

Implications for the IAASB Standards of the IESBA Project on the Definitions of Listed Entity and Public Interest Entity (PIE)

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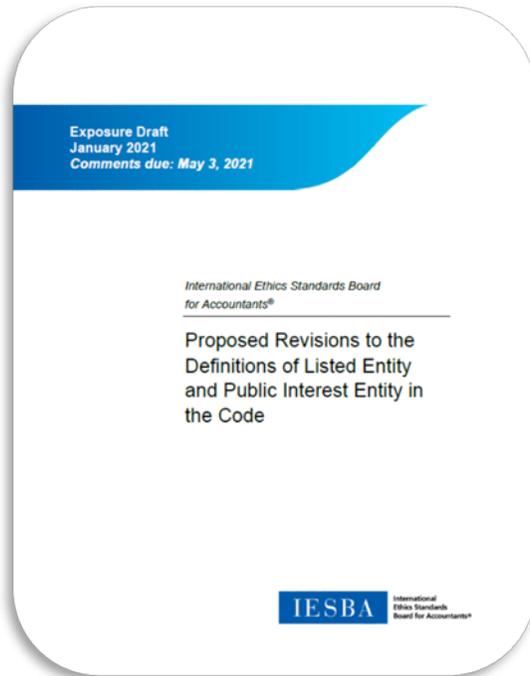
Agenda

- Provide an overview of:
 - Key responses to the PIE ED
 - Preliminary views of the IESBA's PIE Task Force and IAASB's PIE WG
 - IESBA's June 2021 Board discussion
- Obtain IAASB feedback on:
 - Use of the overarching objective for both IESBA and IAASB in establishing differential requirements for certain entities
 - Proposed case-by-case approach relating to requirements applicable to listed entities in IAASB Standards
 - Disclosure within the auditor's report that the firm has treated an entity as a PIE
 - Other matters

IAASB's Approach in Relation to IESBA's PIE Project

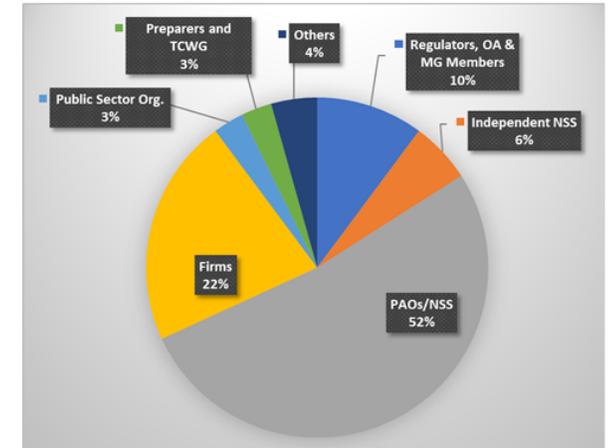
- Provide relevant input to IESBA as they finalize their proposals in December 2021:
 - Two Boards are working closely together
 - Ongoing coordination with IESBA's TF, PIE WG and at staff level
- IAASB will:
 - Explore a narrow-scope amendments project – targeted changes to one or more standard
 - Follow its own due process – public exposure and consultation as part of IAASB's own project

Background

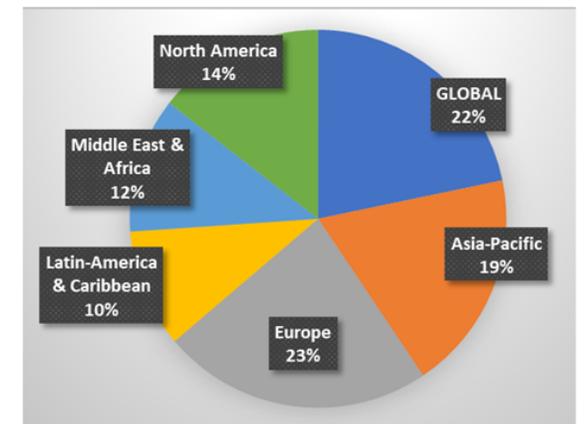


69 comment letters received

Stakeholders	No. of responses
Regulators, Oversight Authorities incl. Monitoring Group Members	7
Public Sector Organizations	2
Preparers and TCWG	2
Independent NSS	4
PAOs/ NSS	36
Firms	15
Others	3
Grand Total	69



