

**Definitions of Listed Entity and Public Interest Entity—
Issues and Task Force Views****How to Read this Paper**

This Agenda Item (**1-A**) should be read in conjunction with **Agenda Items 1-B** and **1-C** for the purposes of the November 2020 IAASB meeting on the IESBA's Definitions of Listed Entity and Public Interest Entities (PIE) project.

This Agenda Item provides an update of the IESBA's discussions, the Task Force's views including its responses to the IAASB's key comments raised in July 2020, and its rationale for changes to the proposed text.

Whilst this Agenda Item covers all the key issues relevant to the upcoming IESBA meeting in November-December 2020, IAASB members are asked to focus particularly on those areas that are the subject matters in **Agenda Item 1-B**:

- Overarching objective
- Definition of PIE
- Transparency disclosure

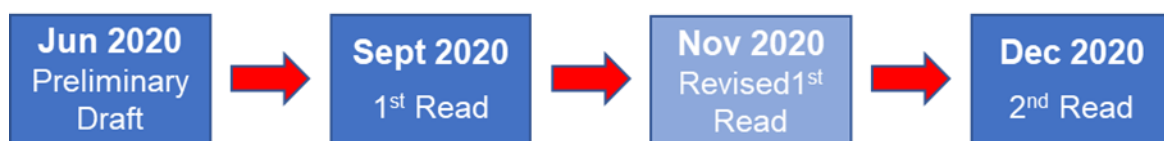
Agenda Item 1-B provides additional perspectives relevant to the IAASB's deliberations during the November 2020 session and include the questions for its consideration (reproduced under the "Overview" section of this paper).

Agenda Item 1-C is the revised first read of the proposed text and is marked up to the June 2020 version reviewed by the IAASB in July 2020. This latest version includes additional draft changes made by the Task Force to the first read of the proposed text in response to the IESBA discussions in September 2020. For a copy of the first read, please refer to [Agenda Items 6-B and 6-C](#) for the September-October 2020 IESBA meeting.

OVERVIEW

1. Since the July 2020 IAASB PIE session, the Task Force continued to develop its views and proposals with respect to:
 - An overarching objective for defining a class of entities for which the audits require additional independence requirements
 - An expanded list of broad PIE categories
 - An expectation that local bodies, such as regulators and oversight bodies, will refine the list as part of their adoption processes (through more explicit definition or establishment of size criteria); and
 - A requirement for firms to determine if additional entities should be treated as PIEs.

2. At the September 2020 meeting, the IESBA considered the Task Force's views and [first read](#) of the proposed text (Agenda Item 6C for the September-October 2020 IESBA meeting). As part of its discussion, the IESBA also considered:
 - The Task Force's responses to the key comments received from the July 2020 IAASB meeting
 - Responses received from the IESBA's Non-Assurance Services (NAS) exposure draft (ED) on the PIE project
 - Responses received from the questionnaire to professional accountancy organizations (PAOs)
3. Within the first read of the proposed text, the Task Force made a number of key revisions to the June 2020 version (the same version reviewed by the IAASB in July 2020). These revisions include:
 - Refining the list of factors for assessing the level of public interest in an entity in proposed paragraph 400.8, including a potential new factor (Bullet #2).
 - Removing "additional" from "additional requirement and application material" in proposed paragraph 400.9 so that the proposals do not create the perception that audits of non-PIE entities are of lesser quality.
 - With regards to the list of high-level categories of PIE, revisions to subparagraphs (a) and (e) of proposed paragraph R400.14 (but no change to subparagraph (d) and no new proposed categories added).
 - Revisions to proposed paragraph 400.16 A1 to address the concern that some entities might be categorized by law or regulation as PIEs for purposes other than setting additional independence or audit quality-related requirements.
4. The Task Force has developed the revised first read of the proposed text (**Agenda Item 1-C**) in response to the comments received from the September IESBA meeting as well as from the joint IAASB-IESBA CAG session in October 2020. The Task Force will present its second read of the proposed text at the November-December IESBA meeting with a view to seeking the IESBA's approval for its exposure.



5. At the November 2020 IAASB PIE session, IAASB members will be asked to provide input to the six questions raised in Agenda Item 1-B on issues relating to overarching objective, replacing the term "listed entity" in the IAASB standards and transparency reporting.

INFORMATION GATHERING ACTIVITIES SINCE JULY 2020

6. With the assistance of the IFAC Quality and Development Team (Q&D Team), the Task Force circulated a questionnaire to approximately 50 professional accountancy organizations (PAOs) across the globe, including those in the francophone African jurisdictions, between July and September 2020. The purpose of the questionnaire is to seek their input on the expected role and capacity of local bodies to refine the PIE definition as part of the adoption process at the local level.
7. As mentioned earlier, the Task Force reviewed the input received on the PIE project from the NAS ED (see below for the Task Force's analysis).
8. The Task Force also received views from participants of the joint IAASB-IESBA CAG meeting held in October 2020. In this regard, the CAG was generally supportive of the Task Force's views and 1st read. The Task Force's responses to key comments received during this meeting will be addressed below as appropriate.

PIOB Public Interest Issues

9. In its October 2020 list of public interest issues on the IESBA work streams, the PIOB restated its previous view that it is crucial to determine the categories of entities (e.g. financial institutions, listed companies, significant utility companies), which should be subject to stricter provisions in the Code as the PIE definition affects other IESBA projects such as NAS and Fees. The PIOB noted that consideration should be given to any other entities that could pose a threat to financial stability, to ensure that the proposed list achieves the overarching objective and that there are no evident gaps. The PIOB also continued to highlight the importance of coordination between the IESBA and the IAASB to ensure consistent application of the two sets of standards.

