

Definitions of Listed Entity & Public Interest Entity (PIE)

Josephine Jackson
PIE Working Group Chair, IAASB
Mike Ashley
PIE Task Force Chair, IESBA
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Agenda

Receive IESBA's PIE project update:

- IESBA PIE TF proposals
- IESBA and joint IESBA-IAASB CAG discussion

Obtain IAASB's feedback on the:

- “Publicly traded entity” definition
- Overarching objective
- PIE definition
- Transparency requirement

Obtain IAASB's feedback on the proposed:

- Project scope
- Public interest issues
- Project objectives
- Project timeline

Broad Approach

Overarching Objective



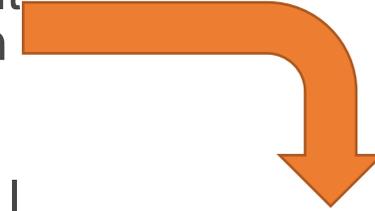
Baseline
Approach

Expanded
Approach

Role of
firms

- *Top-down*: subject to NSS refinement but no subtraction of categories
- Publicly traded | Banks | insurers | National PIEs
- *Bottom-up*: NSS to add based on local circumstances
- Framework of PI factors to guide
- Consideration of more granular factors
- Paired with transparency req't

Local PIE Definition



Sept 2021 IAASB-IESBA Joint CAG Session



- Representatives from both CAGs were generally supportive of the IESBA PIE TF's responses to key issues raised by ED respondents and its revised proposals
- The IESBA have taken their views into consideration

“Publicly Traded Entity” Definition

IESBA PIE Task Force Proposals & September IESBA and Joint CAG Discussion

IESBA and CAGs supported the PIE TF’s proposals to:

- Retain the term “publicly traded entity” as a PIE category to replace “listed entity” in the extant Code
- Clarify the concept of “publicly traded” in the proposed definition
- Describe listed entity as an example/category of a publicly traded entity

IESBA and CAGs agreed not to use the IASB definition of “financial instruments” set out in IAS 32 or define the term in other ways in the Code

“Publicly Traded Entity” Definition

Post September

- IESBA PIE TF is considering further revisions to refine how listed entity is incorporated

Current TF working draft revision

“...Listed entities as defined by relevant securities law or regulation are a category of publicly traded entity.”

- IOSCO meeting in Oct to discuss the definition

TF Sept Proposed Revisions Definition of Publicly Traded Entity

An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

“Publicly Traded Entity” Definition

IAASB PIE WG Views

Considerations as part of IAASB’s proposed project:

- Differential requirements use the term “listed entity”
- Impact on scope of entities subject to differential requirements:
 - Proposal that listed entity is as defined by relevant securities law or regulation
 - Which additional entities would be scoped into proposed definition of PTE
- Removing “listed entity” as a defined term
- The risk that multiple definitions add complexity for IAASB Standards and misalignment with the Code

“Publicly Traded Entity” Definition

Questions 1 & 2:

1. Does the IAASB agree with the matters that may need to be considered as part of the IAASB’s project, in determining whether to replace “listed entity” with “publicly traded entity” (see paragraph 26)? In particular, are there any additional matters that may need to be considered?
2. Does the IAASB have any input for IESBA on the proposed “publicly traded entity” definition prior to IESBA’s final approval in December 2021?

Overarching Objective

IESBA PIE Task Force Proposals & September IESBA and Joint CAG Discussion

IESBA and CAGs generally supportive of the TF's proposed revisions, including:

- Retain the public interest focus on financial condition of an entity in light of support received from ED respondents with some clarification of the term (para. 400.8)
- Address concerns about perception of 2 levels of independence or audit quality (para. 400.10) by:
 - Removing reference to “enhancing confidence in the audit of those financial statements”
 - Clarifying that the PIE independence requirements are to meet stakeholders' heightened expectations regarding independence of PIE auditors because of the level public interest in the financial condition of PIEs
- Move the list of factors to a new paragraph (para. 400.9)

Overarching Objective

Post September

PIE TF is not considering any further revisions to para. 400.8 – 400.10

TF Sept Proposed Revisions

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 due to the potential impact of their financial well-being on stakeholders.

