

Basis for Conclusions
Prepared by the Staff of the IESBA®
April 2022

*International Ethics Standards Board
for Accountants®*

Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

IESBA

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About the IESBA

The [International Ethics Standards Board for Accountants](#) (IESBA) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the [IESBA Consultative Advisory Group](#) (CAG) and under the oversight of the [Public Interest Oversight Board](#) (PIOB).

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BASIS FOR CONCLUSIONS: REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY IN THE CODE

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I. Introduction

1. At its November-December 2021 hybrid meeting, the IESBA approved the revisions to the definitions of listed entity and public interest entity (PIE) with the affirmative votes of 17 out of 17 IESBA members present.
2. This Basis for Conclusions is prepared by IESBA staff and explains how the IESBA has addressed the significant matters raised on exposure. It relates to, but does not form part of, the provisions approved by the IESBA. Paragraph numbers in this Basis for Conclusions refer to the final pronouncement unless otherwise noted.

II. Background

Development of the Project Proposal

3. The PIE concept was first introduced into the extant Code when the IESBA finalized its Independence project in early 2000. In adopting this concept, the IESBA concluded that other than for listed entities, determining which entities should be treated as PIEs should be largely left to local regulators or other authorities, although firms were also encouraged to consider whether additional entities should be treated as PIEs, taking into account guidance provided in the Code.
4. In recent years, some regulatory stakeholders such as the International Association of Insurance Supervisors (IAIS)¹ and the Basel Committee on Banking Supervision have suggested that the definition of a PIE be re-examined from the perspective of financial institutions, including banks.² Another regulatory stakeholder, the International Organization of Securities Commissions (IOSCO), has also commented that regulators in many jurisdictions do not have the power to set a definition.³ The IESBA also observed that jurisdictions such as the European Union (EU), Australia and South Africa have taken different or more specific approaches to defining or scoping the concept of a PIE for their local purposes. There was therefore a need to understand the commonalities and differences between those jurisdictional approaches and the approach taken in the Code, and whether there would be merit in seeking a pathway to greater convergence at the global level.
5. With regards to the definition of “listed entity,” some stakeholders have questioned the meaning of the term “recognized stock exchange” in the definition.⁴ IESBA Staff has also received questions as to whether that term is intended to be the same as, or broader than, the concept of a “regulated market” in the definition of a PIE in the EU Directive [2006/43/EC](#) (the Audit

¹ In its [response](#) to the International Auditing and Assurance Standards Board’s (IAASB) January 2015 Exposure Draft of proposed ISAs 800 (Revised) and 805 (Revised), the IAIS noted the following: “The IAIS believes it is noteworthy to reiterate two important points that have been consistently brought to the attention of the IAASB, in particular in its previous letters regarding auditor reporting: (a) The IAIS believes that the definition of “public interest entities” should be extended to financial institutions; and (b)” The IAASB standards do not currently use the term “PIE.”

² See [Summary of Significant Comments](#) (paragraph 73) on the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2014-2018*.

³ See IOSCO’s [comment letter](#) (page 4) to the Consultation Paper, *Proposed IESBA Strategy and Work Plan, 2019-2023*.

⁴ See [Summary of Responses](#) (paragraph 32) to the survey of stakeholders for purposes of developing the IESBA Strategy and Work Plan, 2019-2023 (strategy survey).

Directive).⁵ In addition, developments in capital markets around the world and newer forms of capital raising such as crowd funding have raised questions about the need to update the definition of a listed entity in the Code for clarity and continued relevance.⁶

6. Against this background, the IESBA committed in its [Strategy and Work Plan, 2019-2023](#) (SWP) to explore whether the definitions of “listed entity” and “PIE” should be revised and to assess the implications of any changes, especially in relation to the International Independence Standards (IIS). The IESBA made it clear in its SWP that it appreciates the importance of maintaining a principles-based approach to the definitions and avoiding an overly prescriptive approach that would undermine the Code’s global applicability. The IESBA also set a clear expectation that it would engage in coordination with the IAASB on this initiative as the term “listed entity” and elements of the PIE concept are also relevant to IAASB Standards.
7. Following deliberation, the IESBA approved a [project proposal](#), “Definitions of Listed Entity and Public Interest Entity” (PIE project), at its December 2019 meeting. This project was initially planned to commence only in Q2 2021 in accordance with the SWP. However, the IESBA agreed that it should be brought forward to provide clarity about the scope of entities that would be impacted by the [Non-Assurance Services](#) (NAS) and [Fees](#) revisions which were approved by the IESBA in December 2020.
8. The PIE project aimed to serve the public interest by:
 - (a) Bringing greater clarity to the concepts of listed entity, PIE and “entity of significant public interest” (ESPI) in the relevant IIS and IAASB standards, and importantly the objectives focused on independence and audit quality that underpin the concepts of PIE and ESPI;
 - (b) Updating the definitions or descriptions of these concepts so that they reflect developments in capital markets and other forms of capital raising as well as the range of entities that have public interest significance beyond capital markets, thereby ensuring that those concepts remain relevant and fit for purpose; and
 - (c) Achieving to the greatest extent possible convergence between the concepts of PIE and ESPI in the IESBA’s and IAASB’s Standards, respectively, while maintaining the Standards’ interoperability.

Exposure Draft

9. In January 2021, the IESBA released the Exposure Draft (ED), [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).
10. The proposed revisions, amongst other matters:
 - Introduced an overarching objective for additional independence requirements for entities that are PIEs.

⁵ Article 2.13 of the EU Directive 2006/43/EC, amended by Directive 2014/56/EU, broadly sets out four categories of entity that fall within the meaning of a PIE:

- (a) Entities with transferable securities listed on EU regulated markets and governed by the law of an EU Member State;
- (b) Credit institutions authorized by EU Member States’ authorities;
- (c) Insurance undertakings authorized by EU Member State authorities; and
- (d) Other entities that a Member State may choose to designate as a PIE.

⁶ Calls to consider newer forms of capital raising like crowd funding were raised by a few respondents to the strategy survey (see [Summary of Responses](#), paragraph 35).

- Provided guidance on factors for consideration when determining the level of public interest in an entity.
 - Expanded the extant definition of PIE to a list of mandatory categories of entities that firms should treat as PIEs, subject to refinement by the relevant local bodies responsible for standard setting as part of the adoption and implementation process.
 - Replaced the term “listed entity” with one of the new PIE categories, “publicly traded entity” (PTE).
 - Elevated the extant application material that encourages firms to determine whether to treat additional entities as PIEs to a requirement and included enhanced guidance on factors for consideration by firms.
 - Required firms to disclose if an audit client has been treated as a PIE.
11. A total of 69 [comment letters](#) were received from various respondents, including a Monitoring Group member,⁷ other regulators and audit oversight bodies, preparers and those charged with governance (TCWG), national standard setters (NSS), IFAC member bodies, other professional bodies and firms.
12. Amongst other matters, the following key comments were raised by respondents:
- There was strong support for the use of an overarching objective to explain the need for additional independence requirements for PIEs.
 - Respondents were predominantly supportive of the “broad” approach to develop a revised definition of PIE (i.e., a high-level definition) and for local bodies to refine the PIE definition as part of their adoption process. Respondents that supported the “narrow” approach (including IOSCO) generally preferred baseline definitions that could be readily adopted across jurisdictions and to which relevant local bodies could add further categories.
 - Respondents were generally supportive of the IESBA’s proposal to introduce a new term “publicly traded entity” as a replacement for “listed entity” with some clarification of the definition of the term sought. A number of respondents, including IOSCO, preferred to retain the term “listed entity.”
 - There was general support for the proposed PIE categories relating to deposit-taking institutions and insurers, but more concerns were raised with regards to the proposed categories relating to post-employment benefits (PEBs) and collective investment vehicles (CIVs).
 - Many respondents did not support either the proposed firm requirement to determine if additional entities should be treated as PIEs or the proposed transparency requirement.
13. As part of its coordination with the IAASB, the IESBA also included specific questions in the ED (Question 15 (a), (b) and (c)) regarding matters relevant to the IAASB Standards. Respondents’ feedback to these questions would form part of the IAASB’s information gathering and research activities. These questions related to:
- Whether respondents supported the overarching objective established by the IESBA for use by both the IESBA and the IAASB in establishing differential requirements for certain entities, and how this might be approached for the ISQMs⁸ and ISAs.⁹

⁷ IOSCO

⁸ International Standards on Quality Management

⁹ International Standards on Auditing

- Using a 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 all categories of PIEs.
- The appropriateness of disclosing in the auditor’s report that a firm has treated an entity as a PIE and if so, how might this be approached in the auditor’s report.

III. Summary of Key Changes Post the ED

14. The IESBA revised its proposals to address the significant matters raised by respondents to the ED, following deliberations in its June, September and November-December 2021 meetings.
15. In approving its final proposals, the IESBA has also taken into account feedback from:
 - IESBA and IAASB CAGs
 - The IAASB and IESBA CAG Representatives (joint CAGs) discussed the Task Force’s full analysis of the ED comments received at a joint session in September 2021. The Representatives expressed general support for the Task Force’s proposals.
 - PIOB
 - The IESBA carefully considered the [public interest issues](#) raised by the PIOB in August and November 2021.
 - IESBA representatives discussed with PIOB representatives the Task Force’s key proposed changes at various meetings in Q3 and Q4, 2021, particularly with respect to the proposal not to include PEBs and CIVs in the revised list of mandatory categories of PIE.
 - IAASB
 - The Task Force’s IAASB correspondent members participated proactively in the Task Force’s discussions and in the development of its revised proposals.
 - In July 2021, the IAASB considered the responses to the ED relating to the matters of relevance for the IAASB’s Standards,¹⁰ including the IAASB PIE Working Group’s initial views.
 - In October 2021, the IAASB received an update on the latest proposals considered by the IESBA that were relevant to the IAASB, including the overarching objective for establishing differential requirements, the revised PIE definition, and the requirement to publicly disclose the application of the independence requirements for PIEs.
 - IOSCO
 - In Q3 and Q4, 2021, IESBA representatives discussed the Task Force’s proposals with representatives of IOSCO’s Committee on Issuer Accounting, Audit and Disclosure (Committee 1), including the proposed PTE definition and the incorporation of “listed entity” into the explanatory material attached to that definition.

¹⁰ Question 15 (a)-(c) of the ED related to matters that were specific to the IAASB. Whilst questions 1-14 of the ED related to matters that were specific to the IESBA, the IAASB also considered the respondents’ comments on these questions and provided feedback to the IESBA as appropriate.