RESPONSES TO NON-ASSURANCE SERVICES EXPOSURE DRAFT¹

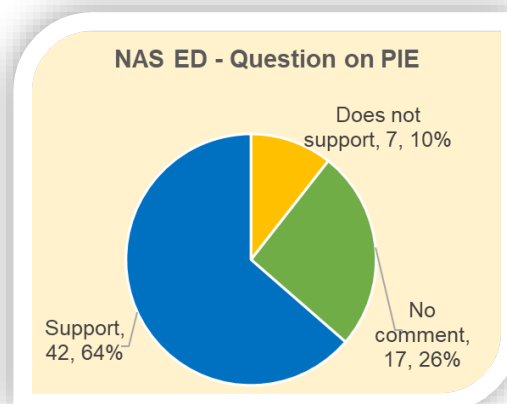
10. In January 2020, the IESBA released the NAS ED, in response to which the IESBA received 66 comment letters as of August 2020.
11. Question #4 in the NAS ED asked for respondents' views on the PIE project:

NAS ED Question #4

Having regard to the material in section I, D, "Project on Definitions of Listed Entity and PIE," and the planned scope and approach set out in the [approved project proposal](#), please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.

¹ Refer to Appendix 2 of **Agenda Item 3-A** for a list of the respondents to the NAS ED and their abbreviations.

12. Overall, the majority of respondents (90%) either provided feedback in support of the project or did not have any comments. Only 10% of the respondents did not support the project.
13. Having reviewed the main comments, the Task Force concluded that there were no new significant issues raised by the respondents to Question #4 of the NAS ED that either have not been addressed or are not being addressed by the Task Force and the Board.
14. The IESBA and the joint IAASB-IESBA CAG noted the Task Force's analysis and did not raise any comments at their meetings in September-October 2020.



Key Comments from NAS ED Respondents and Task Force Responses

15. Some respondents acknowledged the importance of coordination with the IAASB to ensure appropriate alignment between the two Boards' definitions.² In this regard, from an early stage, the IAASB correspondent members have been actively participating in Task Force discussions and IAASB members have had the opportunity to provide their views at separate IAASB sessions. The two Boards have therefore been working to optimize the opportunities for convergence and alignment of definitions.
16. With regard to the overarching objective, the key comments raised were as follows:
 - There was express support from some respondents about different independence requirements for PIEs and non-PIEs;³ only one respondent disagreed with such an approach.⁴
 - A few respondents highlighted the need to consider how financial statements are used by stakeholders, noting that for some entities, public interest might be focused on the services provided and, as such, historical financial statements may not be an important source of information for decision-making by stakeholders.⁵
 - The goal should be to promote uniformity across jurisdictions⁶ but also allow for scalability at local level.⁷
 - A number of respondents provided input to the factors to be taken into consideration when determining whether an entity should be treated as a PIE.⁸

² **Firms:** GTI, PwC; **Independent NSS:** APESB; **PAOs:** BICA, CPAA, MIA, ICAS, WPK; **Public Sector Organization:** GAO

³ **Regulator:** UKFRC; **PAOs:** AE, ISCA, MICPA

⁴ **Public Sector Organization:** AGNZ

⁵ **Firm:** KPMG; **PAO:** JICPA

⁶ **PAOs:** HKICPA, MICPA

⁷ **PAO:** JICPA

⁸ **Firm:** NEXIA; **PAOs:** BICA, ICAEW, JICPA, NBAAT

17. The Task Force noted that the key matters raised by the respondents with respect to the overarching objective have all been addressed by the Task Force. In particular, the Task Force reiterates its view that the focus of the overarching objective should be on building confidence in the audits of financial statements of PIEs, leading to additional independence requirements. The Task Force is also continuing to refine the list of factors in proposed paragraph 400.8 for the Board's deliberation.
18. With regard to the list of high-level PIE categories, the key comments raised were as follows:
- The Code's definition should be simple, principles-based, and globally applicable to avoid unintended consequences.⁹ It should take into account local definitions as well as allow for local refinements in order that the local definition can be set properly.¹⁰
 - Whilst some respondents expressed their support for a broader approach and have provided examples, such as large private entities and public sector entities, for the Board's consideration,¹¹ other respondents preferred a baseline definition to which local bodies can add if necessary.¹² A few respondents also suggested consideration should be given to the IFRS definition of "public accountability entity."¹³
 - There were queries about the term "listed entity" and the Board's proposed revised definition of that term, such as whether entities with thinly traded equity or debt instruments should be captured.¹⁴
 - Some queried if the Code's PIE definition will or should capture smaller entities¹⁵ whilst others did not support separate treatment for smaller PIEs.¹⁶
19. The Task Force noted that the key matters raised by the respondents with respect to the proposed list of PIE categories have also been addressed by the Task Force. The Task Force also notes that:
- It had reached the conclusion that it would be difficult, if not impossible, to develop a single definition of PIE at a global level that can be consistently applied by all jurisdictions without significant modification and further refinement at a local level.
 - Its current approach is to develop a longer and more broadly defined list which local regulators or other authorities are expected to modify by tightening definitions, setting size criteria and adding or exempting particular types of entities. The Board generally supported this approach, subject to the outcome of the Task Force's assessment of the capacity of local bodies to refine the PIE definition.
 - Many of the issues raised by respondents can be and should be best addressed at the local level.
20. A few respondents raised concerns about the capacity of local bodies to refine the definition in the