400.10

Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

Overarching Objective

IAASB PIE WG Views

- IAASB generally supportive
- Use of term “financial condition” in IAASB Standards:
 - Used rarely in ISAs
 - In a similar context/as examples only
 - Not inconsistent with IESBA’s proposals
- Impact on going concern:
 - The use of term “financial condition” in IESBA proposals is neutral; not to be interpreted as denoting “poor” or “adverse” financial condition
 - Linked to significant public interest
 - Differential requirements for going concern would be explored as part of the Going Concern project

Overarching Objective

Question 3:

3. Does the IAASB continue to support using paragraph 400.8 of IESBA's proposed revisions to the Code as a common overarching objective for use by both the IAASB and IESBA in establishing differential requirements in the Boards' standards?

PIE Definition

IESBA PIE Task Force Proposals & September IESBA and Joint CAG Discussion

The IESBA and CAGs supported the PIE TF's proposals:

- Retain (b) and (c) in light of support received; also, these two categories already in PIE definitions of a number of jurisdictions
- Remove (d) and (e):
 - The structure, type and size of both post employment benefits and CIVs vary considerably
 - An untried model. On balance, more appropriate to leave these two categories to local bodies
 - TF considering other options including whether to include examples of other entities such as post-employment benefits or CIVs
 - Additional non-authoritative guidance material will assist local bodies
- No new categories to be added

(a) A publicly traded entity



(d) An entity whose function is to provide post-employment benefits



(b) An entity one of whose main functions is to take deposits from the public



(e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public



(c) An entity one of whose main functions is to provide insurance to the public



(f) An entity specified as such by law or regulation to meet the objective set out in paragraph 40



PIE Definition

Post September

PIOB raised concerns about PIE TF's proposals to remove (d) and (e)

- IESBA representatives to discuss matter at PIOB Oct meeting
- PIE TF considering new AM to highlight pension funds and CIVs as possible new categories that can be added by local bodies
- In December 2021, IESBA will consider PIOB's input including any revisions by PIE TF to address their concerns

(a) A publicly traded entity



(d) An entity whose function is to provide post-employment benefits



(b) An entity one of whose main functions is to take deposits from the public



(e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public



(c) An entity one of whose main functions is to provide insurance to the public



(f) An entity specified as such by law or regulation to meet the objective set out in paragraph 40



PIE Definition

Question 4:

4. Does the IAASB have any observations on the IESBA's proposals for the PIE definition that would be relevant to the IAASB's project or in view of supporting IESBA in progressing their work prior to IESBA's final approval in December 2021?

Transparency Requirement

IESBA PIE Task Force Proposals & September IESBA and Joint CAG Discussion

IESBA and CAGs supported the PIE TF's proposals:

- Revert the proposed firm requirement to determine if additional entities should be treated as PIE to application material as an encouragement (Para. 400.17 A1)
- Retain the transparency requirement (Para. R400.18)
 - When PIE independence requirements have been applied, a firm shall publicly disclose that fact.
 - The proposed text in para. R400.18 is intended to avoid any direction on how the disclosure should take place. This gives IAASB the room to explore whether disclosure in auditor's report is suitable
 - It is in the public interest for users of the audit reports to be able to know which standards (for PIEs and non-PIEs) have been used to assess if the auditor is independent.
 - Given the heightened expectations regarding PIEs, the TF believes this is best achieved by public disclosure of when the PIE requirements have been applied.
- Minor revisions to the list of firm factors (Para. 400.17 A1)

Transparency Requirement

Post September

- PIE TF is considering refinement to para. 400.17 A1 to clarify that:
 - A firm is not treating an entity as a PIE other than for the purposes of independence (Part 4A)
- Re para. 400.18, PIE TF will further consider, amongst other matters:
 - Implications for disclosure if the audit report is not made public
 - The risk of releasing confidential information

TF Sept Proposed Revisions

R400.18

When a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact.

