Definitions of Listed Entity and Public Interest Entity

Summary of Significant Comments on Exposure and Task Force Proposals

Note to IESBA Meeting Participants

This agenda paper contains a summary of the significant comments received to the Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (PIE ED) and the Task Force's responses to these comments.

The respondents' comments to the ED Questions 1 – 14 and the Task Force responses are included in Part II of this agenda paper. Whilst not all comments are mentioned in this paper, the Task Force reviewed them all when developing its responses and the revised proposed text set out in Agenda Item 2-B. See paragraphs 4-7 for a high-level overview of the comments received and the Task Force's proposed key revisions.

During the September 2021 IESBA meeting, the Task Force Chair will present this paper as well as a full read of Agenda Item 2-B.

For reference only:

- **Agenda Item 2-C** – Proposed text in clean version
- **Agenda Items 2-D.1 – 14** – Detailed comments by ED Question

ED Questions 15 (a) to (c) relate to three key IAASB matters. The IAASB discussed respondents’ feedback to these questions and the IAASB PIE Working Group’s initial views relating to these matters at the IAASB’s July 2021 meeting. This paper includes a high-level summary of the IAASB’s July 2021 discussion as relevant to the IESBA's deliberations. For a summary of respondents’ feedback to these questions, please refer to Sections V-X of the IAASB Agenda Paper (pp. 14-30 of IAASB Agenda Item 3).

For more information about the IAASB July 2021 discussions, refer to the draft meeting minutes.

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III. Next Steps
I. INTRODUCTION

A. BACKGROUND

1. Following deliberations, the IESBA approved a project proposal, “Definitions of Listed Entity and Public Interest Entity” (PIE project), at its December 2019 meeting. This project was initially planned to commence only in Q2 2021 in accordance with IESBA’s Strategy and Work Plan, 2019-2023 (SWP). However, the IESBA agreed that it should be brought forward to provide clarity about the scope of entities that would be impacted by the Non-Assurance Services and Fees revisions which were approved by the IESBA in December 2020.

2. In January 2021, the IESBA released the ED for comment. The proposed revisions set out in this ED, amongst other matters:
   - Introduce an overarching objective for additional independence requirements for entities that are PIEs.
   - Provide guidance on factors for consideration when determining the level of public interest in an entity.
   - Expand the extant definition of PIE to a list of categories of entities that should be treated as PIEs, subject to refinement by the relevant local bodies responsible for standard setting as part of the adoption and implementation process.
   - Replace the term “listed entity” with one of the new PIE categories, “publicly traded entity.”
   - Elevate the extant application material that encourages firms to determine whether to treat additional entities as PIEs to a requirement and include enhanced guidance on factors for consideration by firms.
   - Require firms to disclose if an audit client has been treated as a PIE.

B. OVERVIEW OF RESPONSES

3. The IESBA has received a total of 69 comment letters in response to the ED (See Appendix for a list of the respondents).
4. A breakdown of the respondents is as follows:
   - Of the seven respondents from the regulatory community, one is a Monitoring Group member\(^1\) and one is regional.\(^2\)
   - 12 of the 15 firms are members of the Forum of Firms (FoF) and the other three from North America.
   - Two of the four independent national standard setters (NSS) are auditing boards that responded to the question on IAASB-related matters (Question 15 of the ED).

<table>
<thead>
<tr>
<th>Region</th>
<th>No. of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLOBAL</td>
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<tr>
<td>Asia-Pacific</td>
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<td>Europe</td>
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<td>North America</td>
<td>10</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td><strong>69</strong></td>
</tr>
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</table>

5. The six proposed PIE categories under paragraphs R400.14 (a) to (f) in the ED are:
   - Category (a): A publicly traded entity
   - Category (b): An entity one of whose main functions is to take deposits from the public;
   - Category (c): An entity one of whose main functions is to provide insurance to the public;
   - Category (d): An entity whose function is to provide post-employment benefits;
   - Category (e): An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public.
   - Category (f): An entity specified as such by law or regulation to meet the objectives set out in paragraph 400.9.

For the purposes of this paper, these proposed categories will be referred to as categories (a) to (f).

6. The following are highlights of key comments raised by respondents:
   - There was strong support for the use of an overarching objective to explain the need for additional independence requirements for PIEs.

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\(^1\) **Regulators/ MG:** IOSCO

\(^2\) **Regulators/ MG:** CEAOB
Majority of respondents were supportive of the broad approach to develop a revised definition of PIE (i.e., high-level definition) and for local bodies to refine the PIE definition as part of their adoption process. Respondents that supported the narrow approach (including IOSCO) generally preferred baseline definitions that can be more readily implemented across jurisdictions and to which relevant local bodies could add further categories.

Respondents were generally supportive of the IESBA’s proposal to introduce a new term “publicly traded entity” as a replacement for “listed entity” with some clarification of the definition of the term sought. A number of respondents, including IOSCO, preferred to retain the term “listed entity”.

There was general support for categories (b) and (c) but more concerns were raised with regards to categories (d) and (e).

A small majority of respondents did not support either the proposed firm requirement to determine if additional entities should be treated as PIEs or the proposed transparency requirement.

7. Upon full analysis of the comments received, the Task Force proposed the following key revisions:

<table>
<thead>
<tr>
<th>Paragraphs in Agenda 2-B</th>
<th>Task Force Proposals</th>
</tr>
</thead>
<tbody>
<tr>
<td>400.8 – 400.10</td>
<td>Retain the overarching objective with proposed refinement.</td>
</tr>
<tr>
<td>R400.15 – 400.15 A1</td>
<td>Retain the broad approach to developing the PIE definition (i.e., high-level definition.)</td>
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<tr>
<td></td>
<td>Retain category (a) and the term “publicly traded entity” with proposed refinement to the definition.</td>
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<tr>
<td></td>
<td>Retain categories (b) and (c) but remove categories (d) and (e).</td>
</tr>
<tr>
<td>R400.16 – 400.16 A2</td>
<td>Remove reference to “local bodies to exclude entities” but instead provide examples of how local bodies can more explicitly define the PIE categories</td>
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<tr>
<td></td>
<td>Clarify that local bodies can add more categories to their local definition.</td>
</tr>
<tr>
<td>400.17 A1</td>
<td>Revert the proposed firm requirement to determine if additional entities should be treated as PIEs to application material.</td>
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<tr>
<td></td>
<td>Revise the encouragement to firms to determining if PIE independence requirements should be applied to other entities instead of whether they should be treated as PIEs.</td>
</tr>
<tr>
<td>R400.18</td>
<td>Retain the proposed transparency requirement but revise the disclosure to whether the firm has applied the independence requirements for PIEs in performing an audit engagement.</td>
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</table>
II. KEY COMMENTS, ISSUES AND TF RESPONSES AND PROPOSALS

A. OVERARCHING OBJECTIVE (ED QUESTION 1)

ED Question 1

Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code?

At a Glance

<table>
<thead>
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<th>Stakeholders</th>
<th>Support</th>
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<th>Unclear</th>
<th>No comment</th>
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<td>Firms</td>
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<td>3</td>
<td>2</td>
<td>6</td>
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</table>

8. A substantial proportion of the respondents, including IOSCO, supported the use of an overarching objective to explain the need for additional independence requirements for PIEs. Only a small number of respondents stated that they do not support the overarching objective.

9. The key issues raised relate to clarity of the term “financial condition” in proposed paragraph 400.8 and a perception of two levels of independence or audit quality from the proposed text in paragraph 400.9.

10. Only a few respondents have suggested that the focus of the public interest should go beyond the financial health of entities to include consideration of non-financial information.3

The Meaning of “Financial Condition”

11. Whilst respondents generally agreed with the IESBA’s proposals to focus on the financial aspects of an entity in paragraph 400.8 when determining the level of public interest, one of the key issues raised was that the term “financial condition” is undefined in the Code and therefore lacks the necessary clarity, making it subject to interpretations.4 Queries raised by respondents include whether the term is different from “financial statements” (which was referenced in the proposed paragraph 400.9) or terms such as “balance sheet” or the concept of going concern for the entity.5

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3 Public Sector Organizations: OAGA; PAOs/ NSS: CPAA, NBA
4 Regulators/ MG: IRBA, NASBA, Independent NSS: APESB, NZAuASB; PAOs/ NSS: ACCA, CAI, CNCC, CPAA, HKICPA, ICAEW, ICAS, ICPAU, IDW, ISCA, MIA; Firms: EY, KPMG, Mazars, PwC; Others: SMPAG
5 Regulators/ MG: NASBA; Independent NSS: APESB, NZAuASB; PAOs/ NSS: CPAA; Others: SMPAG
12. Some respondents expressed the view that the proposals may imply that the auditor has an expanded responsibility in the public interest, thus creating an expectation gap in the eyes of the public about the scope of public interest that the proposed provisions seek to address.6

13. Some respondents have suggested that the proposals should include some of the explanations from the explanatory memorandum (EM) to provide additional context and explanation for the term “financial condition,” such as reference to how an entity’s financial success or failure may impact the public.7

14. Other suggestions from respondents include substituting the term “financial condition” with other terms including “financial health,”8 “financial accountability” (which it was argued better reflects the essence of PIEs),9 and “financial position and performance” (which it was argued would better align with the purpose of an audit).10

15. There was also a suggestion that the word “significant” in proposed paragraph 400.8 seems too subjective and it was suggested that it be replaced with “an elevated degree of.”11

Enhancing confidence in Audit of the Financial Statements of PIEs

16. Some respondents that supported the proposed overarching objective also raised concerns about the proposed text in paragraph 400.9, in particular the reference to enhancing confidence in the audit of financial statements of PIEs.

17. Some have suggested that the proposed text may cause the public to believe that there are different levels of independence for PIE and non-PIE audits and that auditors of non-PIE entities are somehow less independent than auditors of PIEs.12 Similarly, others have suggested the proposed text points to different levels of audit quality for PIE and non-PIE audit engagements.13

18. Some respondents have suggested that the focus should be on the heightened expectations regarding a firm’s independence when the audit client is a PIE instead of enhancing confidence in the audit of financial statements.14 It was noted that the primary purpose behind distinguishing entities as PIEs in the context of the Code is to enhance the confidence users of a PIE’s financial statements can place in the independence of the auditor through compliance with the fundamental principles and additional independence requirements.15 It was also pointed out that such a revised focus would align the overarching objective with paragraph 600.15 A1 in the NAS final pronouncement,16 which states:

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6 PAOs/ NSS: ACCA, HKICPA, ICAEW, ICPAU; Firms: KPMG, PwC
7 Independent NSS: APESB; PAOs/ NSS: CNCC; ICAS, SAICA; Firms: CohnReznick
8 Regulators/ MG: NASBA
9 PAOs/ NSS: ISCA
10 Firms: PwC
11 Firms: EY
12 Regulators/ MG: NASBA; PAOs/ NSS: ACCA, CAANZ, CPAA
13 PAOs/ NSS: CFC, CNCC, JICPA; Firms: BDO, DTTL, EY, GTIL, KPMG, Mazars
14 Independent NSS: NZAuASB; PAOs/ NSS: CAANZ; Firms: DTTL, EY, KPMG
15 Regulators/ MG: UKFRC; PAOs/ NSS: CPAA; Firms: BDO, EY
16 Firms: KPMG
600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm’s independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

19. Other key comments from respondents include:

- Whether the proposed text in paragraph 400.9 is too generic and can be applied to audits of both PIEs and non-PIEs. It was suggested that the paragraph should make it clear that these are "additional" independence requirements for audits of PIEs.
- Whether paragraph 400.9 should reference paragraph 400.8 as the EM in paragraph 18 refers to "the overarching objective as set out in proposed paragraphs 400.8 and 400.9." It was argued that such a move would also give the overarching objective and list of factors in paragraphs 400.8 and 400.9 more prominence.
- The need to clarify the relationship between paragraphs 400.8 and 400.9 and the requirement in R400.14, including whether paragraphs 400.8 and 400.9 should be moved to after the requirement in paragraph R400.14. It was argued that such a move would also give the overarching objective and list of factors in paragraphs 400.8 and 400.9 more prominence.

IESBA and IAASB Discussions

IESBA June 2021 Discussion

20. The Board was generally supportive of the Task Force’s preliminary view:

- Retain the term “financial condition” in paragraph 400.8 but add explanation instead of using a different term or narrowing it to financial statements or financial position.
- With regards to paragraph 400.9:
  - Add material on stakeholders’ heightened expectations on auditors’ independence to align with the provisions in the NAS and Fees final pronouncements.
  - Remove the reference to enhancing confidence in the audit.
- Consider whether to keep paragraphs 400.8 and 400.9 separate noting that paragraph 400.8 might be more suitable as a possible common overarching objective.

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17 In addition to paragraph 600.15 A1 of the NAS final pronouncement as cited above, the Fees final pronouncement also has a similar provision:

410.3 A2 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.

18 Independent NSS: APESB, NZAuASB; PAOs/ NSS: ICAS

19 PAOs/ NSS: ICAS

20 PAOs/ NSS: NRF, CPAC; Others: SMPAG

21 PAOs/ NSS: CPAC
IAASB July 2021 Discussion

21. In light of the comments received to Question 15(a) of the PIE ED, the IAASB was supportive of the following IAASB PIE Working Group’s proposed approach:
   (a) Agree with IESBA on a common objective that could be used by both Boards, for example, paragraph 400.8 discussed by the IESBA in June 2021 could be used for this purpose.
   (b) Develop a more tailored overarching objective for the IAASB’s Standards that describes the purpose of the differential requirements for certain entities, i.e., more specifically tailoring paragraph 400.9 of the PIE ED for the IAASB’s purposes. The PIE WG notes the IESBA’s initial proposal to tailor paragraph 400.9 to focus on stakeholders’ heightened expectations regarding the independence of the firm conducting the audit.
   (c) There is some caution about considering the implications of the use of “financial condition” in IAASB standards.
   (d) Depending on the further changes proposed by the IESBA PIE TF to address respondent comments, consider further how the factors from paragraph 400.8 of the PIE ED can be relevant to the IAASB while tailoring its objective for the purpose of its Standards.

Task Force Response

22. Upon deliberation, the Task Force is maintaining its preliminary view with regards to proposed paragraphs 400.8 and 400.9.

Proposed Paragraph 400.8

23. The Task Force noted that the proposed focus on public interest for the purposes of Part 4A of the Code is on the general financial health of an entity, i.e., its “financial condition” and not the financial statements per se. To clarify the meaning of “financial condition,” the Task Force is proposing to add the phrase “due to the potential impact of their financial well-being on stakeholders” (see paragraph 400.8 of Agenda Item 2-B).

24. The Task Force further noted that an entity’s financial condition is broader than its financial statements and that the latter are used by stakeholders to assess the entity’s financial condition. To address concerns about creating an expectation gap, the Task Force is proposing revisions to clarify that financial statements can be used by stakeholders when assessing the financial condition of PIEs (see paragraph 400.10 of Agenda Item 2-B).

25. The Task Force is also of the view that the term “financial condition” is a broadly understood term by the public and does not warrant a definition in the Code. Similarly, the Task Force does not believe that it is necessary or appropriate to define “significance” for the purposes of proposed paragraph 400.8.

Proposed Paragraph 400.9

26. With regards to proposed paragraph 400.9, the Task Force acknowledged the concerns raised that the proposals may inadvertently create a public perception that auditors of PIEs somehow have a higher level of independence than auditors of non-PIEs and that PIE audits are of a higher quality.

For a summary of respondents’ comments to Question 15(a), refer to paragraphs 64-72 of the IAASB Agenda Paper.
To address these concerns, the Task Force is proposing that the reference to “enhancing confidence in the audit of those financial statements” be removed (see paragraph 400.10 of Agenda Item 2-B).

27. The Task Force also agrees with some respondents’ view that the focus of the independence requirements for PIEs should be on meeting stakeholders’ heightened expectations regarding a firm’s independence when the audit client is a PIE. These heightened expectations arise due to the public interest in the financial condition of PIEs and their impact on the public in the event of financial failure. As a result, additional independence requirements are necessary for areas such as fees and the provision of non-assurance services in order to meet these expectations. Put another way, whilst Part 4A of the Code has two sets of independence requirements to meet the different expectations of stakeholders regarding a firm’s independence depending on whether an entity is a PIE or not, they are both designed to ensure auditors are independent both in mind and appearance.

28. Accordingly, the Task Force is proposing to convey the above by including reference to heightened expectations regarding the independence of the firm for PIE audits (see paragraph 400.10 of Agenda Item 2-B).

