

IESBA's Exposure Draft on the definition of Public Interest Entities

APESB Roundtable

14 April 2021



Accounting Professional & Ethical Standards Board

APESB Roundtable - Agenda

3.00 PM	Welcome
3.05 PM	IESBA's <i>Definition of Listed Entities and Public Interest Entities</i> ED
3.25 PM	Current Australian provisions on Public Interest Entities
3.35 PM	Roundtable discussions
4.00 PM	Break
4.05 PM	Feedback Session
4.25 PM	Closing remarks

Definitions of Listed Entity and Public Interest Entity Exposure Draft


Ian McPhee

Task Force Member and IESBA Member

APESB Roundtable

14 April 2021

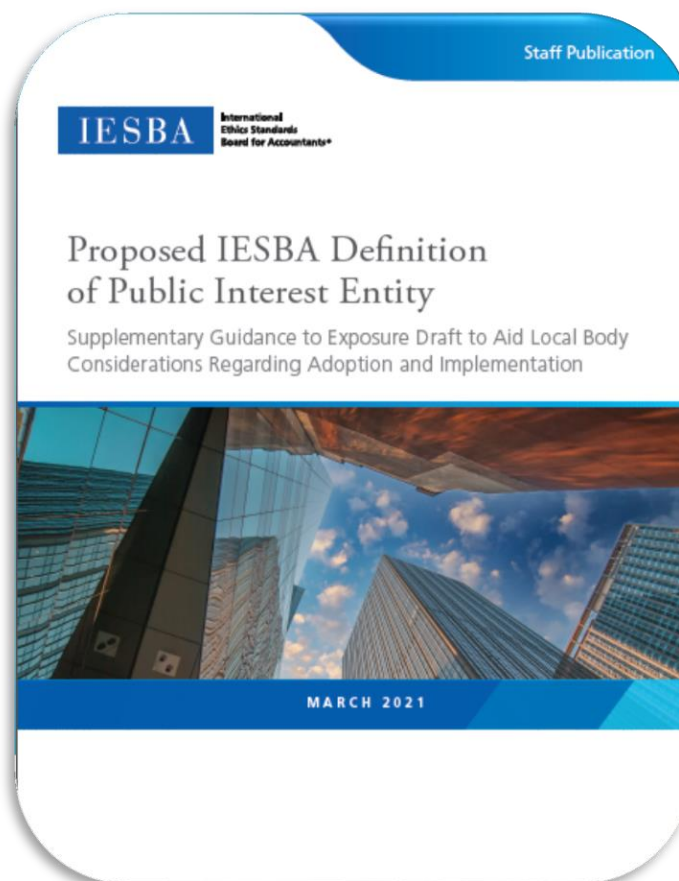
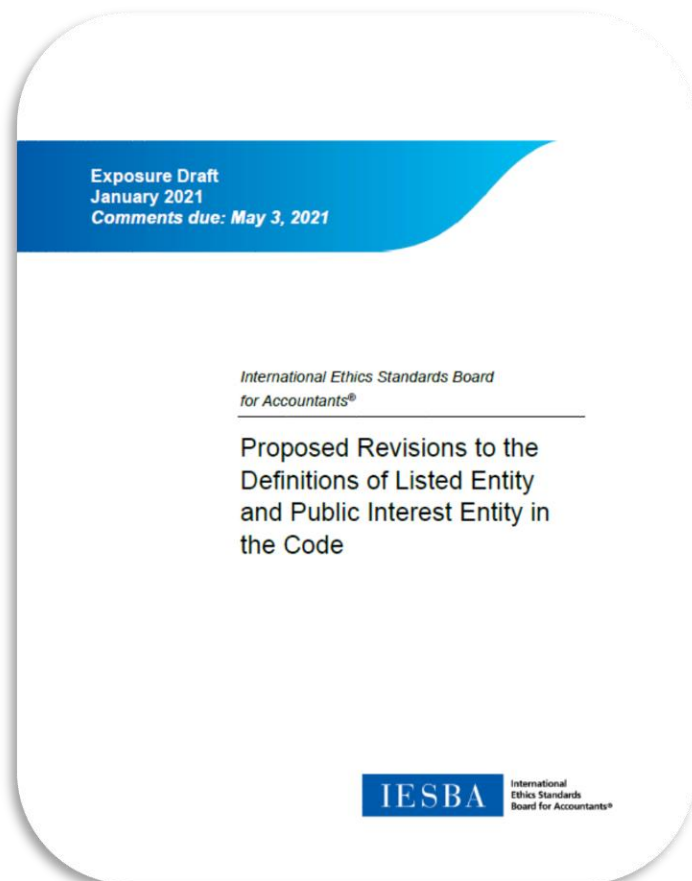
Objective of Presentation