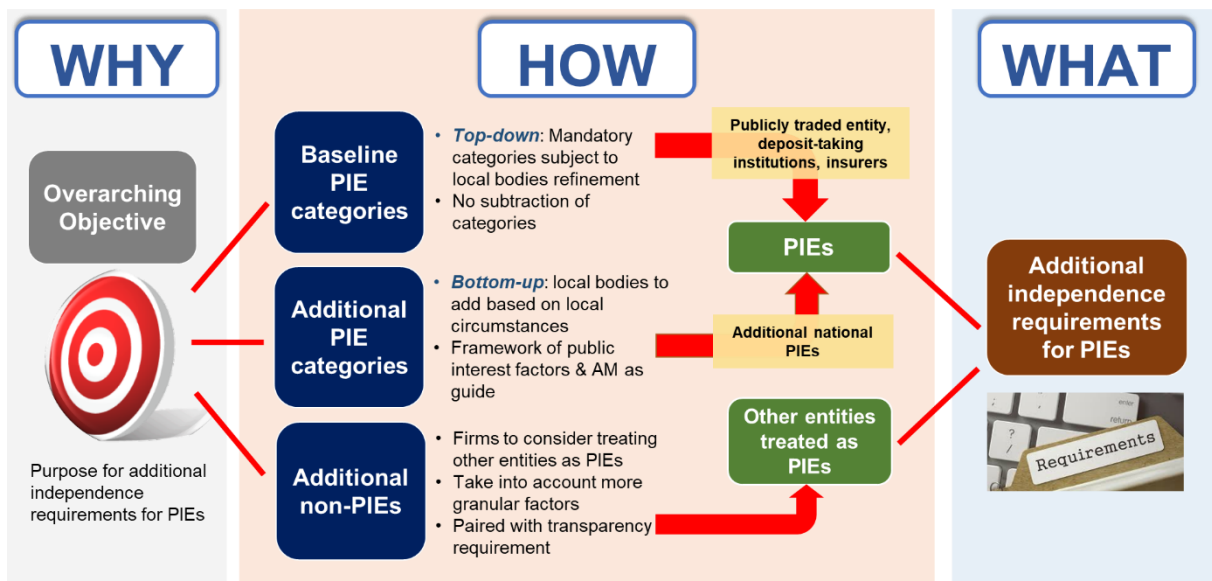
16. After deliberations, the IESBA agreed to the following key revisions to the ED proposals:

Paragraphs	Key Revisions to the ED
400.8 – 400.10	<ul style="list-style-type: none"> • Expanded on the term “financial condition” in paragraph 400.8. • Moved the list of factors in evaluating the extent of public interest to a new paragraph (paragraph 400.9). • Addressed concerns about perceptions of two levels of independence by: <ul style="list-style-type: none"> ○ Removing the reference to “enhancing confidence in the audit of those financial statements.” ○ Clarifying that the PIE independence requirements are to meet stakeholders’ heightened expectations regarding the independence of PIE auditors because of the significance of the public interest in the financial condition of PIEs (paragraph 400.10).
R400.17 – 400.17 A1	<ul style="list-style-type: none"> • Removed the proposed PIE categories relating to PEBs and CIVs from the list of mandatory PIE categories.
R400.18 – 400.18 A2	<ul style="list-style-type: none"> • Removed the reference to “local bodies to exclude entities” but instead provided examples of how local bodies can more explicitly refine the PIE categories. • Clarified that local bodies can add more categories to their local PIE definition and provided application material (AM) illustrating examples of potential additional PIE categories such as pension funds and CIVs.
400.19 A1	<ul style="list-style-type: none"> • Reverted the proposed firm requirement to determine if additional entities should be treated as PIEs for independence purposes to application material that encourages such consideration.
R400.20 – R400.21	<ul style="list-style-type: none"> • Revised the transparency requirement to one of disclosure about whether a firm has applied the independence requirements for PIEs in performing an audit engagement. • Clarified that the disclosure should be done in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, and allowed for an exception to address a specific confidentiality issue.
PTE Definition	<ul style="list-style-type: none"> • Clarified the concept of “publicly traded”. • Linked the concept of “listed entity” to the definition through explanatory material attached to the definition.

17. In approving the revisions to the definitions of listed entity and PIE, the IESBA has relied on an overall framework that includes the following key elements:

- An overarching objective that explains the need for additional independence requirements for entities that are defined as PIEs.
- A top-down list of mandatory high-level PIE categories subject to local refinement.

- A bottom-up list of PIE categories that could be added by the relevant local bodies to the local PIE definitions.
- An encouragement for firms to determine whether to treat additional entities as PIEs with a transparency requirement.



IV. Overarching Objective

18. In considering if, and how, the definition of PIE should be enhanced, the IESBA took the view that it is important, at the outset, to have clarity about the objective of defining a class of entities for which the audits require additional independence requirements.
19. The proposed overarching objective described in the ED placed the emphasis on the significant level of public interest in the financial condition of entities, reflecting the public interest in the broader financial well-being of the entity and the possible impact of that financial well-being on stakeholders instead of merely its financial performance or financial position. The IESBA acknowledged that there may be significant public interest in other aspects of an entity, such as the quality of the services it provides or the nature of the data it holds. However, given that Part 4A of the Code deals with audits and reviews of financial statements, the IESBA remained of the view that such other drivers of public interest should not form part of the overarching objective for additional independence requirements for the auditors of PIEs.
20. In developing the proposals in the ED, the IESBA also took into account that, during the IAASB's preliminary discussion in 2020, the IAASB was broadly supportive of using the common overarching objective as proposed in paragraph 400.8 for establishing differential requirements for certain entities in its standards.
21. A substantial proportion of the respondents, including IOSCO, supported the use of an overarching objective to explain the need for additional independence requirements for PIEs. Only a small number of respondents stated that they do not support the overarching objective. The key issues raised by respondents relate to the clarity of the term "financial condition" in proposed paragraph 400.8 and a perception of two levels of independence or audit quality from the proposed text set out in paragraph 400.9 of the ED.

Coordination with the IAASB – Common Overarching Objective

22. Question 15(a) of the ED asked whether respondents supported the overarching objective established by the IESBA for use by both the IESBA and the IAASB in establishing differential requirements for certain entities. Respondents broadly supported the use by the IESBA and IAASB of this overarching objective in the respective Boards' standards for certain entities.
23. In its discussions following the ED, the IAASB continued to support the use of a common overarching objective as proposed in paragraph 400.8. As part of its due process, the IAASB is developing a narrow scope maintenance of standards project¹¹ (potential IAASB PIE project). This project will, amongst other matters, consider the adoption of the overarching objective in paragraph 400.8 as a principle for establishing differential requirements and application material in the ISQMs and ISAs. The IAASB PIE project also includes the consideration of a more tailored objective and guidelines for the ISQMs and ISAs to support the IAASB's judgments in identifying specific matters for which differential requirements are appropriate, taking into account paragraphs 400.8 and 400.9. For more information about the potential IAASB PIE project's proposed actions, please refer to the section "Potential IAASB Narrow Scope Maintenance of Standards Project" below.

The Meaning of "Financial Condition"

24. One of the key issues raised was that the term "financial condition" in proposed paragraph 400.8 was undefined and therefore lacked clarity. Queries raised by respondents include whether the term is different from "financial statements" or terms such as "balance sheet," or whether the term may inadvertently result in establishing differential requirements related to going concern in ISAs.
25. Alternative terms suggested by respondents include substituting the term "financial condition" with other terms including "financial health," "financial accountability" (which it was argued better reflects the essence of PIEs), and "financial position and performance" (which it was argued would better align with the purpose of an audit).
26. Some respondents also expressed the view that the proposals may imply that the auditor has an expanded responsibility in the public interest, thus creating an expectation gap about the scope of public interest that the proposed provisions sought to address.
27. Similar concerns were raised within the IAASB about the clarity of the term "financial condition."

IESBA Decisions

28. The IESBA agreed to add the explanatory phrase "due to the potential impact of their financial well-being on stakeholders" in paragraph 400.8 to clarify the meaning of "financial condition." The IESBA reiterated its view that the public interest focus from the perspective of the IIS is on the general financial health of an entity, i.e., its "financial condition," and should not be limited to the entity's financial statements. When assessing the level of public interest in an entity from the perspective of the IIS, the focus is on how the entity's financial success or failure may impact the public. Such a concept is therefore broader than an entity's financial statements. The IESBA did not consider it necessary to replace or define "financial condition" in the Code.

¹¹ 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.

29. Nevertheless, to bridge the concepts of financial condition and financial statements, the IESBA agreed to clarify in paragraph 400.10 that the financial statements of an entity can be used when assessing the entity's financial condition. This addresses the concern raised about a potential expectation gap over the role of auditors by indicating that the assurance given by auditors over an entity's financial statements is not assurance over the entity's entire financial health.

Focus on Financial Information

30. In light of the increased demand for sustainability and other environmental, social and governance (ESG) reporting by companies, a few respondents suggested that the focus of the public interest should go beyond the financial condition of entities to include consideration of non-financial information for the purposes of the IIS. This suggestion was echoed within the IAASB.

IESBA Decisions

31. The IESBA welcomes the recent progress on 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 November 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.
32. However, the IESBA maintained its view that given that the IIS within Part 4A of the Code deal 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.
33. 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. In recognizing the growing importance of ESG-related matters, the IESBA tasked its Emerging Issues and Outreach Committee (EIOC) in early 2021 to assess and report back relevant developments. Based on its deliberations on matters, including the role of professional accountants in reporting and providing assurance on ESG information and the related independence or other ethics implications, the IESBA will consider what further actions may be warranted in the public interest in due course.

Enhancing Confidence in the Audit of the Financial Statements of PIEs

34. Some respondents suggested that the reference to enhancing confidence in the audit of financial statements of PIEs in proposed paragraph 400.9 may inadvertently create the perception that there are different levels of independence for PIE and non-PIE audits and that auditors of non-PIEs are somehow less independent than auditors of PIEs. Others felt that the proposed text suggested different levels of audit quality for PIE and non-PIE audit engagements.
35. Some respondents suggested that the focus should instead be on stakeholders' heightened expectations regarding a firm's independence when the audit client is a PIE. It was noted that the primary purpose for distinguishing entities as PIEs in the context of the Code is to enhance the confidence users of a PIE's financial statements can place in the auditor's independence through compliance with the fundamental principles and additional independence requirements. It was also pointed out that such a focus would align the overarching objective with paragraph 600.15 A1 in the IESBA's [*NAS final pronouncement*](#), which states:

- 600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

IESBA Decisions

36. In response to comments received about perceptions of two levels of independence and audit quality, the IESBA agreed to remove the reference to "enhancing confidence in the audit of those financial statements." Instead, the IESBA agreed to include in paragraph 400.10 a reference to stakeholders' heightened expectations regarding a firm's independence for PIE audits.
37. In reaching this decision, the IESBA agreed that the focus of the independence requirements for PIEs should be on meeting *stakeholders' heightened expectations* regarding a firm's independence when the audit client is a PIE. These heightened expectations arise due to the public interest in the financial condition of PIEs and the impact on the public in the event of their financial failure. As a result, additional independence requirements are necessary in areas such as fees, the provision of NAS, and long association in order to meet these heightened expectations. The IIS in Part 4A of the Code therefore contain two sets of independence requirements to meet the different expectations of stakeholders regarding a firm's independence depending on whether or not an entity is a PIE. These PIE and non-PIE independence requirements are designed to ensure auditors of any entity are independent both in mind and in appearance.