29. The Task Force also clarified in the proposals that enhancing the confidence in a PIE’s financial statements is important because they can be used by stakeholders when assessing the PIE’s financial condition (see paragraph 400.10 of Agenda Item 2-B). The aim of this clarification is to address the concern about public expectation that auditors are responsible for the whole of an entity’s financial condition.

Other Comments

30. Regarding the suggestion from a few respondents that the focus of the public interest should go beyond the financial health of entities to include consideration of non-financial information, the Task Force welcomed the recent progress on environmental, social and governance (ESG) reporting and assurance across the globe as well as the release of the IAASB’s new Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Extended External Reporting Assurance Engagements in April 2021.

31. However, the Task Force maintained its view that these matters should remain outside the scope of this project and instead be addressed holistically by a separate initiative. In this regard, the Task Force noted that the Board will receive an update from the IESBA’s Emerging Issues and Outreach Committee (EIOC) on this subject at the September 2021 IESBA meeting.

Matters for the IESBA Consideration

1. Do IESBA Members agree with the Task Force’s views?
2. Do IESBA Members agree with the Task Force’s proposed revisions to paragraphs 400.8 and 400.10 in Agenda Item 2-B?
B. LIST OF FACTORS TO DETERMINE LEVEL OF PUBLIC INTEREST (ED QUESTION 2)

**ED Question 2**

Do you agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity? Accepting that this is a non-exhaustive list, are there key factors which you believe should be added?

At a Glance

32. Proposed paragraph 400.8 in the ED provided a list of six factors as guidance on determining the level of public interest in the financial condition of entities. Respondents were generally supportive of these factors with some suggestions for refinement.

General Comments

33. A number of respondents suggested clarifying that each of the proposed factors on its own may not amount to significant public interest in the financial condition of an entity and should not be considered in isolation. There was also a suggestion to clarify that there is not a minimum number of factors that would have to apply for an entity to be considered a PIE.\(^{23}\)

34. Some respondents have observed that some of the factors require subjective judgment which may cause inconsistent treatment of similar entities among firms, jurisdictions and at the global level.\(^{24}\)

35. With regards to the location of the list of factors in paragraph 400.8, a few respondents suggested that it is not sufficiently clear that the list of factors should be used by local bodies to refine the PIE definition in paragraph R400.14 as well as how that list relates to the list of factors in proposed paragraph 400.16 A1.\(^{25}\) There was also a suggestion to revise the phrase “will depend on” in the lead-in sentence to the list of factors as it was felt that this implied a requirement.\(^{26}\)

Specific Comments on the Six Factors

36. Respondents have provided refinement suggestions and other comments to each of the six factors. These have been reviewed by Task Force when considering if any revisions or refinements are necessary.

37. In addition to suggested refinements, other comments from respondents include:

- More clarity and guidance be provided on terms used, including “financial obligations,” “entity’s primary business,” “regulatory supervision,” “importance” and “public.”\(^{27}\)

- Some factors may be difficult to assess and evaluate, such as whether an entity is regulated due to a sector or industry specific function (second factor), how easily replaceable an entity is (fourth factor) and the potential systemic impact of an entity’s financial failure (sixth factor).\(^{28}\)

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\(^{23}\) Independent NSS: NZAuASB; PAOs/ NSS: CAANZ, ICAS, SAICA; Firms: CohnReznick, KPMG, Moore, PwC

\(^{24}\) PAOs/ NSS: ASSIREVI, CNCC, HKICPA, SAICA; Firms: PwC

\(^{25}\) Independent NSS: APESB; PAOs/ NSS: CPAC, HKICPA, ICAEW; Firms: BDO

\(^{26}\) Others: SMPAG

\(^{27}\) Regulators/ MG: IRBA; PAOs/ NSS: AE, CNCC, HKICPA, INCP, JICPA

\(^{28}\) Firms: DTTL, KPMG
• Instead of the phrase “taking on financial obligations to the public” in the second factor, the extant phrase “holding assets in a fiduciary capacity for a large number of stakeholders” may be more appropriate. 29

• More guidance on size in the third factor may be necessary, particularly that size is a matter of context and should not be regarded as an absolute measure.30

• Whether the fourth factor should become either part of the first factor if the factor is intended to address the activities themselves, which may be highly specialized, or part of the sixth factor if it is intended to capture the essence of the concept of “too big to fail.”31

• The phrase “economy as a whole” should be replaced with “society as a whole” in the sixth factor as PIEs should be entities that have a significant impact on the public in general.32

Suggested New Factors

38. The following were suggested by respondents for the IESBA’s consideration as additional factors:

• Geographical location of an entity which is particularly relevant when the entity is operating in remote communities. Alternatively, this point could be considered when determining how difficult it is for an entity to be replaced.33

• Sustainability, climate change and environmental exposures and risks. There may be attributes about the nature of an entity’s operations and the manner in which it conducts those operations and their resulting impact on climate and society which may be cause for heightened public interest.34

• Whether an entity is dealing with the provision of essential and strategic goods and services.35

IESBA Discussions

39. The list of factors was not discussed by the Board in June 2021.

Task Force Responses

40. Upon review of the comments received on each of the factors including those cited above, the Task Force did not consider any further refinement to the proposed list is necessary. The Task Force has formed the view that the factors as proposed in the ED were sufficiently fit for purpose as examples of factors that should be considered by local bodies when refining the PIE definition or adding new categories based on national circumstances. The Task Force is also of the view that any further explanation to these factors is better dealt with through additional non-authoritative guidance material as part of the rollout of the approved revisions. The Task Force also noted that:

29 Independent NSS: APESB
30 Regulators/ MG: IRBA, UKFRC; PAOs/ NSS: ACCA, CPAA, HKICPA; Firms: PwC
31 Firms: KPMG
32 Public Sector Organizations: OAGA; PAOs/ NSS: NBA
33 PAOs/ NSS: ACCA; Firms: MNP
34 PAOs/ NSS: CPAA; Firms: BDO
35 PAOs/ NSS: NBAAT
• The phrase “taking on financial obligations to the public” is more appropriate than the extant phrase “holding assets in a fiduciary capacity for a large number of stakeholders” to describe the functions of entities such as banks and insurance companies.

• The fourth factor focuses on the impact on an entity on a sector whereas the sixth factor focuses on the economy as a whole.

• The sixth factor should not be expanded to the “society as a whole” as the focus should be on the financial impact of an entity in order to align with the focus of the overarching objective set out in proposed paragraph 400.8.

41. The Task Force also does not believe that any new factors such as those suggested by the respondents should be added.

42. The Task Force did not consider it necessary to clarify in the proposals that each of these proposed factors on its own may not amount to significant public interest in the financial condition of an entity and should not be considered in isolation. In this regard, the Task Force noted that in accordance with the Code’s structure drafting conventions, when a list of factors is presented for consideration, the factors are examples of matters to consider, individually and in combination, when evaluating the matter at hand. In addition, the Task Force is of the view that removing “will depend on” and adding the phrase “Factors to consider in evaluating” in the lead-in sentence will help reduce the risk of the factors being considered in isolation. The Task Force also noted that the proposed lead-in is consistent with how the list of factors in the extant paragraph 400.8 is introduced (“Factors to be considered include”).

43. An IAASB correspondent Task Force member queried whether the list of factors should be presented in a less definitive form using the words “might include” instead of “include.” The IAASB correspondent Task Force member felt that the list otherwise seemed absolute in nature and would not allow consideration of a combination of factors and other factors that might be set forth in law, regulation or professional standards. The IESBA members of the Task Force noted that using the “might include” formulation with a list of factors would depart from how the restructured Code is drafted and would call into question whether all other lists of factors in the Code should be redrafted using “might include.” Under the structure drafting conventions, when factors are presented in bullet points (as opposed to an enumerated list with sub-lettering (a), (b), etc.), they are an incomplete list of examples. The use of the word “include” (as opposed to an all-inclusive word such as “comprise”) further emphasizes that the list is not comprehensive. Any factor presented is a relevant consideration (or a question to be asked) even if its impact on the evaluation is minimal or negligible. Further, as noted above, any factor should not be considered in isolation because properly evaluating the matter often will require consideration of more than one factor in combination.

44. With regards to the location of the list of factors, the Task Force has proposed that it be moved into a new paragraph (see paragraph 400.9 of Agenda Item 2-B). The Task Force is of the view that the proposed revision:

• Preserves an overarching objective in paragraph 400.8 that may be considered by the IAASB as a common overarching objective for its Standards; and

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36 The IESBA members of the Task Force noted that IAASB standards also use “include” with some lists of factors relevant to the evaluation or determination at hand (e.g., ISA 210, paragraphs A4 and A27; ISA 260 (Revised), paragraph A50; ISA 320, paragraph A4; ISA 330, paragraphs A14 and A33; and ISA 505, paragraph A4).
• Will more clearly link the list of factors in paragraph 400.9 with the list of factors for consideration by firms in proposed paragraph 400.17 A1. In this regard, the Task Force did not consider it necessary to move the list to after the list of PIE categories in proposed paragraph R400.15 (see Agenda Item 2-B).

Matter for the IESBA Consideration

3. Do IESBA Members agree with the Task Force’s views?

C. APPROACH TO DEVELOPING THE PIE DEFINITION (ED QUESTIONS 3, 7)

Question 3
Do you support the broad approach adopted by the IESBA in developing its proposals for the PIE definition, including:
• Replacing the extant PIE definition with a list of high-level categories of PIEs?
• Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?

Question 7
Do you support proposed paragraph 400.15 A1 which explains the high-level nature of the list of PIE categories and the role of the relevant local bodies?

At a Glance

Broad vs Narrow Approach

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<th>Support Narrow</th>
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22% 42% 28% 4% 4%

45. There was a general acknowledgement from respondents that whilst a globally consistent definition would be beneficial, it is difficult, if not impossible, to develop a single definition that could fit all
jurisdictions. Notwithstanding this acknowledgement, respondents were split in their support for the broad and narrow approach.

46. 64% of respondents supported the broad approach compared to 28% of respondents supporting the narrow approach.

47. A little over half the firm respondents supported the narrow approach; this is compared to about 20% of the professional accountancy organizations (PAOs) and just over 40% of the regulators/oversight bodies.

48. In addition to IOSCO, the majority of the respondents that supported the narrow approach were either global firms or regulators/PAOs from the EU. On the other hand, respondents from Asia-Pacific, Latin America/Caribbean, Middle East and Africa as well as the UK were generally supportive of the broad approach.

Role of Local Bodies

49. Whilst respondents have generally recognized the role of local bodies in adopting the Code and expressed support for local bodies to refine the PIE definition as part of the adoption process, respondents have highlighted the risks associated with such reliance on local bodies. Respondents also provided refinement suggestions particularly relating to clarifying that a local body should not be allowed to delete a category. A small number of respondents did not support the role of local bodies in light of the associated risks as discussed below.

General

50. As mentioned above, a majority of respondents supported the broad approach with many from Asia-Pacific, Latin America/Caribbean, Middle East and Africa as well as the UK. Some of the supportive comments for the broad approach include:

“We support the broad approach adopted by the IESBA in developing the PIE definition and the role of local bodies in refining the PIE categories taking into consideration local law and regulations governing certain types and entities. Adopting a broad definition will be key to ensuring that the updated definitions remain relevant in an environment where entities and stakeholders are changing rapidly.” (CPAB)

“We agree that a globally consistent definition would be beneficial, however, we acknowledge that there is no single definition that could likely fit all jurisdictions; therefore, we support the view that local bodies should further refine the definition of a PIE to suit the needs of their respective jurisdictions.” (IRBA)

“The FRC supports the approach set out by IESBA in its proposals for defining a public interest entity. Significant international variation exists between different jurisdictions in terms of legislation, regulatory framework and market characteristics, and a single definition is unlikely

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37 Regulators/ MG: IRBA, UKFRC; PAOs/ NSS: EFAA, HKICPA, ICPAU, ICAG, ISCA, MIA, WPK; Firms: BDO, EY, Nexia; Others: SMPAG

38 Regulators/ MG: IRBA, UKFRC; Preparers/ TCWG: CFO Forum, HKICS; Independent NSS: APESB, NZAuASB; PAOs/ NSS: ACCA, BICA, CAANZ, CAI, CFC, CIIPA, CPAA, EFAA, FACPCE, ICACW, ICAG, ICAR, ICAS, ICPAU, INCP, ISCA, JICPA, KICPA, MIA, MICPA, NBAAT, SAIPA, RFAC, TURMOB; Firms: BDO, Crowe, Moore, PwC, RSM

39 PAOs/ NSS: CNCC, IDW, NRF, TFAC; Firms: DTTL, EY, Mazars
to capture this variety. A broad approach to defining a public interest entity which considers the attributes that such an entity may possess as well as specific business activities is therefore welcome.” (UKFRC)

51. Most respondents from the EU and firms, supported the narrow approach. IOSCO also supported the narrow approach and noted that it does not support a broad approach that results in jurisdictions being provided with the option of excluding categories of entities from the definition in the Code:

“It is in the public interest that the IESBA clearly define which entities fall within the scope of a PIE. However, we believe a well-defined but narrow approach should be adopted as it will provide a “baseline” that establishes those entities that are consistently considered a PIE anywhere across the globe.

We do not support a broad approach that results in jurisdictions being provided with the option of excluding categories of entities from the definition established by the Code. We recognize that the ultimate responsibility for the designations of what entities are defined as a PIE, for the most part, rests with legislators, regulators, oversight bodies, and/or national standard setters, which is why a well-defined baseline in the Code could incentivize these bodies to adopt the definition, and only add to the list, as needed.”

Key Issues and Concerns

Inconsistency

52. A number of respondents disagreed with the broad approach on the basis that it would cause confusion, inconsistent practice, create even more inconsistencies and could potentially undermine trust in the profession. It was argued that if the scope of the Code, which is adhered to by many audit firms, becomes significantly at variance with local legislation, there would be a lot of confusion globally for both audit firms and the users of financial statements.40

53. Some have observed that this approach deviates from normal international standard setting by the IESBA (i.e., setting minimum requirements to which NSS can add41) and may also undermine the importance of the Code.42 It was pointed out that global consistency, as far as is possible and appropriate, should be a key IESBA aim in terms of driving increased public confidence in financial statements.43

54. Similar concerns were also generally shared by some of the respondents that supported the broad approach.44

Reliance on Local Bodies

55. Another key concern raised by respondents is that the broad approach is heavily dependent on the actions of local bodies which would be outside the IESBA’s remit and beyond its control. Respondents

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40 PAOs/ NSS: AE, AIPCA, ASSIREVI; Firms: DTTL, EY, G Til, KPMG, Mazars, Nexia; Others: SMPAG
41 PAOs/ NSS: AE, IDW, NRF; Firms: Deloitte, EY
42 PAOs/ NSS: NRF
43 Firms: KPMG
44 Regulators/ MG: IRBA, NASBA, UKFRC; Independent NSS: APESB; PAOs/ NSS: ACCA, CAANZ, CAI, CPAC, ICPAU, JICPA, KICPA, MIA, TFAC; Firms: Crowe, Moore, PwC, RSM
have expressed the view that the proposed broad approach would further heighten the risk that a local body might choose not to, or might not have the requisite capacity to, make the necessary refinements, or might simply adopt the Code as is, and that such risks may be difficult to rectify.\textsuperscript{45} It was felt that this would result in the unintended consequence of scoping in entities, such as smaller entities, that do not have significant public interest. There was also a concern that similar jurisdictions may treat similar entities in different ways.\textsuperscript{46}

56. Several respondents highlighted the issue as being of particular concern for the Forum of Firms (FoF) whose members abide by the Code for transnational audits whilst other firms might only follow the local standards and regulations.\textsuperscript{47} It was argued that any delayed action or inaction by a local body in a particular jurisdiction may mean FoF members would follow the Code whilst other audit firms might only follow the local standards and regulations.\textsuperscript{48}

57. A few respondents also noted that the issue of local body capacity is further complicated where there are multiple layers of authorities across governmental, quasi-governmental and private bodies that regulate the profession in jurisdictions such as the US.\textsuperscript{49} In those jurisdictions, there is a risk that the different local bodies reach inconsistent conclusions which would pose implementation challenges for the local firms.