To receive a brief
overview of the PIE ED

- Project Objectives
- Overarching Objective
- Approach to Revise PIE
- PIE Definition
- Role of Local Bodies
- Role of Firms
- IAASB matters
- Other matters

Comments on ED due May 3 2021



Project Objective and Focus



Review definitions of listed entity and PIE, in coordination with IAASB

- Project is led by IESBA with close coordination with IAASB
- Focus on audits of financial statements and auditor independence (Part 4A)

Public interest objectives

- Provide greater clarity and guidance to the concepts
- Scope in right entities to be subject to additional requirements
- Seek alignment of terms and concepts between IESBA Code and IAASB standards

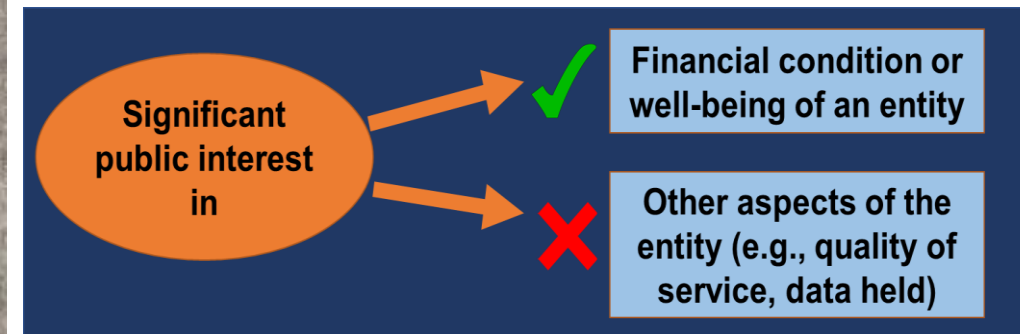
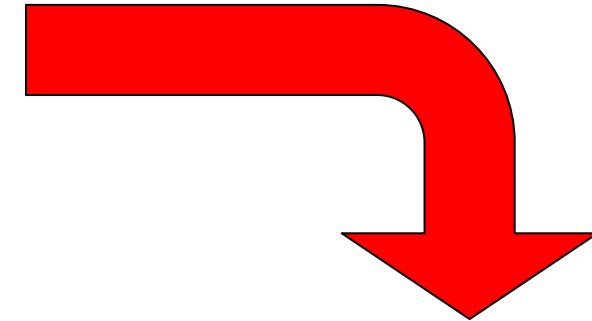
Starting with an overarching objective/ purpose for additional Requirements

Significant public interest in the financial condition of certain entities

Public confidence in those financial statements are important

Confidence in their audits will enhance public confidence in those financial statements

Additional requirements will enhance confidence in their audits which in turn will enhance confidence in those financial statements



How to determine the level of public interest in an entity's financial condition – proposed factors

Nature of business/ activities

- Such as taking on financial obligations to the public as part of an entity's primary business
- E.g., deposit-taking and insurance business

Regulatory supervision

- Regulation designed to give confidence that financial obligations will be met
- Primarily but not necessarily restricted to financial markets

Size

- Either too small to be included or too big not to be included
- A key factor as the IESBA's proposed list will scope in all smaller entities

Importance to sector

- The harder it is to replace an entity, the more likely it will have a higher level of public interest
- Particularly relevant to public utility entities and financial market infrastructure entities