Region	No. of responses
GLOBAL	15
Asia-Pacific	13
Europe	16
Latin America & Caribbean	7
Middle East & Africa	8
North America	10
Grand Total	69



Overarching Objective (Q1-2)

ED Responses

- Strong support for proposed overarching objective for additional independence requirements for audits of PIEs in Part 4A set out in paras. 400.8 and 400.9
- IOSCO fully supported the proposed overarching purpose in 400.9
- Key comments:
 - ❑ Clarify meaning of “financial condition” in para. 400.8
 - ❑ Reference to enhancing confidence in the audit of financial statements of PIEs in para. 400.9 perceived as implying different levels of independence/audit quality for PIE and non-PIE audits

Overarching Objective (Q1-2)

IESBA PIE Task Force Preliminary View

- Retain overarching objective and focus on financial condition/health of an entity
- Clarify meaning of “financial condition” in para. 400.8
- Instead of reference to enhancing confidence in audits of PIEs, add new material on stakeholders’ heightened expectations re auditors’ independence for audits of PIEs in para. 400.9
- Consider keeping paras. 400.8 and 400.9 separate

IESBA Board Discussion

- IESBA generally supportive of TF’s preliminary view

Use of the Overarching Objective in Establishing Differential Requirements (Q15(a))

ED Responses

- Broad support for the overarching objective:
 - Consistency and alignment considered important
 - More clarity needed – not to imply there are 2 levels of independence/quality
- Differential requirements:
 - Need to focus on providing increased transparency for IAASB Standards
 - Minimize use - balanced approach for setting any further differential requirements
 - More information needed (how they would look?)

Use of the Overarching Objective in Establishing Differential Requirements (Q15(a))

IAASB PIE WG Initial Views

- Objective needs to remain neutral:
 - Not overly focused or specific to independence
 - Differential requirements in the Code and the IAASB's Standards serve a different purpose
- Possible approach:
 - Agree on common objective used by both Boards (e.g., proposed para. 400.8)
 - Develop a more tailored objective for the IAASB's Standards (e.g., tailoring para. 400.9 of the PIE ED)
 - Consider further how the factors from para. 400.8 of the PIE ED can be relevant to the IAASB

Use of the Overarching Objective in Establishing Differential Requirements (Q15(a))

Question 1:

Does the Board agree with the possible approach to the overarching objective, as outlined in paragraph 72 of Agenda Item 3?

Approach to Revising the PIE Definition (Q3)

ED Responses

More overall support for broad approach (high-level definitions)

- Incl. respondents from regulatory community, independent NSSs
- Developing jurisdictions also generally supportive
- Recommended more education/outreach, monitoring of implementation/post-implementation review to identify any challenges, including local body capacity concerns

Significant proportion preferred narrow approach (baseline definitions)

- Incl. IOSCO, most firms and respondents from EU
- Prefer baseline definitions to which relevant local bodies can add
- Concerns of broad approach
 - ❑ Too dependent on local bodies' ability/appetite to make refinements
 - ❑ Inconsistencies of treatments and confusion amongst firms and users

PIE Definition – Publicly Traded Entity (Q4)