List of Factors

38. The ED provided a non-exhaustive list of six factors as guidance on determining the level of public interest in the financial condition of entities. This list was drawn from the extant paragraph 400.8.¹² It was intended to be used by relevant local bodies when refining the definition of PIE as part of their adoption and implementation process as well as by firms in determining if additional entities should be treated as PIEs.
39. Respondents were generally supportive of these factors. Some provided refinement suggestions and other comments on the six factors. There were also suggestions for additional factors, including geographical location of an entity, and sustainability, climate change and environmental exposures and risks.
40. The Explanatory Memorandum stated that each of the proposed factors on its own may not amount to significant public interest in the financial condition of an entity and that they should not be considered in isolation. A number of respondents suggested that the text should clarify this point to avoid any confusion.

IESBA Decisions

41. Upon review of the specific comments on the proposed factors, the IESBA did not consider any further substantive refinement to the factors or the addition of any new factors was necessary. The IESBA is also of the view that any further explanation of these factors is better dealt with through additional non-authoritative guidance material, such as frequently asked questions, as part of the rollout of the approved revisions.

¹² Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

42. The IESBA did not consider it necessary to clarify that each of the factors should not be considered in isolation. The IESBA noted that in accordance with the Code's structure drafting conventions, when a list of factors is presented for consideration, the factors are examples of matters to consider, individually and in combination, when evaluating the matter at hand. That being said, the IESBA has replaced the phrase "will depend on" in paragraph 400.8 of the ED with "Factors to consider in evaluating" to help reduce the risk of the factors being considered in isolation (see paragraph 400.9). This revised lead-in is consistent with how the list of factors in the extant paragraph 400.8 is introduced.
43. With regards to the location of the list, the IESBA agreed to move it to a new paragraph with a view to better preserving in paragraph 400.8 an overarching objective that may be considered by the IAASB as a common overarching objective for its Standards in due course. Further, the new location will more clearly link the list of factors in paragraph 400.9 with the list of factors for consideration by firms in paragraph 400.19 A1.

V. Mandatory PIE Categories and the Role of Local Bodies

44. The IESBA proposed in the ED a top-down list of mandatory high-level PIE categories in the Code that is subject to refinement by the relevant local bodies as part of adoption of the approved provisions. This broad approach also anticipated that the local bodies might include additional PIE categories (a "bottom-up" list) to the local definition, taking into account the local context. For instance, in addition to the specific PIE categories set out in proposed paragraph R400.14 (a) – (e) of the ED, a NSS might decide to add its largest charitable organizations to its local definition. The IESBA took the view that it would not be feasible at a global level to enhance the extant PIE definition with a list of PIE categories with much greater specificity that the relevant local bodies could simply adopt without any refinement or supplementation (i.e., a narrow approach).
45. Under the proposed broad approach, the relevant local bodies play a pivotal role in establishing the local PIE definition. The IESBA acknowledged that the proposed high-level mandatory PIE categories could scope in entities in whose financial condition the public interest is not significant. The IESBA therefore believed it would be appropriate under these circumstances that the Code should deviate from its normal practice and allow the relevant local bodies to tighten those high-level mandatory categories by making it clearer (a) which entities were intended to be included (by, for example, including references to local legislation or public stock exchanges), and (b) which entities were excluded that the Code would otherwise include. The IESBA noted that the relevant local bodies have the responsibility, and are also best placed, to assess and determine with greater precision which entities or types of entities should be treated as PIEs for the purposes of meeting the Code's overarching objective for additional independence requirements. The IESBA also observed that a number of relevant local bodies have already done so by taking into consideration issues, concerns and nuances specific to the local environment and how these impact the public interest in their jurisdictions.
46. There was a general acknowledgment from respondents to the ED that whilst a globally consistent definition would be beneficial, it is difficult, if not impossible, to develop a single definition that could fit all jurisdictions.
47. A substantial body of respondents supported the use of high-level PIE categories, whereas other respondents, particularly global firms and respondents from the EU as well as the IOSCO, preferred a baseline definition that could be adopted without the need for further refinement.

48. Whilst respondents generally recognized the role of local bodies in adopting the Code and expressed support for local bodies to refine the PIE definition as part of the adoption process, some expressed concerns about such level of reliance on local bodies.
49. Key issues raised by respondents about the IESBA's proposed approach include the following:

Inconsistency

- A number of respondents expressed the view that the IESBA's proposed approach would cause confusion, create even more inconsistencies and could potentially undermine trust in the profession. It was further pointed out that global consistency, as far as is possible and appropriate, should be a key IESBA aim in terms of driving increased public confidence in financial statements and that the proposed approach may undermine the importance of the Code.

Reliance on Local Bodies

- One key concern raised by some respondents is the reliance on the actions of local bodies which would be outside the IESBA's remit and control. They expressed the view that the proposed broad approach might not be effective in that a local body might choose not to, or might not have the requisite capacity to, make the necessary refinements. It was felt that this would result in the unintended consequence of scoping in entities, such as smaller entities, that do not have significant public interest.
- A few respondents also noted that the issue of local body capacity is further complicated where there are multiple layers of authorities across governmental, quasi-governmental and private bodies that regulate the profession in jurisdictions such as the US. In those jurisdictions, there was the perception of a risk that the different local bodies might reach inconsistent conclusions, which would pose implementation challenges for the local firms.

Risk of Excluding a Category

- Some respondents raised the concern that the proposals seemed to allow local bodies to scope out an entire PIE category as part of their adoption process. It was argued that clearly signposting ways through which those adopting the Code could choose to diverge from its provisions would risk undermining the authority and clarity of the Code. Therefore, these respondents suggested that the Code should emphasize that local bodies are not permitted to exclude a mandatory PIE category but can refine the category.

Existing Legal Definition

- Some respondents highlighted the challenges that may be faced by those jurisdictions, such as the EU, that already have a robust legal definition of PIE that links to sophisticated professional and technical requirements, or where regulators have already established customized independence standards such as in the US. It was pointed out that PIEs in these jurisdictions may be subject to regulatory requirements that are not related to audits, such as reporting on non-financial information.
- A few respondents expressed the view that in the case of the EU or jurisdictions with robust legal definitions, the IESBA should not create a definition of PIE or impose obligations on audit firms or local bodies that would override national law or regulation. Accordingly, it was argued that existing local definitions in such jurisdictions must be the single basis and the Code should clarify this by explicitly acknowledging the primacy of legal definitions of PIEs (in an audit and independence context).

50. Instead of the IESBA's proposed broad approach with high-level PIE categories, some respondents suggested a prescriptive approach with baseline definitions that could be more readily implemented consistently across jurisdictions and to which relevant local bodies could add. However, no suggestions were given by these respondents on how any of these categories (e.g., banks) could be defined at a global level without potentially scoping in entities that would not objectively be regarded as PIEs. Other alternative suggestions raised by respondents included:
- Providing a PIE definition using the proposed categories only as guidance or examples (as opposed to required categories) and allowing a relevant local body to refine the list as appropriate in its jurisdiction.
 - Establishing a de minimis standard of adoption of the IESBA PIE definition for a jurisdiction to claim that it has implemented the requirements of the Code in relation to PIEs.
 - Providing a mechanism to address situations where local bodies do not sufficiently execute their obligations to participate in and refine the entities within the proposed PIE categories.

IESBA Decisions

51. Upon deliberation, the IESBA determined to retain its proposed approach whereby:
- The top-down list of mandatory PIE categories expands the extant definition of PIE which has only listed entities as a specific category; and
 - The proposed new mandatory categories are defined broadly at a high level for refinement at the local level.
52. In reaching the above conclusion, the IESBA has also taken into account the support for the broad approach received from many respondents and the joint CAGs in September 2021.
53. The IESBA reaffirmed its view that if the Code's PIE definition is to be expanded beyond listed entity, it would be impossible to establish a baseline definition globally which would not require further local refinements. Whilst the IESBA acknowledges the views of respondents who preferred such a baseline definition, it is not an approach that can be practically achieved at the global level.
54. The IESBA acknowledged the concern that the high-level nature of the top-down list of mandatory PIE categories may lead to some inconsistent treatment by jurisdictions. In this regard, the IESBA observed that a level of inconsistency already exists across jurisdictions and regions as some jurisdictions have expanded their PIE definitions beyond listed entity. The IESBA is of the view that some jurisdictional variations should be expected and allowed given that each jurisdiction will have different criteria and drivers to determine which entities should be subject to additional independence requirements insofar as their audits are concerned. Further, the IESBA noted that:
- By establishing an overarching objective and expanding the PIE categories, albeit at a high-level, the Code should in fact bring some level of global consistency to the *types* of entities that should be treated as PIEs.
 - Removing the proposed PIE categories of PEBs and CIVs as set out in proposed paragraph R400.14 (d) and (e) of the ED will significantly reduce the level of potential inconsistency given the diverse types of PEBs and CIVs across jurisdictions. This will also reduce the challenges local bodies may face in refining the definitions.

- The IESBA's commitment to develop the necessary outreach program as part its rollout program, including any necessary collaboration with IFAC and other stakeholders such as local NSS, will help to ensure that local refinement properly reflects contextual reasons and not a misunderstanding of the IESBA's provisions and rationale.
55. The IESBA revised the requirement in paragraph R400.18 by clarifying that in complying with the requirement to treat an entity that falls within one of the mandatory PIE categories in paragraph R400.17 as a PIE, a firm must apply any more explicit definitions or refinements established at the local level for those categories. By doing so, the firm will have complied with the requirement in R400.17. For instance, if a local jurisdiction determines that only banks as defined under its local law should be treated as PIEs under paragraph R400.17(b), a firm will have complied with this provision if it only treats such banks as PIEs without including other types of deposit-taking institutions. To further clarify this point, the IESBA agreed to replace the phrase "shall have regard to" proposed in the ED with "shall take into account" to avoid suggesting that a firm only needs to consider but not apply the relevant local refinement when complying with paragraph R400.17.
56. The IESBA has also refined the proposals to clarify the anticipated role of the relevant local bodies in developing their local PIE definitions based on the framework for the IESBA's PIE definition. Whilst the Code is a set of standards of ethical behavior expected of professional accountants and has no legal or other authority over any local bodies, the IESBA believes that it is important to include clear messages and expectations for local bodies (see paragraphs 400.18 A1 and 400.18 A2). These provisions send a strong signal to the local bodies that their role in refining the PIE definition at the local level is pivotal in ensuring that the right entities are captured as PIEs and so for the appropriate independence requirements to be applied.
57. The IESBA has removed from the application material in paragraph 400.18 A1 the reference about the Code providing for local bodies to exclude entities that would otherwise be scoped in under one of the mandatory PIE categories. This is to address the concern that the proposal seemed to allow a local body to remove an entire mandatory PIE category. The IESBA has also clarified that local bodies may more explicitly define the mandatory categories in paragraph R400.17(a) – (c) by providing in paragraph 400.18 A1 a list of examples of how such bodies may refine the PIE definition at the local level. For instance, a local NSS may, following appropriate consultation with local regulators and other stakeholders:
- Specify that only entities that are trading in specific stock exchanges are scoped in as PIEs, thus scoping out entities that are trading their financial instruments only on "over-the-counter" and other less formal public trading platforms.
 - Add private companies to its local list of PIE categories, but specify that only those that meet certain size criteria (such as annual turnover or numbers of employees) are PIEs.
58. In response to IOSCO's comment about the role of the local bodies, the IESBA has also clarified in paragraph 400.18 A2 that the Code anticipates that a local body will add new PIE categories to its local definition to meet the purpose for additional independence requirements for audits of PIEs. Paragraph 400.18 A2 also includes some examples of categories of entities that a local body could add to its local PIE definition, taking into account the facts and circumstances in that jurisdiction.
59. The IESBA acknowledged the challenges that may arise in those jurisdictions where there is already a robust legal definition of PIE that links to sophisticated professional and technical requirements or where regulators have already established customized independence standards. Nonetheless, the IESBA is of the view that the NSS or professional accountancy organizations (PAOs) with standard-setting responsibilities in these jurisdictions should determine if any additional entities or class of entities should be included in their local definitions

of PIE as part of their adoption process. Further, the IESBA is of the view that removing PEBs and CIVs as PIE categories will also help to mitigate these concerns.

