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Ken Siong
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Our ref SRA/288

30 April 2021

Dear Mr Siong

Exposure Draft: Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

We appreciate the opportunity to comment on the above Exposure Draft issued by the International Ethics Standards Board for Accountants (IESBA or the Board). We have consulted with, and this letter represents the views of, the KPMG global organization.

We are supportive of the IESBA's goal to enhance confidence in the financial statements of public interest entities (PIEs) through enhancing confidence in the audit of those financial statements. While we are in agreement with a number of the proposals in this Exposure Draft (ED), we have certain concerns that we have outlined below (see A-D). Additionally, Appendix A to this letter provides our responses to the specific questions posed in the ED and Appendix B provides an additional editorial comment.

A. Overarching objective of the PIE definition

We are supportive of the objective for defining the entities whose financial statement audits are subject to additional independence requirements in order to enhance confidence in the auditor's independence and, solely in that regard, the audit of the financial statements, due to the significant public interest in the financial condition of those entities. The overarching objective, as proposed by the Board, should be revised to reflect the distinction noted above to avoid the misconception that the requirements applicable only to PIEs in Part 4A of the Code have an impact on audit quality beyond independence.

We appreciate the Board's rationale for proposing the broad approach to developing the definition of PIEs given the views from stakeholder groups representing the public interest, which require a response beyond the status quo of the legacy PIE definition and the current narrow list of categories incorporated therein. We do have concerns,

however, about global divergence given the lack of both a baseline that all jurisdictions apply consistently and stringent expectations for potential refinements to the PIE definition, resulting in the potential for greater global disparity in independence requirements. We believe that global consistency, as far as is possible and appropriate, should be a key aim of IESBA in terms of driving increased public confidence in financial statements. The proposed approach, as drafted, may lead to reduced consistency across jurisdictions, as well as different approaches to any scope-outs of certain entities in jurisdictions that are otherwise similar. This approach could, therefore, not only create confusion and further erode public trust in direct opposition to the overarching objective, but also undermine the drive for global consistency.

B. Role of local bodies

While we recognize the intended principles-based nature of the Board's approach to defining a PIE in an effort to retain global applicability, we have concerns as to whether local bodies in all jurisdictions will interpret and execute the expected refinements appropriately. Without the appropriate refinements, the broad PIE categories will be incorporated into local standards and regulations in a manner that overextends the PIE requirements to entities where such requirements would be impractical, onerous or otherwise without merit.

We recommend the Board establish a more explicit global baseline that is linked to clearly articulated principles that underpin the overarching objective (considering our suggested revisions) and that considers the more detailed definitions of PIE established across jurisdictions currently. Such principles would clearly describe the drivers behind each category of PIE, together with further accompanying guidance. This would best drive global consistency, while also helping to ensure that certain entities would not be inadvertently scoped into the PIE definition, which might lead to requirements that are unduly onerous for those entities.

C. Role of the firm

We are not supportive of the requirement for firms to determine if additional entities should be treated as PIEs. With a global definition present in the Code and the proposed role of local bodies to further refine such definition, the requirement for firms to make a final determination for entities not otherwise considered PIEs is not adequately supported. This requirement would seem to inappropriately transfer a regulatory responsibility to the firms that should be reserved for the Board and local standard setters. As noted previously, it will further undermine the drive for global consistency, but also create jurisdictional disparity, as a result of the likelihood of firms making different PIE determinations for similar entities. The extant Code presents this concept as an encouragement (i.e., a recommendation) for the firm in application material and we support this treatment instead of elevating this point to a requirement given our

expectation that there will be few additional entities that would require PIE treatment beyond the Code definition as refined by local regulators.

D. Disclosure of treatment of an entity as a PIE

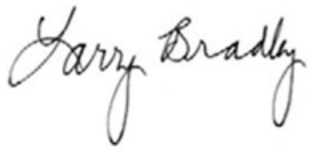
We believe a disclosure limited to the treatment of the audit client as a PIE, such as in the auditor's report, without proper context and explanation, would be of limited value to the users of the financial statements. Such a disclosure could give rise to confusion and perpetuate the misunderstanding that there is a fundamental difference in audit performance requirements for PIEs versus non-PIEs, or that auditors are more independent of a PIE than of an entity which is not treated as a PIE.

