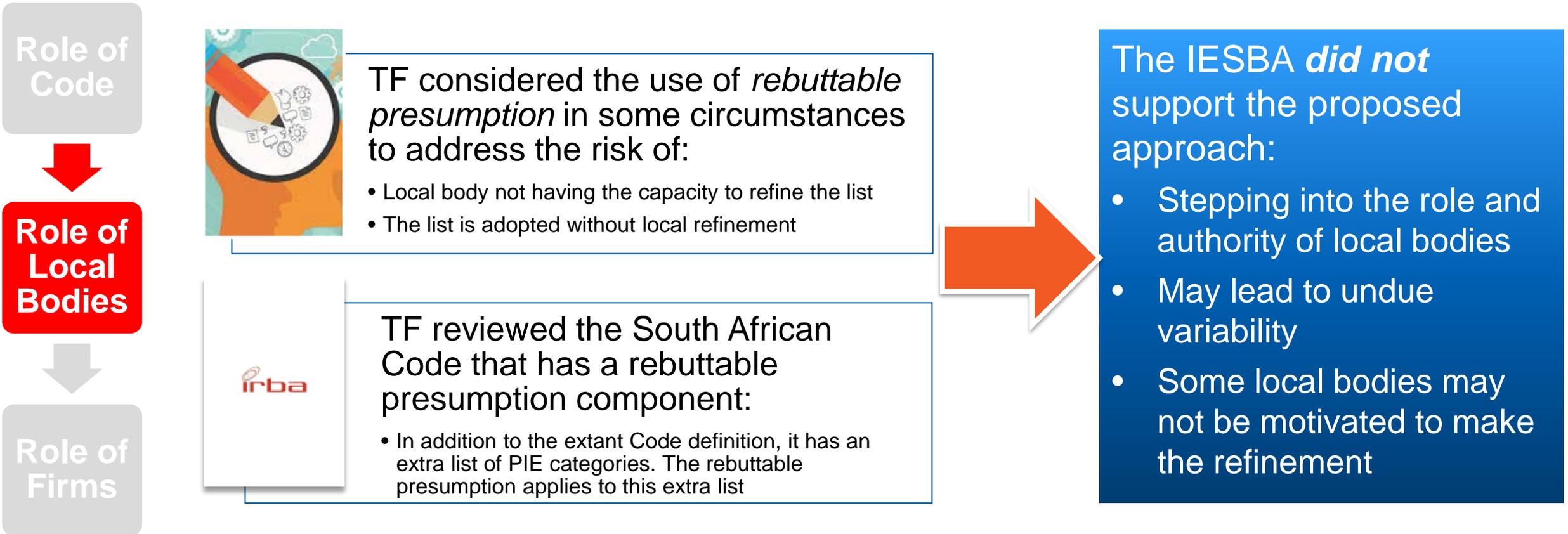


**Role of
Local
Bodies**



Role of
Firms

Mitigation Strategy – Rebuttable Presumption



Role of Firms

Role of
Code



Role of
Local
Bodies



Role of
Firms



New Requirement (R400.17)

- Elevate AM to requirement
 - ❖ Firms required to determine if additional entities be treated as PIEs
 - ❖ General support from stakeholders to date
- Additional proposed factors for firm consideration
 - ❖ Entity likely to become PIE as no strong views from both boards to include as part of list of PIE category
 - ❖ Whether an entity or other entities have previously been treated as a PIE in similar circumstances

Role of Firms

Role of Code



Role of Local Bodies



Role of Firms



R400.17

A firm shall determine whether to treat additional entities, or certain categories of entities, as public interest entities. When making this determination, the firm shall take into account whether a reasonable and informed third party would be likely to conclude such entity should be treated as a public interest entity. In addition to the factors listed in paragraph 400.8, factors to consider might include:

- Whether the entity has been specified as not being a public interest entity by law or regulation.
- ~~Whether the entity is likely to become a public interest entity before the conclusion of the subsequent year's audit~~ in the near future.
- Whether in similar circumstances the firm or a predecessor firm has treated the entity as a public interest entity.
- Whether in similar circumstances the firm has treated other entities as a public interest entity.
- Whether the entity or other stakeholders requested the firm to treat the entity as a public interest entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example whether those charged with governance are distinct from the owners or management.

R400.18

A firm shall publicly disclose in the auditor's report that an audit client was treated as a public interest entity [To be discussed with IAASB].