60. During its meetings with IESBA representatives in Q3 and Q4 2021, IOSCO Committee 1 representatives queried if the IESBA could have set a higher bar such as by clearly including all banks and credit unions in its proposed PIE definition. There was also a concern that the definition might be too high-level and therefore lead to inconsistencies across jurisdictions.
61. Following careful consideration of the IOSCO representatives' additional comments, the IESBA determined that the final approach met the objective of expanding the definition of a PIE in the Code while retaining the fundamental condition of global operability. In particular, the IESBA noted that:
- It is not possible to define a list of PIE categories that would not require further local refinements given the reality of contextual differences across jurisdictions. For instance, whilst some jurisdictions might wish to include their entire population of credit unions under paragraph R400.17(b), others (such as many EU member states) have determined otherwise. To ensure global operability of the PIE definition, the IESBA believes the Code should not prescriptively define any categories that are highly dependent on local contexts.
 - It is ultimately the role of local bodies to determine which entities should be treated as PIEs whereas the IESBA's role rests more with setting the appropriate additional independence requirements for PIEs, such as those that address the provision of NAS, fees and long association. In this regard, the IESBA observed that such a need for flexibility to refine the PIE definition already exists today even for the established category of listed entity. For instance, whilst a listed entity does not have any additional criteria in many jurisdictions, the definition of a listed entity in Canada under CPA Canada's Harmonized Rule of Professional Conduct (Rule 204) excludes entities that have, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000.¹³
 - The extant definition has only one mandatory specific category, which is listed entity. This has allowed for some diversity of categories of entities that should be PIEs across jurisdictions. With the expanded list which includes three specific categories, the IESBA believes the revised definition will create a greater level of uniformity across the globe regarding the types of entities that should be PIEs.
 - The revised PIE definition is raising the bar significantly at a global level. Whilst there are a number of jurisdictions such as the EU that have already expanded their list of PIEs for independence purposes, there are still many jurisdictions that may only have listed entities as PIEs. For these jurisdictions, the local PIE list will be substantially strengthened as they adopt the IESBA's PIE definition. Representatives of IOSCO's Committee 1 have acknowledged that the expanded list of mandatory PIEs is a significant improvement from the extant Code.
 - The IESBA's framework for the PIE definition, which includes an expanded list of factors for consideration by relevant local bodies when determining the level of public interest of an entity, will guide those bodies on how their local PIE definitions should be specified, which will therefore promote global consistency in approach.

¹³ The extent to which Rule 204 is adopted by individual provincial bodies in Canada and CPA Bermuda is determined by those bodies.

VI. List of Mandatory PIEs

62. The IESBA had proposed six mandatory PIE categories under paragraphs R400.14 (a) to (f) in the ED:
- (a) A publicly traded entity
 - (b) An entity one of whose main functions is to take deposits from the public (“deposit-taking institution”)
 - (c) An entity one of whose main functions is to provide insurance to the public (“insurer”)
 - (d) An entity whose function is to provide post-employment benefits (post-employment benefits, “PEB”)
 - (e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public (collective investment vehicle, “CIV”)
 - (f) An entity specified as such by law or regulation to meet the objectives set out in paragraph 400.9 (“additional local entity”)
63. The IESBA developed its proposals for the five specific categories in proposed paragraph R400.14 (a) – (e) by:
- Considering initially those categories already identified as PIEs by a number of major jurisdictions and including only categories that it considered would be adopted by most jurisdictions, and equally, excluding categories that would only likely be regarded as necessary by a minority.
 - Including those entities that should in principle be included in this global list because of the nature of their activities.
 - Not including those entities that would be included merely because of their size (e.g., large private companies).
64. The IESBA had considered a number of other possible categories during the development of its proposed PIE definition, such as charities, financial market infrastructures, public utilities and systemically significant entities. The IESBA reached the view that whilst some of these categories may have applicability in specific jurisdictions, they do not necessarily attract significant public interest in their financial condition across the majority of jurisdictions. As such, the IESBA agreed that it was not appropriate to include them as PIE categories. The IESBA also observed that some of the entities in these suggested categories may already fall under one of the new PIE categories proposed in the ED (e.g., a stock exchange that is a PTE).
65. The remaining part of this section explains the IESBA’s decisions and rationale, including its revisions to the proposed categories and decision not to include PEBs and CIVs in the final list of mandatory PIE categories as set out in paragraph R400.17. In finalizing the list of mandatory PIE categories, the IESBA has also taken into account comments received from the IAASB in July and October 2021.

Publicly Traded Entity

66. The IESBA proposed a new term “publicly traded entity” as a new mandatory PIE category to replace “listed entity” in the extant Code. The proposed new term was intended to scope in more entities as it was not confined to entities having shares, stock or debt traded only in formal exchanges but encompassed those on second-tier markets or over-the-counter trading platforms, subject to local refinements. The new term also aimed to remove the confusion created by the term “recognized stock exchange” in the extant definition of listed entity.

67. A substantial proportion of the respondents supported the proposed new term “publicly traded entity” as a replacement of “listed entity” in the Code. Many of the respondents who supported the new term also suggested that more clarity be given in its definition, particularly with respect to the term “financial instruments,” the volume of trade required and the types of trading platforms covered.
68. With regards to the term “financial instruments,” IOSCO expressed the view that if the term or other similar term is included, it should be defined. Other respondents have also sought more clarity on the meaning of the term, including whether it should be broadly interpreted to cover instruments such as shares, debt securities, equity and bonds. There was also a view that the definition of “financial instruments” in the Code should be consistent with the International Accounting Standards Board’s (IASB) definition to ensure consistency in application.
69. With regards to trading mechanisms, some respondents sought clarity on whether the term “publicly traded entity” covers second-tier markets and over-the-counter trading platforms. It was also questioned whether financial instruments that are only available to a limited group of investors, such as institutional investors, would meet the definition of “publicly traded.” There was also a suggestion that the definition should have a reference to a market such as in the extant definition of listed entity, or a regulated market as in the EU definition. Other respondents have queried if “publicly traded” means the entity’s financial instruments require active trading or whether they can simply be thinly traded or available to trade.
70. One of the key reasons some respondents, including IOSCO, were not supportive of the new term was that “listed entity” is a well-understood term across jurisdictions and capital markets and have been encapsulated in various existing national regulations. It was suggested that it may be more beneficial to refine the definition of a listed entity by clarifying the term “recognized stock exchange” instead of introducing a completely new term.

Coordination with IAASB – “Listed Entity” in IAASB Standards

71. The ISQMs and ISAs include certain differential requirements for audits of financial statements of listed entities. The IAASB Standards recognize through application material that certain entities other than listed entities could have characteristics that give rise to similar public interest issues as listed entities and, therefore, that it may be appropriate to apply a requirement that was designed for an audit of a listed entity to audits of a broader range of entities. However, the IAASB Standards do not use the term PIE or refer to the PIE definition set out in the Code.
72. Question 15(b) of the ED sought respondent’s views on the IAASB using a 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 all categories of PIEs. There was overall support for a case-by-case approach, with comments including:
- Being mindful of the purpose of the differential requirements already established within the IAASB Standards.
 - Following a careful and balanced approach to avoid creating complexity for the IAASB Standards through introducing too many differential requirements.
 - Understanding the nature and extent of the impact of amending differential requirements *already* established within the IAASB Standards.
73. Taking into account the respondents’ feedback, the IAASB is contemplating, as part of its potential PIE project, the use of a case-by-case analysis to determine:
- (a) Whether the extant differential requirements for listed entities should be expanded to apply to all categories of PIEs; and

- (b) The impact on the extant differential requirements of adopting the definition of “publicly traded entity” as a replacement of “listed entity.”

74. For more information about the potential IAASB PIE project’s proposed actions, please refer to the section “Potential IAASB Narrow Scope Maintenance of Standards Project” below.

IESBA Decisions

75. The IESBA determined to retain the new term “publicly traded entity” as a replacement for the extant term “listed entity.” To address concerns and comments raised by respondents, the IESBA also agreed to a number of revisions to its proposed definition set out in the Glossary.
76. To address the views that “listed entity” is a well-established term and taking into account IOSCO’s feedback in this regard, the IESBA agreed to incorporate the concept of listed entity into the PTE definition by:
- Including the phrase “including through listing on a stock exchange” in the definition; and
 - Attaching the explanatory sentence “*A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity*” to the definition in the Glossary.
77. In agreeing to recognize the concept of a listed entity in the definition of “publicly traded entity,” the IESBA noted the following:
- The phrase “including through listing on a stock exchange” incorporates the concept of a listed entity without the confusion caused by the term “recognized stock exchange” in the extant definition of “listed entity.” The phrase is intended to include not only primary stock exchanges but also other exchanges such as second-tier exchanges when used for trading by the public. This phrase, however, is not intended to capture entities whose financial instruments are only traded through privately negotiated agreements.
 - The retention of the term “listed entity” as an example of a PTE in the Code effectively means that “listed entity” as defined by local securities law or regulation is a subset of PTE. Accordingly, any entities that are listed entities in their local jurisdictions will also be scoped in as PIEs as long as these entities also meet the criteria set out in the PTE definition.
 - The withdrawal of the extant definition of listed entity is consistent with the IESBA’s overall approach of using high-level definitions and its view that local bodies are best placed to refine the PIE definition as part of their adoption process.
78. With regards to the term “financial instruments,” the IESBA agreed that it should be retained as a term that can cover not only “shares, stock or debt” (as currently used in the extant definition of “listed entity”) but also other types of instruments such as hybrid securities.
79. In response to requests by IOSCO and other respondents to define or clarify the term “financial instruments,” the IESBA considered the IASB definition set out in [International Accounting Standard \(IAS\) 32, Financial Instruments: Presentation](#). Under the IASB definition, a financial instrument is “any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.” The IESBA concluded that the IASB definition 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. In addition, if the IASB definition were to be taken up in the Code, that definition may require updating in the event of any future revision of IAS 32 by the IASB. The IESBA did not consider it suitable to include a cross-reference to IAS 32 in the PTE definition as cross-referencing to definitions in standards developed by other standard setters is not a typical approach used in the Code.