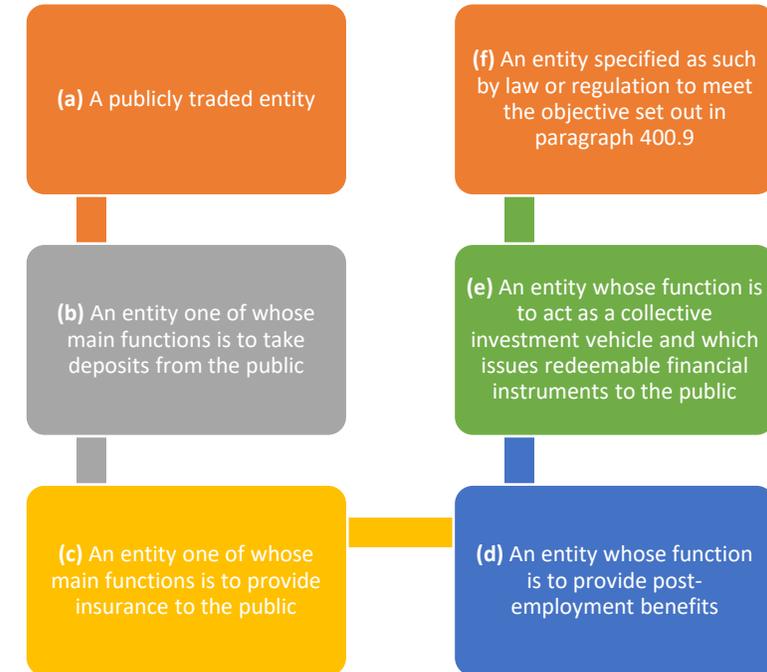
ED Responses

- Substantial proportion of respondents supported “publicly traded entity” as replacement for “listed entity”, including many respondents that preferred the narrower/baseline approach
- Recommended more clarity and refinement to the term
- Other comments/suggestions:
 - “Listed entity” should continue to be considered as publicly traded under new term
 - New term should align with EU definition of “regulated market”
- IOSCO preferred to retain “listed entity” – well used term
- IAASB and IESBA encouraged to work closely together to ensure new term can be applied consistently across both Boards’ Standards

PIE Definition – Other PIE Categories (Q5-6)

ED Responses

- Regulators, NSS & PAOs more supportive of all categories
- Strongest support for (a), (b) and (c)
- Most regulators, PAOs and firms that preferred the narrow approach were supportive of adding categories, particularly (b) and/or (c)
- More concerns about (d) and (e) regarding numbers and types of entities that might be scoped in
- Little support for adding new category to scope in entities fundraising via ICOs and other less conventional forms



Approach and PIE Definition (Q3-6)

IESBA PIE Task Force Preliminary View

- Continue with broad approach with high level definition, reaffirming previous view regarding challenges with baseline definition at global level
- Emphasize not generally expected that local bodies will remove entire categories
- Refine definition of “publicly traded entity”, taking in account further discussions with IOSCO in July
- TF to conduct full review of comments on proposed categories, including whether to retain (d) and (e)
- Meeting with IOSCO to discuss its views on approach & preference for “listed entity”

IESBA Board Discussion

- IESBA generally supportive of TF’s preliminary view
- TF should only determine if any category should be removed after full analysis of comments received

Matters Related to the Publicly Traded Entity Definition

IAASB PIE WG Initial Views

- Overall support
- IESBA PIE TF proposals under development
- IAASB to continue to provide input to IESBA on the definition:
 - Would likely form part of the IAASB's proposals to its stakeholders for targeted changes to the IAASB Standards
 - Definition to remain robust as the present term "listed entity"
- PIE WG intends to obtain feedback from the IAASB on the definition in October 2021

The Case-by-Case Approach Related to Requirements Applicable to Listed Entities (Q15(b))

ED Responses

- Overall support
- Varying views on how it should be undertaken:
 - MG and other respondents suggested to align existing requirements for listed entities with the enhanced PIE definition
 - A “one size fits all” approach may have unintended consequences
 - Need to consider the different public interest factors based on the objectives of each standard
- Some views that this determination should remain a jurisdictional decision

The Case-by-Case Approach Related to Requirements Applicable to Listed Entities (Q15(b))

IAASB PIE WG Initial Views

- Support for flexibility in the approach
- Broader consideration needed if the application material in the IAASB Standards needs to be aligned to the categories of entities within the proposed PIE definition

The Case-by-Case Approach Related to Requirements Applicable to Listed Entities (Q15(b))

Question 2:

In the context of an IAASB project that would explore narrow-scope amendments (i.e., targeted changes) to one or more IAASB Standards:

- a) Does the Board agree that respondents supported a case-by-case approach in determining whether differential requirements specific to listed entities across the IAASB's Standards should be revised to apply to all PIEs, and that this should be the approach taken by the IAASB in pursuit of a possible project?
- b) Should such a project explore whether the application material in the IAASB Standards needs to be considered for alignment to the categories of entities within the proposed PIE definition?