Risk of Excluding a Category

58. One of the key issues raised with regards to the broad approach is that the proposals seem to allow local bodies to scope out an entire PIE category as part of their adoption process.\textsuperscript{50} A further risk highlighted is that this may result in entities which are currently considered to be PIEs under the extant definition being excluded from the definition in the future.\textsuperscript{51} It was argued that clearly signposting ways through which those adopting the Code could choose to diverge from its provisions would risk undermining the authority and clarity of the Code.\textsuperscript{52} Therefore, respondents suggested that proposed paragraph 400.15 A1 emphasizes that local bodies are not permitted to exclude a PIE category.

59. One suggestion to counter this risk is for the proposals to set out de minimis levels of adoption. Alternatively, it was suggested that the IESBA, through liaison with IFAC and its program assessing membership compliance, might need to monitor local standard setters’ adoption efforts to see whether jurisdictions are making excessive use of the derogations.\textsuperscript{53}

\textsuperscript{45} PAOs/ NSS: ACCA, AICPA, ASSIREVI, CAI, CNCC; CPAC, JICPA, NBA; Firms: BDO, DTTL, GTIL, EY, KPMG, PwC, Mazars; Others: SMPAG

\textsuperscript{46} Firms: KPMG

\textsuperscript{47} PAOs/ NSS: CAI, NBA; Firms: BDO, DTTL, EY, KPMG, PwC

\textsuperscript{48} Firms: DTTL

\textsuperscript{49} Regulators/ MG: NASBA; PAOs/ NSS: AICPA, NRF; Firms: BDO

\textsuperscript{50} Regulators/ MG: CEAOB, IAASA, uKFRc; Independent NSS: APESB, NZAuASB; PAOs/ NSS: ACCA, AE, CPAA, EFAA, ICAEW, BDO, GTIL, MIA, NBA; Firms: Nexia; Others: SMPAG

\textsuperscript{51} Firms: BDO

\textsuperscript{52} PAOs/ NSS: CPAA, EFAA

\textsuperscript{53} PAOs/ NSS: ICAEW
Definitions of Listed Entity and PIE – Significant Issues and TF Responses

IESBA Virtual Meeting (September 2021)

Existing Legal Definition

60. Some respondents that did not support the broad approach also highlighted the challenges that may be faced by those jurisdictions (such as the EU) that already have a robust legal definition of PIE that links to sophisticated professional and technical requirements, or where regulators have already established customized independence standards such as the US.54

61. It was noted that the broad approach in these jurisdictions may lead to further confusion. It was pointed out that PIEs in these jurisdictions may be subject to regulatory requirements that are not related to audits such as reporting on non-financial information.55 A few respondents expressed the view that in the case of the EU or jurisdictions with robust legal definitions, the IESBA should not create definitions of PIE or impose obligations on audit firms or local bodies that would overrule national regulation. Accordingly, it was argued that existing local definitions in such jurisdictions must be the single basis and the Code should clarify this by an explicit reference to legal definitions of PIEs (in an audit and independence context).56

62. It was further noted that refinement of the new term in the EU could result in a significant reduction in the number of publicly traded entities categorized as PIEs as it is likely that many of the EU local bodies and regulators will limit this category to the “EU regulated markets.” It was noted that currently, some in the profession in the EU, in line with the Code, treats all listed entities as PIEs, including the large number of entities listed on secondary markets that are not EU regulated markets.57

Other Issues and Concerns Raised

63. IOSCO has made the following comments with regards to the role of local bodies:

“…while the Code establishes a “minimum set of categories” in R400.14, specifically naming deposit taking or insurance providing entities, local bodies need to have the ability to add entities on to that list subject to local circumstances, often times reflecting one or more aspects of national standard setting or legal frameworks.”

64. Other comments raised by respondents relating to the proposed broad approach include:

- It is important that the number of PIEs remains reasonable in every jurisdiction and that it does not increase to a level where it would become totally impracticable and unmanageable.58
- The broad approach may result in creating the means, and therefore the propensity, for local lawmakers and regulators to step into other areas of the Code, where they believe the IESBA’s Code is not sufficiently robust, to customize the Code.59
- There may be complications in a group or multi-location audit situation where an entity is treated differently in different jurisdictions.60 The question may be raised as to which party

54 PAOs/ NSS: AICPA, WPK; Others: SMPAG
55 PAOs/ NSS: ASSIREVI
56 PAOs/ NSS: NRF; WPK
57 Firms: EY
58 PAOs/ NSS: CNCC; Firms: DTTL
59 Regulators/ MG: IRBA; PAOs/ NSS: HKICPA
60 PAOs/ NSS: ACCA, CAANZ; Firms: Moore
decides whether the entity is a PIE, with potential negative impact if the group auditor’s local definition differs from that of the component auditor.  

- It is critical that international standard setters, in particular the International Accounting Standards Board (IASB), IAASB and IESBA, work more closely together to ensure that there is greater consistency in definitions and requirements that impact the manner in which the standards for reporting, auditing and auditor independence are implemented and used.

Respondents’ Suggested Solutions

65. To address the above concerns raised, respondents that supported the broad approach have suggested that:

- There should be focused efforts on education, developing guidance and outreach as well as involvement with local standard setters and regulators so there is better understanding of the rationale for the refinement with the aim of achieving as much consistency as possible. A few also highlighted the importance of local bodies within a jurisdiction, such as the relevant industry regulators, collaborating in reaching common local definitions.

- The IESBA and NSS should monitor implementation issues. The IESBA should also conduct a post-implementation review to identify any unintended or negative consequences arising from this approach.

66. Respondents that preferred the narrow approach have suggested a prescriptive approach (bottoms-up approach) with baseline definitions that can be more readily implemented consistently across jurisdictions and to which relevant local bodies could add. Other than the suggestion that the revised list of PIE categories should be aligned with those in the EU legislation, no other examples were given by respondents on how any of these additional categories (e.g., banks) could be defined at a global level (and to do so in a way that would not potentially scope in entities that would not objectively be regarded as PIEs – the reason the Board had rejected this option in the first place).

67. Other suggestions raised to address the risks associated with the broad approach include:

- Providing a PIE definition using the proposed categories as guidance or examples (as opposed to required categories), and allowing the local bodies to refine the list as appropriate in the jurisdiction.

- Establishing a de minimis standard of adoption of the IESBA PIE definition for a jurisdiction to be able to claim that it has implemented the requirements of the Code in relation to PIEs.
• Providing a mechanism to address situations where local bodies do not sufficiently execute their obligations to participate in and refine the entities within the proposed PIE categories.70

IESBA Discussion

68. At the June 2021 IESBA meeting, the Task Force presented its preliminary view with regards to the approach and PIE definitions for the Board’s consideration:

• Continue with the broad approach without baseline definition.
• Retain the term “publicly traded entity”.
• Consider removing categories (d) and (e) from the list of PIE categories in proposed paragraph R400.14.
• Clarify it is not generally expected that local bodies will remove entire categories.

69. The Task Force also provided a summary of its rationale for its preliminary view:

• Whilst the broad definitions will not solve inconsistencies across jurisdictions, a broad approach with the underlying objective more clearly articulated should ensure there is some agreement on PIE categories.
• The Board’s earlier view that it is not possible to have baseline definitions for a global standard if the PIE definition is to be expanded is maintained. Therefore, some refinement at local level is necessary.
• If the Board prefers a narrow approach with a baseline definition that can be adopted without local refinement, it may be necessary to consider revising “listed entity” instead.
• General support for categories (a), (b) and (c) which are already included in many jurisdictions’ local PIE definitions. IOSCO also supports categories (b) and (c) but with a baseline definition.
• More concerns were raised with categories (d) and (e), particularly given the large number and types of pension funds and mutual funds in some jurisdictions (e.g., France and US)

70. The Board generally supported the Task Force’s preliminary view of retaining the broad approach with the following comments regarding categories (d) and (e):

• Whether any wording can be added to differentiate the big funds from the smaller ones to avoid unintended consequences.
• Notwithstanding support from some IESBA members to remove categories (d) and (e) from the list of PIE categories, further consideration be given by the Task Force to the comments raised before finalizing its recommendation whether to remove any proposed PIE categories.

Task Force Responses

Task Force Response

71. Upon deliberations, the Task Force has maintained its preliminary view that:

• The PIE categories should be expanded beyond the extant definition of PIE which has only listed entities as a specific category (see paragraph R400.15 of Agenda Item 2-B); and

70  Firms: BDO
• The proposed new categories should be defined or described broadly at a high level which would then require refinement at the local level instead of baseline definitions that can be adopted globally without any refinements.

72. In reaching its view that high-level definitions remain the recommended approach, the Task Force also took into account the significant level of support received from respondents for the proposed broad approach and their recognition of the role of local bodies. Whilst acknowledging similar concerns raised by those that preferred the narrow approach, the respondents that supported the broad approach have suggested supplementary actions such as additional guidance and outreach instead of baseline definitions.

73. The Task Force reiterates the Board’s earlier view that it would be impossible to have baseline definitions for a global standard if the PIE definition is to be expanded beyond listed entity and that some refinement at local level is necessary. Whilst the Task Force sympathizes with the view of those that preferred the baseline definitions, it is not an approach that can be practically achieved at the global level. This practical difficulty seems evident from the fact that there were no suggested refinements to the proposed categories from the comment letters other than the suggestion to align with the EU definition which, since it relies on specific EU and member states legislation, is not practicable for a global Code.

74. The Task Force also held a virtual meeting with IOSCO Committee 1 (C1) members in July 2021 (July 2021 IOSCO Meeting) to discuss the Task Force’s preliminary views. In this regard, the C1 members acknowledged that the IESBA’s conclusion to rely on the broad approach might be the result of thinking that has advanced further than that of IOSCO. There was also a view amongst the C1 members that if the Board were to conclude on a different approach than IOSCO’s preferred approach, this would not necessarily mean that the Board’s approach would contain a fatal flaw, given that IOSCO’s perspective is more narrowly focused on the regulated capital markets.

75. In response to the concern that the broad approach will lead to inconsistent treatment by jurisdictions, the Task Force noted that a level of inconsistency already exists across jurisdictions and regions as some jurisdictions have expanded their PIE definitions beyond listed entity. The Task Force is of the view that some inconsistencies should be expected given that each jurisdiction will have different criteria and drivers to determine which entities should be subject to additional independence requirements insofar as their audits are concerned. Further, the Task Force noted that:

• By establishing an overarching objective and expanding the PIE categories, albeit with high-level definitions, the Code will in fact bring some level of global consistency to the types of entities that should be treated as PIEs across all jurisdictions.

• If the IESBA agrees with the Task Force’s recommendation to remove the PIE categories set out in revised proposed paragraph R400.14 (d) and (e) (see Agenda Item 2-B), this will also reduce the level of potential inconsistencies given the diverse types of post-employment benefits and collective investment vehicles across jurisdictions. It will also reduce the challenges to local bodies of refining the definitions.

• The IESBA’s commitment to develop the necessary outreach program as part its rollout strategy, including any necessary collaboration with IFAC and other stakeholders such as local NSS, will help to ensure that local refinement is due to contextual reasons and not misunderstanding of the IESBA’s revisions and rationale.
76. The Task Force has also proposed refinements to address the concern that the proposal seems to allow a local body to remove an entire category (see paragraph 400.16 A1 in Agenda Item 2-B). In response to IOSCO’s suggestion, the Task Force has also proposed to clarify in the proposals that a local body may add new PIE categories to its local definition to meet the purpose for additional independence requirements for audits of PIEs (see paragraphs 400.16 A1 and 400.16 A2 in Agenda Item 2-B).

77. The Task Force acknowledged the challenges that may arise in those jurisdictions where there is already a robust legal definition of PIE that links to sophisticated professional and technical requirements or where regulators have already established customized independence standards. Nonetheless, the Task Force is of the view that the NSS or PAOs with standard-setting responsibilities in these jurisdictions should determine if any additional entities or class of entities should be included in their local definitions of PIEs as part of their adoption process. The Task Force is also of the view that removing proposed PIE categories (d) and (e) will help to mitigate these concerns.

78. In response to other comments raised, the Task Force noted that:

- It is the responsibility of the local bodies to conduct the necessary analysis based on their local context to ensure that the number of additional PIEs is manageable.
- Concerns about group audits are being addressed by the IESBA’s Engagement Team – Group Audits Independence (ET-GA) Task Force. However, it should be clear what requirements apply to the audit of any entity, and if the audit of an entity requires the PIE independence standards to be applied, that will prevail.

**Matters for the IESBA Consideration**

4. Do IESBA Members agree with the Task Force’s views and recommendation to retain the broad approach (i.e., high-level definition)?

5. Do IESBA Members agree with the Task Force’s proposed revisions to paragraphs 400.16 A1 and A2 in Agenda Item 2-B?

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**D. PUBLICLY TRADED ENTITY (ED QUESTION 4)**

**Question 4**

*Do you support the proposals for the new term “publicly traded entity” as set out in subparagraph R400.14(a) and the Glossary, replacing the term “listed entity”? Please provide explanatory comments on the definition and its description in this ED.*

**At a Glance**

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A substantial proportion of the respondents supported the proposed new term “publicly traded entity” to replace the existing term “listed entity” in the Code. This is compared to 10% of respondents that did not support the new term. IOSCO did not support the proposed new term but preferred “listed entity” retained and revised as appropriate.

All respondents from Asia-Pacific, Africa, Latin America and the Caribbean were supportive of the new term. Many of the respondents that supported a narrow approach to revising the PIE definition expressed support for the new term.

Many of the respondents that are supportive of the new term have also suggested that its definition need more clarity, particularly with respect to the term “financial instrument,” the volume of trade required and the types of trading platforms covered by the proposed definition.

Respondents generally supported the IESBA’s proposal to introduce a new term “publicly traded entity” as a replacement for “listed entity.” All those that supported the broad approach have also expressed support for the new term.

Some supportive comments for the new term include:

“This definition seems reasonable and allows for inclusion of those securities not listed on a formal exchange but traded through other networks or markets”. (NASBA)

“A broader definition is welcome to avoid a lack of clarity around definitions of a regulated exchange, and the classification of securities and debt in different jurisdictions”. (ICAEW)

“We believe it is an improvement in the current code, thus adapting it to the changes and complexities of today’s businesses around the world. The new term “publicly traded entity” includes a higher number of companies covered by the previous definition of “listed entity,” which only encompassed those entities whose shares or debt were quoted or listed on a stock exchange.” (INCP)

Of those that did not support the new term, including IOSCO, the key reasons cited were that:

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71 AUASB did not respond to this question.

72 Regulators/ MG: CEAOB, IAASA; PAOs/ NSS: AE, ASSIREVI, IDW, NBA; Firms: BKTI, DTTL, EY, GTIL, KPMG, Nexia

73 Regulators/ MG: IOSCO; Public Sector Organizations: OAGA; PAOs/ NSS: AICPA, CNCC, NRF; Firms: Mazars; Others: SMPAG
• The definition of “listed entity,” whilst not perfect, is a well-understood term that has been globally applied. Therefore, it may be more beneficial to refine this definition by clarifying the term “recognized stock exchange;” and
• The proposed term may unduly scope in too many new entities.

85. In addition, IOSCO has also made the following comment regarding the proposed new term:

“We also note the following concerns with respect to IESBA’s proposed “publicly traded entity” definition:

- Introducing the term “financial instruments” while removing the reference to equity or debt, creates additional confusion as the term “financial instruments” itself is neither well understood and possibly not consistently applied across jurisdictions. If the term “financial instruments”, or a similar type term, is included then it should be defined.
- Additional guidance, or a definition, would be needed to interpret how the term “publicly traded” should be applied.”

86. The issue relating to the term “listed entity” including whether it should be incorporated into the new term “publicly traded entity” is discussed below.

The Meaning of “Financial Instrument” and “Publicly Traded”

87. A number of respondents that were supportive of the proposed term have also suggested that more clarity, explanation, and guidance to the term’s definition are needed. In this regard, a few respondents have pointed out the circular nature of the proposed definition in the glossary.74 Others have suggested that the Board should consider including some of the key considerations highlighted in the explanatory memorandum (paragraphs 37 and 38) as part of the definition, as application material or as non-authoritative guidance.75 In particular, respondents have sought clarity with respect to the term “financial instrument,” volume of trade required and the types of trading platforms covered by the proposed definition.76

“Financial Instrument”

88. As noted above, IOSCO expressed the view that if the term “financial instruments,” or other similar term is included, it should be defined. Other respondents have also sought more clarity on the meaning of the term, including whether it should be broadly interpreted to cover instruments such as shares, debt securities, equity and bonds.77 A respondent expressed the view that the definition of “financial instruments” in the Code should be consistent with the IASB definition to ensure consistency in application.78

89. During the July 2021 IOSCO meeting:

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74 Regulators/ MG: IRBA; PAOs/ NSS: ICAS, CNCC
75 PAOs/ NSS: CIIPA, ICAS, IDW, SAICA; Firms: PwC
76 Regulators/ MG: IRBA; Public Sector Organizations: GAO; PAOs/ NSS: AE, CAANZ, CAI, CIIPA, ICAS, IDW, ISCA, KICPA, MIA, MICPA, SAICA; Firms: DTTL, EY, Moore, PwC
77 PAOs/ NSS: CAANZ, ICAS; Others: SMPAG
78 PAOs/ NSS: MICPA
IESBA representatives clarified that the use of “financial instruments” is to cover more than just debts, stocks and shares but also hybrid instruments and that the IESBA will consider the need for a definition, including potentially adopting the IASB definition.