Transparency Requirement

IAASB PIE WG Views

- General support to explore transparency in the auditor's report
- Matters for IESBA to consider:
 - How will disclosure in the auditor's report meet the requirement in 400.18 to "publicly disclose"?
 - How will IESBA address matters of confidentiality?
 - If the auditor's report is not found to be a suitable location, then this can create uncertainty as to what other mechanisms can be used

Transparency Requirement

Question 5:

5. Does the IAASB have any observations on IESBA's proposal for the requirement to publicly disclose the application of the independence requirements for PIEs that would be relevant to the IAASB's project or in view of supporting IESBA in progressing their work prior to IESBA's final approval in December 2021?

Developing the Project Proposal

Stakeholder Interests

Based on Public Interest Framework published by Monitoring Group in July 2020.

Considered in developing key public interest issues.

Key Public Interest Issues

Developed specifically for PIE project proposal based on information gathering, with consideration of stakeholder interests.

Project Scope

Identifies scope of matters to be included in the PIE project based on information gathering, with consideration of key public interest issues.

Project Objectives

The outcomes and objectives that will be achieved through addressing the key public interest issues for the matters identified in the project scope

Project Scope

**Limited to
narrow scope
amendments
to ISQMs &
ISAs**

Matters that will be considered:

- Developing an objective (and guidelines) for establishing differential requirements in the IAASB Standards
- Whether to align the concepts in the IAASB Standards to the proposed revised Code (PTE & PIE definitions)
- Undertaking a case-by-case approach for considering if the differential requirements should be expanded to all PIEs
- Enhanced communication with users about independence in the auditor's report

Project Scope

Questions 6 & 7:

6. Does the Board agree that the IAASB project be limited to the ISQMs and ISAs?
7. Have the various matters that need to be considered part of the scope of the IAASB project been appropriately described (see paragraphs 62-81)?

Public Interest Issues

1

Achieve to the greatest extent possible convergence between the key concepts used in the revised Code and the IAASB Standards to maintain their interoperability

2

Addressing the differential requirements in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities

3

Enhance transparency about the relevant ethical requirements for independence applied when performing an audit of financial statements, in conjunction with the revisions proposed to the Code

Project Objectives



Align the ISQMs and ISAs with the concepts in the Code (PTE, PIE definition)



Establish an objective (and guidelines as appropriate) to support the IAASB's judgments when developing differential requirements



Determine whether the existing differential requirements in the ISQMs and ISAs should extend to all PIEs