We believe the need for the auditor to be independent and the auditor's satisfaction of the independence requirements is of the most benefit to users of the financial statements. Thus, we do not support including a statement, such as in the auditor's report, that an entity has been treated as a PIE.

Lastly, we urge the Board to consider carefully the implementation period to ensure that sufficient time is provided for local regulators and standard setters to thoughtfully refine the new PIE definition for their jurisdiction and for firms to then operationalize the new requirements upon the completion of the refinements by the local bodies. Should local bodies not complete their refinement exercise sufficiently in advance of the effective date, firms and clients will be placed in the position of needing to comply with the new requirements. This may result in entities being treated as PIEs prematurely in some cases, with that initial treatment needing to be reversed to non-PIE status after a local body completes their refinement exercise.

Please contact Karen Bjune at kbjune@kpmg.com if you wish to discuss any of the issues raised in this letter.

Yours sincerely



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Appendix A: Responses to Specific Questions

Overarching Objective

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?***

   We are supportive of the objective for defining the entities whose financial statement audits are subject to additional independence requirements in order to enhance confidence in the auditor's independence and, solely in that regard, the audit of the financial statements, due to the significant public interest in the financial condition of those entities. The overarching objective, as proposed by the Board, should be revised to reflect the distinction noted above to avoid the misconception that the requirements applicable only to PIEs in Part 4A of the Code have an impact on audit quality beyond independence. We believe this revision aligns the overarching objective with paragraph 600.15A1 from the NAS standard.

   The objective applied in determining which entities are PIEs is rightfully aligned to the financial statements and therefore, we agree the focus should be on financial condition. We also agree that the objective for determining PIEs should not consider the significance of the public interest in the quality or efficiency of the services provided by an entity, or other operational aspects of the entity, as this generally lies outside the scope of a financial statement audit.

   However, as the term "financial condition" does not exist in the extant Code, we recommend that the Board clearly define financial condition and either restrict the definition to the linkage to auditors' responsibilities for matters that are set out in the financial statements, or otherwise clarify the difference in auditor's responsibilities regarding forward-looking statements and matters set out in "Other Information" such as the annual report more broadly. Without this restriction of the definition or the clarification, the use of the term "financial condition" may serve to inadvertently broaden the expectation gap in terms of auditors' responsibilities.

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?***

   The list of factors in paragraph 400.8 appears to sufficiently capture globally applicable factors for determining the level of public interest in the financial condition of an entity or category of entities. Given the role of local bodies and firms, the factors can be used to refine or extend the PIE definition categories as deemed necessary in each jurisdiction. Acknowledging the Board's point in the Explanatory Memorandum that each of these 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, it is likewise relevant that there is not a minimum number of factors that would have to be applicable to an entity for the entity to be considered a PIE. Likewise, the determination should not be made at a point in time and then never reconsidered. A reevaluation of the determination of the treatment of these entities as PIEs may need to take place whenever facts and circumstances within the jurisdiction change. We suggest that these points be captured by the Board in application material in the standard or as non-authoritative material at a minimum.

We suggest the Board consider the need to include an element of scale on which to evaluate certain factors, particularly as these factors are applied by firms in connection with the requirement in R400.16. In particular, the fourth and sixth factors raise the question of whether importance to the entity's sector and systemic impact on other sectors and the economy as a whole should be evaluated at a local or national level. Similarly, for the third and fifth factors, we suggest that there should be a comparative scaling element to evaluate these factors.

Related to the second factor that the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations, we note this seems to present the potential challenge of trying to ascertain what the regulatory supervision is designed to do. It would seem likely that local bodies and firms may find it speculative in some cases to determine whether an entity is regulated due to a sector or industry specific function or to provide confidence that the entity will meet its financial obligations. The Board should consider addressing this point, but also emphasize, as noted earlier, that the list of factors are guidance and not all factors will exist in relation to every entity or category of entities that should be treated as a PIE. It would also be beneficial for the description of this factor to provide further detail regarding the forms of regulatory supervision that an entity may be subject to that would suggest the entity could be a PIE, such as prudential regulation and other examples.

