Comments on “Proposed revisions to the definitions of Listed Entity and Public Interest Entity in the Code”

Cristian E. Munarriz
Public Accountant
Autonomous City of Buenos Aires, Argentina
Cristian_munarriz@yahoo.com.ar

May 3, 2021

Dear Mr. Siong,

I appreciate the opportunity to comment on “Proposed revisions to the definitions of Listed Entity and Public Interest Entity in the Code”. My comments are included in the following pages.

All opinions and points of view outlined in this document are my own and they do not necessarily represent the views of any company, employer, organization or committee.

If you have any questions, please contact me at cristian_munarriz@yahoo.com.ar.

Yours faithfully,

Cristian E. Munarriz
Public Accountant
Autonomous City of Buenos Aires, Argentina

Comments on "Proposed revisions to the definitions of Listed Entity and Public Interest Entity in the Code"
Cristian E. Munarriz
Public Accountant
Autonomous City of Buenos Aires, Argentina
Cristian_munarriz@yahoo.com.ar

Request for Specific Comments

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?

I disagree with the use of "financial condition". I think the term is too focused on the views of investors and creditors of for profit organizations, but fails to consider the views of stakeholders of NFP and public sector organizations (for those entities, users may be more interested in the ability to obtain resources from the public and the application of those resources for the purposes of the entity, instead of assessing the financial condition of the entity). I recommend using the term "financial information subject to audit or review".

I also recommend replacing "audit of financial statements" by "audit or review of financial statements" to clarify that the PIE definition is also applicable for review.

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?

I generally agree, but I have the following comments:

- For every factor, I would clarify how each factor affects the characterization of as a PIE. For example, clarifying that the larger the size the more likely the entity is a PIE.
- In the first factor, I will add as part of the activities, obtaining or asking for a significant amount of resources from the public, either directly from them or indirectly (through government or other entity) on a recurrent basis. The significance of the resources should be evaluated from the perspective of the public, and not of the entity itself. Government might provide significant amount of resources from the public to an entity through different means, such as government grants, subsidized loans, tax benefits, and others. Government benefits available to most entities in the economy is unlikely to créate public interest in an entity.
- In the fourth factor, I recommend including reference to the importance of the sector itself as an entity which is important for an insignificant sector is unlikely to be a PIE.
- In the fifth factor, in order to make sure that other stakeholders might exist, I would replace "including" with "including, but not limited to,"
- In the sixth factor, I would replace "other sectors" with "other sectors which are of significant relevance for the economy". It should be clarified if the analysis should be made on a jurisdiction basis (i.e. economy of the country, state/province, city, etc), a world basis or both.
  Regarding the relevance for the economy, I think it should be considered that an entity which is significant to a very small city of a very large country is unlikely

to be a PIE. Otherwise, it might be considered that an entity employing the vast majority of the population of a very small city would be a PIE.

- I recommend adding a new factor as follows: “The existence of legal requirements in the entity´s jurisdiction to make its financial statements publicly available might be an indicator that the entity is an PIE, unless the requirement is applicable to the large majority of entities in that jurisdiction.

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?

Yes, I agree.

Nonetheless, I would like to point out that public interest is more related to the information of the entity than to the entity itself. Therefore, financial information of an entity may be of public interest while some non-financial information of the same entity may not be of public interest (or the opposite may be true). For example, the financial information of a large private oil company might not be of public interest, while the non-financial information about environmental and climate may be of public interest. I agree to not change the approach at this time, but I think it should be reviewed in the future as presentation of non-financial information becomes more prevalent.

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.

I support the new term, but I have some comments regarding the definition:

- The meaning of the term “financial instruments” might not be clear (for example, it might not be clear if cryptocurrency or emissions trading are including in the definition). So it should be either clarified or add a specific definition for the term.
- I recommend changing the last part for “that are both transferrable and publicly traded” to make clear that issuing a transferrable financial instruments does not make an entity falls under the new term.
- In some jurisdictions, there are markets for the public trading of short term (i.e. less than a year) deferred payment checks. Sometimes, the deferred payment checks are traded by the creditor (typically small entities) without approval or knowledge of the debtor (which is the entity issuing the financial instrument). It would not be reasonable for the debtor to fall under the definition of “publicly traded entity”, so I think these financial instruments should be excluded from the definition of “financial instruments” (if added) or “publicly traded entity”. For example, you might clarify that financial instruments originally issued by an

entity to another entity without the intention of being publicly traded but that are later publicly traded by the latter without need of consent of the former are out of the scope of the definition.

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

I generally agree, except for (d). I think post-employment benefits should only be included if provided to the public (i.e. employer sponsored post-employment benefits for employees only should be excluded as there is little public interest involved). It should be clarified which post-employment benefits are included (i.e. pensions, life insurance, medical care, etc) as the term “Post-employment benefits” is not defined elsewhere.