Number/ nature of stakeholders

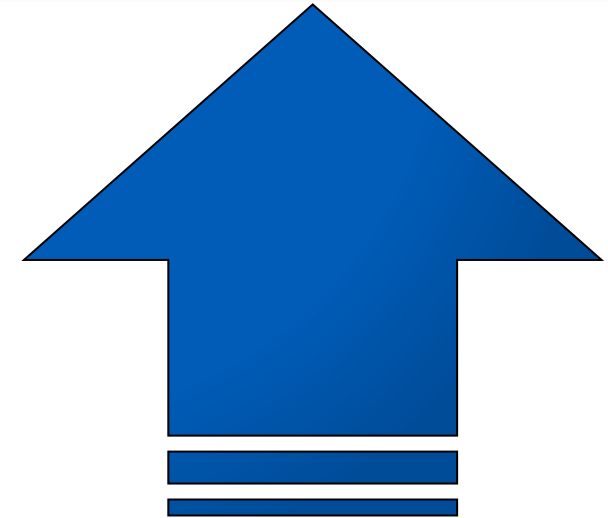
- Nature is also relevant e.g., institutional investors vs retail investors

Systemic impact

- Entities that might be "too big to fail" because of the impact of their financial failures on an economic system
- Most would already be part of the financial systems and captured by the proposed list of PIEs

Para. R400.8

Proposed list of factors for consideration by relevant local bodies and firms



Choosing an Approach that best enables achievement of the overarching objective



**Narrow
or
Broad?**

Broad Approach

A longer and more broadly defined list which local regulators and authorities can modify by tightening definitions, setting size criteria and adding new types of PIEs or exempting particular entities

Role of Code

List of common
PIE categories



Role of Local Bodies

Refine the list,
adding new types
or exempting
particular entities



Role of Firms

Determine if
additional
(categories of)
entities to be
treated as PIEs

The proposals expand the PIE definition to 6 categories (R400.14 (a) – (f))

Role of
Code



Role of
Local
Bodies



Role of
Firms

**IESBA Approach
to developing
the 5 specific
categories**

R400.14 (a) – (e)



Include categories

- that are likely to be adopted by most jurisdictions
- suited for a global list because of the nature of their main functions

Exclude categories

- that would only be included by local bodies because they are very large

The proposals expand the PIE definition to 6 categories (R400.14 (a) – (f))

Role of
Code



Role of
Local
Bodies

Role of
Firms

(a) A publicly traded entity

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

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

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

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

(f) An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9

**5 specific
categories**

The proposals expand the PIE definition to 6 categories (R400.14 (a) – (f))

