Dear Stavros,

Response to the International Ethics Standards Board for Accountants (IESBA) Exposure Draft: Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

EFAA appreciates the opportunity to provide our comments to the IESBA Exposure Draft: Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code. Our response has been prepared with input from our Assurance Expert Group.

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA represents 13 national accounting, auditing, and tax advisor organisations with more than 350,000 individual members.

GENERAL COMMENTS

EFAA is concerned to ensure that professional standards and regulation is proportionate to the capacities of small- and medium-sized accountancy practices (SMPs) and their small- and medium-sized entity (SMEs) clients and tailored to the needs and characteristics of SMPs and SMEs. This IESBA project is especially relevant in this context since it effectively determines and clarifies which entities must comply with more stringent ethical requirements. The determination as to which entities are classified as listed entities and public interest entities (PIEs) is integral to the scalability of the International Code of Ethics for Professional Accountants.

We support in principle the adoption of the board approach to defining PIE as this is consistent with the IESBA’s principles-based approach to standard-setting and allows local regulatory or other authorities to refine the definition of PIEs to best suit their local needs and circumstances. We are, however, unsure of the merits and practicality of the need to refine the list by excluding entities as we fear this may result in inconsistent practices internationally and have potential unintended consequences. We are keen for the IESBA to lead the way in the global convergence effort so would prefer the Code not invite jurisdictions to refine the list by excluding entities.
We see further scope for greater consistency of definitions and terms used across the international standard setting boards. For example, the IAASB uses the term “entities of significant public interest” (ESPI) while the IASB uses the term “publicly accountable entities”. Such differences are hard to justify and potentially confuse users of corporate reports. Accordingly, we urge the relevant boards to try to harmonize these definitions and terms.

QUESTIONS IN ED

Overarching Objective
1. Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code?

   We support the overarching objective.

2. Do you agree with the proposed list of factors set out in paragraph 400.8 for determining the level of public interest in an entity? Accepting that this is a non-exhaustive list, are there key factors which you believe should be added?

   We generally agree with the proposed list of factors.

Approach to Revising the PIE Definition
3. Do you support the broad approach adopted by the IESBA in developing its proposals for the PIE definition, including:
   - Replacing the extant PIE definition with a list of high-level categories of PIEs?
   - Refinement of the IESBA definition by the relevant local bodies as part of the adoption and implementation process?

   We support the broad approach adopted by the IESBA in developing its proposals for the PIE definition.

   We agree that it is difficult, if not impossible, to develop a single definition of PIE at a global level that can be consistently applied by all jurisdictions without modification and further refinement at a local level. We support a broad approach (Option 2) as this is consistent with the IESBA’s principles-based approach to standard-setting and allows local regulatory or other authorities to refine the definition of PIEs to best suit their local needs and circumstances.

   We are, however, unsure of the merits and practicality of the need to refine the list by excluding entities as we fear this may result in inconsistent practices internationally and have potential unintended consequences. For example, in a group audit, if the definition of PIE is different for the parent company in country A from that of the subsidiary (component) in country B then there will be confusion. We are keen for the IESBA to lead the way in the global convergence effort so would prefer the Code not invite jurisdictions to refine the list by excluding entities. Nevertheless, in the case of subsidiaries that are not publicly traded we recommend they be treated as non-PIEs even if the parent company is a publicly traded company.
PIE Definition

4. Do you support the proposals for the new term “publicly traded entity” as set out in subparagraph R400.14(a) and the Glossary, replacing the term “listed entity”? Please provide explanatory comments on the definition and its description in this ED.

We support the new term “publicly traded entity” replacing the term “listed entity”.

We do see, however, further scope for greater consistency of definitions and terms used across the international standard setting boards. As we explain under the ‘General Comments’ such differences are hard to justify and potentially confuse users of corporate reports. Accordingly, we urge the relevant boards to try to harmonize these definitions and terms.

We also suggest the IESBA investigate the potential impact from the proposed change since the proposals significantly expand the scope of the PIE definition.

We note the Explanatory Memorandum states that firms will incur some costs when revising their policies and procedures to ensure all their clients are correctly classified as either PIEs or non-PIEs under the revised definition of PIE and that there will also be some additional costs in implementing the new proposed requirement for firms to determine if additional entities should be treated as PIEs. SMPs are likely to be most affected. We therefore urge the IESBA to conduct a formal impact assessment, especially on the SMP market, prior to the finalization of the proposals.