Role of Local Bodies (Q7-8)

ED Responses

- General support for local bodies to refine the PIE definition
- Key concerns raised same as those raised re broad approach:
 - ❑ The level of reliance on local bodies under the broad approach
 - ❑ A relevant local body is allowed to exclude a PIE category from IESBA's definition
- The above were addressed as part of responses to Q3-6
- General support for IESBA's proposed outreach and education support
 - ❑ Also call for regular monitoring in collaboration with IFAC and through post-implementation review

Role of Firms (Q9-12)

ED Responses

Proposed requirement for firms to determine if additional entities should be treated as PIEs (R400.16, 400.16 A1)

- Most regulators/OAs/NSS including IOSCO were supportive vs most firms not supportive; PAOs were split in their views
- Key concerns:
 - Subjective and will create divergence/inconsistency between firms
 - Responsibility to classify entities as PIEs should be that of IESBA/local bodies;
 - TCWG and not firms should determine if the audit of the entity should be subject to **additional** PIE requirements
 - Firms already have to exercise professional judgment to determine if additional independence rules have to be applied
- General support for at least one or more of the factors for consideration by firms (400.16 A1)

Role of Firms (Q9-12)

ED Responses

Proposed requirement for firms to disclose if audit client treated as PIE (R400.17)

- Response pattern of each stakeholder group similar to that of Q9 except for independent NSS
- Most common concerns/comments:
 - May lead to misconception that there are different levels of independence and non-PIE audits are of lower quality
 - More information needs to be disclosed as without proper context and explanation, disclosure unlikely to increase confidence in the audit or the auditor's independence or may cause confusion
- Support for disclosure mechanisms:
 - Auditor's report – to be discussed under Q15(c)
 - Transparency report and websites of firms, entity and local bodies

Role of Firms (Q9-12)

IESBA PIE Task Force Preliminary View

- Revert proposed requirement to determine whether to treat additional entities as PIEs back to AM
 - ❑ Whether to apply additional independence requirements for PIE to non-PIEs
- Refocus disclosure requirement
 - ❑ Firm has complied with additional independence requirements applicable to audits of PIEs
- Rationale
 - ❑ Disclosure requirement will apply some market discipline to firms in any determination they do make as to whether or not to apply the additional requirements to the audit of an entity which is not specified as a PIE

IESBA Board Discussion

- IESBA generally supportive of TF's preliminary view

Disclosure within the Auditor's Report that the Firm has Treated an Entity as a PIE (Q15(c))

ED Responses

- Mixed views:
 - MG respondent agreed but encouraged more be disclosed to help understand why an entity was designated as a PIE
 - Majority of firms, Independent National Standard Setters and Public Sector Organizations disagreed
- Clarity needed about what is meant by “publicly”
- Concerns about:
 - Unintended consequences (widening the expectation gap; lower confidence for non-PIE audits)
 - Confidentiality
 - Length and complexity to auditor's report
- Encouragement to explore other mechanisms

Disclosure within the Auditor's Report that the Firm has Treated an Entity as a PIE (Q15(c))

IAASB PIE WG Initial Views

- If IESBA does not explore other possible mechanisms to provide disclosure, this may inadvertently imply that the auditor's report is the only mechanism for disclosure
- Further clarity may be needed to explain what the "additional independence requirements" mean

Disclosure within the Auditor's Report that the Firm has Treated an Entity as a PIE (Q15(c))

Question 3:

In view of supporting IESBA in progressing their work, does the Board have any observations on IESBA's proposal to refocus the transparency requirement in the Code on publicly disclosing that the auditor has complied with the additional independence requirements applicable to audits of financial statements of PIEs, as illustrated in the proposed revisions to paragraph R400.17 (see paragraph 53 of Agenda Item 3)?