Role of
Code



Role of
Local
Bodies

Role of
Firms

(a) A publicly traded entity

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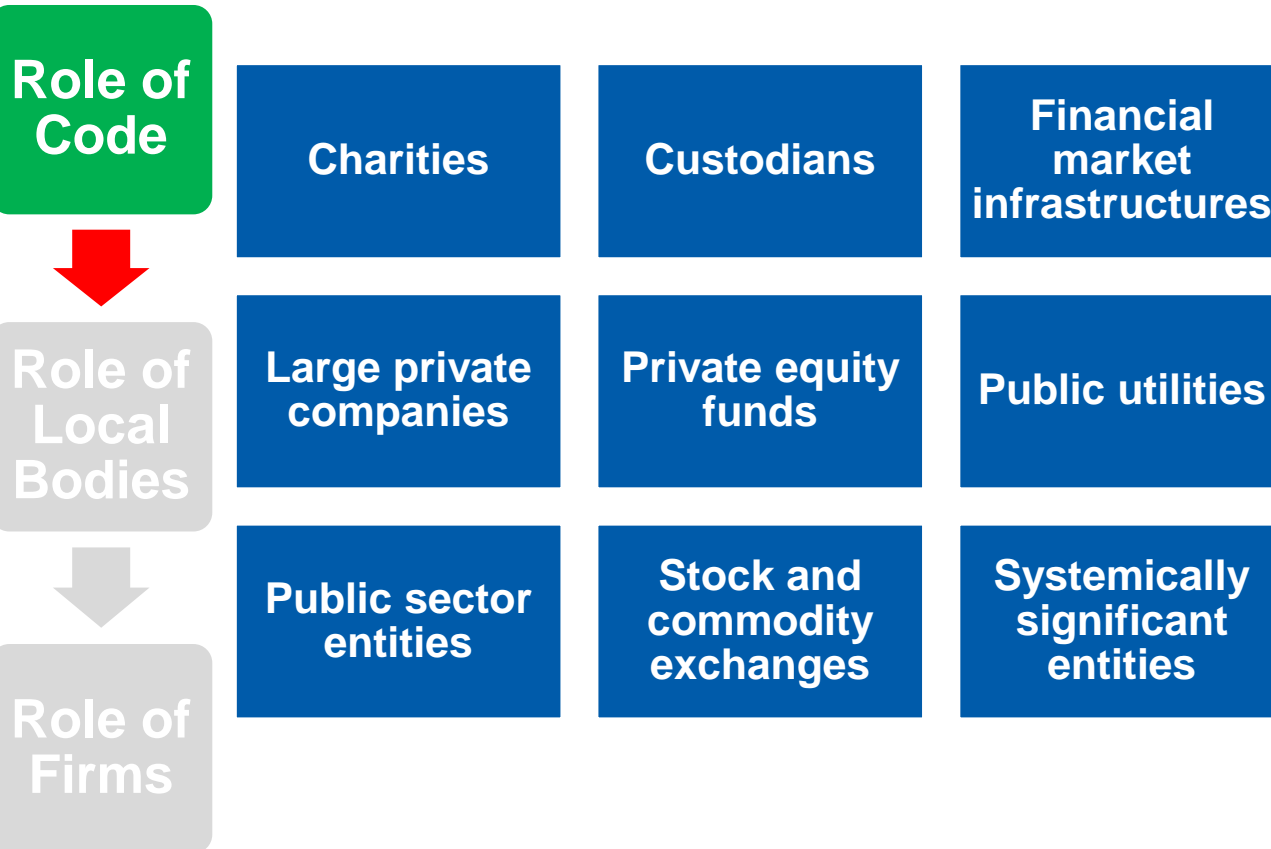
(d) An entity whose function is to provide post-employment benefits

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

(f) An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9

- Replace “listed entity” in the extant Code
“An entity that issues financial instruments that are transferrable and publicly traded”
- A broader term than “listed entity”
- “Financial instruments” intended to be broadly applied
- “Publicly traded” is used instead of “publicly listed” as some financial instruments are only listed but not intended to be traded
- New term assume a facilitated public trading mechanism
- Entities in process of being listed on local exchange etc covered in list of additional factors for firms’ consideration (Para. 400.16 A1)
- IESBA would welcome views on whether entities raising funds through initial coin offerings or other innovative ways need to be separately categorised in the Code

IESBA also considered other potential categories when developing its proposed PIE definition



IESBA:

Considered these types of entities did not have necessarily sufficient public interest to be included as a PIE category in a global Code

Acknowledged that some of them might be appropriate as a PIE in a local code and that some local jurisdictions have already done so in their current PIE definitions

Local bodies are expected to refine the definition as part of adoption

Role of
Code



Role of
Local
Bodies



Role of
Firms

- Proposed definition needs to be refined as appropriate at local level due to high-level nature. Proposed para. 400.15 A1 aims to clarify this point and role of local bodies
- If not, the new definition might inadvertently scope in the wrong entities or not scope in others where appropriate
- In recognizing the efforts needed, the IESBA has identified a number of ways to assist local bodies to adopt the revised definition

List of factors in 400.8

- A non-exclusive list for consideration by local bodies

Longer transition period

- Proposed effective date to be December 2024

Outreach activities

- Develop non-authoritative guidance material
- Socialize approach as early as possible

The proposals include 2 new requirements for firms

Role of
Code



Role of
Local
Bodies



Role of
Firms

Determination to include additional entities



Firm to determine if additional entities should be treated as PIEs **(R400.16)**

- Elevated AM in Extant Code to requirement
- Firms can only ADD entities

List of additional factors to assist firms with its determination **(400.16 A1)**

Whether specified by law/regulation as not a PIE

Whether likely to be PIE in near future

Whether, in similar circumstances, entity treated as PIE by firm/predecessor or similar entity treated as PIE by firm