80. The IESBA concluded that the term “financial instruments” should not be defined in the Code and that the term should be broadly interpreted subject to local refinement. In reaching this conclusion, the IESBA took into account general support received from the joint CAGs and many stakeholders for not defining the term.
81. In response to queries about what qualifies as “publicly traded,” including the types of trading mechanisms and volume of trade required, the IESBA agreed to refine the proposed definition by clarifying that the financial instruments are traded “through a publicly accessible market mechanism, including listing on a stock exchange.” In this regard, the IESBA noted that:
- The additional phrase “traded through a publicly accessible market mechanism” makes it clear that the trading activities need to be through a facilitated trading platform such as an auction-based exchange or electronic exchange. For instance, a closed-end fund where the shares are publicly traded on a local stock exchange instead of the fund buying back the shares from shareholders is prima facie a PTE. Also, an entity whose financial instruments are traded through an unregulated or over-the counter platform by the public, even with a low volume of trade, is prima facie a PTE. On the other hand, the PTE definition is not intended to capture those entities whose financial instruments are traded through privately negotiated agreements with or without the assistance of a broker.
 - If an entity is trading its financial instruments via a platform that is available to the public, that entity should be scoped in as a PTE irrespective of whether the entity is a private company or public sector entity. For instance, a public sector entity issuing bonds or other debt instruments to be traded on the local stock exchange would be scoped in as a PTE for the purposes of the Code unless otherwise excluded as part of the local refinement of the PTE category.
 - As explained in the ED, the concept of “publicly traded” is used in the PTE definition instead of “publicly listed” as some financial instruments might only be listed and are not designed to be traded. Such situations may arise, for example, within groups where the relevant instruments are held entirely intra-group. The IESBA is also aware of the issue of shares in small “start-up” or new venture entities which are subscribed to by the public because of the tax breaks provided and where any exit will be only through a disposal managed by the professional advisers promoting the entities. The IESBA reaffirmed its view that entities whose financial instruments are only listed or issued to the public with no intention to be traded do not necessarily attract significant public interest in their financial condition.
82. Any further refinement should be conducted by the relevant local bodies as appropriate depending on their specific contexts, such as by reference to specific exchanges. Whilst some jurisdictions might determine to refine the definition to link it more specifically to their primary stock exchange, others might consider that the financial condition of entities trading via second-tier markets or over-the-counter platforms are also of significant public interest.
83. In finalizing the PTE definition, the IESBA also took into account the support received from the joint CAGs and the IAASB.

Deposit-Taking Institutions and Insurers

84. The IESBA added deposit-taking institutions and insurers as two new mandatory PIE categories in proposed paragraph R400.14 (b) – (c) in the ED.
85. The IESBA used the phrase “one of whose main functions” not only to capture entities that have other main functions such as credit and lending but also to exclude those entities for which deposit-taking or insurance is not a main function.

86. The IESBA also pointed out that whilst certain types of entities such as credit unions are excluded as PIEs in some jurisdictions, it is not appropriate to include any such exclusions in a global definition.
87. Respondents were overwhelmingly supportive of the two mandatory PIE categories as proposed, with suggestions for refinement and further clarifications.

IESBA Decisions

88. In light of the overwhelming support from respondents, the IESBA determined to retain deposit-taking institutions and insurers as proposed in the ED.
89. The IESBA noted that many of the suggestions from respondents, such as alignment with the EU category definition and further explanation of the phrase “deposits from the public,” are not necessary or suitable given the high-level nature of the definition. This broad approach allows local bodies to further refine the categories taking into account their local contexts. The IESBA further noted that the reference to “the public” in the two categories should be broadly understood and need not be further explained in the Code.

Post-Employment Benefits and Collective Investment Vehicles

90. The IESBA included PEBs and CIVs in the proposed list of mandatory PIE categories in paragraph R400.14 (d) and (e) of the ED, taking into account the likelihood of these categories being adopted by most jurisdictions and their impact on a large number of stakeholders in the event of financial failure for entities in those two categories. In this regard, the IESBA also recognized that the high-level definition may scope in very small entities, such as in the case of PEBs, and therefore necessary refinement would need to take place as part of the local adoption and implementation process.
91. Whilst there was strong support from some respondents for PEBs and CIVs to be included in the list of mandatory PIE categories, the level of support received was clearly not as high as for deposit-taking institutions and insurers. Concerns raised by respondents included the following, amongst others:
- These categories should not be included as large numbers of entities would be scoped in, including those with only a few stakeholders.
 - With regards to PEBs, the high-level definition did not take into account the significant variation in legal structure, governance, regulatory oversight and types of arrangements covered. It was noted that the category can range from small, single-employer pension plans and small self-managed family superannuation funds to large, multi-employer pension plans and large government-run public pension schemes and medical insurance plans. Additionally, there was a view that more clarity was needed about whether the category of PEBs was also intended to cover administrators of the funds or employers that provide such benefits.
 - Similarly, for CIVs, it was unclear whether the category was intended to include the management companies or just the funds themselves. It was also pointed out that as the organizational form of an investment fund and its relationship with managers, advisors, trustees, etc. is different from those of a conventional entity, there should be more clarity about the treatment of CIVs and their related entities.
92. Having reflected on the feedback from respondents, the IESBA decided to remove PEBs and CIVs from the mandatory list as proposed in the ED, taking into account the support received from the joint CAGs for removing the two categories.

93. The PIOB, however, subsequently raised concerns that the removal of the two categories was not consistent with the qualitative characteristics of a PIE as set out in the list of factors in proposed paragraph 400.9 of the ED. The PIOB commented that even when small in size, these entities can generate significant interest in their financial condition given that they exercise fiduciary responsibilities for the general public or a limited group of investors or pensioners. The PIOB further commented that these entities can have a significant systemic impact in the economy due to the nature of their business and are in many jurisdictions regulated or subject to supervision. The PIOB also highlighted the importance of considering the expected role of relevant local bodies to further refine the PIE definition at the local level. The PIOB recommended that the IESBA obtain a better understanding of the landscape regarding inclusion of PEBs and CIVs in existing national PIE definitions, including assessing the risks of excluding PEBs and CIVs from the mandatory list, identifying mitigating safeguards and evaluating the challenges associated with implementation.

IESBA Decisions

94. Following further deliberations, the IESBA determined to:
- (a) Not include PEBs and CIVs as proposed in paragraphs R400.14 (d) and (e) of the ED in the mandatory list of PIE categories; and
 - (b) Assemble a package of actions that would more holistically respond to the concerns raised by the PIOB. See paragraph 103 below.
95. In reaching its conclusion not to include PEBs and CIVs in the list of mandatory PIE categories, the IESBA also took into account the support received from the joint CAGs and other stakeholders, including the IESBA's NSS liaison group.
96. When developing the ED, the IESBA recognized that there are PEBs and CIVs across a number of jurisdictions that would likely be considered to be PIEs given the level of impact these entities would have on a range of stakeholders in the event of a financial failure. This was the rationale for including these two categories in the proposed top-down list of mandatory PIE categories in the ED.
97. In light of the concerns raised by respondents, the IESBA considered whether there was a more appropriate way of capturing those PEBs and CIVs that are not already scoped in as PIEs, such as under the PTE category. The key question the IESBA sought to resolve was whether PEBs and CIVs should be scoped in under the top-down mandatory list in the Code or whether local bodies should take them up, where appropriate, in their bottom-up list. In reaching its final position, the IESBA considered a number of key factors, including:
- The key differences in nature between PEBs and CIVs as compared with deposit-taking institutions and insurers.
 - The public interest benefits of including only the funds themselves without fully considering from a related entity or other perspective the independence implications with respect to the managers, advisors, trustees and others involved in the management and governance of the funds.
 - How best to balance the different risks within the IESBA's framework for defining a PIE.
 - The need for and scope of future research.
 - Support from stakeholders for removing PEBs and CIVs from the mandatory list.

The IESBA's consideration of these factors is further discussed below.

98. The IESBA acknowledged that PEBs and CIVs are much more diverse in structure and size than deposit-taking institutions and insurers. It was noted that market and economic evolutions have led to a high degree of heterogeneity of legal structures, management and governance forms, and regulatory oversight for these two categories. As a result, they are not as standardized as the banking and insurance industries. The inclusion of these categories in the list of mandatory PIE categories may inadvertently impose a disproportionate burden on local regulators and NSS to determine what should be scoped in or out.
99. Subsequently, fact finding into national PIE definitions in a number of jurisdictions around the world indicated that whilst jurisdictions that have an expanded PIE definition invariably will include deposit-taking institutions and insurers in their definitions, the same cannot be said for PEBs and CIVs. The information gathered helped to support the IESBA's view that some jurisdictions will likely not amend their pre-existing PIE definitions to include PEBs and CIVs if the IESBA were to include them in the mandatory list. In contrast, the evidence lent strong support to the bottom-up approach as a number of jurisdictions (such as Australia, Colombia and South Africa) have made the appropriate determinations to include certain PEBs and CIVs in their local definitions.
100. With regards to the public interest benefits of including these two proposed categories in the mandatory list from an auditor independence perspective, they may not be as far reaching as those relating to deposit-taking institutions and insurers. This is because the proposals only included the funds themselves and did not extend to, for example, the managers or advisors that operate the funds. These other entities generally do not meet the Code's definition of a related entity as control of the funds may not rest strictly with them. Further, given that managers or advisors do not generally request the provision by firms of NAS to the funds themselves, the key applicable independence requirements are likely to be limited to primarily those relating to partner rotation under the long association provisions of the Code. In this regard, the IESBA noted that if these two categories were adopted without appropriate local refinement, this may place significant stress on the resources of firms, particularly smaller firms. The potential consequences could be greater audit market concentration as smaller firms leave those markets, adverse impacts on audit quality, and increased audit and governance costs for smaller PEBs and CIVs.
101. The IESBA also assessed the risks of including PEBs and CIVs in the top-down list compared to the risk that local bodies would not add them to the bottom-up list where appropriate, and considered which risks can be more effectively mitigated. With regards to including these two categories in the mandatory top-down list, the key risks are that the relevant local bodies (a) do not meet the IESBA's expectation that they refine the definition in a timely manner, (b) do no refinement at all, or (c) remove these categories entirely from their local definitions, undermining the whole essence of a mandatory list in the Code. In this regard, the IESBA noted that:
- Notwithstanding indications that local bodies, including those in developing jurisdictions, should be able to refine the mandatory PIE categories as part of their adoption process, these risks remain real as the model is a new approach for the Code and is yet to be tested. In those jurisdictions where the Code's definition would not have been appropriately refined, too many entities would be scoped in when there is no significant public interest in their financial condition. Whilst the risk of local bodies not appropriately refining the PIE categories also exists for banks and insurers, the IESBA considered that the structure, type and size of PEBs and CIVs vary much more considerably.
 - Some jurisdictions have already excluded them from their current definitions for a variety of reasons. Where jurisdictions remove an entire category from the top-down list of

mandatory PIE categories, this will undermine the integrity of the framework and cause confusion as to the IESBA's expectations.

