June 2023

Accounting Professional & Ethical Standards Board

Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board

BASIS FOR CONCLUSIONS:

Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards)

This basis for conclusions has been prepared by Technical Staff of Accounting Professional & Ethical Standards Board Limited ("APESB"). It has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to the revisions to the definitions of Listed Entity and Public Interest Entity (PIE) in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code).

The basis for conclusions **does not** form part of APES 110 and is not a substitute for reading the Code.

Background

The International Ethics Standards Board for Accountants (IESBA) issues the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the International Code), upon which APESB bases its Code.

In April 2022, the IESBA released the final pronouncement on revisions to the definitions of Listed Entity and PIE in the International Code.

The revisions to the Code for the definitions of Listed Entity and PIE have been driven from the following sources:

1. the IESBA's revisions to the definitions of Listed Entity and Public Interest Entity (PIE) in the International Code; and
2. amendments to the International Code for the Australian context.

In July 2022, APESB issued Exposure Draft (ED) 05/22 *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (ED 05/22). In addition, ED 05/22 included a request for specific comments on whether additional specific categories of entities should be captured in the PIE definition in the Code.

APESB received eight submissions in response to ED 05/22 from large accounting firms, professional bodies and regulators. The submissions supported the project to revise the definitions of listed entity and PIE. They raised some concerns about incorporating extant Australian requirements and guidance with the IESBA revisions. However, the respondents did not identify any specific categories of entities that are not captured in the definition of PIE.

The details of significant changes made, the key issues raised by respondents and stakeholders during the revision of the listed entity and public interest definitions in the Code and how APESB addressed them are set out below.

(a) IESBA's revisions to the International Code

The IESBA commenced a project to review the Definitions of Listed Entity and Public Interest Entity in the International Code in December 2019. The project aimed to bring greater clarity to the concepts of listed entity and PIE and the objective of the additional independence requirements for PIE audit clients. The project would also focus on the convergence of concepts and definitions in international auditing and professional and ethical standards.

The final pronouncement, Revisions to the Definition of Listed Entity and Public Interest Entity in the Code, was released by the IESBA in April 2022 and is effective for engagement periods beginning on or after 15 December 2024, with early adoption permitted.

The significant changes in this pronouncement were to:

- Articulate an overarching objective for additional independence requirements for audits of financial statements of PIEs (paragraph 400.10).
- Provide guidance on factors to consider when determining the level of public interest in an entity and whether it should therefore be treated as a PIE (paragraph 400.9).
- Replace the term “listed entity” with the new term “publicly traded entity” to avoid confusion created by the term ‘recognised stock exchange’ in the extant definition(paragraph R400.17(a)).
- Revise the definition of PIE to specifically include entities that take deposits from, or provide insurance to, the public and amend the reference to listed entities to be publicly traded entities (paragraph R400.17(a)-(c)).
- Encourage local bodies to add any other PIE categories relevant to their local circumstances (paragraphs R400.17(d), 400.18 A1 and 400.18 A2).
- Enhance the robustness of guidance in the IESBA Code on the treatment of other entities as PIES when certain circumstances arise (paragraph 400.19 A1)
- Enhance transparency of the ethical requirements applied to audit engagements by requiring firms to disclose if an audit client has been treated as a PIE (paragraphs R400.20 and R400.21).

In conjunction with the release of the IESBA's amending standard on the revisions to the definitions of listed entity and public interest entity, the IESBA have released a Basis for Conclusions Document.

Most of the changes to the International Code were adopted into the Code with no substantive changes. However, APESB has amended the IESBA application material on firms being encouraged to determine if additional entities should be treated as PIEs to mandate that firms make that determination (proposed paragraph AUST R400.19).

This approach is consistent with the existing position in APES 110 in Australia. The extant requirement has been in effect in Australia since 2013. Refer to section (b) below for further details on maintaining the extant Australian provisions relating to PIEs.

(b) Amendments to the International Code for the Australian Context

In developing the Australian proposals to adopt the international revisions, APESB has considered that the extant Australian Code's (APES 110) provisions in determining PIEs are higher than both the extant International Code and the revisions in the issued final pronouncement.

In 2011, APESB undertook an extensive collaboration process with the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) to determine which entities must be considered PIEs in Australia. That resulted in the PIE amendments to the Code, issued in December 2011 and effective from 1 January 2013.

Accordingly, since 1 January 2013, the Code has mandated that firms determine whether additional entities, or certain categories of entities, are PIEs (extant paragraph AUST R400.8.1). The extant APESB's provisions recognise deposit-taking institutions, insurers and superannuation entities, disclosing and other entities as PIEs in Australia. These provisions have existed in Australia for over a decade, and APESB is not aware of practical implementation issues.

Therefore the IESBA revisions, in effect, move closer to the APESB's position established in 2011, but is unlikely to significantly impact the recognition of an entity as PIE in Australia.

Audit and Prudential Regulators' Perspective

APESB have engaged with the regulators, ASIC and APRA to seek their views on the new proposed revisions.

Both regulators supported the proposed revisions to the Code relating to the definitions of Listed Entity and PIE. They were also of the view that the extant Australian position in determining PIEs should be maintained as they are not aware of any issues in applying the extant provisions in practice over the last decade.

As a result of this engagement with regulators, APESB have determined to maintain the extant Australian provisions, apart from the change noted below, to respond to a stakeholder concern.

Clarification required for extant Australian guidance on Australian PIE entities

Stakeholders raised a concern that the retention of the extant Australian guidance on entities that would generally be considered PIEs in Australia (proposed paragraph AUST 400.18 A3 in ED 05/22) incorporates factors that are no longer relevant or necessary and should be updated to remove the word 'shall.'

In considering the retention of the extant wording, APESB noted that:

- No issues have been raised with APESB over the last 12 years on the ability of Firms to apply and implement the extant provision in practice;
- APESB has not been informed of instances where Firms are not complying with the extant requirement;

- The Australian Audit and Prudential Regulators support the retention of the factors;
- Proposed paragraph 400.18 A1 allows local bodies to incorporate size criteria that more explicitly define the categories of PIEs in the proposed paragraph R100.17; and
- The use of the extant wording indicates that the current practices for determining PIEs in Australia would be appropriate under the new revisions.

However, APESB agreed to amend the extant wording to include the concept of '*reflecting the significant public interest in the financial condition'* in the lead-in sentence to enhance the clarity of this provision by including the significant new factor.

APESB also agreed that using the word *shall* denote a requirement and accordingly determined to change the proposed paragraph to a requirement paragraph consistent with APESB's drafting conventions and aligns with the requirements in R400.17 and R400.18 in the IESBA Code.