MALAYSIAN INSTITUTE OF ACCOUNTANTS

APPENDIX 1

PART A: SPECIFIC COMMENTS

We have outlined our responses to each question in the ED below.

Overarching Objective

Q1. Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 as the objective for defining entities as PIEs for which the audits are subject to additional requirements under the Code?

We are generally in support of the overarching objectives set out in proposed paragraphs 400.8 and 400.9. However, we are of the view that the use of the term *"financial condition"* and how it has been described and used in the revised sections of the Code can be further defined as readers may be unsure if para. 400.9 when referring to *"confidence in financial statements"* is actually alluding to the same thing.

Q2. 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 are generally in agreement with the proposed list of factors set out for determining the level of public interest in an entity. Specifically, for the factors such as "*Size of the entity*" and "*Number and nature of stakeholders including investors, customers, creditors and employees"*, we believe the local bodies may be stepping in to set the appropriate criteria, taking into consideration the local environment.

IESBA should also consider whether there is a further need to define "*financial obligations"* within the context of para 400.8.

Approach to Revising the PIE Definition

Q3. 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?**

It is indeed a significant challenge 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.

Hence, we are supportive of the IESBA's proposal to adopt a broad approach with the expectation/ implications of refinement of the IESBA definition by the relevant local bodies. This broad approach is necessary for the IESBA to ensure that a principles-based approach to standard-setting is maintained, and for local regulatory or other authorities to refine the definition of PIEs to best suit their local environments. However, there are concerns about the need to refine the list of PIEs by

excluding entities and the resulting inconsistent practices may lead to a lack of comparability and potential unintended consequences from jurisdiction to jurisdiction.

PIE Definition

Q4. 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 are supportive of the new term "publicly traded entity" being used to replace the term "listed entity". However, it would have been ideal if all the international standard setters – IESBA, IAASB and IASB can possibly come up with a common definition. We note the IAASB's current proposal to take a case-by-case approach to review the use of "listed entity" in the IAASB standards. In practice, this could be problematic when differences exist between the definitions and expressions used and we strongly encourage the international standard setters to work together to eliminate the differences and harmonize the definitions.

The Glossary defines a publicly traded entity as "*An entity that issues financial instruments that are transferrable and publicly traded".* We understand that the term "financial instruments" is intended to be broadly applied covering shares, stock or debt, securities, equity or debt instruments etc. However, it may be helpful to include such detail and clarity to reduce potential confusion in the future.

Q5. Do you agree with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f)?

In general, we are agreeable with the proposals for the remaining PIE categories set out in subparagraphs R400.14 (b) to (f). We would also like to seek clarification as to whether microfinancing entities are to be considered as PIEs, considering the cumulative financial impact of such entities in the broader economies of emerging markets.

Q6. 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.

In our opinion, the IESBA should continue to maintain its principles-based approach. Hence, the definition should not be too detailed. There is also a risk that specifically naming emerging forms of capital raising will cause the standard to be rapidly outdated due to the fast-pace developments in technology.

Furthermore, it should not be the method of raising funds that is the defining criteria, but rather whether the funds are raised from the public, however defined. In any case, the public has an expectation that an entity's financial reporting will be of the highest quality for relevant and appropriate decision making.

Role of Local Bodies

Q7. 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?

We recognise that the role of local bodies is critical in determining what applies in a specific jurisdiction. In addition, we are of the view that certain refinement is necessary for paragraph 400.15 A1, which links directly to, and is dependent on, paragraph 400.14 A1. Both paragraphs have the

potential to create confusion, in particular the sentences as follows: (1) *"However, 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 public interest entities for the purposes of the Code."* And (2) *"Similarly, the Code provides for such bodies to exclude entities that would otherwise be regarded as falling within one of the broad categories in paragraph R400.14 for reasons relating to, for example, size or particular organizational structure."*

Q8. 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 believe that there will be a need for guidance material to support relevant local bodies. Therefore, we are agreeable with the plans to release further non-authoritative guidance and organize webinars and targeted stakeholder outreach to help adoption and implementation. In addition, case studies/ scenarios would be particularly useful to demonstrate how firms determine if an entity should be treated as a PIE, should this be the final outcome of this consultation.

Role of Firms

Q9. Do you support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs?