IOSCO C1 representatives agreed that “financial instrument” is a helpful term as it goes beyond debts and stocks, and is sufficiently broad to include future developments such as initial coin offerings (ICOs) if appropriate. It was noted that whilst it might be desirable for the IESBA to develop its own definition of the term, it would be best to go with the IASB definition or that of another accounting standard setter to avoid confusion.

Trading Mechanism and Volume of Trade

90. With regards to trading mechanisms, clarity was sought on whether the term “publicly traded entity” covers second-tier markets and other over-the-counter trading platforms. It was also questioned whether financial instruments that are only available to accredited investors would meet the definition of “publicly traded.” There was a suggestion that the definition should have a reference to a market such as in the extant definition of listed entity, or a regulated market as in the EU definition. A respondent noted that the trading mechanism captured should not include those that are designed to only assist individuals conduct private sales.

91. Some respondents have also queried if “publicly traded” means the entity’s financial instruments are actively traded or are available to trade. In this regard, a respondent has highlighted the challenge of determining whether entities should be captured as publicly traded entities if their financial instruments are thinly traded.

Additional Comments

92. In addition to refinement suggestions, the following comments and suggestions were also made by some respondents:

- The concept of “public accountability” be added to the PIE definition, with listed entity included as a subset of this concept.

- The new term should be aligned with the EU definition and refer to entities with transferrable securities listed on a regulated market governed by law.

- There should be additional guidance on factors that should be considered when assessing if an entity would meet the definition.

- Entities that are listed on a recognized stock exchange should continue to be considered as publicly traded in addition to broadening the scope to those entities whose financial instruments trade in the less formal public markets under the new term.
93. A number of respondents have also suggested that the IAASB and the IESBA should work closely together to ensure that any new “term” can be defined and applied consistently across both the auditing standards and the ethical standards.\(^{86}\) A few respondents went further to recommend the term should also align with the IASB’s standards.\(^{87}\)

IESBA and IAASB Discussions

IESBA June 2021 Discussion

94. As highlighted in paragraphs 68-70 above, the IESBA was generally supportive of retaining the term “publicly traded entity.”

IAASB July 2021 Discussion

95. The IAASB discussion focused on the IAASB’s possible project to explore narrow-scope amendments (i.e., targeted changes) to one or more IAASB Standards, and the case-by-case approach that may be taken in determining whether differential requirements specific to listed entities across the IAASB’s Standards should be revised to more broadly apply to all other categories of PIEs. The IAASB supported using a case-by-case approach in considering each differential requirement in the IAASB Standards. The IAASB also supported considering whether certain application material in the IAASB Standards needs be aligned to the categories of entities within the proposed PIE definition, although there was some caution about the extent of such revisions.

96. The IAASB did not further discuss the IESBA’s proposed revisions to the categories of PIE or the term “publicly traded entity.” The IAASB intends to discuss the proposed definition of “publicly traded entity” at its mid-quarter Board meeting on October 19-20, 2021.

Incorporating Listed Entity

97. The extant definition of listed entity is as follows:

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

98. As highlighted in the ED, the IESBA noted that some stakeholders have questioned the meaning of the term “recognized stock exchange” in the definition of “listed entity.”\(^{88}\) Some have also queried whether that term is intended to be the same as, or broader than, the concept of a “regulated market” in the definition of a PIE in the EU Directive 2006/43/EC\(^{89}\) (the Audit Directive).

\(^{86}\) Independent NSS: NZAuASB; PAOs/ NSS: AE, CAANZ, CPAA, EFAA, EXPERTsuisse, HKICPA, ISCA, WPK; Firms: BDO, Nexia; Others: SMPAG

\(^{87}\) Regulators/ MG: IOSCO; PAOs/ NSS: CPAA, EFAA, HKICPA; Firms: Nexia; Others: SMPAG

\(^{88}\) See Summary of Responses (paragraph 32) to the survey of stakeholders for purposes of developing the IESBA Strategy and Work Plan, 2019-2023 (strategy survey).

\(^{89}\) Article 2.13 of the EU Directive 2006/43/EC, amended by Directive 2014/56/EU, broadly sets out four categories of entity that fall within the meaning of a PIE. Category (a) are “entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC.”
99. In proposing the new term “publicly traded entity” as a new high-level PIE category in place of “listed entity” in the extant definition, the IESBA noted in the ED that the proposed new term is intended to scope in more entities as it is not confined to entities whose shares, stock or debt are traded only in formal exchanges. Instead, the new term was intended to also encompass those entities in second-tier markets or over-the-counter trading platforms. The IESBA further explained that the new term was aimed at addressing the ambiguity created by the term “recognized stock exchange” in the extant definition of listed entity.

100. As mentioned above, whilst the majority of respondents supported the new term, some respondents expressed the view that “listed entity” should be retained. In its response to the ED, IOSCO expressed the following view:

   We believe that “listed entity” is an important term and should continue to be prominently featured in the Code. We believe that moving away from the “listed entity” definition, which is encapsulated in existing national accountancy regulation across numerous jurisdictions, may even decrease convergence further as jurisdictions could decide to hold on to proven concepts, thereby adding complexity if not confusion.

   Rather than the Board replacing the term “listed entity” and deleting its definition, the Board should consider updating its listed entity definition, or provide additional guidance on the term “recognized stock exchange”, to better reflect its use in global capital markets. “Listed entity” is well understood across global jurisdictions and capital markets as well as encapsulated in existing national accountancy regulation.

101. At the July 2021 IOSCO meeting, IOSCO C1 representatives:

   • Reiterated that “listed entity” is a well-used term across jurisdictions. They also observed that it might be difficult for some jurisdictions to replace “listed entity” with “publicly traded entity” as the former might already be embedded into law or regulation.

   • Expressed the preliminary view that if “listed entity” is incorporated into the proposed new term “publicly traded entity” with accompanying guidance, this should largely address IOSCO’s concerns about “listed entity” being replaced by the proposed new term.

Task Force Responses

102. In light of the comments received, the Task Force is of the view that the proposed new PIE category “publicly traded entity” should be retained.

The Definition of “Publicly Traded Entity”

103. The Task Force is of the view that the term “financial instruments” should be retained as a term that can cover not only “shares, stock or debt” (the term currently used in the extant definition of “listed entity”) but also other types of instruments such as hybrid securities. It is also sufficiently broad to cover any future developments in corporate fundraising.

104. Whilst the term “financial instruments” is not currently used in the extant Code, it is mentioned in paragraph R610.5 of the NAS final pronouncement without any definition:

   **R610.5** A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial
instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments.

105. In response to requests by IOSCO and other respondents to define or clarify the term “financial instrument”, the Task Force has considered the definition set out in International Accounting Standard (IAS) 32, Financial Instruments: Presentation, which is “any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.”

106. The Task Force noted that:

• The IAS definition may not be sufficiently clear for the purposes of the Code. Whilst the terms “financial asset”, “financial liability” and “equity instrument” are further defined in IAS 32, the Task Force did not consider that it would be appropriate to include these additional very expansive definitions in the Code.

• By including the IAS definition in the Code, that definition may require updating in the event of future revision of IAS 32 by the IASB.

• The focus within the context of “publicly traded entity” is primarily on financial liabilities or equity only.

107. The Task Force has also considered the following options with regards to the term “financial instrument”:

• Cross-reference IAS 32 in the “publicly traded entity” definition. The Task Force noted however that cross-reference of another international standard other than the IAASB standards has not been an approach used in the Code. The Task Force also questioned if the need for users of the Code to refer to a full IASB standard to understand the term “financial instrument” is appropriate.

• Clarify the term by stating it is “financial instrument as defined by the applicable financial reporting framework”. This is similar to how “financial reporting framework” is used in the definition of “financial statements” in the Code. The Task Force, however, is of the view that given the term “publicly traded entity” is a global definition, it may not be appropriate to subject “financial instrument” to local variations.

• No further explanation or definition to the term be added to the Code but instead explain in the Basis for Conclusions and other additional guidance material that term is intended to be broadly applied.

108. With regards to the term “publicly traded”, the Task Force is also proposing further refinement to address concerns raised about the clarity of the term (see definition of “publicly traded entity” in Agenda Item 2-B).

Incorporating Listed Entity

109. In response to IOSCO’s views as stated above, the Task Force proposes to include:

• The phrase “including through listing on a stock exchange” in the definition of publicly traded entity; and

• The description of “A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity” as an example of publicly traded entity in the glossary.
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. 

110. The Task Force is of the view that the proposed phrase “through listing on a stock exchange” effectively incorporates the concept of listed entity without necessarily the confusion caused by the term “recognized stock exchange”. The proposed phrase is intended to include not only primary stock exchanges but also second-tier exchanges.

111. By proposing to retain the term “listed entity” as an example of publicly traded entity in the Code, it effectively means that “listed entity” as defined by local securities law or regulation is a subset of publicly traded entity. Accordingly, any entities that are listed entities in their local jurisdictions will also be scoped in as public interest entities under the Task Force’s proposals.

112. In retaining the term “listed entity”, the Task Force maintains its view that the extant definition of listed entity should be removed from the Code as proposed in the ED. The Task Force is of the view that this is consistent with the broad approach and the Board’s view that local bodies are best placed to refine the PIE definition as part of their adoption process.

Matters for the IESBA Consideration

6. Do IESBA Members agree with the Task Force’s views? In particular, IESBA Members are asked for views on the following:

- Whether the term “financial interest” should be defined including whether the definition set out in IAS 32 should be used or cross-referenced?
- Whether the term “listed entity” should be retained in the Code as an example of publicly traded entity?

7. Do IESBA Members agree with the Task Force’s proposed revisions to the definition of “publicly traded entity” in Agenda Item 2-B?

E. OTHER PROPOSED PIE CATEGORIES AND POTENTIAL NEW CATEGORIES (ED QUESTIONS 5-6)

**Question 5**

Do you agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f)?

**Question 6**

Please provide your views on whether, bearing in mind the overarching objective, entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO) should be captured as a further PIE category in the IESBA Code. Please provide your views on how these could be defined.
for the purposes of the Code recognizing that local bodies would be expected to further refine the definition as appropriate

At a Glance

Other Proposed PIE Categories

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>(a)</th>
<th>(b)</th>
<th>(c)</th>
<th>(d)</th>
<th>(e)</th>
<th>All</th>
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<th>No response</th>
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<tbody>
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<td>6</td>
<td>6</td>
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<tr>
<td>Preparers and TCWG</td>
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<td>2</td>
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<td>86%</td>
<td>86%</td>
<td>64%</td>
<td>70%</td>
<td>80%</td>
<td>61%</td>
<td>7%</td>
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113. Each specific PIE category ((b) to (e)) received support from at least 60% of the respondents with just over 60% of respondents expressing support for all categories. However, there is stronger support for the proposed PIE categories (b) and (c) compared to categories (d) and (e).

Other Forms of Capital Raising

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<th>Stakeholders</th>
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<th>Do not support</th>
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<td>Firms</td>
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</tr>
<tr>
<td>Others</td>
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<td></td>
</tr>
<tr>
<td>Grand Total</td>
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<td>46</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>13%</td>
<td>67%</td>
<td>20%</td>
</tr>
</tbody>
</table>

114. The majority of respondents that provided feedback to this question did not support adding a new PIE category in the Code that would scope in entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO).

General

115. Of those that were counted as not providing support for any of the specific categories (i.e., (b) to (e)), a number of respondents did not provide any feedback with respect to these categories whilst others did not support all the proposed specific categories.90

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90 Public Sector Organizations: OAGA; PAOs/ NSS: AICPA, ASSIREVI; Firms: GTIL, Torrillo
116. All the regulatory respondents, including IOSCO, and most of the PAOs and firm respondents that preferred a narrower and more prescriptive approach to developing the PIE definition were supportive of at least categories (b) and/or (c).

117. All but three respondents that supported categories (b) and (c) but not (d) and/or (e) were either regulators, PAOs from the EU or global firms.91

118. The most significant comments relate to proposed categories (d) and (e).

Specific Comments to Proposed PIE Categories (b) to (f)

Categories (b) and (c)

119. Respondents were generally supportive of proposed PIE categories (b) and (c).

120. Amongst other matters, the following comments were made by respondents:

- The descriptions of these categories should align with those in the EU definition.92
- More clarity is needed for the term “main functions.”93
- It is unclear whether “deposits from the public” under category (b) is intended to include virtual currencies, and entities such as payment platforms and credit unions.94
- The description under category (c) is too broad and may capture captive insurers and other insurers/reinsurers that are not writing business directly with the public such as insurance brokers.95 It was suggested that this could be clarified by excluding corporate entities from “the public.”

Categories (d) and (e)

121. As mentioned above, there was less support, particularly those PAO respondents from the EU and firm respondents, for proposed categories (d) and (e).

122. A number of respondents expressed the view that categories (d) and (e) should not be included due to their concern that a large number of entities would be scoped in, including those with only a few stakeholders.96

123. With regards to category (d) in particular, a few respondents highlighted that the description does not take into account the significant variation in legal structure, governance, regulatory oversight and type of arrangements covered.97 It was noted that the category can range from small, single-employer

91 Regulators/ MG: CEAOB, IAASA, IOSCO; PAOs/ NSS: ACCA, AE, CNCC, EXPERTsuisse, IDW, NBA, NRF, WPK; Firms: BKTI, EY, Mazars; Others: SMPAG
92 Regulators/ MG: CEAOB, IAASA
93 PAOs/ NSS: CPAC, ICAG; Firms: BDO, KPMG
94 PAOs/ NSS: CAI
95 PAOs/ NSS: AE, CAI, CPAC; Firms: KPMG, EY, Moore
96 PAOs/ NSS: ACCA, WPK; Firms: BKTI, EY, Mazars
97 PAOs/ NSS: AICPA, EXPERTsuisse; Firms: EY
pension plans and small self-managed family superannuation funds to large, multi-employer pension plans and large government-run public pension schemes.  

124. A respondent observed that in many jurisdictions, entities within the scope of subparagraphs (b) to (e) are subject to regulation and supervision to promote investor protection. The existence of an independent audit, although essential, is only one element of investor protection. Including these broad categories in the Code’s PIE definition would lead to a risk that efforts are not focused on entities with a significant public interest. Similarly, there was a view that the issue with collective investment vehicles is more about better informing investors about the risks concerning their investments rather than an issue of auditor independence. It was therefore argued that it would be more appropriate that entities within these categories are added at the local level. 

125. Two regulatory respondents suggested that these two proposed PIE categories should not be included as they were not categories in the EU definition.

126. A few respondents have suggested that the proposals should clarify the nature of the public to address the risk of scoping in too many entities:

- Category (d) should clarify that the benefits should be to “a wide range of stakeholders” or to “the public and to the employees of specified entities, where the public has a significant interest in the financial condition of that entity.”

- The proposals should differentiate between “public interest” funds which are widely distributed and “non-public interest” funds which are privately sold and distributed or restricted to certain types of investors (and should therefore be excluded from the category).

127. Clarification was also sought on, amongst other matters:

- Whether category (d) is intended to cover only entities whose ‘primary business or function’ is providing post-employment benefits.

