

Meeting: IESBA CAG

Meeting Location: Virtual

Meeting Date: March 7 & 31, 2022

Agenda Item

D-1

Definitions of Listed Entity and Public Interest Entity

Objectives of Agenda Item

1. To report back on the discussion at the September 2021 joint IAASB¹-IESBA CAG session relating to the IESBA PIE Task Force's² full analysis of the significant comments from respondents to the IESBA Exposure Draft, [*Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*](#) (PIE ED).

Project Status and Timeline

2. At its December 2019 meeting, the IESBA unanimously approved the project proposal to revise the definitions of listed entity and public interest entity (PIE) in the Code.
3. The IESBA met four times since January 2020 to discuss the key issues identified by the IESBA PIE Task Force and its proposals. At its December 2020 meeting, the IESBA approved for exposure proposed revisions to the definitions of listed entity and PIE in the Code.
4. In January 2021, the IESBA released the PIE ED. A total of 69 comment letters were received.
5. At its June 2021 meeting, the IESBA received a high-level overview of the significant comments from respondents to the PIE ED and provided directional input to the Task Force's preliminary views on how to address the key issues.
6. At its September 2021 meeting, the IESBA discussed the IESBA PIE Task Force's full analysis of the significant comments received as well as its responses and proposals, taking into account feedback from the September 2021 joint IAASB-IESBA CAG session.
7. At its November-December 2021 meeting, the IESBA considered the IESBA PIE Task Force's final revisions to the proposals, taking into account additional feedback from the Public Interest Oversight Board (PIOB), the IAASB and other key stakeholders in Q4 2022. After agreeing the necessary

¹ International Auditing and Assurance Standards Board

² Members:

- Michael Ashley, Chair, IESBA Member
- Liesbet Hausermans, IESBA Member
- Ian McPhee, IESBA Member
- Andrew Mintzer, IESBA Member

Correspondent members:

- Josephine Jackson, IAASB PIE Working Group Chair, IAASB Member
- Chun Wee Chiew, IAASB Member

changes to the proposed text, the IESBA unanimously approved the final revisions to the Code reflecting the revised definitions of listed entity and PIE.

8. Subject to the PIOB's approval, the final pronouncement is expected to be issued by mid-April 2022. The revised provisions will be effective for audits of financial statements for periods beginning on or after December 15, 2024, with early adoption permitted.
9. Refer to **Appendix** for the project history to date.

IAASB-IESBA Coordination

10. The objectives of the PIE project emphasize the importance of coordination between the IESBA and the IAASB, and establishing agreement between the two Boards so that the concepts underlying the PIE definition are interoperable for both Boards' standards.
11. Recognizing that coordination between the IESBA and IAASB is integral to the project achieving its objectives, specific questions were included in the PIE ED to seek preliminary views from the IAASB's stakeholders on those matters affecting the IAASB Standards. The IAASB established a PIE Working Group in 2021 to consider the feedback from respondents on those specific questions in the PIE ED.
12. In July 2021, the IAASB discussed respondents' feedback to Question 15 of the PIE ED on IAASB-related matters, and the IAASB PIE Working Group's initial responses. In October 2021, the IAASB discussed, amongst other matters, the IAASB PIE Working Group's draft proposal for a narrow-scope amendment project.³ The IAASB also provided feedback to the IESBA PIE Task Force's proposals for consideration by the IESBA.
13. The IAASB will discuss the IAASB PIE Working Group's project proposal with a view to approving it at its March 2022 meeting.

Report Back on September 2021 Joint IAASB-IESBA CAG Discussion

14. Below are extracts from the draft minutes of the September 2021 joint IAASB-IESBA CAG meeting⁴ and an indication of how the project Task Force and/or IESBA has responded to the joint IAASB-IESBA CAG's comments.

Matters Raised	Task Force/IESBA Responses
OVERARCHING OBJECTIVE FOR ADDITIONAL REQUIREMENTS FOR AUDITS OF PIEs	
Mr. Norberg expressed support for retaining the focus of public interest on "financial condition" in proposed paragraph 400.8 as well as the use of a common overarching objective for establishing	Support noted.

³ A narrow-scope maintenance of standards project is undertaken in accordance with Category III of the IAASB Framework for Activities and is intended to achieve a limited number of targeted changes to either a single standard or across multiple standards. To proceed with a narrow scope maintenance of standards project, the IAASB follows its due process and working procedures.

⁴ The draft joint IAASB-IESBA CAG session minutes will be approved by the IESBA CAG at its March 2022 meeting. These minutes were approved by IAASB CAG in November 2021.

