

Comments from Firms in China

In order to provide comments on the ED, we outreached to the CPA firms in China, translated and requested for comments from them. We received feedbacks from 8 firms. The comments received from CPA firms are summarized as follows for reference:

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?

86% of CPA firms said they generally support it, but 14% said they are not very supportive. The main comments are as follows:

- We agree. The final purpose of imposing additional independence requirements on PIE is to enhance confidence in the audit of financial statements.
- Overall, we support the overarching objective. However, we suggest IESBA further consider the appropriateness of using the term “financial condition”. This term is not a defined term, nor is it a commonly used term. In addition, “financial condition” may be misinterpreted as “financial position” in certain

jurisdictions (for example, in China, there is no clear difference between the two terms translated in Chinese). Unfortunately, we do not have any constructive suggestion right now. Perhaps the term “financial well-being” used in the ED is an option for the IESBA’s consideration.

- IESBA don’t provide a clear definition of "financial condition". We recommend that IESBA or IESBA allow local regulators or other organization to make a clear definition of "financial condition".
- Not very supportive. One is that the overall goal is still not very clear. Second, the logic within 400.8 and between 400.8 and 400.9 may be open to discussion. The first half of the sentence in 400.8 says that some of the requirements and application materials specified in this section are only applicable to the audit of the financial statements of public interest entities. The second half of the sentence should reflect the significant public interests in the financial statements of these entities, rather than saying that these reflect the significant public interests in the financial condition of these entities. Moreover, 400.9 explains that confidence in financial statements is also enhanced by enhancing confidence in financial statement audits. Although paragraph 21 of the ED explains the use of the term "financial

condition" instead of the reason for "financial statements", but for the auditors, they only provide audit opinions on the attached financial statements. If there are significant public interests in the financial statements, additional audit requirements are needed, and the use of "financial condition" may inappropriately increase the expectations of the audit.

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

The main comments are as follows:

- The ED lists some of the factors of judgment for public interest entities. [• Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. • The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure. • Number and nature of stakeholders including investors, customers, creditors and of employees. • The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.]

It will be more difficult for firms to judge, and if allow firms to judge that by themselves may also cause different judgements in practice. It is recommended that the definition should be unified by local bodies and the list categories of entities in line with the above factors could be issued or consider to include the structure entities which are not companies by giving examples.

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?**

88% of CPA firms said they generally support it, and 12% said they support it partially. The main comments are as follows:

- We are supportive of a high level list of categories of PIE as a starting point for local adoption and interpretation, and the role of the local bodies is critical.
- We suggest that the responsibility for determination of whether

an entity meets the definition of a PIE should rest in the first instance with the entity's charged with governance.

- We agree. (1) The definition of PIE in the draft is easier to operate in practice than the existing version, which has a more specific enumerated definition. (2) It is more flexible to refine the categories of PIE according to national conditions by local bodies which guided by the principle of IESBA definition.
- Partially agree. However, for cross-regional publicly traded entities, which local bodies will follow the revised PIE definition, it is recommended to further clarify.

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.

More than 80% of CPA firms said they generally support it. The main comments are as follows:

- We support the proposals for the new term “publicly traded entity”. In China, the term “listed entity” is sometimes

misinterpreted as “listed companies”, which refers to companies whose shares are listed only on the first-tier stock exchanges. Using the new term “publicly traded entity” would help address this issue.

As for the definition of “publicly traded entity”, we do not understand why it emphasizes that the financial instruments should be transferrable. In our view, “being publicly traded” has already covered “being transferrable”. We hope that IESBA could further explain on this.

- We support the proposal of the new term "publicly traded entity" to replace the term "listed entity" and to facilitate the extension of the scope of the "public interest entity" to include not only listed entities, but also other entities that have the same significant public interest impact as listed entities.

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

More than 80% of CPA firms said they generally support it. The main comments are as follows:

- The IESBA recognized that categories (b) to (f) do not have any size criteria, which will potentially scope in some very small

entities. Although the IESBA has made it clear that it was not practicable to define a size threshold, there is an inherent inconsistency between the categories (b) to (f) in R400.14 and the factors (size of the entity) in 400.8. Requiring local bodies to define the size threshold would not eliminate this inconsistency in the Code itself. It is important to point out that size is a critical factor in determining PIE, even though there is no specific size threshold. Therefore, we suggest IESBA add an overarching criterion to categories (b) to (f) that these entities should first meet the objectives set out in paragraphs 400.8 and 400.9.