102. On the other hand, the IESBA noted that removing PEBs and CIVs from the proposed mandatory list of PIE categories and leaving it to the local jurisdictions to add them through a bottom-up list increases the risk that relevant local bodies do not properly assess the extent to which such entities should be included in their local definitions. This may therefore result in some PEBs and CIVs not being captured as PIEs despite having significant public interest in their financial condition. However, the IESBA believes that such a risk has been reduced by the fact that many jurisdictions have already explicitly considered and determined to include such categories in their PIE definitions (e.g., South Africa, Australia and New Zealand), whereas others have equally after due consideration determined not to do so (e.g., many EU member states). In addition, the IESBA also agreed to a package of actions (as discussed below) which should help to mitigate this risk.
103. The IESBA also agreed that additional research is required to fully explore the issues relating to PEBs and CIVs, but was of the view that this should be conducted in a holistic manner, covering the role of administrators, trustees, managers and advisors. The IESBA is of the view that a holistic research initiative along with the new application material in paragraphs 400.18 A1 and 400.18 A2 will send a strong signal to stakeholders about the importance of PEBs and CIVs from a public interest perspective.
104. In summary, to address the PIOB's concern, the IESBA agreed to the following package of actions:

Change

- (a) Add new application material in paragraph 400.18 A2 to convey a stronger message that the Code anticipates that local bodies will include additional categories in the bottom-up list of PIEs. Through this additional guidance, the Code should also draw the attention of the relevant local bodies to other types of entities, including pension funds and CIVs, as potential PIE categories that could be added to their local definitions. The IESBA also agreed to add some examples outside the capital markets or financial sectors, including public utilities.

Support

- (b) Emphasize the importance of these two categories in the Basis for Conclusions and additional guidance material and stakeholder outreach.

Review

- (c) Conduct a post-implementation review (PIR) on the adoption and implementation of the revised PIE definition at the local level. As part of the PIR, the IESBA will review, amongst other matters, the effectiveness of the IESBA's framework for defining a PIE. The PIR would also seek input from jurisdictions as to whether and how PEBs or CIVs (or other entities) have been added to the local definitions, including lessons learned from the relevant local bodies.
- (d) Initiate a holistic review of PEBs and CIVs and their relationships with trustees, managers and advisors within the remainder of the IESBA's current strategy and work plan.
- (e) Include as a standing item on the IESBA-NSS meeting agenda to receive updates on adoption and implementation of the revised PIE definition.

Update

- (f) In light of the outcome of the PIR and the holistic review, consider if the Code requires further revision.

Additional Local Entities

105. Drawing from the extant PIE definition, the IESBA included as mandatory PIEs in proposed paragraph R400.14 (f) of the ED any entities that are specified as such by law or regulation for the objective set out in proposed paragraph 400.9 irrespective of whether the entities are labeled as PIEs at the local level.
106. The proposal also clarified in proposed paragraph 400.14 A1 of the ED that if law or regulation designates entities as “public interest entities” for reasons unrelated to the objective set out in paragraph 400.9, that designation does not mean that such entities are PIEs for the purposes of the Code.
107. Respondents were overwhelmingly supportive of the proposed category, with some offering suggestions for refinement, including adding a reference to professional standards. There was also a question as to whether the phrase “meet the objectives set out in paragraph 400.9” was sufficiently clear when read in conjunction with proposed paragraph 400.14 A1.

IESBA Decisions

108. In light of the strong support received, the IESBA agreed to retain the category of additional local entities in the revised PIE definition. Accordingly, when a local body adds a new PIE category in its local code as anticipated in paragraph 400.18 A2, firms must treat the entities in that category as PIEs in accordance with paragraph R400.17 (d).
109. The IESBA also agreed to add “professional standards” after the reference to law or regulation in paragraphs R400.17 (d), 400.17 A1, R400.18 and 400.19 A1.
110. The IESBA also considered that the reference to the purpose set out in paragraph 400.10 is appropriate. This reference clarifies that the additional local categories should only be treated as PIEs if stakeholders have heightened expectations regarding the independence of the firms performing the audits because of the significance of the public interest in the financial condition of those entities.

Other Forms of Capital Raising

111. There was little support from respondents for adding a new PIE category in the Code that would scope in entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO).
112. Many of the respondents were of the view that the decision to scope in such entities would best be made at the local level as the relevant local bodies are better placed to make the necessary judgments, taking into account the list of factors in proposed paragraph 400.8 of the ED. It was also noted that the protection of investors is an issue for market regulators and not for independence requirements for auditors, and that stricter independence requirements can never be a proxy for appropriate market supervision and transparent information to investors.

IESBA Decisions

113. In light of the comments received, the IESBA determined not to include entities that raise funds through less conventional forms of capital raising, such as ICOs. In this regard, the IESBA acknowledged that some entities raising funds through new forms of capital might already meet the definition of a publicly traded entity.

Other Suggested New Categories

114. Some respondents suggested additional PIE categories, either in the mandatory list in the Code or for local adoption, such as public sector entities, entities that manage or assume custody of assets on behalf of the public, sovereign wealth funds and government-linked corporations.

IESBA Decisions

115. The IESBA does not believe any of the suggested PIE categories are suitable for a global Code. Accordingly, the IESBA determined that no further categories should be added to the mandatory list of PIEs in paragraph R400.17.
116. Nevertheless, as mentioned above, the IESBA agreed to add a list of example PIE categories in paragraph 400.18 A2 that may be considered by the relevant local bodies for inclusion in their local PIE definitions, including entities such as public utilities.

Coordination with IAASB – PIE in IAASB Standards

117. As indicated previously, the IAASB Standards do not use the term PIE or refer to the PIE definition set out in the Code. As part of the potential IAASB PIE project, the IAASB is contemplating whether it would be appropriate to adopt the IESBA definition of PIE into the ISQMs and ISAs, or its Glossary of Terms.

VII. Additional Firm Responsibilities

118. The IESBA proposed in the ED two new requirements that aimed to create a greater role for firms in the identification of entities as PIEs as part of the proposed framework for the PIE definition:
- (a) Elevation of the application material in extant paragraph 400.8 to a requirement for firms to determine if any additional entities should be treated as PIEs. To guide firms in making their determination, the ED included a number of additional factors for firms' consideration.
 - (b) A new requirement relating to increasing the transparency of when an entity has been treated as a PIE.

Firm Determination to Add Entities as PIEs

119. The IESBA considered that it would be in the public interest if the application material in extant paragraph 400.8 that encourages firms to determine whether to treat additional entities, or certain categories of entities, as PIEs were elevated to a requirement. The proposed requirement also required firms, in making such determination, to apply the reasonable and informed third party test.
120. Many respondents did not support the proposed requirement. The key issues raised by respondents included the following:

Inconsistent Treatment by Firms

- One of the key reasons cited by respondents for not supporting the new requirement is that a firm's determination will be subjective, creating divergence and undue inconsistency in the treatment of PIEs between firms. It was argued that this may lead to confusion in the market and undermine the confidence the IESBA was seeking to enhance.
- A few respondents cautioned that firms may be pressured to treat an entity as a PIE because a predecessor firm has done so or to avoid being "second guessed" by local

regulators. Treatment of an entity (or a class of entities) as a PIE may come to be viewed as a “gold standard” treatment and further the misconception that auditors are more “independent” when they audit PIE clients.

Appropriateness as a Firm Decision

- Some respondents argued that the responsibility for classifying an entity as a PIE should be primarily that of the IESBA and local standard setters or regulators. It was argued that it is not appropriate for firms to determine, for example, the potential systemic impact on other sectors and the economy as a whole in the event of financial failure of an entity. There was a view that governments, regulators and/or local bodies are better placed to determine which entities meet these criteria. A few respondents were also concerned about the appropriateness and potential practical impact for firms to go beyond the definition of a PIE in local laws, or to be seen as questioning the capacity of the local law makers. In addition, it was argued that a local regulator may be put in a very difficult situation, being expected to confirm that firms abide by the requirement but at the same time not wanting to be in a position to judge their lawmaker.
- A number of respondents also pointed out that the decision about whether an entity should be treated as a PIE should rest in the first instance with those charged with governance (TCWG) of the entity as the entity has the complete set of information required to determine whether the conditions to judge the entity as a PIE are met. It was noted that there would be practical difficulties if an entity’s management or TCWG did not agree that the entity should be treated as a PIE.

Burden Outweighs Benefits

- It was pointed out that firms will bear a disproportionate responsibility and burden of considering every entity (or class of entities) that does not meet the PIE definition and concluding whether or not to treat it as a PIE. There was also a concern that the proposed requirement would potentially be more burdensome for small and medium practices (SMPs) that generally are not serving the PIE audit markets in terms of the evaluations needed and related documentation.
- Some respondents also noted that ISQM 1¹⁴ already requires firms to identify and assess quality risks to provide a basis for the design and implementation of responses, and in doing so, to understand the types of entities for which the firm undertakes engagements. The responses designed and implemented by the firm to address quality risks related to independence may include additional independence requirements for entities considered high risk. It was noted that the approach of ISQM 1, which allows a firm to exercise professional judgment regarding whether additional independence requirements should be applied, is better suited to respond to the quality risks related to independence.

121. IOSCO encouraged the IESBA to clarify in the revised provisions that firms should not have the option to exclude “certain category of entities” from the PIE definition.

IESBA Decisions

122. After careful review of the comments received and taking into account the support received from the joint CAGs for its revised proposals, the IESBA determined to revert the proposed requirement for firms to determine if additional entities should be treated as PIEs to application

¹⁴ ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

material, provided that the transparency requirement is retained. The IESBA believes, on balance, that the application material along with the new transparency requirement will continue to meet public expectations regarding the independence of firms when they perform audit or review engagements.

123. In reaching its final position, the IESBA considered the following:

- There is a question as to whether elevating the extant application material to a requirement will have much impact in practice. Firms will already need to make a significant effort to adapt to the changes with the expanded definition of PIE and to operationalize these changes. The requirement proposed in the ED to determine if additional entities should be treated as PIEs may create an undue burden on firms, particularly SMPs, without commensurate benefits. Further, by retaining the transparency requirement in paragraph R400.20, the public interest will be served as the transparency will apply a form of market discipline to firms in any determination they make as to whether to apply the independence requirements applicable to audits of PIEs to the audit of an entity which is not specified as a PIE by the local body.
- As some respondents have suggested, the responsibility for determining which entities or class of entities should be categorized as PIEs largely rests with legislators or other local bodies. The IESBA reaffirmed its view that they are best placed to make such decisions given their local knowledge and understanding of the broader issues that impact public expectations.
- Whilst firms still have an important role in ensuring public expectations regarding their independence are met, it is not anticipated that there would be many cases where they will have to apply PIE independence requirements to audits of their clients which have not already been specified as PIEs, particularly if the PIE definition is properly refined at the local level. As such, an encouragement for firms to make the necessary determination together with the transparency requirement should suffice.
- This approach would also operate better with ISQM 1, as some respondents have suggested. ISQM 1 acknowledges that: “In some cases, the matters addressed by the firm in its system of quality management may be more specific than, or additional to, the provisions of relevant ethical requirements.”¹⁵

124. The IESBA also considered placing the focus of a firm’s determination on whether to apply the independence requirements for audits of PIEs to the audit of an entity not otherwise designated as a PIE, instead of on whether to treat the entity as a PIE. The IESBA considered that this construct would allow firms to focus on whether a specific entity has such a level of public interest in its financial condition that independence requirements for PIEs should be applied despite the entity not being scoped as a PIE by local law, regulation or professional standards. After deliberation, however, the IESBA came to the view that such a construct may create the perception of a third class of entities, in addition to PIEs and non-PIEs, for the purposes of Part 4A of the Code. Instead, the IESBA determined that the focus of the firm’s determination should be on whether to treat other entities as PIEs for the purposes of Part 4A. Such a construct is intended to clarify that a firm is treating other entities as PIEs for the purposes of the additional independence requirements, and in that respect they are in the same “PIE” category as those determined by legislation, regulation or professional standards.