⁹ **Regulator:** NASBA; **PAO:** AE; **Other:** SMPC

¹⁰ **Firm:** BDO; GTI, Mazars; **PAOs:** ACCA & CAANZ, ASSIREVI, CAI, ICAEW, ICAS, SAICA, SAIPA, WPK; **Other:** EFAA

¹¹ **Regulator:** UKFRC; **Firm:** Mazars, **Independent NSS:** XRB; **Public Sector Organization:** AGSA

¹² **Firms:** EY, KPMG, PwC, **PAOs:** ISCA, MIA

¹³ **Independent NSS:** APESB; **Others:** EFAA, SMPC

¹⁴ **Firms:** Crowe, GTI, Mazars, PwC; **PAOs:** CPAC, WPK

¹⁵ **Firm:** Mazars; **PAOs:** CPAC, CAI

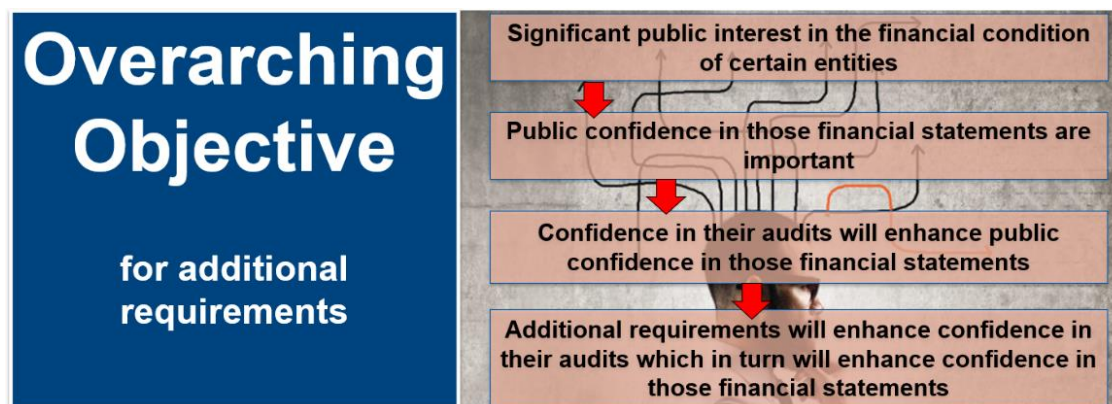
¹⁶ **Regulator:** IRBA; **Firm:** BKT

Code.¹⁷ As the Board is aware, the Task Force is currently seeking to address this issue and will brief the Board on the outcome of its information gathering with PAOs and its recommendations in due course.

21. A few respondents raised the issue of related entities¹⁸ which is also currently being addressed by the Task Force.
22. For those respondents that did not support the need to revise the definitions of listed entity and PIE, their reasons include:
 - The extant definitions are adequate.¹⁹
 - There might be unintended consequences of scoping in the wrong types of entities.²⁰
 - The role of defining listed entities and PIEs belongs exclusively to local regulators.²¹
 - The project should be postponed due to a shift in public interest focus caused by the COVID-19 pandemic.²²
23. Some respondents raised concerns about the timing of the NAS and Fees projects in light of the ongoing PIE project.²³ In particular, these respondents asked the IESBA to consider finalizing the NAS and Fees proposals only after the PIE project is completed in order that stakeholders can properly consider the impact of the NAS and Fees proposals. The Task Force understands that the Board will further discuss this issue at the Novrmbrt-December 2020 meeting in the context of the NAS and Fees projects.

OVERARCHING OBJECTIVE

24. At its March 2020 meeting, the IESBA generally supported the Task Force's view that it is important at the outset to have clarity about the overarching objective for defining a class of entities for which



¹⁷ Firm: PwC; PAO: CPAC

¹⁸ Regulator: IRBA; Firm: GTI

¹⁹ Regulator: MAOB; Firm: ICAG,

²⁰ Regulator: NASBA

²¹ Firm: RSM; PAO: CNCC

²² Firm: Moore

²³ BDO, DTIL, EY, ACCA & CAANZ, CPAA, SMPC

the audits require additional independence requirements. This objective can then inform the approach and also provide a clear principle against which any proposals can be tested.

25. At its June 2020 meeting, the Board was generally supportive of the Task Force's revised draft overarching objective and the draft list of factors as set out in proposed paragraphs 400.8 and 400.9, with the majority of comments relating to the draft list of factors:
- A few IESBA members queried if confidence in an entity meeting the necessary environmental, social and governance (ESG) criteria should be included in the overarching objective or as a factor for consideration. In response, Mr. Ashley reminded the Board that Part 4A of the Code deals with the independence of auditors of financial statements and that, before considering the independence requirements for ESG auditors, it would be important to articulate the role of ESG auditors more clearly.
 - Some IESBA members queried if the factor relating to potential systemic impact is more suited as an explanation of significant public interest. In response, Mr. Ashley noted that not all entities with significant public interest will have a systemic impact on the economy. Other IESBA members were comfortable with retaining the potential systemic impact of an entity as a factor for assessing the level of public interest.
 - An IESBA member queried if any unlisted market operators as well as stock and commodity exchanges are sufficiently covered in the draft list of factors given their potential impact. The Task Force Chair undertook to consider further the role of such financial infrastructure parties, bearing in mind the importance or otherwise of their financial situation as opposed to their operational resilience. Another IESBA member suggested that consideration be given to whether those entities subject to regulation (specifically financial or prudential regulation) should be separately included.
26. At its July 2020 meeting, the IAASB was broadly supportive of the idea of an overarching objective for additional requirements to enhance confidence in the audit of certain entities and that the same overarching objective is applicable to both Board's standards. Amongst other matters, the following key comments were raised by IAASB members:
- As the proposals are developed, it would be important to avoid creating the perception that audits of non-PIE entities are of lesser quality.
 - Whether the meaning of the term "financial condition" in proposed paragraph 400.8 is sufficiently clear.
 - The difference in objectives between the two Boards and whether such difference might lead to minor differences in how the overarching objective should be expressed in the two Boards' standards.