In regard to the fourth factor, we have some concern that this factor focuses on how easily or otherwise an entity may be "replaced" in the event of failure, with the implication being that if it is easily replaced, it is not likely to be a PIE. While certain entities may collapse and be replaced with relative ease, the financial consequences of the failure of the entity in question may have significant implications in the marketplace and for the public at large. If this factor is intending to capture the essence of the concept of "too big to fail," we suggest that this be included with the sixth factor, which also appears to address this concept. If this factor is intending to address activities themselves, which may be highly specialized and, therefore, the entity undertaking these activities cannot be easily replaced, we suggest this be included with the first factor, which refers to the nature of the business or activities.

Approach to Revising the PIE Definition

3. Do you support the broad approach adopted by the IESBA in developing its proposals for the PIE definition, including:

(a) Replacing the extant PIE definition with a list of high-level categories of PIEs

(b) Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?

We appreciate the Board's rationale for proposing the broad approach, given the views from stakeholder groups in the public interest, which require a response beyond the status quo of the legacy PIE definition and the current narrow list of categories. We do have concerns about global divergence given the lack of both a baseline which all jurisdictions apply and stringent expectations for potential refinements to the PIE definition, resulting in greater global disparity in independence requirements. We believe that global consistency, as far as is possible and appropriate, should be a key aim of IESBA in terms of driving increased public confidence in financial statements. The proposed approach, as drafted, might lead to reduced consistency across jurisdictions, as well as different approaches to any scope-outs of certain entities in jurisdictions that are otherwise similar, which would not be appropriate in accordance with the overarching objective (considering our suggested revisions) and could undermine the drive for global consistency.

While we recognize the intended principles-based nature of this approach, we also have concerns as to whether local bodies in all jurisdictions will interpret and execute the expected refinements appropriately, without which the broad PIE categories will be incorporated into local standards and regulations in a manner that overextends the PIE requirements to entities where such requirements would be impractical, onerous or otherwise without merit. A more prescriptive approach to the refinements would reduce inconsistency and difficulty in application.

To address these concerns, we recommend establishing a more explicit global baseline, linked to clearly articulated principles that underpin the overarching objective (considering our suggested revisions) and that consider the different definitions of PIE established across jurisdictions currently. Such principles would clearly describe the drivers behind each category of PIE, together with further accompanying guidance. This would best drive global consistency, while also helping to ensure that certain entities would not be inadvertently scoped into the PIE definition, which might lead to requirements that are unduly onerous for those clients.

PIE Definition

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.*

We recognize the new term "publicly traded entity" provides a better description of the underlying concept of the condition that would create significant public interest and provides some clarity to the entities that are included specific to the point of whether an instrument is actively traded as opposed to just being listed on an exchange as in the legacy "listed entity" definition. However, we have concerns regarding the intentional broadening of the term to address instruments traded in second-tier markets, such as over-the-counter trading platforms, with the emphasis being on whether there is a facilitated trading mechanism to match buyers and sellers. In North America particularly, this has been a topic of debate, highlighting challenges when securities are thinly traded, regarding which entities should be captured and which should not, and how to define an appropriate boundary.

If concerns with the current definition hinge on the intentions underpinning the term "recognized" stock exchange, then it may result in greater clarity to focus on refining and clarifying that definition to encompass a broader range of more formal exchanges, but stopping short of the significant broadening that appears to be envisaged by IESBA, for example, extending into areas such as crowd-funding.

We also acknowledge the Board's intention to allow local bodies to refine this category. However, given the likelihood that in some jurisdictions the local bodies may not undertake a robust exercise to refine the broad categories but may instead adopt the revisions wholesale, the Board should drive global consistency and prevent broadening of this category beyond what is appropriate by providing prescriptive guidance to local bodies regarding the application of the term "publicly traded entity" for this PIE category. In certain jurisdictions, this term may continue to be unclear and in the absence of local bodies providing guidance through their refinement of the category, the Board will need to provide clarity.

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

We agree with the exclusion of the categories of entities, as identified by the IESBA, where it is the effectiveness or efficiency of their operations that would be of public interest (e.g., public utilities and public sector entities), where the stakeholder group is fairly narrow (e.g., private equity funds) or because a globally-applied code cannot address them (e.g., large private companies).