Whether request to treat entity as PIE

Entity's corporate governance arrangement

The proposals include 2 new requirements for firms

Role of
Code



Role of
Local
Bodies



Role of
Firms

Transparency disclosure



- It is in the public interest to enhance transparency
- A new requirement for firms to publicly disclose if an audit client has been treated as a PIE
- The IAASB will conduct further analysis as part of its Auditor Reporting Post Implementation Review
 - ❖ Will review comments on ED relating to this topic as initial information gathering

Other Matters – Related Entity

Extant Code (R400.20)

Listed entity

- “Audit client” includes all 5 related entity categories (Upstream, downstream, sister entities)

Others (including other PIEs)

- Downstream (Client has direct/indirect control)

Key question:

Whether the definition of audit client for listed entity should be extended to all PIE audit clients as well?



IESBA discussions:

- Whether any strong philosophical reason for not extending the definition of audit client for listed entity to all PIEs?
- Whether the difficulties are caused more by the nature of “group corporate structure” (e.g., private equity complexes and sovereign wealth funds) than the nature of the entity itself
- As an interim action, whether to replace “listed entity” in para. R400.20 with the new paragraph R400.14 (a)

IESBA agreed that:

- “Listed entity” in R400.20 be replaced by “publicly traded entity”
- The definition of audit client in R400.20 be reviewed as a separate IESBA workstream

Other Matters – Part 4B of the Code

Part 4B

IESBA agreed that revisions to Part 4B not necessary:

- Greater public interest in some assurance engagements has at least as much to do with the nature of the engagement as with the nature of the entity
- Not all assurance engagements for a PIE would be of significant public interest whereas some assurance engagements for a non-PIE might be of significant public interest
- Defining what constitutes a “public interest assurance engagement” is outside the scope of this project

The IAASB has identified 3 key aspects for its further consideration

Overarching Objective

Should there be a common overarching objective for additional requirements to enhance confidence in audit of financial statements of certain entities?

- IAASB was generally supportive of the idea

Listed Entity

Should differential requirements applicable to listed entities in IAASB standards be applied more broadly to other PIE categories?

- IAASB preferred a case-by-case approach
 - ❖ The use in ISAs and ISQMs is primarily for enhanced transparency
 - ❖ PIE is not currently used in the IAASB standards
 - ❖ Might conclude differential requirements may be appropriate for a subset of PIE (e.g. listed entity)
- IAASB will consider the need for alignment of terms used including possible replacement of “listed entity” with another term e.g., publicly traded entity
- IAASB broadly supported the use of PIE ED to seek initial feedback to inform its case-by-case approach

Transparency Disclosure

Should auditors be required to disclose in auditor’s report that a client was treated as a PIE?

- IAASB noted further analysis under its current Auditor Reporting PIR will allow it to properly consider the option of enhanced transparency in the auditor’s report
- IAASB broadly supported the use of PIE ED to seek initial feedback



When will the new PIE definition become effective?

Dec 2022

**Agreed NAS &
Fees effective
date**



Dec 2023



Dec 2024

**Proposed PIE
effective date**

- A longer transition period, allowing PIE definition to be properly implemented
- More time for local bodies to refine the PIE definition
- Firms have some time to develop experience with application of new NAS and Fees provisions for PIEs based on extant definition
- Less pressures on regulators, NSS and other stakeholders created by COVID-19 pandemic
- More time for IESBA to develop guidance material

Next Steps



Next Steps

May

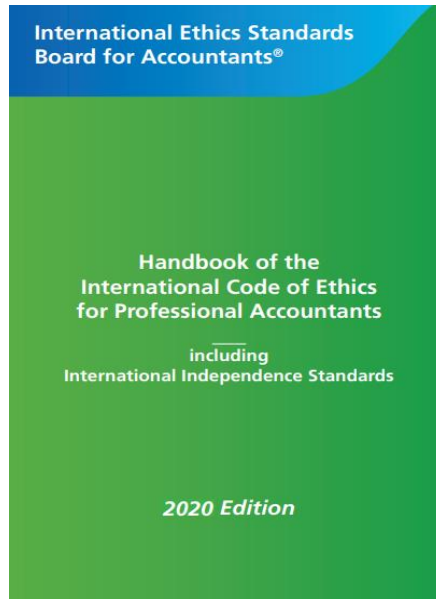
Comments Due

Sept

Full analysis & 1st read

Dec

2nd read & anticipated approval of final text



The Ethics Board

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Current Australian provisions on Public Interest Entities