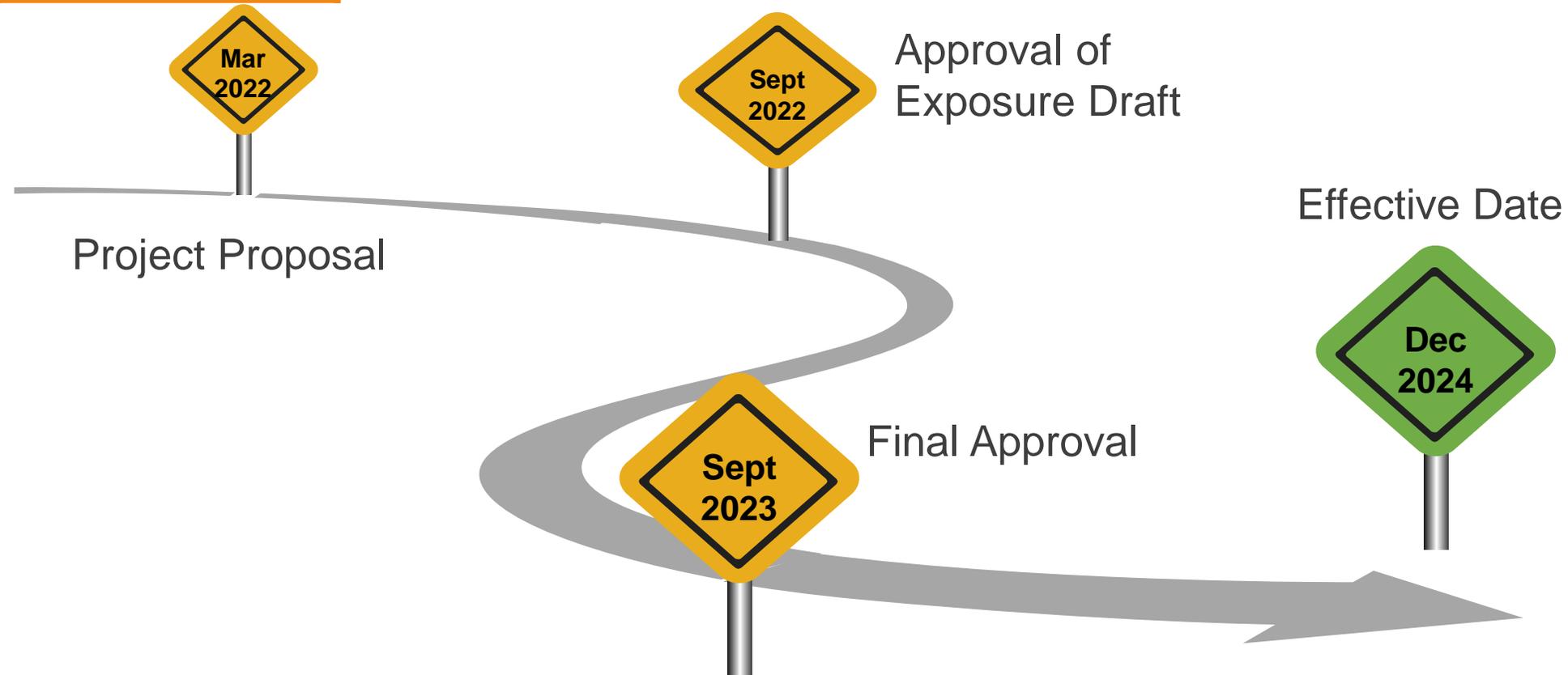
Support IESBA's efforts to promote enhanced transparency about the relevant ethical requirements for independence applied

Public Interest Issues & Project Objectives

Questions 8, 9 & 10:

8. Are the public interest issues relating to the IAASB project appropriate?
9. Are there other public interest issues that the IAASB PIE WG should consider as part of developing a project proposal?
10. Have the project objectives been appropriately described to address the public interest issues that have been identified?

Proposed Project Timeline



Proposed Project Timeline

Option 1

Single package of proposals
(Same effective date)

Option 2

Keep as single package
but bifurcate the project
in two tracks (faster and
slower moving track)

Option 3

Keep as single package
of proposals but with
different effective dates

ISA Paragraphs

ISA 700 (Revised), para.28(c)

The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: [...]

(c) Includes a statement that the auditor is independent of the 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 IESBA Code

ISA 260 (Revised), para.17

In the case of **listed entities**, the auditor shall communicate with those charged with governance:

(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and [...]

ISA 700 (Revised), para. 40(b)

The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: [...]

(b) For audits of financial statements of **listed entities**, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied; and [...]

Proposed Project Timeline

Questions 11 & 12:

11. Does the Board support the proposal to adopt Option 2, i.e., keep the project as a single package but bifurcate the project in two tracks?
12. The Board is asked for its view on whether it would be preferable to address the auditor's statement in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised) together with the requirement in paragraph 17 of ISA 260 (Revised) and the communication related thereto in paragraph 40(b) of ISA 700 (Revised) (see paragraph 90).

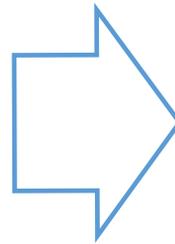
Way Forward

December 2021

2nd Read and anticipated
IESBA Board approval

IESBA

International
Ethics Standards
Board for Accountants®



March 2022

Project proposal for a
narrow-scope project

IAASB

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