Matters Raised	Task Force/IESBA Responses
<p>differential requirements for audits of certain entities in both the Code and the IAASB Standards.</p>	
<p>Mr. Munter inquired what intersection, if any, there is between the authority of the Draft International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Draft ISA for LCEs) and the definition of PIE.</p>	<p>During the meeting, Mr. Botha, IAASB Program and Technical Director, noted that the Draft ISA for LCEs does not explicitly address PIEs and that, in developing the scope for the standard, the aim was to describe those matters and/or circumstances that would be considered complex for which application of the standard would not be appropriate. Mr. Botha explained that this was achieved through determining specific exclusions (e.g., for listed entities) as well as describing when entities have certain qualitative characteristics of complexity that would result in the application of the Draft ISA for LCEs not being appropriate. In reference to the former, there also are other classes of entities that have public interest characteristics that could embody a level of complexity in fact or appearance. Mr. Botha noted that once comments on the exposure draft are received from respondents, the IAASB will further analyze how the revisions to the IESBA Code would affect the authority of the ISA for LCEs, in particular the specific prohibitions.</p>
<p>Whilst not disagreeing that the focus should be on financial condition, Mr. Thompson observed the rapid growth in sustainability reporting and the demand for assurance thereon, noting that recent publications from the International Federation of Accountants (IFAC) and the American Institute of Certified Public Accountants (AICPA) have highlighted the rising levels of assurance reporting on non-financial information of larger companies. He is of the view that non-financial reporting will grow rapidly in importance in the near to medium term.</p>	<p>Point and support noted.</p> <p>The IESBA welcomes the recent progress on environmental, social and governance (ESG) reporting and assurance at the global level such as the creation of the new International Sustainability Standards Board (ISSB) by the IFRS Foundation Trustees in Q4 2021 and the release of the IAASB's new Non-Authoritative Guidance on Applying ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting Assurance Engagements in April 2021.</p>

Matters Raised	Task Force/IESBA Responses
<p>Ms. Manabat supported retaining the focus on financial condition instead of financial statements. She also encouraged standard setters to begin developing the necessary standards on non-financial reporting and assurance in light of the market evolution and needs.</p>	<p>However, the IESBA maintained its view that given that Part 4A of the Code at present deals only with audits and reviews of financial statements, the public interest in non-financial information should not form part of the overarching objective for additional independence requirements for the auditors of PIEs.</p> <p>The IESBA agreed that it would be premature to address ESG matters as part of the PIE project and that such matters should be addressed more holistically as a separate work stream.</p> <p>In recognizing the growing importance of ESG reporting and assurance, the IESBA asked its Emerging Issues and Outreach Committee (EIOC) in early 2021 to gather an understanding of the relevant developments. Based on its fact finding, including the role of professional accountants (PAs) in the preparation and presentation of ESG information and providing assurance thereon, the IESBA will consider what its strategic response should be.</p>
<p>APPROACH TO DEVELOPING THE PIE DEFINITION</p>	
<p>Mr. Norberg indicated that whilst his preference is the narrow approach, he accepted that the broad approach may be the way forward. However, he expressed a concern about the potential for divergence between the Code and the IAASB Standards as some entities might be treated as PIEs for purposes of the Code but not for purposes of the IAASB Standards. He inquired if any consideration has been given to an impact assessment for both the proposed PIE definition and the Draft ISA for LCEs.</p>	<p>Point and support noted.</p> <p>During the meeting, Mr. Ashley confirmed that the two Boards will continue to liaise closely as the project reaches its final stage. Mr. Botha explained that the current differential requirements in the IAASB Standards apply only to listed entities. He noted that the IAASB's possible project on listed entity and PIE would, on a case-by-case basis, consider whether the scope of the differential requirements in the IAASB Standards needs to be expanded from listed entities to PIEs. Mr. Botha also clarified that the differential requirements in the IAASB Standards are not related to the audit effort in obtaining audit evidence but rather on communication with those charged with governance, disclosure of key audit matters in the auditor's report, and the engagement quality review. Mr. Botha noted that some IAASB members have also cautioned against the proliferation of</p>