Channa Wijesinghe
Chief Executive Officer



Australian PIE definition

- Extant definition of PIE captures:
 - Listed Entity
 - Entities defined as PIEs under laws and regulation
 - Entities where the audit must be conducted to meet the Independence requirements of Listed Entities
- Consistent with extant IESBA definition



Key Australian PIE requirement

- Since 1 January 2013, APES 110 mandated Firms to determine whether additional entities are PIEs (para AUST R400.8.1).
- Determination is based on whether there is a large number/wide range of stakeholder considering 3 key factors:
 - Nature of the business
 - Size
 - Number of employees.
- APES 110 set a higher requirement than the IESBA Code which 'encouraged' firms to determine PIEs in explanatory material.

Supporting Australian application material on PIEs

The following entities will generally be considered as PIEs (AUST 400.8.1 A1):

- Authorised deposit-taking institutions and authorised non-operating holding companies (NOHCs) regulated by APRA
- Authorised insurers and authorised NOHCs regulated by APRA
- Life insurance companies and registered NOHCs regulated by APRA
- Private Health Insurers regulated by APRA
- Disclosing Entities
- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeships that have five or more members regulated by APRA
- Other issuers of debt and equity instruments to the public

Considerations specific to AUST provisions

1. Treatment of factors that determine PIEs

- the range of stakeholders (e.g., nature of business, size, number of employees) is a key element of the AUST requirement
- IESBA proposals treat these factors as explanatory material.

Consideration:

Should it be a requirement, or should it be explanatory material?



Considerations specific to AUST provisions

2. Entities considered as PIEs

- additional entities which are generally PIEs included as AUST application paragraph
- IESBA proposals include a requirement that PIEs include entities that fall within broad categories consistent with current AUST guidance material.



Consideration:

Are all entities that are currently PIEs appropriately captured in IESBA's proposals? Are any entities inadvertently captured or excluded?

Roundtable Discussions



Matters for discussion – Group 1

1. Do you agree with this overarching objective and purpose set out in paragraphs 400.8 and 400.9 for defining entities as PIEs? Should the term financial condition be defined?
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 this is a non-exhaustive list, are there any other key factors which you believe should be added?
3. Do you believe any refinements are needed to the global definition of PIE? Are there other entities that need to be captured by the definition?

Matters for discussion – Group 2

4. In the current APES 110, para AUST R400.8.1 mandates the factors to be considered to determine if an entity is a PIE, but in the IESBA proposals (400.8) it is guidance. Do you believe this should be a requirement?
5. Do you agree that the firm should be responsible for making the disclosure about an entity being treated as a PIE?
 - a) If yes, what is the appropriate place for the disclosure (e.g. Audit Report)?
 - b) If not, who should be responsible for these disclosures, and where should these be made?
6. Consider the appropriateness of the additional factors to determine whether an entity is a PIE in proposed para 400.16 A1. Are there any other factors that should be included?

Matters for discussion – Group 3

7. 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’?
8. Should entities that raise 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?
9. Do you support the proposed approach by IESBA where: (a) the IESBA Code sets a list of PIE categories at a high level; (b) the relevant local bodies, such as national standard setters refine the IESBA list at a local level as part of its adoption process; and (c) firms determine if additional entities should be treated as PIEs? Do you think the balance is right, in terms of the roles of the IESBA Code, the National Standard Setter and Firms?

Roundtable Feedback



Closing remarks

Nancy Milne OAM
Chairman



Important dates

Consultation process	Date
Online roundtable	14 April 2021
Local stakeholders' submissions to APESB	20 April 2021
Submissions due to the IESBA on the PIE Exposure Draft	3 May 2021

Further Information

For more information:

www.apesb.org.au

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