Acknowledging the role of local bodies and our earlier recommendation that the IESBA establish a more explicit global baseline to the PIE definition, we agree with the remaining proposed PIE categories, which will presumably be subjected to refinement by local bodies. However, as noted for question 4, we believe there is a likelihood that local bodies in some jurisdictions will not appropriately refine the categories, which in addition to creating onerous requirements for some entities, will leave stakeholders and firms looking to the Board to clarify the entities to be captured under each category. The Board will need to undertake specific outreach to jurisdictions that are not appropriately refining these categories to avoid scoping in entities that do not have sufficient public interest in their financial condition.

In the Basis of Conclusions document accompanying the final standard or in other non-authoritative material, we recommend the IESBA reiterate the other entities they specifically considered but determined not to be relevant globally for inclusion as separate categories in a global code. Additionally, including the topic of whether non-profit colleges and universities are included in "charities" would be beneficial for this discussion.

We further recommend that the IESBA edit the proposed PIE definition such that it is only applicable to entities which have a legal or regulatory requirement to publicly release audited financial statements.

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.***

The less conventional forms of capital raising, such as ICOs, present unique challenges, given the general lack of regulatory supervision and the ambiguous and diverse accounting practices by the entities issuing the ICOs. We suggest refraining from the addition of a new category to specifically capture such entities, but instead, to allow the current categories (e.g., publicly traded entities) to naturally include such entities when appropriate, and then to allow local bodies to further scope in for their jurisdictions any additional entities with ICOs that may be determined to have significant public interest in their financial condition.

<u>Role of Local Bodies</u>

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?***

As stated previously, we acknowledge the key role local bodies play in the adoption and implementation of the proposals. The vital need for the local bodies to refine the high-level categories to create a practically effective PIE definition heightens risk that a local body may not undertake a comprehensive review of the categories for appropriate refinement relative to their jurisdiction. For instance, should local bodies in some jurisdictions accept the Code's PIE definition without going through a thoughtful refinement process, this could result in numerous smaller-sized entities inappropriately being considered PIEs, particularly in the case of entities providing post-employment benefits. The inclusion of these entities would not further the public interest given the lack of significant interest in their financial condition.

There is also concern that similar jurisdictions may treat similar entities in different ways. For instance, one jurisdiction may apply a size limitation to a certain type of entity within a particular category, while a local body in a similar jurisdiction may scope out the same type of entity and a third jurisdiction may leave the same type of entity without refinement. These varying treatments by local bodies in similar jurisdictions would not further the public interest in relation to a global code. As we presented in our responses to questions 3 and 4, there should be further specific requirements on what refinements and scope outs are permissible in order to have a more consistent approach in terms of how local bodies make the assessments and the expected refinements. A more prescriptive approach to the refinements provides transparency and aids in understandability by stakeholders and the public of how entities will be treated, eliminating the need for further disclosure as discussed in question 11.

The increased global disparity of independence standards gives us pause in relation to these standards. The disparate independence requirements to be handled by global network firms and entities where there are no baseline standards related to the PIE definition will be complicated and operationally challenging. In addition, where local bodies have not refined the categories in their jurisdictions by the effective date, network firms will have the additional challenge of determining how to treat entities that fall within the broad PIE categories, even though the local bodies may ultimately complete their refinements in due course. This could result in premature PIE treatment of entities that would then be reversed to non-PIE treatment when refinements are complete. This would be detrimental to those entities and would not serve the public interest.

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?***

Outreach and education support provided by IESBA is absolutely critical given the vital role played by local bodies in the determination of appropriate PIE populations for the local jurisdiction. IESBA should also monitor the status of refinements by local bodies, with targeted outreach to those bodies which have not made refinements. Potential deferral of the implementation date should be considered if a meaningful portion of local

bodies have not made refinements of the Code definition in a manner timely enough for effective implementation of the standard.