- The meaning of “post-employment benefits” and whether it was intended that category (d) should only cover certain types of pension arrangement. It was suggested that the proposed description should be amended to clarify that the benefits should be for “a wide range of stakeholders” or “to the public and to the employees of specified entities, where the public has a significant interest in the financial condition of that entity.”
• Whether category (d) also covers administrators of funds or employers that provide such benefits.\textsuperscript{109}

• Whilst terms such as “mutual fund” or “pension fund” might be jurisdiction-specific, their inclusion into the description would contribute to greater clarity of this category.\textsuperscript{110}

128. In support of the narrow approach, a respondent suggested that by extending the current PIE definition to categories (b) and (c) only, any inconsistent application of these additional categories would be less than applying the proposed broad approach.\textsuperscript{111}

Category (f)

129. Respondents were generally supportive of category (f) with refinement suggestions including, amongst other matters, the inclusion of a reference to professional standards.\textsuperscript{112} There was a question as to whether the phrase “meet the objectives set out in paragraph 400.9” is sufficiently clear when read in conjunction with proposed paragraph 400.14 A1.\textsuperscript{113}

Additional Comments

130. Some respondents have suggested that more clarity is needed regarding the meaning of “the public” in categories (b), (c) and (e).\textsuperscript{114}

131. A number of respondents noted that the provisions should exclude certain types of entities, including:

• Less complex entities or SMEs\textsuperscript{115} as well as small non-publicly traded entities such as mutual insurance companies and credit unions.\textsuperscript{116} Excluding such entities would avoid their audits being subject to the rigorous independence requirements for PIEs and avoid additional costs and other implications that would be disproportionate to the public interest benefits.

• Government entities unless deemed appropriate by local bodies.\textsuperscript{117}

132. A few respondents also pointed out that the proposals were not clear about the treatment of entities that meet the PIE definition in one reporting period and not the next period due to changing facts and circumstances.\textsuperscript{118}

133. Some respondents have suggested additional PIE categories for consideration by the Board, either as a new category in the Code or for local adoption:

• Public sector entities and systemically significant entities.\textsuperscript{119}

\textsuperscript{109} PAOs/ NSS: ICAEW
\textsuperscript{110} Firms: DTTL
\textsuperscript{111} PAOs/ NSS: NRF
\textsuperscript{112} Independent NSS: APESB
\textsuperscript{113} PAOs/ NSS: CPAC; Firms: DTTL, PwC
\textsuperscript{114} PAOs/ NSS: CAI, ICAEW; Firms: BDO, KPMG
\textsuperscript{115} PAOs/ NSS: FACPCE
\textsuperscript{116} Firms: Mazars
\textsuperscript{117} Public Sector Organizations: OAGA, GAO
\textsuperscript{118} PAOs/ NSS: CPAC; Firms: MNP
\textsuperscript{119} PAOs/ NSS: CPAA
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- National entities that, in relation to foreign states, sell goods, provide services or in any other way become contractors or suppliers of such states.  
- Entities that manage or assume custody of assets on behalf of the public.  
- Certain types of charity for local adoption.  
- Sovereign funds and government linked corporations.

Other Forms of Capital Raising, Including ICOs

134. As mentioned above, respondents including IOSCO did not support adding a new PIE category to scope in those entities that have raised funds from less conventional forms of capital raising such as ICOs.

135. IOSCO expressed its view as follows:

“We believe that it is too early to include less conventional forms of capital raising, such as an initial coin offering (ICO), in the enhanced PIE definition. This rather new phenomenon has raised numerous questions, from regulatory to accounting, which still need to be addressed. At this point, we also observe a lack of legal consistency of ICOs, which vary in classification by jurisdiction. ICOs often possess a range of characteristics from digital currency units to equity, debt and financial instruments altogether.

The Board should also consider the unintended consequence of including ICOs in the PIE definition, that is, the public perception and enhanced investor confidence that would come with their inclusion. Unlike regulated and supervised listed entities (or publicly traded entities including financial instruments), ICOs are currently inconsistently regulated at the local level with challenges still to be addressed at supranational level. Ultimately, this may not appropriately contribute to the IESBA’s overarching objective to serve the public interest.

Therefore, we believe that prior to the inclusion of less conventional forms of capital raising such as ICOs in the definition of a PIE, further research and maturity of this capital raising mechanism is necessary for local regulators to use to better assess resulting implications (including involvement from accounting and auditing standard-setters).”

136. Many of the respondents were of the view that the decision is best made at the local level as the relevant local bodies are better placed to make the necessary judgements, taking into account the list of factors in proposed paragraph 400.8. A number of respondents noted that protection of investors is an issue for market regulators rather than independence rules for auditors. It was argued that stricter independence rules can never be a proxy for appropriate market supervision and transparent information to investors. It was further noted that there may be unintended
consequences of bringing in a large pool of entities from an unregulated industry, such as public perceptions and enhanced investor confidence that would come with their inclusion as PIEs.  

137. Other reasons provided by respondents that did not support such an addition include:

- Other innovation or new forms of capital raising will continue to emerge and thus the Code’s PIE definition might need to be constantly under revision. There is also a risk that specifically naming emerging forms of capital raising will cause the definition to be rapidly outdated due to the fast pace of technology developments.

- It is too early to include less conventional forms of capital raising (e.g., ICOs) as questions from regulatory to accounting still need to be addressed. ICOs often possess a range of characteristics from digital currency units to equity, debt and financial instruments. Therefore, more research is necessary.

- Some entities raising funds through new forms of capital may already meet the definition of publicly traded entity. Some respondents have also noted that it is not the method of raising funds, nor how those funds are practically maintained, but rather whether the funds are being raised from the public; and that the public has an expectation that an entity’s financial reporting will be of the highest quality for relevant and appropriate decision making.

138. A few have suggested that it would be helpful for the IESBA to include additional guidance material for local standard setters to take into account when considering the case for treating entities that raise funds through alternative forms of capital as PIEs.

139. Of those that believed there should be a category to capture entities that raise funds via less conventional forms, the key reason provided was that there is sufficient public interest to warrant their inclusion as PIEs because they are raising funds from the public and their failures might have significant impact on the public. It was also noted that the Code must be written to remain relevant and that the easiest way to do this is from a principles-based approach that is not too prescriptive as to the form or fashion of capital being raised.

IESBA Discussion

140. As highlighted in paragraphs 68-70 above, the IESBA was generally supportive of the Task Force’s preliminary view:

- Continue with the high-level definition instead of a baseline definition.

- Consider removing categories (d) and (e) from the list of PIE categories in proposed paragraph R400.14.

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126 Regulators/ MG: IOSCO; PAOs/ NSS: ACCA
127 PAOs/ NSS: CAANZ; Firms: Crowe
128 PAOs/ NSS: MIA; Others: SMPAG
129 Regulators/ MG: IOSCO; CPAB
130 PAOs/ NSS: IDW; Firms: KPMG
131 PAOs/ NSS: CPAA, EFAA, MIA
132 Regulators/ MG: IRBA; PAOs/ NSS: ICAEW, ICPAU
133 PAOs/ NSS: BICA, CPAC, FACPCE, ICAG, INCP, MICPA, SAIPA; Firms: BKTI, MNP
141. There was, however, a suggestion that before categories (d) and (e) are removed, the Task Force consider whether larger pension funds and collective investment vehicles could be better differentiated from smaller ones.

**Task Force Responses**

**Categories (b) and (c)**

142. In light of support received from respondents, the Task Force maintained its preliminary view that categories (b) and (c) be retained.

143. Following consideration of suggestions for refinement and clarification, the Task Force concluded that no further refinement to these two categories is warranted (See subparagraphs R400.15 (b) and (c) in *Agenda Item 2-B*).

144. The Task Force is of the view that many of the suggestions, such as alignment with the EU definition and further explanation of the phrase “deposits from the public”, are not necessary or suitable, given the high-level nature of the definition which allows local bodies to further refine these categories taking into account their local contexts.

145. The Task Force further noted that:

- The reference to “public” should be broadly understood and not be further refined.
- The phrase “to provide insurance to the public” in the definition of category (b) means only those entities that bear the insurance risk of policies should be scoped in. The phrase does not cover insurance brokers.

**Categories (d) and (e)**

146. Upon careful consideration of the comments received, the Task Force proposes that categories (d) and (e) be removed from the proposed definition of PIE (see paragraph R400.15 in *Agenda Item 2-B*).

147. The Task Force acknowledged that there are many pension funds and mutual funds available to the public which would be of a size that would make them likely to attract significant public interest in their financial condition. However, as some respondents have pointed out, the high-level definition would also mean that these two categories, without refinement, would scope in many entities that are very small with only a handful of stakeholders such as single-employer pension plans and self-managed superannuation funds. Whilst the proposed definitions for categories (b) and (c) will also scope in smaller entities such as credit unions with only a small number of customers, the Task Force is of the view that categories (d) and (e) will scope in significantly more entities given the different types of entities that would be captured as post-employment benefits and collective investment vehicles. Removing these categories from the global definitions will help to reduce the impact from the consequence of too many entities being scoped in inappropriately in some local jurisdictions if the Code’s definition is adopted without proper refinement.

148. The Task Force also did not consider it feasible at a global level to differentiate a subcategory of pension funds from other subcategories of pension funds, or a subcategory of collective investment vehicles from other subcategories of collective investment vehicles, based on size or other criteria given the wide diversity of such entities around the world.
149. The Task Force agreed that it is particularly difficult to reach a high-level definition that can be adopted by local bodies without substantial consideration and consultation with stakeholders. This difficulty is underlined by the observations that:

- Categories (b) to (c) are more commonly included in local PIE definitions than categories (d) and (e). In this regard, the Task Force noted that IOSCO was generally supportive of categories (b) and (c).
- In the EU, the definition of PIE in the Audit Directive does not include post-employment benefits and pension funds and such decisions are left to the individual member states.

150. The Task Force is also of the view that by removing these two categories and leaving it to local bodies to determine whether to add them as additional PIE categories, this will minimize the risk of some jurisdictions removing entire PIE categories from the Code given the challenges they may face in including these categories as PIEs for the purpose of setting differential independence requirements. Such a risk would be greater for these two categories, for instance in emerging economies that do not yet have sophisticated markets. The task of refining these two categories, given their variations in size, structure and types of arrangement, may also costly and time-consuming. In this regard, the Task Force noted that the task may be particularly difficult if the authority for determining independence requirements and the PIE categories rests with local legislators such as in the case of the EU.

151. Therefore, on balance, the Task Force concluded that it is appropriate for categories (d) and (e) to be removed from the proposed PIE definition to address the risks of too many entities being scoped and jurisdictions excluding the entire categories. In this regard, the Task Force believes that additional non-authoritative guidance material will assist relevant local bodies to better understand their role in identifying additional PIE categories at the local level, including post-employment benefits and collective investment vehicles.

152. In proposing to remove categories (d) and (e), the Task Force has also considered adding other categories of entities, such as pension funds, collective investment vehicles and charities, as examples of what local bodies might consider adding as the PIEs in their local definitions. The Task Force will seek the Board’s view to whether it supports the inclusion of such examples in the Code itself in proposed paragraph 400.16 A2 (see Agenda Item 2-B).

Category (f)

153. In light of the comments received, the Task Force proposes that the category be retained with refinements (See paragraph R400.15 (f) in Agenda Item 2-B).

Other Possible Categories

154. With regards to entities that raise funds through less conventional forms of capital raising such as ICOs, the Task Force agreed with most respondents’ view that these entities should not be captured as a new PIE category.

155. In light of the comments received, the Task Force is also of the view that no further PIE categories should be added to the proposed definition of PIE. The Task Force also recommends that the IESBA consider undertaking a post-implementation review of the revised PIE definition in due course.
Matters for the IESBA Consideration

8. Do IESBA Members agree with the Task Force’s views, including its recommendation:
   • To retain proposed PIE categories (b) and (c)?
   • To remove proposed PIE categories (d) and (e)?
   • To retain proposed PIE category (f)?
   • That no new categories be added to the proposed PIE definition.

9. Do IESBA Members agree with the Task Force’s proposed revisions to R400.15, 400.15 A1 and R400.16 in Agenda Item 2-B?

10. IESBA Members are asked to provide views on whether to include examples of other entities that may be added by relevant local bodies in proposed paragraph 400.16 A2 (see Agenda Item 2-B)?

F. REQUIREMENT FOR FIRMS TO DETERMINE TO ADD ENTITIES AS PIES (ED QUESTION 9)

Question 9

Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIES?

At a Glance

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156. Overall, a small majority of respondents that responded to this question did not support the proposed new requirement for firms to determine if additional entities should be treated as PIES.

157. Almost all the firm respondents that responded did not support this proposed requirement. In contrast, almost all the respondents in the regulator and independent NSS groups that responded, including IOSCO, expressed support.

158. The views of the PAOs were more mixed, with slightly more PAOs supporting the proposed requirement.

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134 Firms: BDO, CohnRenzick, DTTL, EY, GTIL, KPMG, Mazars, MNP, Moore, Nexia, PwC, RSM
135 Regulators/ MG: CEAOB, IAASB, IOSCO, IRBA; Independent NSS: APESB, NZAuASB
General

159. Of those that responded to this question, a small majority did not support this proposed requirement. This group includes most of the firm respondents and just under half of the PAO respondents. This is contrasted with the majority of the regulators (including IOSCO and oversight bodies) and independent NSS that expressed support for this new requirement.

160. Both the IRBA and APESB that have already elevated the current application material in the IESBA Code to requirement in their local Codes did not raise any concerns regarding their local experience and are supportive of the proposed requirement. Other supportive comments from respondents include:

“This requirement may pose some practical difficulties and additional costs for SMPs. However, it reinforces the role that professional accountants play in protecting the public interest.” (EFAA)

“Because it would be difficult to create an exhaustive definition of all PIE categories, we believe it is reasonable to ultimately consider whether there are entities that firms should add after relevant local bodies have refined PIE categories.” (JICPA)

“We support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. Some jurisdictions already operate such a system and we are not aware of any significant problems or difficulties that have arisen as a result.” (BKTI)

161. Whilst IOSCO was supportive of this proposed requirement, it raised a concern that the proposed text might inadvertently allow firms to exclude entities from the PIE definition:

“Based on the current drafting, the sentence could be interpreted by some to mean that a firm could determine whether to treat (and thereby exclude) a certain category of entities, including those established in the baseline definition, as a PIE. While we do not believe this is the intention of the IESBA, we strongly believe that firms should not have the option to strip away any entities from the baseline definition. We encourage the IESBA to explore clarifying this paragraph.

While firms are clearly among those in the ecosystem that possess the knowledge and characteristics of an entity to determine if an entity is a PIE, there may be unintended consequences as it would also give firms the power to decide otherwise, therefore posing an independence threat.”

162. Some respondents that supported the proposed requirement also suggested that additional guidance, such as the level of documentation required and when a reasonable and informed third party (RITP) would conclude that an entity should be treated as a PIE, would be helpful to firms. A respondent also suggested that this aspect be reviewed in the post-implementation period.

163. A few respondents have also highlighted the importance of the role of local bodies, noting that if they perform their role well, the role of firms should only be very limited.