Task Force Responses

27. Following deliberation, the Task Force agreed to the following with respect to paragraphs 400.8 and 400.9 (See [first read](#)):
- The term "financial condition" in the lead-in sentence in proposed paragraph 400.8 should be retained taking into account the need to put the role of the financial statements into context. In this regard, the Task Force shares the view of some IESBA members that whilst many may not necessarily review financial statements specifically, they will take confidence that the financial

statements have been properly audited and that independence standards the relevant firms have complied with are at a higher level.

- The addition of a new factor (Bullet #2) concerning whether an entity is subject to financial or prudential regulatory supervision designed to give confidence that the entity will meet its financial obligations.
- Expanding Bullet #4 to include the concept of substitutability (although that word was itself felt to be problematic, particularly in translation) to capture a characteristic that is common to a number of public utility entities and financial market infrastructure entities (FMIs).
- Retaining Bullet #6 regarding the notion of systemic impact as one of the factors.
- No changes be made to the overarching objective with respect to ESG disclosures. It was noted that whilst ESG reporting (particularly for listed entities) is gathering pace across the globe, the role of ESG auditors is not always significant or globally consistent.
- Removal of “additional” in paragraph 400.9 in response to IAASB comments about a potential perception of two levels of audit quality.
- No change is currently needed to reflect any minor differences in how the overarching objective should be expressed in the two Boards’ standards. Should the IAASB feel that it should express the objective differently, the Task Force would expect a dialogue between the Boards at that stage that would lead to either alignment or a clear rationale for the distinction.

September/ October 2020 IESBA and CAG Comments

28. At the September 2020 meeting, the Board was generally supportive of the Task Force’s revisions to the overarching objective and the list of factors set out in proposed paragraphs 400.8 and 400.9 of the [first read](#). Amongst other matters, the following matters were raised:
- Mr. Ashley agreed to consider adding new application material to reference the connection between the overarching objective in paragraph 400.9 and independence of auditors and firms.
 - With regards to the new factor in bullet #2 of paragraph 400.8 that relates to regulatory supervision, a few IESBA members queried its relevance in light of bullets #1 and #6 unless it references prudential regulation. One IESBA member on the other hand supported the draft wordings, noting that prudential regulation is not necessarily restricted to the financial market. In addition, Mr. Ashley clarified that if an entity is subject to regulatory supervision that includes meeting its financial obligation, then there may be significant public interest in that entity’s financial condition and its audits may be required to be subject to more independence and audit quality related requirements.
 - One IESBA member asked the Task Force to consider if the list of factors in paragraph 400.8 covers entities that hold large volume of sensitive data given that misuse of such data may lead to significant impact on public interest. In response, Mr. Ashley noted that whilst there is public interest in the use of data by some entities, it is unclear if there is the same level of public interest in those entities’ financial condition which underpins the objective of defining a PIE.
29. One CAG Representative at the October 2020 joint IAASB-IESBA CAG meeting suggested that the level of public interest in the business activity of an entity, in addition to its financial condition, is also important in determining if the entity should be treated as a PIE and therefore should also be included in proposed paragraph 400.8. In response, Mr. Ashley reiterated that the focus is on public interest

in an entity's financial condition as reflected by the financial statements and the role of an auditor. Whilst there may be public interest in the business activities of a particular entity they are not directly in the purview of the auditor.

30. Following deliberation, the Task Force formed the following views:

- The Task Force did not consider it necessary to expand the focus on the financial condition of an entity in proposed paragraph 400.8 to its business activities on the reasons provided by the Task Force Chair during the joint IAASB-IESBA CAG meeting. The Task Force is of the view that it is sufficient that the nature of an entity's business or activities is included as a factor for consideration in proposed paragraph 400.8 (Bullet #1). The Task Force also intends to provide further explanation on the focus of public interest on an entity's financial condition in the exposure draft's explanatory memorandum.
- Whilst there was no expressed reference to independence in the description of the overarching objective in proposed paragraph 400.9, it should be sufficiently clear to users from the immediate context of that paragraph, including extant paragraphs 400.1 and R400.11 that the additional requirements refer to independence requirements for the purposes of Part 4A. The Task Force also noted that first sentence in extant paragraph 400.8 (lead-in sentence of proposed paragraph 400.8) mentioned "Some of the requirements and application material set out in this Part" but made no specific reference to independence. Accordingly, the Task Force did not consider reference to independence in proposed paragraph 400.9 is warranted.
- The Task Force did not consider further revisions to the list of factors in proposed paragraph 400.8 are necessary in light of the responses provided by the Task Force Chair at the September 2020 meeting.

31. IAASB members are asked to consider the additional material from an IAASB perspective in Section I of Agenda Item 1-B and provide input to question1 set out in that paper.

Replacing Listed Entity with PIE in International Standards on Auditing (ISAs)

32. At its July 2020 meeting, the IAASB recognized the direction of the Task Force's work in exploring replacing the term "listed entity" with "PIE" in the ISAs. However, a few IAASB members suggested that there would be merit in reviewing the use of "listed entity" in IAASB standards on a case by case basis to determine if such replacement would be warranted. In this regard, some IAASB members also pointed out that there might be compelling reasons to retain the term "listed entity" without being inconsistent with the approach of a common overarching objective.