Role of Firms

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

We are not supportive of the requirement for firms to determine if any additional entities should be treated as PIEs. With a global definition present in the Code and the proposed role of local bodies to further refine such definition, the requirement for firms to make a final determination for entities not otherwise considered PIEs is not adequately supported. This requirement would seem to inappropriately transfer a regulatory responsibility to the firms that should be reserved for the Board and local standard setters. As noted previously, it also will further undermine the drive for global consistency as a result of the likelihood of firms making different PIE determinations for similar entities. The extant Code presents this concept as an encouragement (i.e., a recommendation) for the firm in application material and we support this treatment instead of elevating this point to a requirement given our expectation that there will be few additional entities that would require PIE treatment beyond the Code definition as refined by local regulators.

Given the diversity of practice among firms and networks in the determination of the treatment of similar entities that would likely result, the following are additional points:

- The public interest will not be served should firms treat similar entities differently.
- Firms in separate networks may not collaborate on the treatment of similar entities for consistency as this may be viewed as collusion or in violation of anti-trust laws in certain jurisdictions.
- 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. This misinformed viewpoint may then put certain entities at a disadvantage if the local bodies in their jurisdiction have determined to specifically exclude their entity type from PIE treatment.
- Legal ramifications may be a possibility in some jurisdictions if the understanding of a third party differs from the understanding of the firm in considering an entity of significant public interest.
- Global policies and standards across network firms may not be effective for the determination of PIE treatment for categories of entities given certain entities in some jurisdictions will be exempted from PIE treatment when law or regulation provides such. A lack of global consistency further undermines the expressed

directives of regulators and oversight bodies which have pushed the large audit networks to incorporate globally consistent policies.

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

In general, if the Code has appropriately presented the expected PIE definition and local bodies have undertaken a thoughtful evaluation of how to apply the definition in the local jurisdiction, then it generally should not be necessary to have the firms determine if an additional entity should be scoped in. Placing the firm in the position to be required to second-guess the local bodies is not in the public interest. In addition, those charged with governance can request that the client be treated as a PIE, should they determine PIE treatment to be in the best interest of the entity's stakeholders.

In the proposed list of factors for consideration by firms, it is unclear if the first factor - "whether the entity has been specified as not being a public interest entity by law or regulation" - is intended to capture entities that were scoped out or did not meet a size threshold as per the refinements made to the PIE definition categories by the local body (i.e., the jurisdiction's ethical or independence standards), or rather if "law or regulation" is meant to specify authority beyond the jurisdiction's ethical or independence standards). The last factor – "entity's corporate governance structure" – does not correlate to the public interest in the entity's financial condition. If a lack of a robust, independent corporate governance board is a disqualification from PIE treatment, this should be stated in the initial PIE definition as laid out in the Code.

<u>Transparency Requirement for Firms</u>

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

We do not support such a proposal. We believe 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. Such a disclosure could give rise to confusion and perpetuate the misunderstanding that there is a fundamental difference in audit performance requirements for PIEs versus non-PIEs, or that auditors are more independent of a PIE than of an entity which is not treated as a PIE.

We believe the need for the auditor to be independent and the auditor's compliance with the independence requirements is of the most benefit to users of the financial statements; thus we do not support including a statement, such as in the auditor's report, that an entity has been treated as a PIE.

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.***

Acknowledging our lack of support for this disclosure, if the IESBA were to move forward with the requirement for disclosure of PIE treatment, we do not believe such a requirement should be adopted without an enforceable mechanism to comply with the requirement.

Mechanisms for possible disclosure include the following:

1) Client financial statements, client website or other client reporting – This mechanism could provide timely insight into the PIE treatment. However, as the IESBA's remit does not extend to the audit client or those charged with governance, we suggest that such a disclosure be promulgated by the appropriate regulators or financial reporting standard setters.
2) Firm annual transparency report – Certain firms already disclose PIE audit clients in their transparency reports, however, not all individual firms have a requirement for a firm-specific transparency report. These firms may instead refer to their network's global report. This mechanism is subject to annual updates which would not provide timely insight into the treatment of the entity to stakeholders. Additionally, in some jurisdictions, the firm would require the audit client's consent to disclose such information, which may not be given.
3) Auditor's report -This option faces a disadvantage related to entities which may be treated as PIEs but do not have a legal or regulatory requirement to publish financial statements, thus limiting effectiveness of such a mechanism (note our comment under question 5 in this regard).
4) Auditor's website – This mechanism will face similar disadvantages related to timeliness of updates and required consent from clients to avoid violating confidentiality standards.