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.

I think further research should be made before including those entities as PIEs because it is not so common at this time in many jurisdictions. I think it would be better to leave the matter for specific jurisdictions where this is more prevalent to decide on the most proper approach. After further research and experience with ICOs, a determination might me made.

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?

Yes, I generally agree. However, I am concerned that the additional flexibility also creates some complexities for assessing Independence for international audits. Nonetheless, I think the flexibility in the definition of PIE by size may be useful for the audit of some smaller entities in some jurisdiction from a cost-benefit perspective.

The current approach is that there is a single definition for “listed entity” (and therefore also for “audit client”). Also there is a basic definition for PIEs, which can be broader in some jurisdictions (but not narrower).

The proposed approach means that there is no single definition for “publicly traded entity” (and therefore no single definition for “audit client”). Also there is a definition for PIEs, but it can become either broader or narrower.

I think it might créate some complexities because the actual IESBA rules will be different for each jurisdiction (not only the national rules will be different).

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?

I think guidance about the factors that will typically be acceptable or not acceptable for the purpose of tailoring the PIE definition in each local jurisdiction (i.e. which tailoring factors may generally be contrary to the public interest). I think proposed paragraph 400.15 A1 provides little guidance about it.

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

No, I strongly reject it. I think it will create divergence in practice and confusión about the meaning of PIE in a particular jurisdiction (you will not only have different meaning for PIE in each jurisdiction but also for each firm). This is especially true if firms disclose if they treated and audit client as a PIE, because the public will not understand why some firm considered an entity to be a PIE whereas other did not. It will also create significant additional complexity without relevant increase benefit to public interest.

It should be noted that a firm might apply stricter Independence rules than required by IESBA Code without the need to consider an entity as a PIE (either by own initiative or request of stakeholders). For example, a firm might decide to not provide any bookkeeping services to an audit client without considering it the entity is a PIE or not.

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

I strongly reject the approach mentioned in question 9. Nonetheless, I make some comments about the list of factors:

- Factor 3 might be very difficult to apply because a firm will not typically know the circumstances under which a predecesor firm considered the entity to be a PIE or not.
- Factor 4 might be impracticable to consider in practice, especially for large firms and networks.
- Regarding factor 6, it is not clear how it impacts in public interest. It does not seem reasonable that the factor is not considered in 400.8. If corporate governance structure is relevant to consider an entity as a PIE, it should be mentioned in 400.8, not here.

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

Yes, I strongly support it because it will give additional transparency about how the independence requirements were applied (especially in a global environment, where investors in foreing countries will not be aware of the PIE definition in other

jurisdiction). However, I think the proper place to disclose it will be the audit report, so it would be better to coordinate with IAASB for including this requirement in audit reporting standards. Public disclosure in a place other than audit (or review) report will not be appropriate, unless required by law or regulation. Therefore, I recommend changing the text as follows (adding the last sentence):

"A firm shall publicly disclose if an audit client has been treated as a public interest entity. The disclosure shall be made in the manner required by IAASB standards and law or regulation".

In spite of my support to this requirement, I think if the approach in question 9 (which I strongly reject) is applied, public disclosure will create additional confusión, as mentioned in my answer to question 9.

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.

Refer to my answer to question 11. Regarding IAASB proposed options, I support option 2 because it will be preferable to incorpórate the requirement in the context of a broader review of the audit report. I am also comfortable with option 3, but I strongly reject option 1 because I strongly believe the most appropriate mechanism for disclosure is the audit report.

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?

Yes, I think it will be better to deal with those changes in the future.

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

Yes, I think the effective date is appropriate.

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.

Cristian E. Munarriz
Public Accountant
Autonomous City of Buenos Aires, Argentina
Cristian_munarriz@yahoo.com.ar

Yes, I agree. I think some coordination with IAASB is necessary regarding the LCE audits Project, because I think that standards is supposed to not be applicable to any entity which is a PIE (even when some “Not PIE” might not be able to apply the LCE standard either).

(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.

Yes, I agree. Coordination is necessary with LCE audit Project.

(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?

Yes, refer to my answer to questions 11 and 12. The most appropriate paragraph is where the auditor comments about the Independence requirements applied (i.e. the “basis for opinion” paragraph).

Request for General Comments

• ***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.**

I think the flexibility in the definition of PIE by size may be useful for the audit of some smaller entities in some jurisdiction from a cost-benefit perspective.

• ***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.**

N/A.

• ***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.**

I think most developing nations do not currently have a PIE definition, so it might create some initial effort to discuss the appropriate changes to the IESBA definition in these jurisdictions.

Cristian E. Munarriz
Public Accountant
Autonomous City of Buenos Aires, Argentina
Cristian_munarriz@yahoo.com.ar

• 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.

I do not see any translation issues to spanish (my native language).