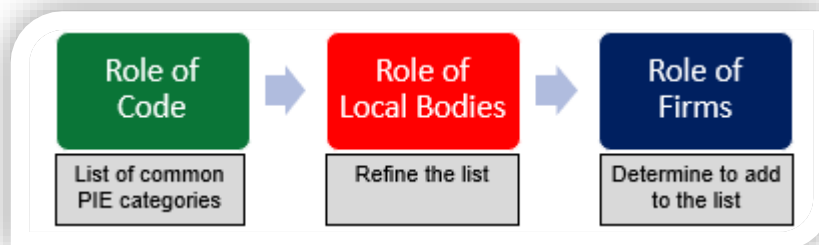
33. IAASB members are asked to consider the additional material from an IAASB perspective in Section I of Agenda Item 1-B and provide input to questions 2 to 3 set out in that paper.

DEFINITION OF PIE

34. Both the IESBA (June 2020) and the IAASB (July 2020) have expressed general support for the Task Force's approach:

- The development of a longer and broader list of high-level categories of entities as PIEs;
- Refinement by national bodies by tightening definitions, setting size criteria and adding or exempting particular types of entities; and

- Determination by firms if any additional entities should be treated as PIEs.



Expanded List of PIE Categories

35. The Task Force proposed the following list of high-level PIE categories to the IESBA and IAASB in Q2/Q3:
- (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
36. In reviewing the proposed list, both Boards have taken into account the Task Force's attempt to include only categories that will (possibly with tighter definitions and subject to size criteria) be accepted by most countries, and equally, to exclude entities that are only likely to be regarded as necessary by a minority. The Task Force's rationale also included the expectation that as part of the adoption of the Code, local bodies will scope out those entities within these categories that are too small to be treated as PIEs and potentially scope in other entities as PIEs based simply on their size.
37. With regards to category (a) above:
- A few IESBA members suggested the use of the term "securities" and asked the Task Force to also consider the definition of "financial interest" in the Code:
"An interest in an equity or other security, debenture, loan or other debt instrument of an entity, including rights and obligations to acquire such an interest and derivatives directly related to such interest."
 - In response to queries raised by a few IESBA members about the phrase, the Task Force Chair clarified that the phrase "...being publicly traded" is used instead of "being listed" because some securities are only listed but not traded.
38. With regards to the Task Force's query about whether to include in the description of category (a) those entities whose shares, stock or debts are in the process of being publicly traded, a few IESBA members:
- Expressed support for the Task Force's alternative suggestion of including the concept as a factor for consideration by a firm.

- Suggested that it would be difficult to expand the concept to the other proposed PIE categories.
39. With regards to categories (b) to (f):
- There were some concerns that category (d) as drafted is too broad and may inadvertently capture employers that provide post-employment benefits such as those for executive teams.
 - A few IAASB members queried if category (f) is necessary or appropriate on the basis that:
 - Local bodies will make the necessary adjustments anyway.
 - When a regulator determines what constitutes a PIE and the type of entities that should be included, that decision may not be driven by the same public interest considerations that are driving the IESBA's focus on independence and the IAASB's focus on audit standards.

Task Force Responses

40. Following deliberation, the Task Force has formed the following views and suggested the following changes to the proposed paragraphs R400.14 and R400.16 (See Agenda Item 1-C – First Read):
- In category (a), replace “shares, stock or debts” with simply “equity or debt instruments” to better align with the definition of “financial interest” in the Code. The revised term is sufficiently broad to cover local variations.
 - Regarding category (d), no change is proposed on the basis that:
 - The phrase “whose function” means employers that also provide post-employment benefits as just one of their activities would not be captured.
 - The current wording will capture both pension funds available to the public and those that are closed but nonetheless large enough to be considered as PIEs – subject to local determination on where to draw that line as for all the categories of PIE.
 - Revise category (e) to more accurately describe investment funds, such as mutual funds, that are available to the public. The rationale for this revision is that:
 - If the financial instruments are not redeemable, they would invariably be caught by category (a) as that would be the only means for the public to “realize” their investment.
 - The revisions aim to restrict the definition to the “issuing” entity, i.e., the fund itself, and not to capture the fund management company.
 - Revise paragraph 400.16 A1 to address the concern raised by some IAASB members about an entity being categorized by law or regulation as a PIE not for the purpose of additional independence or audit quality-related requirements.
41. With regards to the question of whether the term “listed entity” should be removed from the Code in light of the introduction of category (a) to the proposed expanded list of PIEs, the Task Force agreed to revisit this point when it reaches a view on whether to expand the categories of related entities relevant to listed entities in paragraph R400.20 to all PIEs (see discussion below).

September/ October 2020 IESBA and CAG Meetings

42. Amongst other matters, the following comments were made with respect to the list of high-level PIE categories in proposed paragraph R400.14:
- A few IESBA participants preferred the term “securities” in subparagraph (a) and suggested the Task Force to consider “securities and other types of financial instruments” instead of “equity or debt instruments”.
 - A few IESBA members asked if the phrase “publicly traded” in subparagraph (a) requires further explanation.
 - In response to a query raised about the description in subparagraph (e), Mr. Ashley clarified that this category intends to capture mutual funds where an investor can sell their interests back to the entity and not investment trusts where investors are their selling interests to other third parties which would already be captured by subparagraph (a).
43. Following deliberation, the Task Force:
- Revised subcategory (a) as “publicly traded entity”, which is “an entity that issues transferrable financial instruments that are publicly traded”. This proposed revision:
 - Aims to replace the term “listed entity”
 - Replaces “equity or debt instruments” to cover those financial instruments that may not fit neatly as either an equity or debt instrument such as hybrid securities.
 - Avoids those situations where a company’s interests are being traded without their knowledge as the financial instruments are those that are issued by the entity
 - Noted that the term “publicly traded” are also used in the IFRS for SMEs and formed the view that further explanation in the Code is not necessary.
 - Further refined the description of subcategory (e) by clarifying that the function of this category of PIE is to act as a collective investment vehicle (See subparagraph R400.14 (e) of **Agenda Item 1-C**).
 - Is proposing a new paragraph (400.15 A1) for consideration by IESBA at the November-December 2020 meeting. The aim of this paragraph is to clarify the high-level nature of the high-level nature of the Code’s categories and the role of the local bodies.