The Institute fully supports the IESBA's proposal for providing a role for firms in determining if additional entities should be treated as PIEs, over and above those that are specifically identified under R400.14. Apart from the fact that it is already an existing practice in many firms as part of their risk management practices, it is also a positive recognition that accountants are highly regarded professionals with specialist skills coupled with strong ethical standards. It underpins the rationale that ultimately, professional accountants must act in the public interest. However, it is important that such decision is respected to avoid regulatory or court intervention when it comes to questioning the firm's decision on an entity's PIE status, on hindsight. Guidance will be helpful for firms to set such internal policy (in recognizing an entity's PIE status) and how such discretion is to be exercised and in particular, to be documented.

Q10. Please provide any comments to the proposed list of factors for consideration by firms in paragraph 400.16 A1.

We are of the view that the factors as listed in para 400.16 A1 are reasonable considerations that needs to be evaluated by the firms as part of their audit when treating an audit client as a PIE. We would also like to highlight that there could be a transition period in implementing the factor *"whether in similar circumstances, the firm or a predecessor firm has treated the entity as a PIE."* This is because during the first-time adoption of this new requirement, such information may have yet to be publicly available.

Transparency Requirement for Firms

Q11. Do you support the proposal for firms to disclose if they treated an audit client as a PIE?

Yes, we do support such disclosure.

However, the IESBA will have to take cognizant that there is a risk that it may add to the expectation gap in auditing. Further misunderstanding and confusion could occur, especially if the disclosure is that the entity is treated as a PIE, despite that entity being excluded from legal/regulator PIE definitions in a particular jurisdiction. Disclosing such information may also require disclosing what it means i.e., the firm would need to also explain why they chose a particular entity to be considered

a PIE from their perspective and describe what ways the audit undertaken differed from an audit of a non-PIE.

We will expect the IESBA and even the IAASB to start working on further guidance materials (perhaps by the staff) and other information brochures not just for PAs but the general public as well to educate everyone in the reporting eco-system. Otherwise, the risk of such disclosure not being properly understood or mis-interpreted by users can be real.

Q12. 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.

In our view, the auditor's report does seem to be the most appropriate place for such a disclosure as further details and explanations beyond just declaring that an entity is being treated as a PIE, would be required. In addition, as the decision about treating an entity as a PIE is, in such cases, being made solely by the auditor, then the auditor's report is the only communication that is owned by the auditor.

Other Matters

Q13. For the purposes of this project, do you support the IESBA's conclusions not to:

(a) Review extant paragraph R400.20 with respect to extending the definition of "audit client" for listed entities to all PIEs and to review the issue through a separate future workstream?

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

In our view, it is not clear that there is a need to review extant R400.20 at this time, as the term listed entity is used in the ISAs and the current wording provides an important link back to the ISAs.

Paragraph 79 of the explanatory memorandum tries to explain the rationale for not making changes to Part 4B of the Code. But, more clarity is required. It seems to imply that an assurance engagement for an entity considered a PIE for audit purposes will not necessarily be an assurance engagement for a PIE and vice versa.

Paragraph 900.13 of the extant code states *"Independence standards for audit and review engagements are set out in Part 4A - Independence for Audit and Review Engagements. If a firm performs both an assurance engagement and an audit or review engagement for the same client, the requirements in Part 4A continue to apply to the firm, a network firm and the audit or review team members."* Therefore, 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. It could thus also be assumed that the opposite is true. The IESBA will needs to reconcile this two positions as a way forward.

Q14. Do you support the proposed effective date of December 15, 2024?

The Institute would like to propose that the effective date of this ED can only be later than the proposed effective date for the revisions to the Code for Non Assurance Services (NAS) and Fees in view of the significant impact on the definition of PIEs on both projects. In any case, it should not be earlier than December 15, 2024.

Matters for IAASB consideration

Q15. To assist the IAASB in its deliberations, please provide your views on the following:

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

We continue to believe that achieving consistency between IAASB and IESBA standards is critical. The extent of any impact on requirements within standards developed by the IAASB will also need to be clear and exposed for appropriate comments, if the change in terminology proposed is intended to allow the two Boards to achieve convergence, in as far as possible.

(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 Question 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.

PART B: GENERAL COMMENTS

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- ***Small- and Medium-sized Entities (SMEs) and Small and Medium Practices (SMPs)*** **– The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.**

  We have no further comments from the perspective of SMEs and SMPs.

- ***Regulators and Audit Oversight Bodies*** **– The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.**

  Not Applicable

- ***Developing Nations*** **– Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.**

  We do not foresee difficulties in applying these proposals in the Malaysian environment.

- ***Translations*** **– Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.**

  Not Applicable