125. The IESBA also believes that reverting the proposed requirement to application material, coupled with the revised wording in paragraph 400.19 A1, should sufficiently address IOSCO’s

¹⁵ ISQM 1, paragraph A63

concern about whether the provision could be misunderstood by some as firms having the ability to exclude categories of entities. To be clear, the final provisions (and in particular paragraph 400.19 A1) only allow firms to add to the list of entities that they should already treat as PIEs in accordance with paragraph R400.17.

List of Additional Factors

126. Most respondents who responded to this question supported at least one or more of the factors for consideration by firms as set out in proposed paragraph 400.16 A1. Many respondents also provided refinement suggestions to the proposed factors as well as other comments for the IESBA's consideration. A few respondents also queried how the two lists of factors in proposed paragraphs 400.8 and 400.16 A1 interact.

IESBA Decisions

127. After deliberation, the IESBA agreed to a number of minor refinements to the list of factors in paragraph 400.19 A1, taking into account its determination to revert back to application material the proposed requirement for firms to determine if any entity should be treated as a PIE. The IESBA further noted that:

- In considering whether an entity is likely to become a PIE in the near future, a firm should take into account any potential issues relating to confidentiality (first bullet in paragraph 400.19 A1).
- There may be limited information about whether a predecessor firm has applied PIE independence requirements to an entity other than what a firm is required to disclose under paragraph R400.20. Further, application of additional independence requirements by a predecessor firm should not mean that the entity must also be treated by the firm as a PIE. Auditors must exercise professional judgment and apply the reasonable and informed third party (RITP) test when reaching a conclusion. (Second bullet.)
- It would not be expected that a firm would treat an entity as a PIE when it has been explicitly specified as not being a PIE by law, regulation or professional standards. (Fourth bullet.)
- In considering whether to treat an additional entity as PIE, it is appropriate for a firm to consider whether the entity has the appropriate governance arrangements and whether its financial statements are subject to an appropriate level of accounting and financial reporting requirements. Otherwise, treating such entities as PIEs for the purposes of independence requirements may create a misperception about the firm's ability to comply effectively with the independence requirements for PIEs, in particular those related to communication with TCWG. (Sixth bullet.)

128. The IESBA considered that further explanation of these factors is better addressed in non-authoritative guidance material as part of its rollout program in due course. The IESBA further noted that these factors are not exhaustive and that they are not expected to be relevant in every situation.

129. The IESBA clarified in paragraph 400.19 A1 that a firm might consider both the list of factors in that paragraph and the one in paragraph 400.9 when determining whether to treat other entities as PIEs for the purposes of the IIS.

Transparency Requirement

130. The IESBA recognized that one effect of the ED's proposals may be increased uncertainty among the public as to whether an entity has been treated as a PIE by a firm given the local

variations that might arise and the new proposed requirement on firms to determine if additional entities should be treated as PIEs. To address this issue, the IESBA proposed to include a new general requirement for a firm to disclose whether an entity has been treated as a PIE.

131. The IESBA did not include in the proposed transparency requirement any specific mechanism of disclosure and sought views from respondents regarding the possible mechanisms to achieve such disclosure, including their advantages and disadvantages. To assist the IAASB with its initial information gathering, the IESBA asked respondents to comment on whether they believe the auditor's report is a suitable location for such disclosure and, if so, how this can be accomplished (Question 15(c) of the ED).
132. In support of the proposed transparency requirement, a few respondents expressed the view that given the objective of the proposals to enhance stakeholder confidence in an entity's financial statements through enhancing confidence in the audit of those financial statements, it is important that stakeholders are aware of whether an entity has been treated as a PIE.
133. However, similar to the responses received on the proposed requirement for a firm to determine if additional entities should be PIEs, many respondents did not support the proposed new requirement for a firm to disclose if an audit client was treated as a PIE. The key issues raised by respondents regarding the proposed requirement included the following:

Confusion by Stakeholders

- By far, the most common concern raised by respondents was that the proposed disclosure may lead to confusion and the unintended consequence of users and the wider public interpreting the disclosure to mean that there are different levels of independence and that audits of non-PIEs are of lesser quality or provide lower assurance than PIE audits. It was noted that the definition of a PIE and the scope of what constitutes a PIE are not simple and questions might be asked about whether an entity is a "legal PIE" or an "IESBA PIE." It was argued that this would be problematic as in many jurisdictions, if an entity is a PIE, this creates obligations not only for the auditors but also for the entities. There was also a concern that such disclosure could have an adverse effect on public confidence in non-PIE audits, which would not be in the public interest and potentially exacerbate the audit expectations gap.
- Some respondents noted that the proposed disclosure may also confuse the public regarding the extent of the disclosure and other obligations, including whether the client itself has complied with other non-IESBA requirements for PIEs, such as a requirement to have an audit committee. It was also observed that attempts to address such confusion by adding further information to the disclosure statement may disproportionately lengthen the auditor's report.

More Information Needed to be Disclosed

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

Relevance of the Disclosure

- A few respondents expressed the view that what matters to stakeholders other than audit regulators is whether the auditor was independent as required by relevant ethical requirements, whatever that entity might be, consistent with what the auditor is already required to state in the auditor's report. Others queried how the disclosure would contribute to transparency or confidence in an audit and whether the benefits of such disclosure would outweigh the costs and any negative consequences.

134. During its deliberations, the IESBA considered the following key matters:

- Whether disclosure in the auditor's report would be sufficient in circumstances where the auditor's report has limited distribution. Similarly, there were some views within the IAASB that there might be circumstances where the auditor's report is not public. If jurisdictions specify additional categories of PIEs, there was a concern that this might give rise to practical challenges, including whether disclosure in the auditor's report in such instances would still meet compliance with the Code's requirement. There was a suggestion from the IAASB that the IESBA consider adding a precondition that the financial statements of PIEs be made public in order to achieve the proposed transparency requirement.
- Issues with confidentiality might arise in situations where an auditor is in possession of material private or commercially sensitive information about an audit client's plans to be publicly listed. There was a question as to how the auditor should deal with perceptions or speculation about the client going for an initial public offering (IPO) or being involved in a mergers and acquisitions transaction as a result of such a disclosure. It was also noted that compliance with the proposed transparency requirement may be in conflict with restrictions on disclosure under these circumstances.
- Acknowledging the possible future work of the IAASB to explore whether the auditor's report is a suitable location for disclosing that a firm has applied the independence requirements for PIEs, a question was raised about the need to provide guidance for firms in the interim regarding the appropriate disclosure mechanisms that would achieve the requirement in the Code.

Coordination with IAASB – Disclosure in Auditor's Report

135. Respondents expressed mixed views on the appropriate mechanisms to disclose whether a firm has treated an entity as a PIE. Similarly, there were also mixed views in response to the IAASB's question 15(c) in the ED. This question sought feedback on whether it would be appropriate to disclose within the auditor's report that the firm has treated an entity as a PIE.
136. Considering respondents' feedback, the IAASB broadly continued its support for exploring transparency in the auditor's report about the relevant ethical requirements for independence applied when performing an audit of financial statements. However, the IAASB emphasized the need for it to follow its own due process in this regard (i.e., for the IAASB to determine whether the auditor's report is a suitable location for such disclosure and, if so, how this may be accomplished).
137. As part of the potential IAASB PIE project, the IAASB is contemplating whether to enhance and clarify ISA 700 (Revised)¹⁶ to address circumstances when the auditor's report is used to disclose that relevant ethical requirements for independence for certain types of entities have been applied in the audit of the financial statements, such as the independence requirements for PIEs in the IESBA Code.

¹⁶ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

IESBA Decisions

138. Following careful consideration of the comments received, the IESBA agreed to retain the transparency requirement in paragraph R400.20. As mentioned above, the IESBA believes that on balance, the enhanced application material in paragraph 400.19 A1 along with the transparency requirement in paragraph R400.20 will continue to meet public expectations regarding the independence of firms when they perform audit or review engagements. The IESBA has also taken into account the support received from the joint CAGs.
139. The IESBA, however, also agreed to:
- Revise the focus of the transparency requirement from whether an entity has been treated as a PIE to whether PIE independence requirements have been applied in performing an audit of the financial statements of an entity.
 - Clarify in paragraph R400.20 that the disclosure should be made in “a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.”
 - Allow for an exemption to the transparency requirement (paragraph R400.21) if making the disclosure would result in disclosing confidential future plans of the entity.
140. The IESBA believes that revising the transparency requirement to focus on whether the auditor has applied the independence requirements for PIEs should alleviate some of the concerns about inadvertently creating a public perception that auditors of PIEs somehow have a higher level of independence than auditors of non-PIEs or that PIE audits are of a higher quality than non-PIE audits. Such disclosure would provide better clarity as to the independence requirements that have been applied.
141. The IESBA agreed that further guidance about acceptable forms of public disclosure could be helpful, particularly as the IAASB is yet to explore if the auditor’s report is a suitable location for such disclosure and, if so, how this may be accomplished, as part of its narrow-scope maintenance of standards project. In this regard, the IESBA noted that, in addition to the auditor’s report as a possible disclosure avenue, other suggestions from respondents included a firm’s transparency report and websites of the firm, the entity or local bodies.
142. However, the IESBA reaffirmed its earlier view that it is not appropriate to include examples of other disclosure mechanisms in the Code at this time given that the IAASB is yet to consider the issue. Instead, the IESBA determined to provide clarification in the proposed text that the disclosure should be made “in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.” The IESBA noted that the phrase “in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders” is already used in paragraph 410.31 A3 of the Fees final pronouncement relating to public disclosure of fee-related information. The IESBA believes that this refinement represents a more principles-based approach and will assist firms when considering the appropriate disclosure mechanism to comply with the transparency requirement.
143. Following the conclusion of the IAASB’s deliberations on the matter, the IESBA will consider the need for any further action on the matter, including whether further guidance or possibly conforming amendments to the Code would be warranted.
144. With regards to determining what might be an “appropriate” form of public disclosure, firms may consider factors such as:
- Whether there is a need to disclose the information to those stakeholders that do not have access to the auditor’s report or the entity’s financial statements.