Other Possible Categories

44. At the June 2020 meeting, the IESBA discussed if custodians of assets or cash should be included as PIEs, taking into account the arguments for and against such inclusion. There was no strong support from the Board to add custodians as a new category, with a few IESBA members acknowledging the difficulty of developing a description for a global list.
45. The IESBA was also generally supportive of the Task Force’s conclusion not to include other categories of entities that it had considered, which include charities, public utility entities, public sector entities, large private companies, private equity funds, systemically significant entity and public accountability entity.

46. The Task Force Chair agreed that the Task Force will further consider FMIs, stock and commodity exchanges as well as audit firms as possible categories of PIEs.

FMIs, Stock and Commodity Exchanges

47. In the [Principles for Financial Market Infrastructures](#) (PFMI) of the Committee on Payment and Settlement Systems of the International Organization of Securities Commissions (IOSCO), FMI is defined as:

A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions

48. FMIs play a significant role within the financial system and are considered to be systemically important. Safe and efficient FMIs are essential for a stable and well-functioning financial system. This means they require sound design and high standards of operational and financial resilience. FMIs can be structured in a variety of forms, including associations of financial institutions, nonbank clearing corporations, and specialized banking organizations. They may also be owned and operated by central banks or by the private sector and can be either for-profit or not-for-profit. FMIs may include payment systems, central securities depositories, securities settlement systems, central counterparties and trade repositories.
49. Similarly, stock and commodity exchanges play an important role within the financial system and the wider economy by providing the infrastructure, facilities and regulatory environment that allow businesses, industries and governments to raise capital, and investors to buy and sell various types of financial instruments. Many stock exchanges today are listed entities themselves and are therefore already classified as PIEs under the extant Code's definition.
50. The Task Force noted that some local jurisdictions, such as Singapore, Romania and South Africa, have included FMIs and stock exchanges as PIEs in the local definition of PIE.
51. Following deliberation, the Task Force formed the view that the FMIs, stock and commodity exchanges should not be added as a global category of PIE for the following reasons:
- Whilst the health of FMIs, stock and commodity exchanges is clearly important to the proper functioning of financial markets, given their typically large size, lack of substitutability in the markets they serve, and strong connections with banks and other financial institutions, the Task Force is of the view that the public interest in these entities relates more to their operations (including compliance with all necessary legal requirements) than their financial conditions.
 - The legal structure of such entities varies considerably between jurisdictions. For instance, as noted many stock exchanges are now listed entities in their own right and would therefore be treated as a PIE for that reason. Some, in contrast, are still mutual organizations owned by their members that effectively support it from a financial perspective. Payment organizations are similar. For example in the UK, the payments services provider Pay.UK is effectively sponsored by the Bank of England and the major banks – the fact therefore that it is currently showing negative reserves in its financial statements is of little or no consequence to the public who depend on its operations.

Audit Firms

52. At the June 2020 IESBA meeting, the PIOB observer asked the Task Force to consider if audit firms should be added as a category of PIE given the level of public interest in their work.
53. After deliberation, the Task Force has formed the view that audit firms should not added as a new category of PIE for the following reasons:
- Whilst the profession plays a significant role in society, the public interest in audit firms relates primarily to audit quality and their compliance with auditing and independence standards, and much less on their financial condition.
 - Whether an audit firm needs to file and publish financial statements, and what needs to be produced, varies considerably depending on the firm's structure, size and the jurisdictional requirements. Many audit firms are still established as partnerships and their financial condition is heavily linked to the position of individual partners.

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54. The IESBA supported the Task Force's view of not including FMIs, stock and commodity exchanges as well as audit firms. The joint IAASB-IESBA CAG also noted the Task Force's view and did not raise any significant comments.

EXPECTED ROLE OF LOCAL BODIES

55. Given the high-level nature of the proposed expanded list of PIEs, the Task Force approach requires local bodies to assess and determine which entities or types of entities should be treated as PIEs for the purposes of additional independence requirements.
56. The Task Force is of the view that local bodies, be it the national standard setters (NSS), regulators, oversight authorities or other relevant bodies, are also best placed to consider the issues, concerns and nuances specific to the local environment and how the financial conditions of certain entities or categories of entities might impact the public interest in their jurisdictions.
57. The Task Force also considered the concerns raised by IESBA and IAASB members as well as other stakeholders with regards to the local bodies' capacity. Their concern is that some regulators may not have the requisite capacity, in the sense of capability, knowledge and resources, or the authority to make the necessary assessment and refinements to a list of high-level PIE categories in their local Code. Further, the Task Force recognized that some jurisdictions might simply adopt the Code as is without much or any refinement, a step which is pivotal to the Task Force's current broader approach.
58. The Task Force has identified a number of actions to mitigate the risk of local bodies not having the capacity to refine the PIE definition or simply adopts the revisions as is:
- A list of factors set out in proposed paragraph 400.8 that can be used to help determine the level of public interest.
 - Additional non-authoritative guidance material to assist with implementation of the final revisions.
 - A transition period that is at least 18 months long.

- Questionnaire to PAOs regarding their local body's capacity to refine the new IESBA's definition of PIE in their respective jurisdictions.