Role of Firms

Role of Code



Role of Local Bodies



Role of Firms



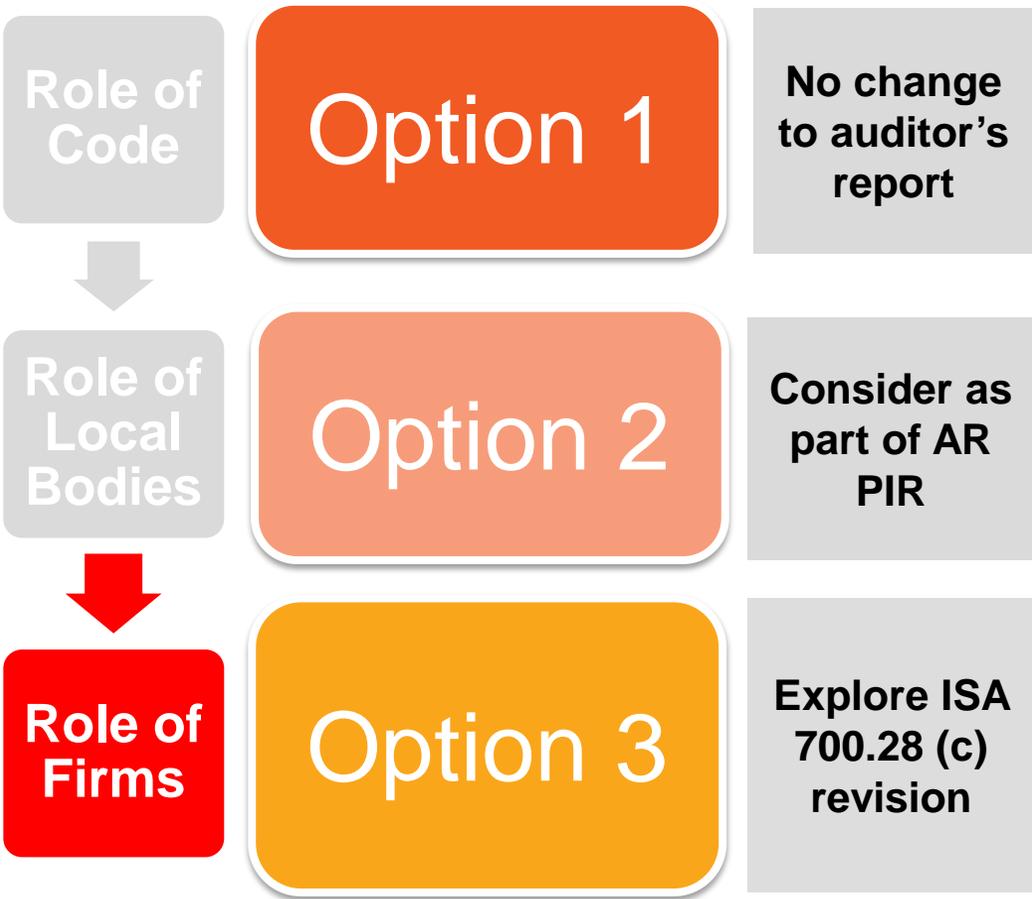
Transparency Disclosure (R400.18)

- Proposed new requirements for firms to publicly disclose if an audit client was treated as PIE

R400.18 *A firm shall publicly disclose in the auditor's report that an audit client was treated as a public interest entity*