- Whether an appropriate disclosure mechanism would be simply to provide a general statement publicly about which entities they have applied the independence requirements for PIEs in relation to the audit.
145. The IESBA also considered how the transparency requirement can be complied with by a firm if the auditor's report is not made available to the public. In this regard, the IESBA considered the option of limiting the disclosure requirement to only those stakeholders who have access to the auditor's report on the basis that it would be of no benefit to those who do not have such access to know if additional independence requirements have been applied. The IESBA appreciated, however, that this may be seen to be concluding on the appropriate means of disclosure before the IAASB has considered the matter. On balance, therefore, the IESBA determined that requiring firms to make the disclosure in "a manner deemed appropriate" is sufficient given that the IAASB is yet to consider this matter. The IESBA expressed its continued support for the IAASB to consider the matter under the IAASB's own due process. As mentioned earlier, the IESBA will consider what further actions, if any, might be warranted once the IAASB has concluded its deliberations on whether the auditor's report is a suitable location for such disclosure and, if so, how this may be accomplished.
146. In developing the final provisions, the IESBA also considered a suggestion from the IAASB about adding a precondition that the financial statements of PIEs be made public. The IESBA, however, did not support linking the transparency requirement to the accessibility of the financial statements as even if they were public, this would not necessarily mean that the auditor's report would also be publicly available.
147. The IESBA also acknowledged the concerns raised about a firm inadvertently disclosing confidential information, particularly about an audit client's future plans, such as an IPO or a merger or acquisition. In response, the IESBA noted that the extant Code already contains provisions that would in part address such concerns, in addition to the provisions on confidentiality in Subsection 114. Specifically, the Code also provides that:
- If there are laws and regulations that preclude a professional accountant from complying with any part of the Code, those laws and regulations prevail.¹⁷
 - A professional accountant is encouraged to consult with a professional or regulatory body if the result of applying a specific requirement of the Code would be disproportionate or not in the public interest.¹⁸
148. Further, the IESBA also agreed that a firm need not comply with the transparency requirement in paragraph R400.20 if doing so would mean disclosing confidential future plans of an audit client. The IESBA is of the view that, in such instances, the fundamental principle of confidentiality prevails.
149. With regards to the suggestion to defer the effective date of the transparency requirement, refer to the discussion below on effective date (Section IX)

VIII. Other Significant Matters

Definition of Audit Client

150. The IESBA proposed not to review extant paragraph R400.20 with respect to whether to extend the definition of "audit client" for listed entities to all PIEs but instead to review the issue through a separate future work stream. Amongst other matters, the IESBA recognized the complexity of

¹⁷ Section 100, *Complying with The Code*, paragraph R100.7

¹⁸ Paragraph 100.6 A3

the issue and agreed that further research on this topic, including the nature of the ownership structures of private equity companies and sovereign wealth funds, is warranted. Such research would support a better understanding of the ramifications of extending the whole universe of related entities for listed entities to apply for all PIEs.

151. Respondents overwhelmingly supported the IESBA's proposal not to review the extant paragraph R400.20 beyond revising the term "listed entity" to "publicly traded entity" as proposed in the ED.
152. In support of the IESBA's conclusion, a number of respondents have urged the IESBA to exercise caution when considering whether to extend the definition of audit client given the complexity of the issues involved. It was noted that there may be significant potential challenges that would result from expanding the definition of audit client for a listed entity to apply for all PIEs. In particular, there were concerns about matters such as the control and materiality in structures other than corporate structures (e.g. private vehicles, trusts, partnerships, benefit plans, funds) which are complex and diverse across the world, limited access to relevant information, and an undue burden on firms to monitor related entities that are not audit clients.

IESBA Decisions

153. The IESBA agreed to retain the proposed revision to replace "listed entity" with "publicly traded entity" in paragraph R400.22 in light of the comments received. The IESBA also agreed to some minor refinements to more clearly indicate that the reference to PTE in this paragraph must take into account the more explicit definition under local law, regulation and professional standards in accordance with paragraph R400.18.
154. The IESBA will consider a review of the definition of audit client as a potential future work stream as part of the development of its next SWP for the period of 2024-2027. As mentioned above, the IESBA also intends to include in its holistic review of PEBs and CIVs a review of the definition of "related entity" in due course.

Part 4B of the Code

155. Following its review of the revised Part 4B of the Code set out in the final pronouncement, [*Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in International Standard on Assurance Engagements 3000 \(revised\)*](#), the IESBA proposed that changes to Part 4B are not necessary as part of this project.
156. Amongst other matters, the IESBA formed the view that whilst there may be some assurance engagements that are of greater public interest than others, this is at least as much to do with the nature of the engagement as with the nature of the entity. As such, not all assurance engagements for a PIE (as defined by Part 4A) would be of significant public interest. Equally, some assurance engagements for a non-PIE might be of significant public interest. Accordingly, the IESBA did not believe that developing a different definition of PIE in Part 4A has direct implications for Part 4B. Whilst acknowledging that it may be possible to define a class of "public interest assurance engagements," the IESBA concluded that this is outside the scope of this project.
157. There was overwhelming support from respondents for the IESBA's conclusion not to propose any revisions to Part 4B of the Code under this project.
158. Some respondents noted that in accordance with paragraph 900.10 of the Code, if an entity is a PIE for audit purposes, the firm is obliged to maintain the same independence requirements for

any assurance engagements it performs. The respondents asked the IESBA to clarify whether it may be assumed that the opposite is also true.

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

IESBA Decisions

160. In light of the overwhelming support from respondents, the IESBA reaffirmed that no amendments be made to Part 4B of the Code.
161. With regards to the comments regarding paragraph 900.10, the IESBA noted that this paragraph in Part 4B is only making the point that if a client is also an audit client, the requirements in Part 4A must also apply as they are more stringent than those in Part 4B. Further, scoping in more entities as PIEs under the proposed definition of PIE does not affect the provisions in Part 4B as this Part does not specify requirements applicable to assurance engagements for PIEs.
162. As mentioned earlier, the IESBA will continue to receive updates from its EIOC and discuss potential independence or other ethics issues and the Code's relevance to ESG reporting and assurance.

Potential IAASB Narrow Scope Maintenance of Standards Project

163. In mid-2021, the IAASB established a PIE Working Group to consider the implications for the IAASB's Standards of the proposed revisions to the Code. In July 2021, the IAASB discussed respondents' feedback to the ED on the matters affecting the IAASB Standards, and the initial views of the IAASB PIE Working Group on those matters.
164. In October 2021, the IAASB discussed various aspects to be addressed in the IAASB's project proposal to undertake a narrow scope maintenance of standards project on listed entity and PIE. The IAASB also provided input to the IESBA on the key matters relevant to the IAASB in view of supporting the IESBA in progressing its work prior to the IESBA's final approval in December 2021.
165. In March 2022, the IAASB plans to approve a project proposal to undertake targeted revisions to the ISQMs and ISAs that will address the following:
- Consider adopting the IESBA definition of PIE into the ISQMs and ISAs, or the Glossary of Terms.
 - Consider adopting the IESBA definition of "publicly traded entity" into the ISQMs and ISAs, as a replacement of listed entity.
 - Adopt the overarching objective established by the IESBA in paragraph 400.8 of the Code as a principle for establishing differential requirements and application material in the ISQMs and ISAs.
 - Develop a tailored objective, based upon the overarching objective and taking into consideration paragraph 400.10 of the Code, that explains the purpose for differential requirements for certain entities in the ISQMs and ISAs.
 - Develop guidelines that assist the IAASB in identifying when differential requirements may be appropriate, and if so, how such requirements should be established in the ISQMs and ISAs.

- Determine the appropriate location and accessibility of the objective or guidelines described above.
 - Undertake a case-by-case analysis to determine:
 - Whether the extant differential requirements for listed entities should be expanded to apply to all categories of PIEs; and
 - The impact on extant differential requirements of adopting the definition of “publicly traded entity” as a replacement of “listed entity.”
 - Consider whether:
 - The application material in the ISQMs and ISAs should be updated as a result of any changes to entities to which the extant differential requirements apply and to align with the concepts underpinning PIE.
 - Updates may be needed to application material (e.g., examples and appendices) and introductory material (e.g., scope and scalability paragraphs) that use the term “listed entity(ies)” or otherwise make reference to listed entities (e.g., entities that are listed or entities other than listed entities).
 - Enhance and clarify ISA 700 (Revised) to address circumstances when the auditor’s report is used to disclose that relevant ethical requirements for independence for certain types of entities have been applied in the audit of the financial statements, such as the independence requirements for PIEs in the Code.
166. The IESBA will continue to coordinate with the IAASB with regards to the rollout of the IESBA’s final provisions and the IAASB’s [narrow scope maintenance of standards project](#) as appropriate.

IX. Effective Date

167. The IESBA proposed an effective date of December 15, 2024, whilst agreeing to an effective date for the NAS and Fees final pronouncements for audits of financial statements for periods beginning on or after December 15, 2022.
168. Whilst many respondents supported the IESBA’s proposed effective date, other respondents recommended that the effective date be extended or aligned with those at the local level for various reasons, including the following:
- The amount of work that will be required of local bodies, which will involve extensive engagements, guidance and outreach.
 - The potential increase in the number of PIEs being scoped in under the revised definition.
 - Smaller firms needing a longer period to implement the necessary revisions to their systems, processes and controls and to assess and manage the impact on their business due to greater restrictions on the services they may provide to their audit clients.
169. Some respondents also suggested that transitional provisions be provided, given potential significant challenges for firms, particularly having regard to the requirements addressing partner rotation and the number of entities that may be scoped in under the new provisions.
170. At its October 2021 meeting, the IAASB considered various options proposed by the IAASB PIE Working Group with regards to the timeline of its proposed narrow scope maintenance of standards project on listed entity and PIE. The IAASB supported keeping its proposed project as a single package, but bifurcating the project into two tracks, i.e., a faster moving track that prioritizes enhancing transparency about the relevant ethical requirements for independence in

the auditor's report with an effective date that aligns with the IESBA's, and a separate track to address the remaining public interest issues with a later effective date. As part of the IAASB's deliberations, a question was raised as to whether the IESBA would consider delaying the finalization of the transparency requirement until the IAASB has completed its work to determine whether the auditor's report is a suitable location for the disclosure.

IESBA Decisions

171. Upon deliberation, the IESBA reaffirmed that the final provisions will be effective for audits of financial statements for periods beginning on or after December 15, 2024.
172. In reaching this view, the IESBA considered the following:
 - The finalization of the NAS and Fees projects ahead of the PIE project allows some time for firms to develop experience with the application of the revised NAS and Fees provisions for PIEs based on the extant PIE definition before the new definition becomes effective. However, it is equally important that the PIE project be finalized and the revised provisions become effective without undue delay.
 - It would not be appropriate to align the effective date of the revised provisions with a local body's effective date as this would worsen the issue of inconsistency in PIE definitions at a point in time; however, local jurisdictions and firms should be encouraged to adopt the revised provisions earlier.
 - Transitional provisions as suggested by some respondents are not warranted given that there are already provisions in the Code that deal with the situation where a client becomes a PIE.
173. The IESBA believes that it is not necessary to delay finalization of the transparency requirement until the IAASB has completed its work to determine whether the auditor's report is a suitable location for such disclosure. As the IAASB will deliberate whether the auditor's report is a suitable location for disclosure about the independence requirements applied when performing an audit of financial statements as a priority, the IESBA is of the view that there is reasonable time for firms to implement the amendments that the IAASB might determine are appropriate. In light of the support already received from many stakeholders, the IESBA determined not to defer the finalization of the transparency requirement. However, the IESBA acknowledged that the IAASB is yet to commence its PIE project and therefore, the IESBA should be sufficiently agile in allowing for a possible review of the effective date for the transparency requirement if this aspect of the IAASB project is delayed as well as in making any conforming changes or issuing additional guidance as needed depending on the outcome of that project.

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**International
Ethics Standards
Board for Accountants®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ethicsboard.org