Matters Raised	Task Force/IESBA Responses
	differential requirements in the IAASB standards as this may increase complexity, which would not be in the public interest.
Ms. Blomme and Mr. Sobel expressed general support for the Task Force's proposals and noted that they were now sensible and responsive to respondents' comments. Mr. Sobel noted that he preferred the broad approach as it gives more flexibility at a local level.	Support noted. The IESBA has retained the broad approach with a list of high-level mandatory PIE categories in its approved final text. The IESBA expects the list to be refined by the relevant local bodies as part of the local adoption process.
Ms. Meng was pleased to see that the concept of listed entity has been incorporated into the revised definition of publicly traded entity, which she believes would promote adoption of the PIE definition across jurisdictions. She encouraged the IESBA PIE Task Force to continue to be open to the views of capital market regulators and stakeholders whilst finalizing the proposals.	Support noted. The IESBA took into account additional feedback from IOSCO's Committee on Issuer Accounting, Audit and Disclosure (Committee 1) received in Q3 and Q4 when it finalized the revisions to the Code.
Ms. Mubarak supported the broad approach from her regulatory perspective. She suggested that further guidance on adding new categories at local level would be helpful. She also noted that Mr. Ashley's comment about the number of PIEs in a jurisdiction needing to be manageable aligns with the views of some within the international audit oversight community. As a result of these discussions and other related studies, SLAASMB is in the process of reviewing the local legislation for potential changes to the national PIE definition.	Support noted. In March 2022, the IESBA will establish a PIE Rollout Working Group that will be responsible for planning the Board's rollout activities, assisting IESBA Staff in developing a range of non-authoritative guidance materials and participating in outreach.
Dr. Cela supported the broad approach, noting that this is a reasonable approach given the need for jurisdictions to consider their local contexts. He also emphasized the need for additional guidance to be developed to assist local bodies with refining the PIE definition at the local level.	

Matters Raised	Task Force/IESBA Responses
<p>Mr. Yurdakul expressed the view that, with respect to paragraph R400.14(d), if an entity has been determined by local regulators as a PIE for reasons other than the proposed factors listed in paragraph 400.9, that entity should nonetheless be treated as a PIE for the purposes of the Code.</p>	<p>Point noted.</p> <p>A local body may add entities as PIEs to its local definition if it considers that there is significant public interest in the financial condition of those entities. The factors set out in paragraph 400.9 are not exhaustive.</p> <p>Paragraph 400.17 A1 provides that if an entity is designated as a PIE for purposes other than as set out in paragraph 400.10, it should not be treated as a PIE for the purposes of the Code.</p>
<p>Ms. Landell-Mills suggested that the role of determining which entities are PIEs should be that of local bodies and not the IESBA. She also inquired about what would happen if the local definition of PIE differs from the Code's.</p>	<p>Point noted.</p> <p>During the meeting, Mr. Ashley pointed out that the broad approach in conjunction with the overarching objective is designed to set up a high-level framework to guide local bodies, and thereby promote global consistency, by conveying the IESBA's thinking on the characteristics and broad categories of entities that should be PIEs. He also clarified that if a jurisdiction has defined certain entities as PIEs for auditing and financial reporting reasons, such entities are scoped in as PIEs under the proposals. In this regard, he acknowledged that it would be rare for an entity to be defined as a PIE for other reasons whilst there would not also be significant public interest in its financial condition.</p>
<p>PIE DEFINITION – PUBLICLY TRADED ENTITY</p>	
<p>Mr. Norberg expressed support for the IESBA PIE Task Force's proposed definition of publicly traded entity and the inclusion of listed entity as an example of a publicly traded entity. With regards to the term "financial instruments," he was of the view that it should not be defined nor should there be reference to the definition of that term in International Accounting Standard (IAS) 32, Financial Instruments: Presentation. He pointed out that IAS 32 was developed for different purposes and that local capital markets would have their own listing requirements, including which financial instruments can be traded.</p>	<p>Support noted.</p> <p>Upon deliberation, the IESBA concluded that:</p> <ul style="list-style-type: none"> The International Accounting Standards Board's (IASB) definition in IAS 32 may not be sufficiently clear for the purposes of the Code as terms such as "financial asset," "financial liability" and "equity instrument" are further defined in IAS 32. Further, by including the IASB's definition in the Code, that definition may require updating in the event of future revision of IAS 32 by the IASB.

