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3 May 2021

Mr. Ken Siong  
IESBA Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, New York 10017  
USA

**Re: *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code***

Dear Mr. Siong,

BDO International Limited<sup>1</sup> (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) Exposure Draft (ED) in respect of *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

BDO is dedicated to upholding the highest ethical standards and complying with both global and firm policies and external professional standards. Independence is the cornerstone of our profession and the fundamental principle from which reliability of audit, review and other assurance reports to third parties is based. As a member of the accountancy profession, we accept the responsibility to act in the public interest. We support the Board in working to keep the IESBA Code relevant and fit for purpose.

**General comments**

Overall, we recognize that the existing definition of Public Interest Entity (PIE) requires updating to meet the changing landscape in which we operate, notably driven by advances and shifts in commercial environmental factors and increasing stakeholder expectations. We also recognize the difficulty of setting a global definition given the differences in local laws, regulations and markets.

Currently, there is a global minimum standard PIE definition that includes all listed entities which is supplemented by applicable local laws and regulation. The proposed new definition for a PIE is principles based which will allow for local refinements, which we support. However, we believe that local refinements will result in global differences and possible confusion, thereby challenging the conceptual simplicity of a global minimum. Therefore, we believe that more clarity is needed on the extent of local refinements allowed. Our interpretation of 400.15 A1 is that if local bodies determine that no entities in a category should be included, then in effect, they can remove a full category. In these cases, we question whether this meets the objective and the effectiveness of the proposed standard.

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As a global organization, we have two fundamental concerns, which further question whether this meets the intended objective and the overall effectiveness of the proposed standard. They are where the local body in a jurisdiction:

1. Does not sufficiently execute their obligations to participate and refine the entities within the proposed PIE definition categories which will result in unintended consequences of scoping in entities that do not have significant public interest, or
2. Refines the entities within the propose PIE definition categories to remove a full category thereby resulting in entities which are currently considered to be a PIE under the extant definition, being excluded from the definition in the future.

In addition, in jurisdictions where there are multiple local bodies, we foresee a risk of different local bodies reaching inconsistent conclusions which could pose implementation challenges for the local firm.

The refinement process will be an extensive exercise for the local bodies, particularly in jurisdictions where there are multiple local bodies. We are concerned that the proposed effective date of December 2024 will not allow local bodies sufficient time to complete their process and implement the revised standard.

## Responses to Specific Questions

### *Overarching Objective*

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

We support the overarching objective of enhancing confidence in the financial statements of public interest entities through enhancing confidence in the independence of auditors. However, we have the following comments on the proposed language:

- We believe that the current wording of 400.9 could be misinterpreted that there are different qualities of audit for PIE and non-PIE engagements. We propose the following amendment to the wording:

The purpose of these requirements and application material for public interest entities is to enhance confidence in their financial statements through enhancing confidence in the ~~audit~~ **independence of the auditors** of those financial statements.
- To aid in consistency, we believe that there should be further guidance or a definition provided of ‘financial condition’.

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 believe the proposed list of factors is a fair list of the types of factors which may be considered in assessing public interest. A factor which we believe the Board should consider for inclusion would be “sustainability”. We believe that there may be attributes about the nature of an entity’s operations and the manner in which it conducts those operations and their resulting impact on climate and society which may cause for heightened public interest.

- We propose the factors included in 400.8 should also be included in 400.16 A1 to simplify the reader’s navigation.

***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 inclusion of a list of high-level categories and agree that it is imperative to have a refinement process by relevant local bodies given the significant differences in local laws, regulations and markets. This will allow for customization within local markets. We also believe there needs to be 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 definition categories.

As a member of the Forum of Firms, each of our member firms are required to comply with the IESBA code. As noted above, where a local body in the jurisdiction does not refine the entities within the proposed PIE definition category this will result in unintended consequences of scoping in entities that do not have significant public interest.

***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 proposal for the new term ‘publicly traded entity’ to reflect the true public interest aspect of being ‘listed’ and to avoid confusion around the definition of recognized/regulated exchanges.

Without a common revised definition of the term ‘listed entity/publicly traded entity’ between the IESBA and the IAASB, unnecessary confusion will be created. We support consistency in terminology across both standards.