Other Matters

13. ***For the purposes of this project, do you support the IESBA's conclusions not to:***

(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?

(b) Propose any amendments to Part 4B of the Code?

We agree that undertaking a thorough review and fully considering the best course of action in relation to a possible extension of the audit client definition would have taken significant effort and would have resulted in further delaying the PIE Definition standard. However, as we contended in our comment letters to the NAS and Fees EDs, we believe the Board should have reconsidered its decision to move forward with finalizing the NAS and Fees standards without completion of the PIE Definition proposals. The Board responded that the timeline they espoused would provide sufficient sightlines to the PIE Definition proposals by the time the NAS and Fees standards would be effective. However, delaying the consideration of extending the audit client definition for listed entities to all PIEs prohibits stakeholders from having a complete picture of the ramifications of the enhanced requirements for PIEs which we believe to be critical given the nature and extent of the new independence requirements proposed for PIEs in the NAS and Fees standards.

We support the Board's decision to not propose any amendments to Part 4B of the Code and agree with the Board's rationale that this is primarily because the public interest in an assurance engagement is driven more by the nature of the information and the engagement itself, than by the nature of the entity.

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

There are several key aspects to consider for implementation of these proposals and we believe that the Board should consider bifurcating the implementation timeline. First, the IESBA has rightly been focused on allowing sufficient time for local bodies to refine the final revisions of the Code. Beyond just refinement however, local bodies may need to develop local standards to allow convergence with IESBA standards. Local standard setting with appropriate due process will be challenging to have completed in the current timeline and we encourage the Board to proactively consult with local bodies, specifically those with a more robust standard-setting process, as to the sufficiency of the implementation period.

Second, there should be a two-part timeline whereby local bodies are requested to complete refinement of the Code within a certain time period (likely a three-year period), following which the firms have a period of time to react to specific client needs and finalize internal processes and procedures to comply with the revised standards. The effective date should then be set eighteen to twenty-four months after the date by which local bodies complete their refinement process.

It is also of utmost importance that IESBA monitor the refinement efforts by the local bodies, especially those most impacted by the new definition, and consider postponing the effective date if appropriate progress is not being made by local bodies.

We also recommend that transition provisions be provided, similar to those for mergers and acquisitions in section 400.70, to clarify application of the Code's requirements for

existing interests and relationships, including the provision of non-assurance services, to an entity which, just prior to the effective date of the standard, was classified as a non-PIE, but will be treated as a PIE at the effective date, and for an entity whose treatment will change in the future due to refinements by local bodies or determinations made by firms.

As a note for IAASB consideration, we also suggest that, 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 to this project, and such changes should have the same effective date. Otherwise, there would be a mismatch between the Code and the ISA/ ISQM standards.

Matters for IAASB Consideration

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.

We are supportive of the exploration of which entities are of significant public interest with clear alignment of this to matters such as their business activity; whether they are of systemic importance; whether they are regulated; whether they are “too big to fail,” etc., while retaining the concept that, from the auditor’s perspective, it is the public’s interest in the financial information of these entities that is primarily relevant, rather than broader factors such as the quality of their services, issues such as reputational matters or economic/ social credentials.

We also agree that if the approach proposed by IESBA is to set broad categories, in a principles-based manner, which local bodies and firms are to refine as necessary and appropriate, an overarching objective as set out in question 1 with our suggested revisions is critical to enable local bodies and firms to properly consider which entities should be classed as PIEs within their jurisdiction.

We consider that the differentiated requirements in the ISAs/ ISQMs, if broadened to PIEs more generally, relate principally to transparency matters and not to performance aspects of the audit itself.

(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.

We are supportive of the exploration of extending the differentiated requirements set out in ISAs and ISQMs beyond listed entities/ publicly traded entities to other categories of PIEs and recommend adopting a case-by-case approach to determining whether such requirements should be applied to PIEs more broadly or certain categories of PIEs. This approach would facilitate a more thorough exploration considering the underlying intention of each differentiated requirement, whether and how it may apply to PIEs or certain classes of PIEs, and any unintended consequences relating to the practicability of implementation.