Matters Raised	Task Force/IESBA Responses
<p>Mss. Blomme and Manabat also expressed support for the IESBA PIE Task Force's proposals and agreed that "financial instruments" should not be defined as there should be sufficient general understanding among stakeholders about the meaning of the term.</p>	<ul style="list-style-type: none"> • The option of cross-referencing IAS 32 in the PIE definition is not a suitable option as this is not a typical approach used in the Code. • The term "financial instruments" should not be defined in the Code and that the term should be broadly interpreted, subject to any local refinement.
<p>Mr. Sobel expressed support for the IESBA PIE TF's proposals. Mr. Sobel also raised a query about entities trading crypto currencies.</p>	<p>Support noted.</p> <p>During the meeting, Mr. Ashley responded to Mr. Sobel's query about entities that are trading crypto currencies and noted that there is little support from respondents for adding a new category to scope in entities that are raising funds via initial coin offerings, adding that most respondents felt that the crypto market should be given time to evolve. He also noted that the proposed definition of publicly traded entity, with appropriate local refinement, should be sufficiently broad to cover the types of entities that should be captured.</p>
<p>PIE DEFINITION – OTHER PROPOSED PIE CATEGORIES</p>	
<p>Messrs. Hansen and Norberg and Ms. Blomme expressed support for the IESBA PIE Task Force's proposals to remove the categories relating to post-employment benefits (PEBs) and collective investment vehicles (CIVs) from the proposed PIE definition.</p>	<p>Support noted.</p> <p>Following deliberation, the IESBA agreed to:</p> <ul style="list-style-type: none"> • Not include PEBs and CIVs as proposed in paragraphs R400.14 (d) and (e) of the ED in the mandatory list of PIE categories. • A package of actions that will more holistically respond to the concerns the PIOB raised regarding the exclusion of PEBs and CIVs from the mandatory list.
<p>Ms. Blomme pointed out that the remaining proposed categories align with the PIE categories in the EU definition and that some member states have added other categories such as post-employment benefits and collective investment vehicles as appropriate to their local context.</p>	
<p>Mr. Hansen queried if the reference to "deposits" with respect to the proposed category relating to deposit-taking institutions is too broad, whilst acknowledging that this matter has been previously addressed.</p>	<p>Point noted.</p> <p>The definition is intended to be broad and principles-based to allow appropriate refinement at the local level. The IESBA's commissioning of non-authoritative guidance to explain the expectations regarding local refinement will assist in this regard.</p>

Matters Raised	Task Force/IESBA Responses
<p>Ms. Landell-Mills queried if size criteria could be used in the Code to address issues relating to scoping in entities that are too small. She cited the recent UK White Paper "Restoring trust in audit and corporate governance" which suggests the use of a size threshold for large private companies as a proposed new PIE category.</p>	<p>During the meeting, Mr. Ashley noted that the IESBA did not consider that using size criteria in a global Code would be suitable given that size depends on the jurisdictional context.</p>
<p>ROLE OF FIRMS</p>	
<p>Ms. Blomme expressed support for the IESBA PIE TF's proposals and welcomed the IAASB's efforts to further explore disclosure in the auditor's report.</p>	<p>Support noted.</p>
<p>Mr. De Tullio supported disclosure in the auditor's report as it seems to be the most suitable location and easiest way to disclose the relevant information.</p>	<p>At its March 2022 meeting, the IAASB will consider a project proposal for a narrow-scope project that would explore whether the auditor's report is a suitable location for the disclosure about the application of the independence requirements for PIEs, and if so, how this may be accomplished.</p>
<p>Ms. Mubarak and Mr. Hansen expressed support for the transparency requirements as well as disclosure in the auditor's report.</p>	<p>With regards to Mr. De Tullio's query about other mechanisms for disclosure, Mr. Ashley explained at the meeting that the IESBA's Fees final pronouncement includes a list of examples of disclosure avenues, which include firms' transparency reports and websites.</p>
<p>Mr. Ruthman was of the view that the proposals in the PIE ED were an elegant way to scope in some entities in the public sector as not many entities in that sector are listed entities. He accepted that the IESBA PIE Task Force's proposals were responsive to respondents' comments.</p>	<p>Support noted.</p>
<p>Mss. Landell-Mills and Meng supported disclosure in the auditor's report as the most suitable way to meet the transparency requirement. They suggested that firms should also disclose if independence requirements for non-PIEs have been applied. They were of the view that most stakeholders will not know about disclosure of independence requirements that have been applied if they are not auditors or close to the standards themselves. Accordingly, they encouraged consideration of disclosure in both cases.</p>	<p>Support noted.</p> <p>During the meeting, Mr. Ashley pointed out that one of the significant issues raised by respondents was the expectation for stakeholders to understand what it would mean for an entity to be treated as a PIE. He was of the view that a similar concern would arise in disclosing that non-PIE requirements have been applied. He also noted that it is unclear if stakeholders will gain much from knowing that non-PIE requirements have been applied. Mr. Botha confirmed that the IAASB intends to explore whether the auditor's report is the suitable location for the</p>

Report Back - Definitions of Listed Entity and Public Interest Entity
IESBA CAG Meeting (March 2022)

Matters Raised	Task Force/IESBA Responses
	disclosure about the application of the independence requirements for PIEs, and if so, how this may be accomplished, as part of its narrow-scope amendments project that will be undertaken in due course.

Appendix

Project History

Project: Definitions of Listed Entity and Public Interest Entity

Summary

	CAG Meeting	IESBA Meeting	IAASB Meeting
Project commencement, including: • Approval of project proposal	March 2020	December 2019	
Development of proposed international pronouncement (up to exposure)	March 2020 September 2020	March 2020: June 2020 September 2020 December 2020	July 2020; November 2020
Exposure Draft	January – May 2021		
Development of proposed international pronouncement (up to exposure)	September 2021	June 2021 September 2021	July 2021 October 2021
Approval of final text		November- December 2021	