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

We agree with the proposals for the remaining PIE categories.

6. Please provide your views on whether, bearing in mind the overarching objective, entities raising funds through less conventional forms of capital raising such as an initial coin offering (ICO) should be captured as a further PIE category in the IESBA Code. Please provide your views on how these could be defined for the purposes of the Code recognizing that local bodies would be expected to further refine the definition as appropriate.

We stress that the IESBA should maintain its principles-based approach and only add a category that will stand the test of time and avoid detailed and precise articulation.

In so far as capital raising is concerned the public interest is determined by whether they are raised from the public, not how the capital is raised or how the capital is accounted for.

Role of Local Bodies

7. Do you support proposed paragraph 400.15 A1 which explains the high-level nature of the list of PIE categories and the role of the relevant local bodies?

While we recognize the critical role of local bodies in determining what applies in a specific jurisdiction, we are concerned that paragraphs 400.15 A1 and 400.14 A1 may create confusion.

As mentioned in the ‘General Comments’ above we are keen for the IESBA to lead the way in the global convergence effort so would prefer the Code not invite jurisdictions to refine the list by excluding entities. Regulatory authorities have the option to make their own determinations, for their own jurisdictions, for what entities are defined as PIEs and can already revise the definition.
provided in the Code. Clearly signposting ways by which those adopting the Code can choose to diverge from its provisions runs the risk of undermining the authority and clarity of the Code. The Code ought to be clear and firm as to what is expected and give a clear direction to legislators and regulators globally as to what PIEs should constitute in their jurisdiction.

8. Please provide any feedback to the IESBA’s proposed outreach and education support to relevant local bodies. In particular, what content and perspectives do you believe would be helpful from outreach and education perspectives?

We welcome the IESBA’s proposed outreach and education support to relevant local bodies.

In addition, as explained below, case studies and scenarios would be particularly useful to demonstrate how firms determine if an entity should be treated as a PIE.

Role of Firms

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

We support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs.

This requirement may pose some practical difficulties and additional costs for SMPs. However, it reinforces the role that professional accountants play in protecting the public interest. It is important the decision be respected and avoid a regulator or court, at a future point in time, deciding that a firm made an incorrect assessment about the entity’s PIE status.

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

We support the proposed list of factors for consideration by firms.

We believe, however, further guidance, perhaps in the form of case studies and scenarios, will be particularly useful to demonstrate how firms determine if an entity should be treated as a PIE.

Transparency Requirement for Firms

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

We support the proposal for firms to disclose if they treated an audit client as a PIE.

12. Please share any views on possible mechanisms (including whether the auditor’s report is an appropriate mechanism) to achieve such disclosure, including the advantages and disadvantages of each. Also see question 15(c) below.

We believe the auditor’s report to be the most appropriate place for such a disclosure.

We feel that as the decision to treat the entity is made solely by the auditor then such disclosure ought to be provided in communication originating from the auditor rather than the entity being audited.
Other Matters

13. For the purposes of this project, do you support the IESBA’s conclusions not to: effective date of December 15, 2024?
   (a) Review extant paragraph R400.20 with respect to extending the definition of “audit client” for listed entities to all PIEs and to review the issue through a separate future workstream?
   (b) Propose any amendments to Part 4B of the Code?

We support the IESBA’s conclusions.

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

We support the proposed effective date.

Matters for IAASB Consideration

15. To assist the IAASB in its deliberations, please provide your views on the following: effective date of December 15, 2024? December 15, 2024?
   (a) Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.

We support the overarching objective.

Consistency between IAASB and IESBA standards is critical. We urge, in particular, close coordination on the IAASB’s project on the audits of less complex entities.

(b) The proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to other categories of PIEs.

Please see our response to 15 (a) above.

(c) Considering IESBA’s proposals relating to transparency as addressed by questions 11 and 12 above, and the further work to be undertaken as part of the IAASB’s Auditor Reporting PIR, do you believe it would be appropriate to disclose within the auditor’s report that the firm has treated an entity as a PIE? If so, how might this be approached in the auditor’s report?

Please see our responses to questions 11 and 12 above.

CONCLUDING COMMENTS

We trust that the above is clear, but should you have any questions on our comments, please do not hesitate to contact us.

Yours faithfully,

Salvador Marin

Paul Thompson