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136 **Independent NSS**: NZAuASB; **PAOs/ NSS**: CAANZ, CAI, ICAEW, INCP, MIA, MICPA

137 **PAOs/ NSS**: ICAEW

138 **PAOs/ NSS**: CIIPA, CPAC, SAICA
Key Concerns

Inconsistent Treatment by Firms

164. One of the key reasons cited by respondents for not supporting the new requirement in proposed R400.16 is that a firm’s determination will be subjective. It was argued that this will create divergence and undue inconsistency in the treatment of PIEs between firms, and may lead to confusion in the market and undermine the confidence the Board is seeking to enhance.\(^\text{139}\) It was noted that applying judgement in every case will lead to different independence requirements being applied by different firms to similar entities in the same jurisdiction, or even to entities in the same corporate group if audits are undertaken by different firms.\(^\text{140}\) Further, a firm’s decision might depend on the firm’s specific circumstances such as risk tolerance, client base, geographic footprint, service line offerings, etc.\(^\text{141}\)

Not a Firm Decision

165. Some respondents have argued that the responsibility for classifying an entity as PIE should be primarily that of the IESBA and local standard setters or regulators. They were of the view that firms should not be required to “second guess” the decisions of the IESBA and relevant local bodies or be seen as questioning the capability of the local law makers.\(^\text{142}\) It was argued that it is not appropriate for firms to determine, for example, the potential systemic impact on other sectors and the economy as a whole in the event of financial failure of an entity, or the importance of an entity to the sector in which it operates, including how easily replaceable it is in the event of financial failure. It was felt that governments, regulators and/or local bodies are better placed to determine which entities meet these criteria.\(^\text{143}\)

166. A few respondents were concerned about the appropriateness and potential practical impact for firms to go beyond the definition of a PIE in local laws.\(^\text{144}\) In particular, it was argued that a local regulator may be put in a very difficult situation, being expected to confirm that firms abide by the requirement but at the same time not wanting to be in a position to judge their lawmaker. Hence, it was argued that there would be a risk of legislators and regulators choosing not to adopt the IESBA Code.\(^\text{145}\)

167. A number of respondents have also pointed out that the decision about whether an entity should be treated as a PIE should rest in the first instance with those charged with governance (TCWG) of the entity.\(^\text{146}\) It was noted that the client has the complete set of information required to determine whether the conditions to consider the entity as a PIE are met.\(^\text{147}\)

\(^{139}\) Regulators/ MG: UKFRC; PAOs/ NSS: ACCA, AE, AICPA, ASSIREVI, CNCC, FACPCE, ICPAU, ISCA; Firms: BDO, DTTL, EY, GTIL, Moore, MNP, Nexia, PwC, RSM

\(^{141}\) Firms: DTTL

\(^{142}\) Regulators/ MG: NASBA; PAOs/ NSS: ACCA, AE, ASSIREVI, CPAA, FACPCE, NRF; Firms: EY, KPMG, PwC; Others: SMPAG

\(^{143}\) Firms: PwC

\(^{144}\) PAOs/ NSS: AE; Others: SMPAG

\(^{145}\) PAOs/ NSS: AE

\(^{146}\) Regulators/ MG: NASBA; PAOs/ NSS: AE, ASSIREVI, WPK; Firms: CohnReznick, DTTL, EY, GTIL, PwC

\(^{147}\) PAOs/ NSS: ASSIREVI
Burden Outweighs Benefits

168. It was pointed out that firms will bear the disproportionate responsibility and burden of considering every entity that does not meet the PIE definition and concluding whether or not to treat it as a PIE.148 There was a concern that the proposed requirement would potentially be more burdensome for SMPs generally not serving the PIE audit markets in terms of the evaluations needed and related documentation.149

169. Some respondents argued that a firm should be free to treat an entity as a PIE as defined by the IESBA Code and to apply the requirements if it believes it is more advantageous to do so due to stakeholder requests or for risk management purposes. However, it was argued that a firm should not be required to make such an assessment.150 Some respondents pointed out that firms already have to exercise professional judgment to assess internal and external factors to determine if additional independence provisions should be applied to a client’s audit which will meet the overarching objective in the proposals.151

170. Some respondents also noted that International Standard on Quality Management (ISQM) 1152 already requires firms to design criteria to classify the risk profile of their audit clients and apply additional independence and quality management-related requirements to those clients considered high risk. It was noted that the approach of ISQM 1, which allows a firm to judge which additional independence and quality requirements should be applied, is better suited to respond to the independence or quality risks on such clients.153

Additional Comments

171. Some respondents have questioned the relevance of the RITP test in proposed paragraph R400.16.154 There was a view that the RITP perspective has already been taken into account by the IESBA when determining the broad PIE categories in proposed paragraph R400.14. It was felt that this RITP perspective would also be taken into account by the relevant local bodies when refining the categories pursuant to the factors set out in proposed paragraph 400.8.155 It was also suggested that the RITP approach would often only be taken as hindsight with new facts and circumstances or new market practices or norms.156

172. Respondents have also raised other concerns and potential issues relating to the proposed requirement:

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148 PAOs/ NSS: CPAA; Firms: BDO, CohnReznick, DTT
149 PAOs/ NSS: ACCA, EFAA, HKICPA SAICA
150 PAOs/ NSS: AICPA, ASSIREVI, CPAA, IDW; Others: SMPAG
151 PAOs/ NSS: AE, ASSIREVI; Firms: Mazars, Moore
152 ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements
153 PAOs/ NSS: CNCC, NBA; Firms: Mazars, Moore
154 PAOs/ NSS: HKICPA, NRF; Firms: DTTL, PwC
155 Firms: DTTL; Others: SMPAG
156 PAOs/ NSS: ACCA, EFAA, HKICPA, SAICA
It was noted that there would be practical difficulties if an entity’s management or TCWG did not agree that the entity be treated as a PIE.\footnote{Regulators/ MG: NASBA, UKFRC; PAOs/ NSS: ASSIREVI} It was suggested that if the proposed requirement were to be adopted by IESBA, there would be a need to address circumstances where such disagreement arises.\footnote{Firms: PwC}

Firms may be pressured to treat an entity as PIE because a predecessor firm has done so\footnote{PAOs/ NSS: ACCA, ASSIREVI; Others: SMPAG} or to avoid being “second guessed” by local regulators.\footnote{Regulators/ MG: NASBA; PAOs/ NSS: ACCA} Treatment as a PIE may come to be viewed as “gold standard” treatment and further the misconception that auditors are more “independent” when they audit PIE clients.\footnote{PAOs/ NSS: KPMG}

The subjective nature of the auditor’s assessment could be questioned ex post as a result of any subsequent events or additional facts.\footnote{PAOs/ NSS: ASSIREVI, ICAEW, MIA}

173. As an alternative, it was suggested that the overarching objective stated by the Board could still be achieved by the auditor exercising professional judgment to determine whether, in certain circumstances, it may be appropriate to apply PIE-related provisions to the audit of an entity.\footnote{Regulators/ MG: UKFRC} It was argued that such an approach would be consistent with the approach in Section 540 of the Code as well as ISQM 1 with respect to an engagement quality review.\footnote{Regulators/ MG: UKFRC}

IESBA June Discussions

174. At the June 2021 IESBA meeting, the Task Force presented its preliminary views with the following suggested revisions:

- Revert the proposed requirement in paragraph R400.16 to application material as an encouragement. The determination a firm would be encouraged to make would be changed from whether to treat additional entities as PIES to whether to apply additional independence requirements applicable to audits of PIES to the audit of a client.

- Change the proposed transparency requirement in paragraph R400.17 from whether an entity has been treated as a PIE to whether the firm has complied with additional independence requirements applicable to the audits of PIES.

175. The Task Force also presented its rationale for the above preliminary views as follows:

- It may be questionable how much impact elevating the current application material to a requirement in paragraph R400.16 will have in practice. Provided the transparency requirement is retained, this could be examined as part of a post-implementation review.

- Revising the transparency requirement to focus on whether the auditor has applied the independence requirements relating to audits of PIES should alleviate some of the concerns

\footnotesize{\textbf{Definitions of Listed Entity and PIE – Significant Issues and TF Responses} 
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Agenda Item 2-A}
about inadvertently creating a public perception that auditors of PIEs somehow have a higher level of independence than auditors of non-PIEs or that PIE audits are of a higher quality (discussed further in paragraph 195). Such disclosure would provide better clarity as to the independence requirements that have been applied. For example, in the United Kingdom, when identifying the relevant ethical requirements in the auditor's report, the auditor is required to indicate that these include the FRC's Ethical Standard, applied as required for the types of entity determined to be appropriate in the circumstances.

- The transparency requirement will also apply some market discipline to firms in any determination they make as to whether or not to apply the additional requirements to the audit of an entity which is not specified as a PIE by the local body. See also discussion on the transparency requirement in Section H.

176. The Board was generally supportive of the Task Force’s preliminary view.

Task Force Responses

177. Upon careful review of the comments received, the Task Force maintained its preliminary view and proposes the following revisions:

- Revert the proposed requirement for firms to determine if additional entities should be treated as PIEs to application material (see paragraph 400.17 A1 in Agenda Item 2-B).
- Retain a transparency requirement (see paragraph R400.18 in Agenda Item 2-B).
- Change the focus in the application material from treating an entity as a PIE to whether independence requirements for audits of PIEs have been applied to that entity.

178. The Task Force considers that, on balance, its proposed refinements will continue to meet public expectations on the independence of firms when they perform audit or review engagements. In developing its view, the Task Force has taken into account the following:

- By retaining a transparency requirement (see paragraph 400.18 in Agenda Item 2-B), the public interest will be served as the transparency will apply some market discipline to firms in any determination they make as to whether to apply the requirements applicable to audits of PIEs to the audit of an entity which is not specified as a PIE by the local body.
- As some respondents have suggested, the responsibility for determining which entities or class of entities should be categorized as PIEs largely rests with legislators or other local bodies. As pointed out in the ED, the IESBA considers that they are best placed to make such decisions given their local knowledge and understanding of the broader issues that impact the profession as well as stakeholders.
- Whilst firms still have a role in ensuring public expectations on their independence are met, it is not anticipated that there should be many cases where they will have to apply PIE independence requirements to audits of their non-PIE clients, particularly if the PIE definition is properly refined at the local level. As such, an encouragement for firms to make the necessary determination together with the transparency requirement should suffice.
- Firms will already need to make a significant effort to adapt to the significant changes with the expanded definition of PIE and to operationalize these changes. The requirement proposed in
the ED to add additional entities as PIEs may create an undue burden on firms, particularly SMPs, without commensurate benefits.

- Whereas the extant Code encourages firms to determine to add entities as PIEs, the Task Force’s proposed revisions change that determination to applying PIE independence requirements to audits of other entities. This revision allows firms to focus on whether a specific entity has such level of public interest in its financial condition that independence requirements for PIEs should be applied despite that entity not being scoped as a PIE under proposed paragraph R400.15 and R400.16.

- This approach would also operate better with ISQM 1, as some respondents have suggested. In particular, in identifying and assessing quality risks, ISQM 1 requires a firm to understand the types of the entities for which the firm performs engagements.165 Further, ISQM 1 states: “In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements.”166

179. In response to comments received, the Task Force has also proposed refinements to paragraph 400.15 A1 (see paragraph 400.16 A1 of Agenda Item 2-B).

Matters for the IESBA Consideration

11. Do IESBA Members agree with the Task Force’s views?

12. Do IESBA Members agree with the first sentence in proposed paragraph 400.17 A1 (see Agenda Item 2-B)?

G. LIST OF FACTORS FOR FIRM CONSIDERATION (Q10)

Question 10

Please provide any comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1.

At a Glance

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165 ISQM 1, paragraph 25

166 ISQM 1, paragraph A63
180. A majority of the respondents that responded to this question (including some respondents that did not support the proposed firm requirement in R400.16) supported at least one or more of the factors for consideration by firms set out in proposed paragraph 400.16 A1. Many respondents have also provided refinement suggestions to the proposed factors as well as other comments for the IESBA’s consideration.

Specific Comments to the Six Factors

181. In addition to refinement suggestions, key comments to the six factors include, amongst other matters:

- If laws and regulations specify an entity as not being a PIE, there should not be any expectation for a firm to consider the entity any further.\(^{167}\) (First Factor)

- The terms “near future” and “likely to become” are unclear and subjective; it is therefore not necessary or appropriate to apply additional requirements in anticipation of events that may not occur.\(^{168}\) There is also a risk that client confidentiality might be breached.\(^{169}\) Such decisions should remain those of the entity.\(^{170}\) (Second Factor)

- Whether the use of “similar circumstances” is helpful as past determination and rationale by a firm or a predecessor firm might not be relevant or available.\(^{171}\) There are some concerns that the proposed third factor might in effect commit any successor firm to continuing to treat an entity as a PIE.\(^{172}\) (Third and Fourth Factors)

- More clarity is needed about the nature of the stakeholder.\(^{173}\) There is also a view that requests should only come from TCWG and it is not clear if there may be valid reasons for an auditor not to treat an entity as a PIE if asked by TCWG.\(^{174}\) (Fifth Factor)

- There is not a clear link between the entity’s corporate governance arrangements and the existence of public interest related to its financial condition.\(^{175}\) (Sixth Factor)

\(^{167}\) Regulators/ MG: IRBA, PAOs/ NSS: AE; Firms: DTTL, EY

\(^{168}\) Regulators/ MG: IRBA, NASBA; Public Sector Organizations: GAO; PAOs/ NSS: AE, CAI, HKICPA; Firms: DTTL

\(^{169}\) PAOs/ NSS: CAI

\(^{170}\) Firms: DTTL, PwC

\(^{171}\) PAOs/ NSS: AE; Firms: BKTI, EY, DTTL

\(^{172}\) Firms: MNP, Moore

\(^{173}\) Firms: BKTI

\(^{174}\) PAOs/ NSS: AE, DTTL, EY

\(^{175}\) PAOs/ NSS: AE; Firms: DTTL
Additional Comments

182. A few respondents have highlighted that TCWG should play a greater role in a firm’s determination such as having the firm obtain concurrence from TCWG on whether an entity should be treated as a PIE and providing a mechanism for dealing with disagreement.176

183. A few respondents queried how the two lists of factors in proposed paragraphs 400.8 and 400.16 A1 interact.177

184. Other comments include:

• The proposed factors focus on judgements made by others and not sufficiently on what might be the basis for enhanced public interest in an engagement or entity.178

• There should be additional requirements on documentation.179

• Whether the reference to entities should also include category of entities.180

• A post-implementation review should be conducted to collect information about entities designated as PIEs as a result of applying paragraph R400.16 and the types of criteria that led to this designation.181

• Clarify the list as non-exhaustive.182

185. Some of the reasons provided by respondents not supporting the list of proposed factors in paragraph 400.16 A1 include:

• The proposed requirement under paragraph R400.16 is not supported.183

• The proposed list of factors is more appropriate for consideration by local bodies instead of by firms.184

• Subjective considerations such as “when an entity is likely to become public interest,” “in the near future,” and “similar circumstances” will lead to a risk of increased inconsistency and confusion.185

• The “building blocks approach” to factors for consideration is too complicated and unclear, with the three components of the broad approach – the Code, local bodies and firms – all having different factors to consider.186

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176 Independent NSS: NZAuASB; PAOs/ NSS: ISCA
177 PAOs/ NSS: HKICPA; Firms: BDO
178 Regulators/ MG: UKFRC
179 PAOs/ NSS: CPAC
180 PAOs/ NSS: JICPA
181 PAOs/ NSS: CPAC
182 PAOs/ NSS: ICAEW
183 PAOs/ NSS: IDW, WPK; Firms: CohnReznick, GTIL, KPMG
184 PAOs/ NSS: MICPA
185 Firms: PwC
186 PAOs/ NSS: NRF
IESBA Discussions

186. The Board did not raise any specific comments regarding the list of factors for firms’ consideration in proposed paragraph 400.16 A1 at its June 2021 meeting.

Task Force Responses

187. Upon deliberation, the Task Force has made a number of minor refinements to the list of factors (see paragraph 400.17 A1 of Agenda Item 2-B), taking into account its recommendation to revert back to application material the requirement for firms to determine if any entity should be treated as a PIE. In addition, the Task Force considers that further explanation of these factors is better addressed in non-authoritative guidance material. The Task Force further notes that these factors are not exhaustive and that they are not expected to be relevant in every situation.

188. The Task Force has also proposed refinements to clarify that a firm might consider both lists of factors when determining whether to apply the independence requirements applicable to audits of PIEs to the audit of any of its non-PIE clients (see paragraph 400.17 A1 of Agenda Item 2-B).

189. In addition, the Task Force is of the view that:

- Auditors should exercise professional judgment and use the RITP test in accordance with paragraph R120.5 of the Code when considering the proposed factors and other relevant factors.

- The Code already contains application material in Part 4A that encourages firms to have regular communications with TCWG on matters that might, in the firms’ opinion, reasonably bear on independence.

Matters for the IESBA Consideration

13. Do IESBA Members agree with the second sentence in proposed paragraph 400.17 A1 and the Task Force’s proposed revisions to the list of factors in that paragraph (see Agenda Item 2-B)?

H. TRANSPARENCY REQUIREMENT FOR FIRMS (ED QUESTION 11)

Question 11

Do you support the proposal for firms to disclose if they treated an audit client as a PIE?

At a Glance

<table>
<thead>
<tr>
<th>Stakeholders</th>
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<th>Do not support</th>
<th>No comment</th>
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<td>Regulators, OA incl. MG</td>
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187 Section 120, The Conceptual Framework
188 Section 400, Applying the Conceptual Framework to Independence for Audit and Review Engagements, paragraph 400.40 A2
190. Overall, a small majority of the respondents that responded did not support the proposed new requirement for a firm to disclose if an audit client was treated as a PIE. This result is similar to that of ED Question 9.