Audit Client, Part 4B, Effective Date (Q13-14)

ED Responses

Definition of Audit Client

- Respondents generally supportive of IESBA conclusions not to review definition of “audit client” in R400.20 at this time

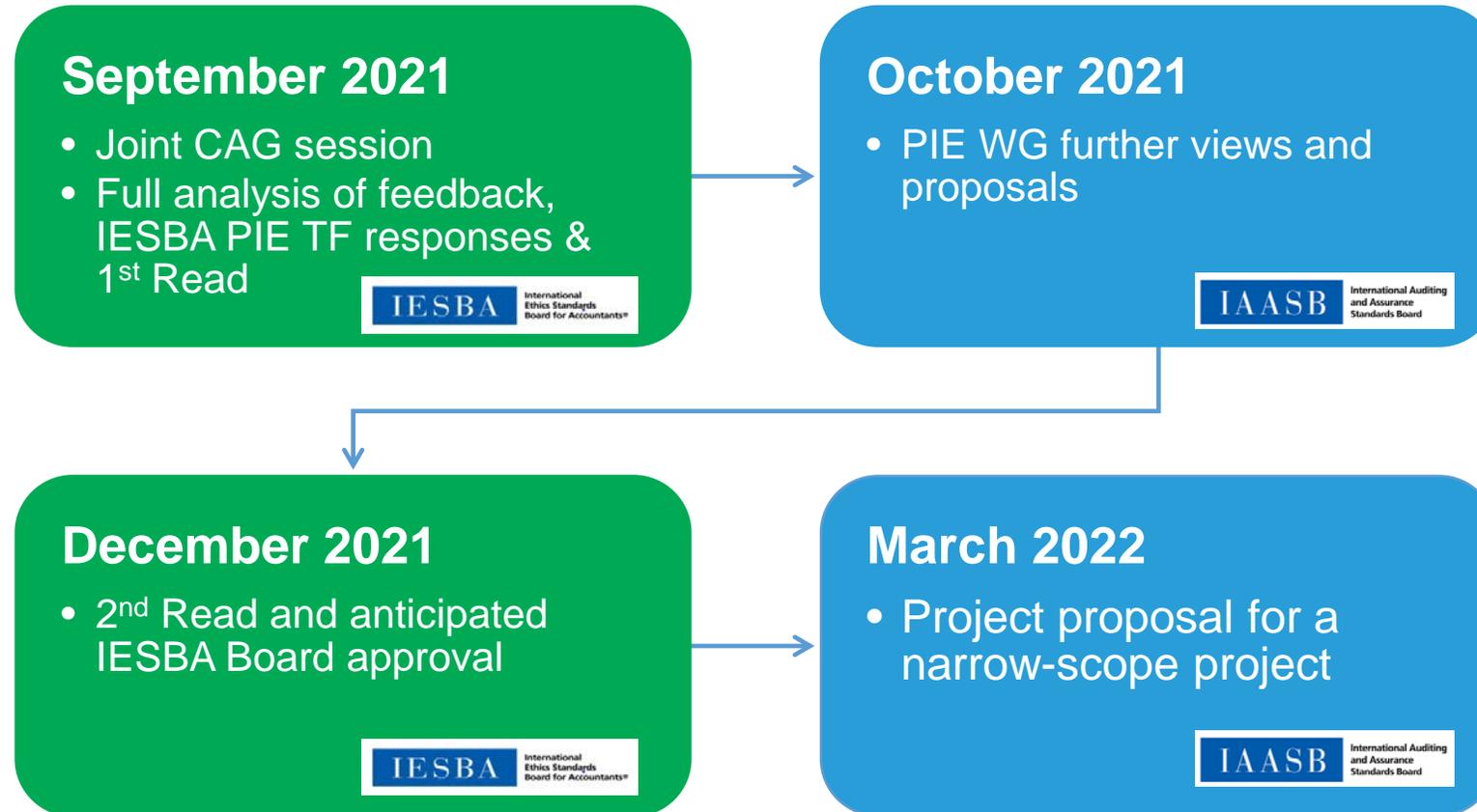
Part 4B

- Respondents generally supportive of IESBA conclusion not to propose any revisions to Part 4B

Effective Date

- Majority supportive of proposed effective date of Dec 15, 2024
- Some recommended effective date to be extended
- TF will develop its recommendation in light of any anticipated IAASB project timeline

Way Forward



Other Matters for IAASB Consideration

Question 4:

In further considering a possible IAASB project in relation to publicly traded entities and PIEs, the Board is asked for their views on whether:

- a) The feedback from respondents to the PIE ED in relation to Questions 15(a)-(c) have been appropriately reflected by the PIE WG.
- b) There are other matters the PIE WG should consider as it progresses its work in relation to a possible project proposal.

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