- We agree. It is a general principle which basically covers the general understanding of PIE in most countries or regions of the world. At the same time, it also takes into account the provisions or laws of different local bodies, giving them room for adjustment.

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.

About 80% of CPA firms said they generally or partially support it.

The main comments are as follows:

- In our view, entities raising funds through ICOs should not be captured as a further PIE category in the Code as this is not common in most jurisdictions. Local bodies are best placed to further refine the definition (probably as an expansion to category (f) in R400.14) if necessary.
- One of the reasons in the overall objective is “that there are types of entities for which there is significant public interest in their financial condition and hence their financial statements”, but in entities using some less traditional financing, the financial failure of that should have an impact on the public interest when they have too many participants.

However, the status and regulatory methods and dimensions of these entities (e.g. ICO) in different countries are not the same.

It is recommended that local regulators define whether they belong to PIE. Adjust the code when they develop into a globally common or general source of financing.

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?

Almost 100% of CPA firms said they generally support it. The main comments are as follows:

- Overall, we support the proposed paragraph. For further comments, please refer to comments to question 9.
- We agree. The economic development of the country or region in which different places are regulated is different, so it is more meaningful to make the definition by the local regulatory supervision according to the specific situation, including the size of the entity, the complexity of the organizational structure, etc.

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?

Almost 100% of CPA firms said they generally or partially support it.

The main comments are as follows:

- It is recommended to hold regular best practice demo presentations or advanced experience seminars and exchange sessions. If some countries or regions have taken the lead in completing the revision of their local policies, it is hoped that their considerations for increasing or decreasing the PIE provisions will be shared basically so that countries or regions in the same situation can make reference to them.

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?

About 80% of CPA firms said they are not very supportive. The main comments are as follows:

- We do not support this proposal for the following reasons:
 - (a) Requiring firms to make this determination would bring extra cost to firms in establishing and implementing policies and procedures. However, it is not expected that firms would treat many additional entities beyond the local code. The cost of doing so may not justify the benefit.
 - (b) Different firms are different in size and client structure. It is

probable that firms would reach different conclusions on whether any additional entities should be treated as PIEs, which may give rise to inconsistency in practice and cause the public question whether these firms apply a generally accepted code.

(c) It is more appropriate to make this determination at the local bodies level. Some factors listed in 400.16 A1 may be taken by the local body as factors in refining the IESBA's definition of PIE. For example, a local body may specify that an entity in the process of initial public offerings should be treated as a PIE.

- We disagree. Firms comply with IESBA and local regulatory guidance and increase the firm's PIE list according to the specific client types, but it cannot be a requirement, as most firms should comply with the relevant policies of that country or region and rarely expand the scope of application for themselves, unless required by audit clients or its governance. Therefore, it should be a choice, that is, to allow the firm to make its own, rather than a mandatory requirement.

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

About 80% of CPA firms said they are not very supportive. The

main comments are as follows:

- As stated in comments to question 9, we do not support this proposal. However, some factors listed here may be moved to application material of R400.15, as factors for consideration by local bodies in refining the IESBA's definition of PIE.
- The ED, 400.16A1, lists some of the factors in which accounting firms judge PIE [• Whether the entity is likely to become a public interest entity in the near future. • Whether in similar circumstances the firm or a predecessor firm has treated the entity as a public interest entity.] It is too difficult to estimate and judge and of less operability for firms. This paragraph is more appropriate as a factor for regulatory supervision to consider when adding or reducing PIEs.

Transparency Requirement for Firms

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

About 60% of CPA firms said they are not very supportive. The main comments are as follows:

- As stated in comments to question 9, we think that whether an entity is treated as a PIE should be prescribed by local bodies,

and so it is not necessary for firms to disclose this fact.