191. The response pattern in each stakeholder group is also similar to that for Q9. Of note, the two independent NSS that supported the new firm requirement to determine additional entities as PIEs did not support this transparency requirement.\(^{189}\)

**General**

192. In support of the proposed transparency requirement, there was a view that given the objective of the proposals to enhance stakeholder confidence in an entity’s financial statements through enhancing confidence in the audit of those financial statements, it is important that stakeholders are aware whether an entity has been treated as a PIE or not.\(^{190}\) Other supportive comments from respondents include:

> “…If the objective is to enhance public confidence in the financial condition of certain entities, public disclosure that a firm has treated an entity as a public interest entity and adopted additional safeguards will support that objective…” (UKFRC)

> “The disclosure is critical for informed stakeholders for appreciation of the additional independence requirements afforded the client. It is therefore beneficial for firms disclose. In Botswana auditors of Public Interest Entities include their Certified Auditors of PIE status in their signature in the report. By inference therefore the disclosure is made.” (BICA)

193. A few respondents expressed support for the proposed requirement only on the basis that the disclosure should be made through the auditor’s report (subject to approval by the IAASB or relevant standard setters);\(^{191}\) or in the auditor’s report, with disclosure elsewhere optional, for reasons including professional secrecy and the duty of confidentiality, specifically in jurisdictions where this is required.\(^{192}\)

194. In supporting the proposed requirement, IOSCO has suggested that the level of transparency needed may not be achieved if the transparency requirement is limited only to stating whether an entity was treated as a PIE or not. Other respondents that supported the proposal also noted that such a disclosure may not be properly understood or interpreted by users, resulting in misunderstanding and confusion as well as an expectation gap. Accordingly, it was argued that there should also be disclosure about what treating the entity as a PIE means and that it should be made clear that there are not two levels of audit.\(^{193}\)

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189 Independent NSS: APESB, NZAuASB
190 PAOs/ NSS: ICAEW, ICAS, JICPA
191 PAOs/ NSS: CIIPA, CPAC
192 PAOs/ NSS: CPAC
193 PAOs/ NSS: CPAA, JICPA, MIA, SAICA
Key Concerns

Confusion by Stakeholders

195. By far, the most common concern raised by respondents is that the proposed disclosure may lead to confusion and the unintended consequence of users and the public interpreting the disclosure to mean that there are different levels of independence and that audits of non-PIEs are of lesser quality or provide lower assurance than PIE audits. It was noted that the definition of a PIE and the scope of what constitutes a PIE are not simple and questions might be asked about whether an entity is a “legal PIE” or an “IESBA PIE.” It was noted that in many jurisdictions, being a PIE creates obligations not only for the auditors but also, and foremost, for the entities. As a result, there was a concern that this could have an adverse effect on public confidence in non-PIE audits, which would not be in the public interest and potentially exacerbate the audit expectations gap.

196. Some respondents noted that the proposed disclosure may also confuse the public regarding the extent of the disclosure, including whether the client itself has complied with other non-IESBA requirements imposed on a PIE such as the requirement to have an audit committee and how an entity can be treated as a PIE just for auditor independence purposes. It was also observed that attempts to address such confusion by adding further information to the disclosure statement may disproportionately lengthen the auditor’s report.

More Information Needed to be Disclosed

197. A related common issue raised by respondents is that more information would need to be disclosed in order for the disclosure to be useful, such as why an entity was considered to be a PIE and what the implications would be. These respondents argued that a disclosure limited to the treatment of the audit client as a PIE, such as in the auditor’s report, without proper context and explanation, would be of limited value to the users of the financial statements and unlikely to increase the level of confidence in the audit of the financial statements or help in the assessment of the independence of the audit firm.

Other Comments

198. A number of respondents were unclear what underlying problem the IESBA intended to resolve through the proposed requirement or the purpose and intended benefits of the disclosure. A few respondents expressed the view that what matters to stakeholders other than audit regulators is whether the auditor of an entity was independent as required by relevant ethical requirements, whatever that entity might be, which an auditor is already required to state in the auditor’s report.
Others queried how the disclosure would contribute to transparency or confidence in an audit and whether the benefits of such disclosure outweigh the costs and any negative consequence.

Other concerns and comments raised include:

- The requirement could potentially increase the number of entities that seek to be treated as PIEs and the implications this will have on the audit market.
- The decision should involve TCWG.
- There may be confidentiality concerns if a firm is required to disclose the name of an audit client anywhere aside from the auditor’s report and consent from the client may be required to avoid violating confidentiality standards. It was also observed that in some instances, such disclosure might breach the confidentiality of a planned IPO where the company has not made that known to the market.
- Disclosure of an entity as a PIE may be considered to be a quasi-permanent decision, and difficult to rescind in future, even where there is justification for doing so.
- It is not appropriate for the auditor to make a statement on this matter when management does not also have obligations to determine and disclose whether an entity is a PIE. To do so risks the regulation of the behavior of entities through regulation of the auditor, and the auditor should not be used as an agent of change in this way.

In disagreeing with this proposed requirement, some respondents have suggested further consultation, evaluation and research, including cost-benefit analysis.

IESBA and IAASB Discussions

IESBA June 2021 Discussion

As mentioned in paragraphs 162-164, the IESBA was generally supportive of the Task Force’s preliminary view of retaining the transparency requirement.

IAASB July 2021 Discussion

Paragraphs 84–91 of Agenda Item 3 of the IAASB meeting provide a summary of respondents' feedback on ED Question 15(c). This question sought feedback on whether it would be appropriate to disclose within the auditor’s report that the firm has treated an entity as a PIE. Given the interrelationship with questions 11 and 12 of the PIE-ED, respondents echoed similar views in...
response to question 15(c). The IAASB discussed the PIE WG’s initial views on this topic (as presented in paragraphs 92–97 of Agenda Item 3 of the IAASB Meeting). Among the matters explored with the IAASB was whether the use of “publicly” in the proposed transparency requirement might inadvertently imply that the auditor’s report is the only mechanism for disclosure of the proposed information if the IESBA does not explore other possible mechanisms to provide such disclosure.

203. There was general support from the IAASB for exploring transparency in the auditor’s report, with an emphasis on the need for the IAASB to follow its own due process in this regard. The IAASB noted the importance of being open-minded to transparency in the public interest. There was a question as to whether the IESBA could defer finalizing the requirement for transparency about independence to enable the IAASB to consider whether, and if so how, transparency about independence may be addressed in the IAASB’s Standards (i.e., to achieve a coordinated outcome between the two Boards).

204. The IAASB provided various other comments on this topic, including:

- Carefully considering how the matters are described in the auditor’s report, with caution about increasing the length of the auditor’s report.
- A need to explore all disclosure mechanisms to determine what is most appropriate. In addition, the IAASB sought clarity on what is meant by “publicly disclose,” and noted that in some cases the auditor’s report is not “public” (i.e., not available and accessible to users) for good reason.
- Mixed views on the IESBA’s proposal to disclose that the auditor has complied with the additional independence requirements applicable to audits of PIEs. Some IAASB members supported this suggestion, noting that one cannot assume that users would be satisfied with a simple statement of independence. It was also noted that users would be entitled to know which independence requirements have been applied. Other IAASB members, however, questioned the public interest benefits of the proposed disclosure, i.e., whether by disclosing what independence standards are being followed, this would provide any additional information to users from a public interest perspective.

Task Force Responses

205. As mentioned above, the Task Force maintained its preliminary view that the transparency disclosure requirement should be retained.

206. Upon further consideration,\(^{212}\) the Task Force proposes that the requirement be revised as follows (see paragraph R400.18 in Agenda Item 2-B):

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.

207. The Task Force is of the view that it is in the public interest for a firm to disclose if PIE independence requirements have been applied. The Task Force also notes that IAASB standards at present require

\(^{212}\) ISA 700 (Revised), paragraph 28(c) requires that the auditor’s report include 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.” It also requires that statement to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
some degree of transparency regarding the relevant ethical requirements applied, as they require the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code. In cases such as the Code where differential requirements are issued by the same body/jurisdiction, some element of transparency is lost unless the disclosure is specific as to which of those differential standards are applied. Such disclosure is of particular importance in the case of PIEs given the significant public interest, and more so if the requirements have been applied by a firm to an entity which does not fall within the PIE definition. In this regard, the Task Force noted that in the UK, the UK FRC requires the auditor, when identifying the relevant ethical requirements in the auditor's report, to indicate that these include the FRC's Ethical Standard, applied as required for the types of entity determined to be appropriate in the circumstances.  

208. The Task Force noted the key concern raised by respondents that the disclosure of whether an entity was treated as PIE might cause confusion about the meaning of the disclosure and give rise to a perception that there are two levels of independence and audit quality. The Task Force is of the view that revising the disclosure from whether an entity was treated as a PIE to a statement that the firm has applied the independence requirements for the audit of a PIE will largely address this concern. The Task Force noted that the proposed revisions remove the focus on whether an audit client is a PIE and therefore the potential confusion about the meaning of the disclosure.

209. The Task Force also considers that the disclosure should be public as the objective of the transparency requirement is disclosure to the public. The Task Force believes that it should be left to the IAASB to explore whether the auditor's report is a suitable location for such disclosure and, if so, how this may be accomplished.

210. Finally, if a firm determined with respect to a specific audit engagement that it need not apply the independence requirements for PIEs, the Task Force did not believe that the firm should be required to disclose that it has not applied such requirements. The Task Force is of the view that the proposed paragraph R400.18 has clarified this point.

Matters for the IESBA Consideration

14. Do IESBA Members agree with the Task Force’s views?

15. Do IESBA Members agree with the Task Force’s proposed revisions to paragraph R400.18 (see Agenda Item 2-B)?

I. MECHANISM FOR FIRM TRANSPARENCY REQUIREMENT (ED QUESTION 12)

Question 12

Please share any views on possible mechanisms (including whether the auditor’s report is an appropriate mechanism) to achieve such disclosure, including the advantages and disadvantages of each. Also see question 15(c) below.

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213 UKFRC International Standard on Auditing (UK) 700 (Revised November 2019): Forming an Opinion and Reporting on Financial Statements, paragraph 28 (c)
211. A majority of the respondents that responded to ED Question 12 supported the use of the auditor’s report as an appropriate mechanism to disclose whether a firm has treated an entity as a PIE if the proposed requirements were to be retained.

212. Some of the respondents that did not support the proposed firm transparency requirement (ED Question 11) suggested that if the firm transparency requirement were to be retained, the auditor’s report would be the appropriate avenue for such disclosure. These respondents have been counted as supporting disclosure in the auditor’s report for the purposes of ED Question 12.

213. Almost 30% of respondents (those supportive and not supportive of disclosure in the auditor’s report) suggested other mechanisms for disclosure.

Disclosure in Auditor’s Report

214. Some supportive comments from respondents include:

“*We support additional disclosures within the auditor’s report, whilst noting that that the form and content of the auditor’s report should be a matter for the auditing standards. Disclosure of the impact on the auditor is an aid to both transparency and confidence and supports the overarching objective of the proposed amendments.*” (UKFRC)

“The rationale behind identifying entities as PIEs is to enhance the audit independence of their financial statements. We believe therefore that the disclosure is best placed in the audit report.” (BICA)

“We believe the auditor’s report to be the most appropriate place for such a disclosure.

*We feel that as the decision to treat the entity is made solely by the auditor then such disclosure ought to be provided in communication originating from the auditor rather than the entity being audited.*” (EFAA)

215. As mentioned above, IOSCO expressed the view that whilst supportive of public disclosure by firms, the level of transparency needed may not be achieved if the transparency requirement is limited only to stating whether an entity was treated as a PIE or not.
216. One concern raised by a few respondents for not supporting disclosure in the auditor’s report is that more explanations would need to be added to an already comprehensive report in order to turn the disclosure into useful information for users and to avoid confusion and expansion of the expectations gap.\(^{215}\)

217. Some respondents reiterated their concerns that disclosure in the auditor’s report would create confusion and the perception that there are two levels of independence, and would contribute further to the expectations gap.\(^{216}\)

218. A few respondents have called for more investigation and assessment be conducted by the IAASB in collaboration with the IESBA.\(^{217}\) There was also an acknowledgement amongst respondents that the IAASB would need to follow its own due process for any changes to its standards.

**Other Suggested Disclosure Mechanisms**

219. The two most common avenues suggested for disclosure include a firm’s transparency report\(^ {218}\) as well as websites for firms, the entity and local bodies.\(^ {219}\)

220. Other mechanism/avenues suggested include:

- Audit service plan, engagement letter or independence letter.
- Firms working paper or correspondence with regulators.
- Client financial statements and other client reporting.
- Disclosure by the audited entity’s management in the notes to the financial statements.
- An entity’s corporate governance report if firms are required to obtain concurrence from TCWG on whether the entity should be treated as a PIE.

221. A few respondents have also highlighted the importance of communicating with TCWG of the clients the rationale for treating the clients as PIEs and the additional independence requirements applied.\(^ {220}\)

**IESBA and IAASB Discussions**

**IESBA June 2021 Discussion**

222. The Board did not raise any specific comments regarding the mechanisms for the firm transparency requirement.

**IAASB July 2021 Discussion**

223. The IAASB PIE Working Group provided a detailed analysis of the comments received to ED Question 15(c) relating to disclosure in the auditor’s report and noted the lack of majority support for

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\(^{215}\) PAOs/ NSS: ACCA, IDW, WPK; Firms: BKT

\(^{216}\) Public Sector Organizations: OAGA; Independent NSS: APESB; PAOs/ NSS: IDW, KICPA; Firms: BKT, EY

\(^{217}\) Independent NSS: NZAuASB; PAOs/ NSS: CAANZ

\(^{218}\) Independent NSS: APESB; PAOs/ NSS: JICPA, SAICA, Firms: BDO, BKT, Crowe, EY, KPMG, PwC

\(^{219}\) Regulators/ MG: IRBA; PAOs/ NSS: SAICA; Firms: BDO, BKT, EY, KPMG

\(^{220}\) Regulators/ MG: NZAuASB; PAOs/ NSS: SAICA
disclosing in the auditor’s report that the firm has treated an entity as a PIE. The analysis highlighted some of the concerns raised, including:

- The proposed disclosure may create the perception of two levels of independence and confusion about the meaning of the disclosure, resulting in an increase in the expectations gap.
- Stakeholders may have difficulty in understanding what triggered the firm’s determination and how an entity can be treated as a PIE just for auditor independence purposes.
- The auditor’s report has already become increasingly lengthy, complex and too dense for users to understand.
- Other mechanisms for disclosure should be explored.

224. At its July 2021 meeting, IAASB members were generally supportive of further exploring transparency in the auditor’s report, or other mechanisms for disclosure, through its own due process.

Task Force Responses

225. The Task Force noted that the concerns raised under ED Question 15 (c) are consistent with those raised on ED Questions 11 and 12.

226. As the IAASB explores whether the auditor’s report is a suitable location for such disclosure, the Task Force recommends that the IESBA continues to coordinate closely with the IAASB and provide any necessary support.

Matters for the IESBA Consideration

16. IESBA Members are asked to provide input to the Task Force’s views.

J. Other Comments

i. Outreach and Education Support (ED Question 8)

Question 8

Please provide any feedback to the IESBA’s proposed outreach and education support to relevant local bodies. In particular, what content and perspectives do you believe would be helpful from outreach and education perspectives?

At a Glance

227. Respondents were generally supportive of the IESBA’s proposed outreach and education support to local jurisdictions. Some have provided suggestions for different types of education activities for the IESBA’s consideration.

Respondents’ Suggestions

228. Outreach and educational support programs suggested by respondents include:

- Additional guidance material such as practical examples, scenarios and case studies.221

221 Preparers/TCWG: CFO Forum; PAOs/ NSS: CAANZ, CPAA, EFAA, ICAG, MICPA
Having a standing item at the National Standard-Setters meetings to track the implementation of the revised definition and to foster discussion about challenges and sharing of best practices. It was noted that smaller emerging jurisdictions may not have the capacity to make modifications to the PIE definition and might leverage the work of larger jurisdictions in this manner.222

Roundtables with regional bodies having a similar environment to share experience on implementation and examples of additional PIE categories.223

Formation of a working group to facilitate communication of implementation challenges and resolutions.224

Timely translation of authoritative and non-authoritative material.225

229. There was also a call for the IESBA, in coordination with IFAC, to monitor implementation on an ongoing basis as well as to undertake a post-implementation review to understand how relevant local bodies have performed their expected role, and to identify any jurisdictions that have scoped out any category of PIE.226

IESBA Discussions

230. The Board did not raise any specific comments regarding outreach and educational support at its June 2021 meeting.

Task Force Responses

231. In light of the comments received, the Task Force proposes that:

- The above respondents’ suggestions be taken into account when the working group responsible for the rollout of the approved revisions develop a rollout plan.
- The IESBA consider undertaking a post-implementation review of the approved revisions in due course.

ii. Audit Client (ED Question 13 (a))

<table>
<thead>
<tr>
<th>Question 13</th>
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<tr>
<td>For the purposes of this project, do you support the IESBA’s conclusions not to:</td>
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<td>(a) Review extant paragraph R400.20 with respect to extending the definition of “audit client” for listed entities to all PIEs and to review the issue through a separate future workstream?</td>
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<tr>
<td>(b) Propose any amendments to Part 4B of the Code.</td>
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222 Independent NSS: NZAuASB; PAOs/ NSS: CPAC
223 Firms: Crowe
224 PAOs/ NSS: CPAC
225 PAOs/ NSS: INCP
226 Regulators/ MG: UKFRC; PAOs/ NSS: AE, BICA, ICAEW, CPAC

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At a Glance

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<td><strong>3%</strong></td>
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232. A large majority of the respondents supported the IESBA’s conclusion not to review extant paragraph R400.20 with respect to whether to extend the definition of “audit client” for listed entities to all PIEs but to review the issue through a separate future workstream. A further 20% of the respondents did not provide any feedback to this question.