PAO Questionnaire

59. A questionnaire was sent to approximately 50 PAOs including a number of francophone African jurisdictions between July and September 2020. At the September-October IESBA meeting, the Task Force Chair provided the following report-back:
- Responses from a mixture of PAOs with direct, shared or no authority to revise the PIE definition.
 - Majority already have local PIE definitions (incl. 6 of the 7 African jurisdictions).
 - 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 with one PAO noted that substantial work needed to persuade local regulator to revise the local law.
60. The IESBA noted the Task Force's report-back and did not raise any queries. The Task Force will provide an updated report at the November-December 2020 IESBA meeting.

Rebuttable Presumption

61. The Task Force considered using some form of rebuttable presumption under limited circumstances in the proposed text as a means to address the issue of local bodies adopting the PIE definition without the necessary local refinements, resulting in some entities inadvertently being captured as PIEs. In this regard, the Task Force noted that South Africa's Independent Regulatory Board for Auditors' (IRBA's) *Code of Professional Conduct for Registered Auditors* (South African Code) uses a rebuttable presumption with respect to its additional list of PIE categories. The South African Code includes an additional list of PIE categories, in addition to the Code's extant definition of PIE and it is with respect to this additional list that the rebuttable presumption applies.
62. In the first instance, the Task Force sought the Board's views and directional input on whether it is supportive of the Task Force pursuing the above approach of rebuttable presumption under limited circumstances as a means to reduce the risk of the high level categories of PIEs being adopted at the local level without refinement.

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63. The Board did not support the use of rebuttable presumption on the basis that such an approach is likely to encroach upon the due role and authority of local bodies in deciding how the Code should be adopted. A few IESBA members also pointed out that the use of rebuttable presumption in the proposed text may lead to undue variability as well as the unintended outcome of local bodies not making the necessary refinement. The PIOB Observer also expressed concerns about such an approach and agreed with the Board's conclusion in this regard.

ROLE OF FIRMS

64. Both Boards were generally supportive of the Task Force's proposal to elevate the application material in extant paragraph 400.8 to a requirement for a firm to determine if any additional entities, or certain categories of entities, should be treated as PIEs as well as the additional list of factors for consideration by the firm.

Additional Factors for Firm Consideration

65. In response to comments received from IEBSA participants at its September-October 2020 meeting with respect to the additional list of factors set out in the proposed R400.17 for consideration by firms when determining if additional entities should be treated as PIEs, the Task Force has (see **Agenda Item 1-C**):
- Revised bullet #2 to address the concern raised by a few IESBA participants that the timing component needs to be less specific
 - Added a new factor (Bullet #3) to cover the situation where an entity might be treated by one firm as a PIE in one year but as a non-PIE entity but another firm in a different year. The use of "in similar circumstances" acknowledges that there will always be at least some minor or differences between two sets of circumstances.
66. The Task Force also considered a suggestion by the PIOB Observer about including as non-authoritative guidance material the situation where a firm might determine to add the entity as a PIE in order that it can look into the governance of the entity. In this regard, the Task Force is of the view that it is not the role of auditors to investigate the standard of an entity's governance or to provide advice on how to improve it to a level that meets legal requirement or public expectation.

Transparency Disclosure

67. At the March and June 2020 IESBA meetings, the Task Force had pointed out that one effect of its proposals may be increased uncertainty as to whether an entity has been treated as a PIE, particularly if this determination has been made by a firm rather than as established by law or regulation.
68. To address this issue, the Board agreed that the Task Force should explore with the IAASB the option of adding a requirement in the ISAs for auditors' reports to disclose whether the particular entity was treated as a PIE.
69. At the July 2020 IAASB meeting, the responses from IAASB members were split to the question of whether the auditor's report should disclose if the client was treated as a PIE. Whilst some IAASB members felt that such disclosure would be unnecessary, others were supportive of the suggestion and were open to further explore this option.

70. Following discussion with Task Force representatives, IAASB representatives developed three options for consideration by the IAASB at its November 2020 meeting:

Option 1 – No change be made to the auditor’s report

Option 2 – IAASB to pursue the possibility of enhanced transparency as part of its Auditor Reporting Post-Implementation Review

Option 3 – IAASB to consider draft revisions to ISA 700.28(c)

71. IAASB members are asked to review Section II of **Agenda Item 1-B** for more discussions about this issue from an IAASB perspective and to consider questions 4 to 6 in that paper.
72. The Task Force still considers that transparency is an essential component of its proposals and has not identified a more workable solution than disclosure in the audit report. Ideally the ED will include proposed text based on an agreed IESBA – IAASB position, but this is of course dependent on the IAASB’s responses to Options 1 to 3. In any event the Task Force intends to recommend to the IESBA that when publishing the ED specific comments be sought from stakeholders on this issue.

OTHER MATTERS

Related Entity

73. The concept of related entity in the Code is currently under review by four of IESBA’s ongoing projects: NAS, Fees, Engagement Team – Group Audits Independence (ET-GA) and PIE. The key questions for each project are as follows:

Project	Key Questions
NAS & Fees	Which related entities of a PIE audit client should be scoped in under the revised provisions?
NAS	Does the self-review threat prohibition apply to parent undertakings that are unlisted entities? Should a firm provide a NAS to an unlisted parent of a PIE audit client without information being provided to/concurrence obtained from TCWG of the PIE audit client?
ET-GA	What is the scope of related entities with respect to which component auditors outside the firm’s network should be independent?
PIE	Whether the universe of related entities for an audit client that is a listed entity in paragraph R400.20 should be the same for all PIE audit clients?