- We disagree. Since national or regional regulatory supervision also have policy-making authority over PIEs, it is also up to national or local rule maker to regulate whether to disclose the audit client is seen as a PIE, and to coordinate how to disclose in the audit report. In addition, there should be further guidance on the way of disclosure, whether through the audit report to disclose, or disclosed on the firm's official website, reported to the regulatory supervision by the firm and disclosed on the regulatory website, and how to unify the update frequency, etc.

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.

About one-third of CPA firms said they support the first option, about one-third of CPA firms said they support the second option, and about one-third of CPA firms said they are not very supportive.

The main comments are as follows:

- As stated in comments to question 11, we do not support this

proposal.

- 400.17 of the ED require firms to publicly disclose the audit clients who are considered PIE. This paragraph is the guidance complying with the Code on how firms to determine that certain entities are considered as PIE, i.e. that the firm should treat the entity equally if the predecessor firm treated that entity as a PIE. It is often difficult for one firm to know the way of another firm's judgment for a PIE, so the regulatory supervision should make regulations on the disclosure way and the time-effectiveness of the above-mentioned list when the Code is implemented. Further, in the light of the feedback from 15 (c) below, there is a preference for the first option of the three disclosure options referred to in paragraph 70 of the memorandum, namely, not to change the audit report. It is up to each country or region to regulate its own unified issuance platform.

Other Matters

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

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

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

Almost 100% of CPA firms said they generally support it. The main comments are as follows:

- (a) We agreed. The existing Code R400.20 provides that, “As defined, an audit client that is a listed entity includes all of its related entities. For all entities, references to an audit client in this Part include related entities over which the client has direct or indirect control.” This revision only amends “listed entity” to “publicly traded entity” rather than to expand to all PIE which is left to discuss in the future, making it easier to transition.

(b) As other assurance engagements often does not involve the overall financial condition of audit clients, the Part 4B does not highly comply with the objectives of this PIE project. It is an independence requirement for other assurance engagements and it is recommended that the relevant terms of Part 4B should be updated after completing this revision project.

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

Almost 100% of CPA firms said they generally support it. The main

comments are as follows:

- We support the proposed effective date (that is 3 years after IESBA approval of final pronouncement).
- We agree. According to paragraph 80 of this ED, IESBA will begin to implement the Non-assurance Services (NAS) and Fees projects on 15 December 2022, such as the disappearance of space for self-evaluation risks of non-assurance services in PIE, the prior approval by the governance for all non-assurance services, and the termination of audit client relationships due to long-term overdue fees. At that time, the more stringent ethics policy will also apply to entities added as a result of the expanded definition of PIE, and the PIE project will begin on December 15, 2024. It is a relatively reasonable transition schedule in general.

Matters for IAASB consideration

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

(a) Do you support the overarching objective set out in proposed paragraphs 400.8 and 400.9 for use by both the IESBA and IAASB in establishing differential requirements for certain entities (i.e., to introduce requirements that apply only

to audits of financial statements of these entities)? Please also provide your views on how this might be approached in relation to the ISAs and ISQMs.

(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.

(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?

(a) About 80% of CPA firms said they generally or partially support it.

(b) About 80% of CPA firms said they support only listed entities, but 20% of CPA firms said they support other categories of PIEs.

(c) About 80% of CPA firms said they are not very supportive.

The main comments are as follows:

- (a) We do not support the overarching objective for use by IAASB in establishing differential requirements for certain

entities. Requirements already established within the IAASB Standards should be applied only to listed entities (or publicly traded entity as the new term).

(b) Please refer to (a).

(c) As stated in comments to question 11, we do not support this proposal.

- (a) We agree. With regard to consistency between ISA and ISQM, it is recommended that the original method be retained temporarily, that is to, with the exception of listed entities, which use the application materials to determine whether they can be treated as a PIE.

(b) It is recommended that this requirement is limited to listed entities temporarily.

(c) We do not agree to disclose in the audit report whether the firm treats the audit client as a PIE. Because whether the firm treats an audit client as a PIE is a matter of affairs management, which does not related to the clients the firm expressing its assurance opinion, and does not significantly enhance the trust of the intended users outside the responsible party in the information of assurance engagements.