Conversely, a blanket adoption of these requirements for all PIEs could lead to unintended consequences, especially since the categories of PIEs are also being explored concurrently and are expected to be subject to further refinement on a jurisdictional by jurisdictional basis. We believe it is difficult to properly conduct an exercise to understand the consequences of applying such requirements to PIEs until the revised definition of PIE is stable and jurisdictional implications have been fully explored.

A case-by-case approach would also facilitate the application of any future requirements introduced into ISAs/ ISQMs as deemed appropriate, rather than for all PIEs. We do not consider a case-by-case approach to be inconsistent with the overarching objective (considering our suggested revisions), especially if listed entity (or publicly traded entity) is retained as a specific PIE category. Furthermore, this approach may be preferable in light of the fact that references to listed entities are included widely in the application material to the ISAs, for example, in addressing scalability issues in relation to a particular requirement.

(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?

If the requirements are extended to all PIEs, we do not consider this disclosure to be necessary. In general, the differentiated requirements relate to transparency of communication, either with those charged with governance directly, in part to enable them to appropriately discharge their financial statement oversight responsibilities, or to intended users by the inclusion of statements or additional information within the auditor's report, as opposed to being differences in the performance of the audit itself. The exception is the requirement set out at ISQM 1.34(f), which addresses engagements for which engagement quality reviews are required to be performed. Although we note that this requirement does not relate

to transparency, we consider that as the requirement relates to a firm's audit quality policies and procedures, it has only an indirect effect on engagement performance since the engagement quality (EQ) reviewer is independent of the engagement team, and the fact that an EQ review takes place does not diminish the responsibilities of the engagement partner as set out in the ISAs. Since these enhanced requirements are described as part of the auditor's responsibilities and it is therefore clear to users that these have been applied, or required statements/ information are included directly in the auditor's report itself, we do not think it necessary or helpful to disclose the fact that an entity has been treated as a PIE, as this statement provides no incremental information or transparency to a user.

Furthermore, as we note in our response to question 11, such a statement may give rise to confusion as to what this actually means (unless the auditor's report also provides clear information as to the incremental differentiated requirements for a PIE) and may serve to widen the expectation gap, by giving rise to a perception amongst users that there is a fundamental difference in audit performance requirements for PIEs versus non-PIEs. For the same reason, we would not recommend including a statement in the auditor's report currently that an entity has been treated as a listed entity.

If the differentiated requirements set out in the ISAs are not extended to all PIEs, we also do not consider that such information be included, as it would likely be even more difficult to articulate clearly in the report what the incremental requirements are and why they are extended to certain PIE categories and not others.

We also note the following matters for the IAASB's consideration, related to alignment of terms between the Code and the ISAs:

Alignment of PIE with ESPI in ISAs

Subject to reaching a satisfactory definition of PIE, we recommended alignment of terminology in the ISAs of ESPI to PIE as we believe there should be a common understanding between ISAs/ ISQMs and the IESBA Code. We note that historically ISAs have used ESPI as the term "PIE" was considered to not be clearly understood/ difficult to interpret, since it is very much a matter of jurisdictional definition and therefore application could vary widely across jurisdictions. However, we believe that if the revised definition of PIE establishes a more robust baseline, and allows jurisdictions to also add to this, as appropriate, such that the term can be clearly understood, and will take account of jurisdictional-specific matters, then it would be appropriate to adopt the term "PIE" consistently, also across ISAs and ISQMs. In fact, we consider that this would result in an optimal definition, and be preferable to ESPI, which we note is currently not itself defined, and itself gives rise to confusion/ risk of differing interpretations around the term "significant."

Appendix B: Editorial comment on the proposals

R400.15 – The phrase "a firm shall have regard" would seem to lack clarity and direction. We suggest the phrase be revised to be more specific with regard to what the firm should do. In addition, this paragraph specifically references only “law and regulation.” Similar to our response under question 10, we are not certain if this phrase is meant to include the standards of local ethics standard setters such as the AICPA in the US. Lastly, the example “by reference to the legislation under which such functions are performed” is unclear and would be particularly challenging to translate. We suggest this phrase also be reworked to provide a clearer example.