74. The Task Force needs to consider the question identified above in relation to PIE given the potential for dropping the term “listed entity” from the Code.
75. The extant Code contains only one reference of “listed entity” in the International Independence Standards (IIS) that is separate from its treatment as a PIE. This reference, in paragraph R400.20, specifies which related entities are to be included with the audit client for independence purposes, as follows:

- When an audit client is a listed entity, reference to audit client will always include its related entities (upstream, downstream and sister entities).
- When an audit client is not a listed entity, references to an audit client includes those related entities over which the client has direct or indirect control (downstream only).
- When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

IESBA Code 2018

Definition of Related Entity

An entity that has any of the following relationships with the client:

- a) An entity that has direct or indirect control over the client if the client is material to such entity;
- b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- c) An entity over which the client has direct or indirect control;
- d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity

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76. At the September 2020 meeting, the IESBA:

- Broadly supported the Task Force's view that there is no strong philosophical reason for not extending the definition of audit client for listed entities in paragraph R400.20 to all PIEs.
- Discussed whether such an extension, however, would be inappropriate for certain entities, such as private equity companies and sovereign wealth funds (SWFs), due to their corporate structures and the flow of information within those structures. The IESBA noted that whilst this issue exists today for those entities that are listed entities, it might be compounded by extending the definition to all PIEs as it would encompass a wider range of entities.
- Acknowledged the complexity of the issue and agreed that further research on this topic, including the nature of ownership structure of private equity companies and SWFs, is warranted in order that it can gain a better understanding of the ramifications of extending the whole universe of related entities to all PIEs. The IESBA also agreed that given the timeframe, it may well be that further work will be required outside the scope of this project. The IESBA asked the Task Force to continue its research in Q4, potentially with a view to developing either a discussion paper or additional material in the exposure draft that highlights the key issues in order to seek views from stakeholders for its further consideration.

77. As part of its research in Q4, the Task Force has sought input from the Forum of Firms (FoF) including implications and challenges of the proposed expansion as well as practical examples of how this

might significantly affect the application of independence requirements in Part 4A of the Code. The Task Force will provide an update to the IESBA at its November-December 2020 meeting.

78. As the topic of related entity will be addressed by the IESBA as a separate initiative, the Task Force proposed that in paragraph R400.20, the term “listed entity” be replaced with the proposed new term under “publicly traded entity” in subparagraph R400.14 (a). The Task Force also believes that this should take into account how the local law and regulation may have amended the broad category in R400.14(a) and the wording is designed to achieve this (See paragraph R400.20 in **Agenda Item 1-C**).

Part 4B of the Code

79. Whilst the project centers on the definitions of listed entity and PIE by focusing on audits of financial statements and auditor independence (i.e., Part 4A of the Code), the project scope provides that implications for Part 4B of the Code will be taken into account and addressed as necessary.
80. Following the September 2020 Board discussions, one IESBA member also asked the Task Force to consider the following:
- With respect to assurance engagements other than audits, whether additional independence requirements should be expected of certain types of entities depending on the public interest implications.
 - For example, for an assurance engagement related to data governance, whether additional independence requirements are necessary due to public importance (e.g., sensitivity) of the data being held.
81. Following its review of the revised Part 4B set out in the final pronouncement, [Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in International Standard on Assurance Engagements 3000 \(revised\)](#) (Revised Part 4B), the Task Force has formed the view that changes to Part 4B are not necessary as part of the PIE project.
82. The Task Force’s rationale in forming its above conclusion are as follows:
- Part 4B applies to assurance engagements other than audit and review engagements and already requires a firm to be independent of the assurance client when performing such an engagement.
 - The term “assurance engagement” in Part 4B only refers to assurance engagements other than audit and review engagements. Under such an engagement, the firm expresses a conclusion that is designed to enhance the confidence of the intended users about the subject matter information. Paragraph 900.1 of the Revised Part 4B gives a number of examples such as assurance on an entity’s key performance indicators, an entity’s compliance with law or regulation and the effectiveness of an entity’s system of internal control.
 - Whilst there may be some assurance engagements that are of greater public interest than others this is at least as much to do with the nature of the engagement as to the nature of the entity. As such not all assurance engagements for a PIE (as defined by Part 4A) would be of significant public interest. As such the Task Force does not believe that providing a different definition of PIE has direct implications for Part 4B

- The Task Force acknowledges that it may be possible to define a class of “public interest assurance engagements” but believes this is outside the scope of the current project. In considering whether to take forward another project to consider this the Task Force also believes that it would be helpful firstly to reflect on what additional independence requirements (if any) might be imposed on the providers of such engagements in order to enhance confidence in their performance.

Effective Date

83. At the September-October 2020 meeting, the IESBA deliberated on the effective date for the project’s final text, taking into account the possible effective date for the NAS and Fees final texts, both of which are expected to be approved by the IESBA in December 2020.



84. The IESBA acknowledged that, whilst the initial intention was for the three projects’ final revisions to become effective on the same date, it is unlikely that this can take place at an earlier date given that the PIE exposure draft is yet to be released. The IESBA also agreed that stakeholders should be kept informed of the development and be provided with guidance material on transitioning to the new PIE definition with respect to the NAS and Fees revisions.
85. At the November-December 2020 IESBA meeting, the NAS, Fees and PIE Task Forces will present a number of effective dates options for the IESBA’s consideration and include responses from the FoF participants about whether they will agree to early adopt the NAS and Fees revisions by December 2022 if the IESBA determines a later effective date for these two projects.

Next Steps

86. The Task Force will present its second read of the proposed text to the IESBA at its November-December 2020 meeting, taking into account the comments received from the IAASB in November 2020. The Task Force intends to seek the IESBA’s approval of the proposed text for exposure at this meeting.