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

Overall, we are supportive of the categories as a starting point for refinement by local bodies. Further application material, clarification or definitions are needed on the underlined terms below to support the local bodies in the local refinement process of R400.14:

- For (b) and (c) - ‘...the one of whose main functions is...’
- For (b), (c) and (e), ‘...to the public’
- For (d), ‘...post-employment benefits’

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 do not consider the need for an additional specific category in R400.14 for less conventional forms of capital raising. This should form part of the local body refinement process (or when the local process does not occur, the alternative mechanism for local refinement) to assess and determine whether such forms of capital raising have a significant public interest in its financial condition and conclude that additional independence is required.

### ***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?**

We recognize and support the need for the refinement of the local bodies and have noted overarching concerns in the general comments above, with regards to global consistency.

Specifically, where the local body in the jurisdiction:

1. Does not sufficiently execute their obligations to participate in and refine the entities within the proposed PIE definition categories which will result in unintended consequences of scoping in entities that do not have significant public interest.
  - a. R400.14 is drafted as a requirement for a firm and therefore the broadest possible inclusion of entities will occur. For members of the Forum of Firms, the IESBA Code will be more stringent than the local standards and we question if this default position is most appropriate.
  - b. The proposed standard should consider an alternative mechanism of refinement in such cases.
2. Refines the entities within the propose PIE definition categories to remove a full category thereby resulting in entities which are currently considered to be a PIE under the extant definition, being excluded from the definition in the future.

In addition, as noted in our general comments above, in jurisdictions where there are multiple local bodies, there is a risk that the different local bodies reach inconsistent conclusions which would pose implementation challenges for the local firm.

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?**

No specific feedback other than to ensure effective implementation of the revised definition will require close collaboration between the IESBA and the local bodies. This will be a significant undertaking by the IESBA.

### *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 do not support the proposal to introduce a requirement for firms to determine if any additional entities should be treated as PIEs. This places an unnecessary burden on firms and could lead to inconsistency and lack of comparability between firms and jurisdictions creating a risk to the public interest. We are supportive of maintaining the application material, included in the extant Code, that encourages firms to determine whether additional entities or certain categories of entities should be treated as PIEs along with the application material on factors to consider for the limited entities that may not fit the categories in 400.14.

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

We believe it would be helpful to move the factors referred to in 400.8 to this paragraph to keep all factors in one location.

### *Transparency Requirement for Firms*

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

We believe that this question would be best addressed as part of the refinement process by the local bodies.

Currently, certain jurisdictions already require disclosure by local law or regulation, for example by audit firm's transparency reports.

We are not supportive of the idea that disclosure of (treatment as) a PIE must be done in the audit report. Depending on the jurisdiction, it may make more sense to have this disclosure made by the audited entity rather than by the auditor.

We believe that there may be confusion in disclosing that the engagement involved a PIE without the appropriate context. There is a risk of creating an expectation gap that there is a difference in the quality of an audit of a PIE versus non-PIE. The objective of the proposed standard is enhancing confidence in the independence of auditors, therefore, information on the additional independence requirements that were performed should be made clear to the reader, irrespective of where the disclosure is made.

- 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 that any disclosure required could be included in a transparency report or elsewhere on a website, irrespective of the party making the disclosure. As noted in question 11, it may make more sense to have this disclosure made by the entity rather than by the auditor.

*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?**

Yes, we agree with the decision not to review this at this time.

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

Yes, we agree with the decision not to review this at this time.

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

We have concerns with the proposed effective date. In some jurisdictions, there are more than one regulator who may need to consider the requirements in this Code. It may be difficult for them to complete their analysis prior to the effective date. Our proposal is to allow for some flexibility with the effective date.

- If local bodies implement a longer implementation date as part of their refinement, then the effective date will be the longer of the two implementation dates.
- If local bodies have not yet completed their analysis of the refinement, the effective date is not set until the local bodies complete their analysis.
- If local bodies do not refine the entities, the broadest possible inclusion of entities will occur and will not meet the intended objective of the Code. The Code should consider an alternative mechanism of refinement with an appropriate effective date for the respective jurisdiction.

**Matters for IAASB consideration**

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

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

We believe that the differential requirements should only be applied to listed entities or to publicly traded entities. We do not support expanding this to all 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?**

As noted above, we believe that this is best disclosed by the audited entity so do not support inclusion in the audit report.

If it is included in the audit report, as noted above, we believe that there may be confusion in disclosing that the engagement was a PIE without the appropriate context. Information on the additional independence requirements that were performed should be made clear to the reader.

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We appreciate the opportunity to comment on the ED. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,  
BDO International Limited

Chris Smith  
Global Head of Audit and Accounting