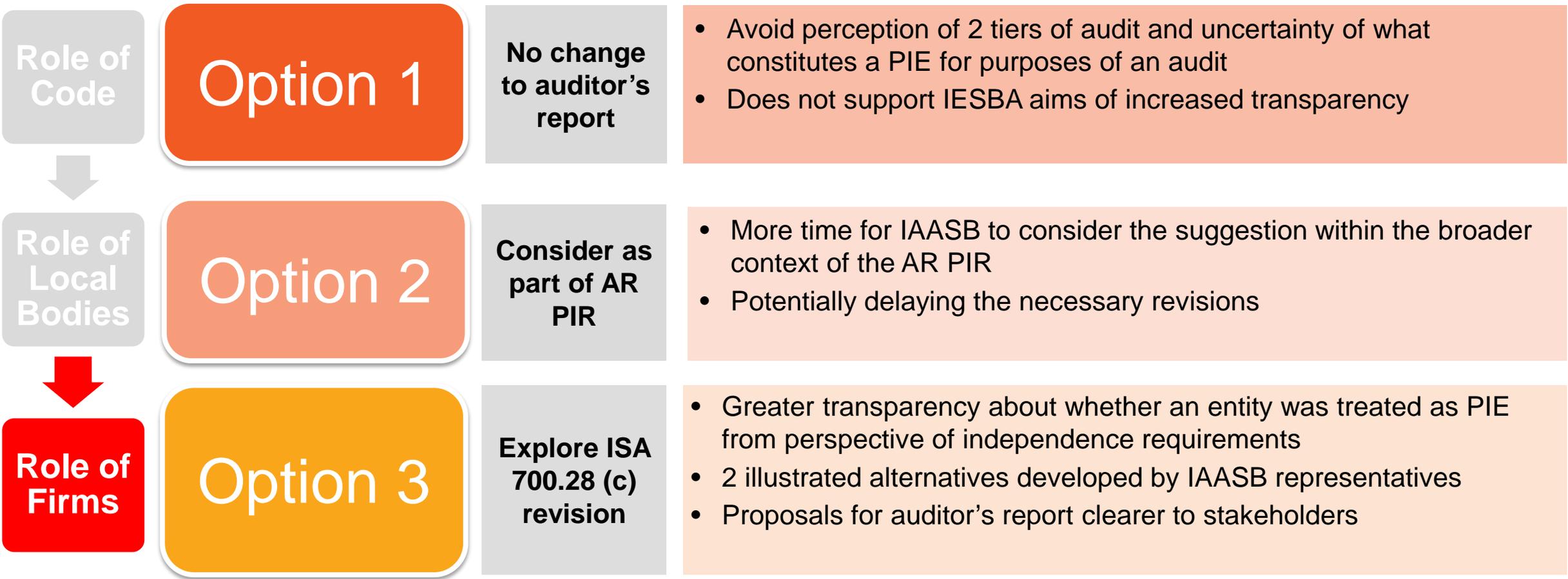
- At July IAASB PIE session, mixed views from IAASB members

3 Options – Auditor’s Report



- The TF and IAASB correspondent members discussed three options
- The TF considers that transparency is an essential component of its proposals
 - ❖ Intends to recommend to IESBA that specific comments be sought from stakeholders on this issue as part of the ED process

3 Options – Auditor’s Report



3 Options – Auditor’s Report

Option 3

2 illustrative examples of ISA 700.28 (c)

Role of Code



Role of Local Bodies



Role of Firms

A

(c) Includes a statement that the auditor is independent of the entity, including, when applicable, that the entity is, or has been treated as a public interest entity, in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and (Ref: Para. A29–A34)

B

(c) Includes a statement that ~~the auditor~~:

- (i) The auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit; ~~and~~
- (ii) When applicable, the entity is, or has been treated as a public interest entity, in accordance with [the independence standards applicable to the audit]; and
- (iii) The auditor has fulfilled the auditor’s other ethical responsibilities in accordance with ~~these~~ the relevant ethical requirements.

The statement also shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and (Ref. Para. A29–A34)

3 Options – Auditor’s Report

Option 3

Possible changes to Illustrative auditor’s report in Appendix, ISA 700 (Revised)

Role of Code



Role of Local Bodies



Role of Firms

(c) Includes a statement that the auditor is independent of the entity, including, when applicable, that the entity is, or has been treated as a public interest entity, in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements. The statement also identifies the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and (Ref. Para. A29–A34)

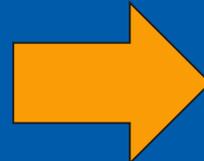
3A

(c) Includes a statement that ~~the auditor:~~

- (i) The auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, ~~and~~
- (ii) When applicable, the entity is, or has been treated as a public interest entity, in accordance with the independence standards applicable to the audit, and
- (iii) The auditor has fulfilled the auditor’s other ethical responsibilities in accordance with ~~these~~ the relevant ethical requirements.

The statement also identifies the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and (Ref. Para. A29–A34)

3B



Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction]. The Company is [has been treated as] a public interest entity for purposes of the International Independence Standards, and w We also have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. ~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.~~