233. Of those respondents that are supportive of the IESBA’s conclusion, 75% did not provide any further comments.

Key Issues and Comments

234. In support of the IESBA’s conclusion, a number of respondents have urged the IESBA to exercise caution when considering whether to extend the definition of audit client given the complexity of the issues involved.\textsuperscript{227} It was noted that there may be significant potential challenges that would result from expanding the definition of audit client for a listed entity to all PIEs, such as questions regarding the control and materiality in structures other than corporate structures (e.g. private vehicles, trusts, partnerships, benefit plans, funds) which are complex and diverse across the world, limited access to relevant information, and undue burden on audit firms to monitor related entities that are not audit clients.\textsuperscript{228}

235. Other comments raised by respondents include:

- It would be difficult to appreciate the full impact of the IESBA’s proposals in relation to PIEs and listed entities without firming up the scope of the entities falling within the definition of “audit client.”\textsuperscript{229}

- The term “audit client” may be ambiguous; other suggested terms such as “audited entity” or “entity subject to client” might be more appropriate.\textsuperscript{230}

\textsuperscript{227} Regulators/ MG: UKFRC; Firms: DTTL, EY, KPMG, PwC
\textsuperscript{228} Firms: DTTL, EY
\textsuperscript{229} PAOs/ NSS: ISCA; Firms: KPMG
\textsuperscript{230} Regulators/ MG: UKFRC; Firms: CAANZ
The IESBA’s ET-GA project will shed more light on the application of PIE-related requirements to the audit of group financial statements of a PIE.

Task Force Response

236. The Task Force recommends that the proposed revisions to replace “listed entity” by “publicly traded entity” in paragraph R400.20 be retained in light of the comments received with minor revisions (see Agenda Item 2-B). The purpose of the Task Force’s proposed revisions in paragraph R400.20 is to more clearly explain that the publicly traded entity applicable in this paragraph must take into account the more explicit definition under local law, regulation and professional standards in accordance with R400.16.

iii. Part 4B of the Code (ED Question 13 (b))

At a Glance

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</table>

237. All respondents that provided feedback to this question supported the IESBA’s conclusion not to propose any revisions to Part 4B of the Code under this project.

238. Of those that were supportive, a small number of respondents provided further comments.

Key Comments

239. A key matter raised relates to paragraph 900.13 of the Code. The explanation provided in paragraph 79 of the explanatory memorandum states that “not all assurance engagements for a PIE (as defined by Part 4A) would be of significant public interest; equally, some assurance engagements for a non-PIE might be of significant public interest. Accordingly, the IESBA does not believe that developing a different definition of PIE in Part 4A has direct implications for Part 4B…”

240. Paragraph 900.13 of the Code states:

“Independence standards for audit and review engagements are set out in Part 4A – Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members.”

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231 Firms: PwC

232 As of June 15, 2021, the new paragraph reference is 900.10 as the revisions from the Alignment of Part 4B of the Code ISAE 3000 (Revised) Final Pronouncement became effective.
241. Some respondents noted that in accordance with paragraph 900.13 of the Code, if an entity is a PIE for audit purposes, the firm is obliged to maintain the same independence requirements for any assurance engagements it performs. The respondents asked the IESBA to clarify whether it may be assumed that the opposite is also true. Further, there was a view that any changes to the definition of PIE in Part 4A may impact assurance engagements if the firm is also performing an audit or review engagement for that client.

242. In supporting the IESBA’s conclusion, a few respondents have also urged the IESBA to establish a work stream in the near future to explore how the Code can address the increasing demand for other assurance engagements such as assurance over climate-related disclosures as well as integrated reporting.

Task Force Response

243. In light of the support received, the Task Force recommends no amendments be made to Part 4B of the Code.

244. With regards to the comments raised regarding paragraph 900.13, the Task Force is of the view that:

- Paragraph 900.13 is only making the point that if a client is also an audit client, the requirements in Part 4A must also apply as they are more stringent than those in Part 4B.
- Scoping in more entities as PIEs under the proposed definition of PIE does not affect the provisions in Part 4B as this Part does not specify requirements applicable to assurance engagements for PIEs.

245. The Task Force noted that the Board will receive an update from its EIOC on ESG developments at the September 2021 IESBA meeting.

iv. Effective Date (Q14)

**Question 14**

*Do you support the proposed effective date of December 15, 2024?*

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<th>Extension sought</th>
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233 Independent NSS: APESB; PAOs/ NSS: CPAA, MIA, SAICA; Others: SMPAG

234 Independent NSS: NZAuASB; PAOs/ NSS: CAANZ; Firms: DTTL
246. A majority of the respondents that responded to this question supported the IESBA’s proposed effective date of December 15, 2024. A significant number of respondents also suggested that the effective date be extended.

247. A few respondents suggested that the effective date for the revisions should be aligned with that of the NAS and Fees revisions.235 A few other respondents indicated that it is difficult to comment on the proposed effective date as it is so strongly linked to the final outcome of this project, especially with regard to the approach taken, including the future roles of the local bodies and firms.236

Key Comments

248. In supporting the proposed effective date, the following comments were raised by respondents, amongst other matters:

- A suggestion for the IESBA to evaluate whether the proposed effective date would provide sufficient time to conduct the necessary outreach.237 It was also suggested that the IESBA consider monitoring implementation and extend the effective date if there are indications that local bodies are having significant implementation issues or delays in refining the definition of a PIE.238

- A concern that the IESBA and IAASB are not moving at the same pace and, despite close coordination, a risk that the two Boards may ultimately arrive at conclusions that do not fully align with each other.239

- Given the importance of increasing public trust in audit, a suggestion for the IESBA to encourage early adoption in jurisdictions that are able to do so.240

249. IOSCO has encouraged the IESBA to consider re-exposure if the Board makes significant changes to its proposals (“it is of critical importance that the revised definition of a PIE as an outcome of this project promotes confidence to be globally adopted and can remain fit for purpose over time.”)241 In addition, IOSCO further noted:

“…on the proposed effective date, we believe that although the proposed effective date provides for approximately two years to implement, this will still be challenging for those jurisdictions that need to consider the new PIE definition and amend or adjust their local regulation, which oftentimes involves public consultation. Additionally, as firms may be required to disclose when an entity was treated as a PIE in their auditor’s report, this also may result in additional challenges due to coordination with the IAASB and implementation of new requirements by audit firms.”

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235 PAOs/ NSS: CPAA; Firms: Nexia; Others: SMPAG
236 PAOs/ NSS: NRF; Others: SMPAG
237 Firms: EY
238 PAOs/ NSS: CPAC
239 PAOs/ NSS: ACCA
240 PAOs/ NSS: AE, ICAEW
241 Regulators/ MG: IOSCO
250. Respondents suggested that the proposed effective date should be extended for the following reasons, most of which were also highlighted by those that were supportive of the proposed effective date:

- The amount of work that will be required of local bodies, which will involve extensive engagements, guidance and outreach.\(^{242}\)
- The potential increase in the number of PIEs being scoped in under the revised definition.\(^{243}\)
- Smaller audit firms needing a longer period to implement the necessary revisions to their systems, processes and controls and to assess and manage the impact on their business due to greater service restrictions to their audit clients.\(^{244}\)
- A longer timeline would allow the IAASB to deliberate the proposals fully and consult upon any proposed amendments to its standards.\(^{245}\)
- In some jurisdictions, there are more than one regulator who may need to consider the new provisions.\(^{246}\)

251. Other comments raised include:

- As a result of the interaction of terminology and triggering of requirements between the Code and the ISAs/ISQMs, any conforming amendments to the ISAs/ISQMs should be determined in parallel with this project, and such changes should have the same effective date. Otherwise, there would be a mismatch between the Code and the ISAs/ISQMs.\(^{247}\)
- A view that the IESBA’s NAS and Fees projects should have been deferred pending the outcome of the PIE project.\(^{248}\) It was suggested that the IESBA consider readressing any matters from its finalized NAS and Fees projects that might arise from the PIE project.\(^{249}\)

252. Suggested alternatives include:

- An alternative date of mid to late 2025\(^{250}\) or December 2025.\(^{251}\)
- The effective date be aligned with the local body’s effective date.\(^{252}\)
- Transitional arrangements and provisions be provided, given potential significant challenges for firms, particularly with the requirements addressing partner rotation and the number of entities that may be scoped in under the new provisions.\(^{253}\)

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\(^{242}\) Regulators/ MG: IOSCO; PAOs/ NSS: AICPA, CAI, ICAG, ICPAU, MICPA; Firms: DTTL, KPMG, PwC

\(^{243}\) PAOs/ NSS: AE, CNCC

\(^{244}\) Firms: PwC

\(^{245}\) Firms: BDO

\(^{246}\) Firms: KPMG

\(^{247}\) PAOs/ NSS: CPAA; Firms: Nexia; Others: SMPAG

\(^{248}\) PAOs/ NSS: WPK

\(^{250}\) PAOs/ NSS: AE

\(^{251}\) PAOs/ NSS: ICPAU; Firms: RSM

\(^{252}\) PAOs/ NSS: AICPA; Firms: DTTL, PwC

\(^{253}\) PAOs/ NSS: AICPA, CAI, MICPA; Firms: BKTI, KPMG
• A suggestion that the IESBA consider extending the effective date if appropriate progress is not being made by local bodies.\textsuperscript{254}

IAASB PIE Initiative

253. The IAASB is actively monitoring the IESBA’s project. The IAASB plans to consider the implications for the IAASB’s Standards of the revised definitions of the terms “listed entity” and “public interest entity” and explore whether further narrow-scope amendments to the IAASB’s Standards are appropriate to achieve convergence with the IESBA Code.

254. Subject to the approval of a narrow-scope amendments project, the IAASB’s anticipated timelines include approving the Exposure Draft in September 2022, with final approval in September 2023 (these are targeted milestones and subject to change as work progresses, or based on the IAASB’s overall workplan). If there were a final approval in September 2023, it would allow the IAASB to establish a similar effective date as the IESBA, and minimize disruptions to firms as they review changes to both sets of standards and develop the necessary implementation strategies.

255. For more information about the IAASB’s project, please visit the IAASB’s project page.

Task Force Response

256. The Task Force agreed that there needs to be sufficient time for the IESBA to conduct outreach to stakeholders across jurisdictions and develop additional guidance material; for local bodies to refine the proposed PIE definition, including consultations with the relevant regulators and other stakeholders; and for firms to understand the impact of these changes, particularly in light of the recent revisions to the Fees and NAS provisions.

257. Whilst the adoption process may be shorter for those jurisdictions that have already developed their own PIE definitions, the Task Force is cognizant that for some jurisdictions, it will require significant effort and time.

258. The Task Force is also of the view that it would be helpful, particularly to firms, if the effective dates for revisions to both the Code and the IAASB Standards could be aligned. In this regard, the Task Force does not rule out that the IAASB might need more time to complete its project.

259. Further, the Task Force:

• The finalization of the NAS and Fees projects ahead of the PIE project allows some time for firms to develop experience with the application of the revised NAS and Fees provisions for PIEs based on the extant PIE definition before the new definition becomes effective.

• Does not agree that the effective date in the Code should be aligned with the local body’s effective date as this would worsen the issue of inconsistency in PIE definitions at a point in time; however, local jurisdictions and firms should be encouraged to adopt the revised provisions earlier.

\textsuperscript{254} Firms: KPMG
• Is of the view that transitional arrangements and provisions are not necessary. In this regard, the Task Force noted that there are already provisions in the Code that deal with the situation where a client becomes a PIE.255

260. The Task Force welcomes the Board’s input on this matter.

v. IAASB-Related Issues (ED Questions Q15 (a) – (c))

**Question 15**

To assist the IAASB in its deliberations, please provide your views on the following:

(a) Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.

(b) The proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to other categories of PIEs.

(c) Considering IESBA’s proposals relating to transparency as addressed by questions 11 and 12 above, and the further work to be undertaken as part of the IAASB’s Auditor Reporting PIR, do you believe it would be appropriate to disclose within the auditor’s report that the firm has treated an entity as a PIE? If so, how might this be approached in the auditor’s report?

261. As mentioned previously, the IAASB discussed responses to ED Questions 15 (a) to (c) at its July 2021 PIE session.

262. For more information about the comments received on these questions and the IAASB’s discussions, please refer to the draft IAASB July 2021 Board call minutes and Sections V-X of the IAASB Agenda Paper (pp. 14-30 of **IAASB Agenda Item 3**).

**Matters for the IESBA Consideration**

17. Do IESBA Members agree with the Task Force’s views with regards to ED Questions 8 and 13 including the Task Force’s proposed revisions to R400.20 (see **Agenda 2-A**)?

18. IESBA Members are asked to provide views on effective date of the final revisions in light of the Task Force’s view with regards to ED Question 14.
III. Next Steps

263. In October 2021, the IAASB will further discuss the matters that need to be considered by the IAASB in relation to its work on the approach to listed entities and PIE in the IAASB Standards. The feedback will be used to determine whether a narrow-scope amendments project is appropriate, and the objective, scope and public interest issues related to such a project. In addition, the IAASB will receive an update on the IESBA’s discussions and developments, including in relation to the terms “publicly traded entity” and “listed entity.” The input from the IAASB in October 2021 on these and other issues will be important prior to the planned IESBA approval in December 2021.

264. The Task Force plans to discuss its proposed refinements and the IESBA’s feedback with IOSCO C1 in Q4 2021.

265. At the December 2021 meeting, the Task Force will present for IESBA consideration and approval the final revisions to the proposals set out in the ED, taking into consideration the input received from the Board, the IESBA CAG and the IAASB.
## List of Respondents

*Note:* Members of the Monitoring Group are shown in bold below.

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<td>7.</td>
<td>UKFRC</td>
<td>United Kingdom Financial Reporting Council</td>
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### Regulators and Oversight Authorities, Including MG members (7)

1. CEOAB²⁵⁶ comprises the auditing oversight bodies from the 27 EU member states as well as the European Securities and Markets Authority (ESMA). In addition, it includes the corresponding bodies from Iceland, Liechtenstein and Norway.

2. IOSCO²⁵⁷ As of June 2021, IOSCO comprises 229 members. A full list of the IOSCO members and the jurisdictions they represent can be accessed [here](#).

3. NSS that have a mandate to set national ethics standards, including independence requirements, in their jurisdictions and which do not belong to PAOs are categorized as "Independent National Standard Setters."

The IESBA has a liaison relationship with a group of NSS (both independent NSS and organizations that hold dual NSS-PAO roles) that share the common goal of promulgating high-quality ethics standards, including independence requirements, and seeking convergence for those standards. Participating jurisdictions include Australia, Brazil, Canada, China, France, Germany, ...
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### Professional Accountancy Organizations (PAOs), Including NSS

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259 For purposes of this categorization, a PAO is a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to IFAC member bodies. PAOs that have full, partial or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions are indicated with a “\(^\delta\)”.

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Hong Kong SAR, India, Japan, the Netherlands, New Zealand, Russian Federation, South Africa, the UK, and the US.

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**Firms (15)**

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<tr>
<td>52.</td>
<td>BDO* BDO International Limited</td>
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260 Forum of Firms members are indicated with a *. The Forum of Firms is an independent association of international networks of accounting firms that perform transnational audits. Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide. They also have policies and methodologies for the conduct of such audits that are based to the extent practicable on the International Standards on Auditing (ISAs), and policies and methodologies which conform to the IESBA Code and national codes of ethics.
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