Matters for CAG Representatives Consideration

Role of Code



Role of Local Bodies

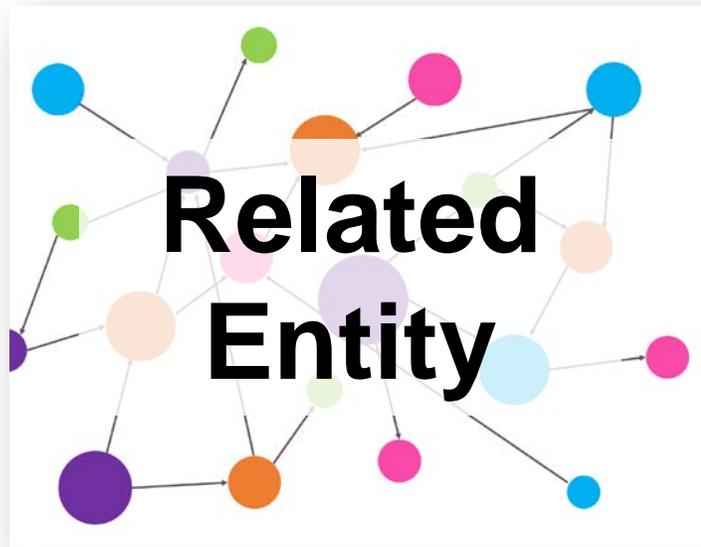


Role of Firms



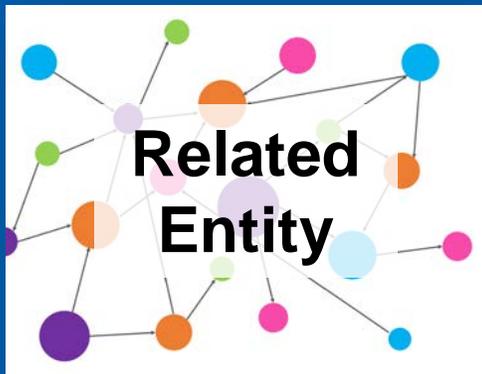
4. The Board is asked for its views on the proposed transparency requirement in paragraph R400.18 of the IESBA Code and, by extension, views on Options 1, 2 and 3 as presented in Section II of Agenda Item 1-B.
5. In respect of Option 3, what are the Board's views on the initial view of IAASB staff and IAASB TF correspondent members on the PIE TF regarding a possible revision to ISA 700 (Revised), paragraph 28(c), including whether Option 3A or 3B would be preferred?
6. In utilizing IESBA's ED process to obtain input on transparency, the Board is asked for suggestions for IESBA's consideration in finalizing their EM.

Other Matters



Related Entity

Whether the full set of related entity applicable to a listed entity audit client in paragraph R400.20 should be extended to all PIE audit clients as well?



Philosophical Reason

- No strong philosophical reason for not extending the definition of audit client for listed entities in R400.20 (which encompasses all related entities, including parent and sister entities) to all PIEs

One Key Issue

- Whether that definition (aimed primarily at conventional corporate group structures) is appropriate in all circumstances – particularly for some private equity structures and sovereign wealth funds.
- Whilst this question exists today, it might be compounded by extending the definition to all PIEs as it would encompass a wider range of entities

Further Research

- IESBA acknowledged the issue but felt that consideration of it might be beyond the scope of this project.
- The TF was asked to continue with fact finding and articulation of the issue in Q4, including consultation with the FoF
- One solution to allow finalization of the PIE project is to replace “listed entity” in 400.20 with Category (a) in proposed para. R400.14

Effective Date

Factors for Consideration

- Timing of PIE ED
- Board discussion on NAS and Fees effective dates
- Need for long transition period as part of local adoption process
- Transition period for firms, incl. FoF members pending refinement at local level

Possible timeline



Other Matters

**Any Other
Comments?**



Next Steps



**Next
Steps**

NOV

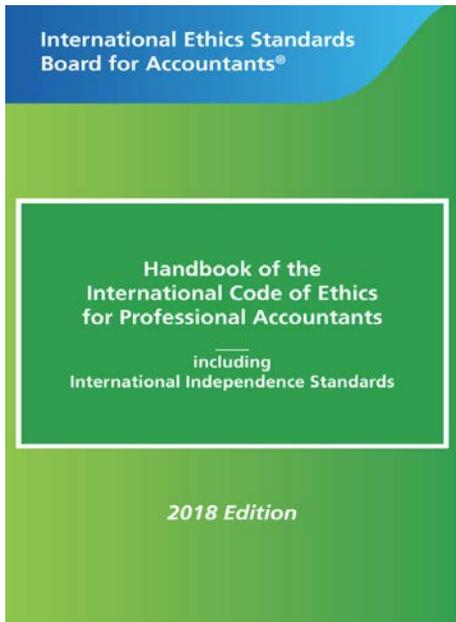
IFAC SMPAG Session

DEC

IESBA Meeting

JAN

Exposure Draft



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