

IESBA - International Ethics Standards
Board for Accountants
529 Fifth Avenue
New York, 10017
USA

3 May 2021

Comment letter relating to the IESBA's Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

Dear Sirs,

1. The Committee of European Audit Oversight Bodies ("CEAOB") appreciates the opportunity to comment on the IESBA ("Board") consultation on Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code issued in January 2021. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of professional standards for the audit profession.
2. The content of this letter has been prepared by the International Auditing Standards Subgroup and has been adopted by the CEAOB. The comments raised in the letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. As audit regulators, our mandate encompasses the oversight of the independence of statutory auditors, based on the requirements applicable in our respective jurisdictions.
4. The IESBA Code of Ethics ("Code") is used in several European jurisdictions, but not in all of them. The CEAOB clearly sees an interest in enhancing the Code, as it constitutes a basis for some benchmarks at international level. Moreover, a number of audit firms and networks have voluntarily committed to complying with the Code.

Alignment of the proposed list of PIEs with EU legislation

5. We welcome IESBA's initiative aimed at reviewing the definitions of the terms "listed entity" and "PIE" in the Code since we believe this initiative might facilitate the convergence between the concepts used in the European Union ("EU") regulations and in the Code. We thus encourage the IESBA to further align the proposed revised list of PIEs with the one used in the European Union¹.

¹ Article 2.13 of the EU Directive 2006/43/EC, amended by Directive 2014/56/EU stipulates that public interest entities means:

- (a) entities governed by the law of a Member State whose transferable securities are admitted to trading on a regulated market of any Member State within the meaning of point 14 of Article 4(1) of Directive 2004/39/EC;
- (b) credit institutions as defined in point 1 of Article 3(1) of Directive 2013/36/EU of the European Parliament and of the Council (16), other than those referred to in Article 2 of that Directive;
- (c) insurance undertakings within the meaning of Article 2(1) of Directive 91/674/EEC; or
- (d) entities designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.



6. For this purpose:
 - The definition of a “publicly traded entity” proposed in the ED should be further aligned with that of the equivalent category set out in article 2.13 (a) of the Directive 2006/43/EC (amended by Directive 2014/56/EU) (“Audit Directive”). The revised definition should therefore refer to entities with transferable securities listed on a regulated market governed by law;
 - The categories of PIEs proposed in the ED should be limited to subparagraphs (a), (b), (c) and (f) (of paragraph R400.14). Entities whose function is to provide post-employment benefits or entities whose function is to act as a collective investment vehicle and which issue redeemable financial instruments to the public are not included in the compulsory list of PIEs stipulated in the Audit Directive.
7. We agree with the principle that some further entities may be added to this minimum list of PIEs at national level to provide for specific scrutiny of the quality of their audit and/or regulation of the auditors of those entities. The EU definition also incorporates the possibility for national additions to the minimum list set out in the Audit Directive.

Other topics

In addition to our request for further alignment, we would like to raise the following comments:

Definition of a publicly traded entity

8. We observe that the definition of a publicly traded entity proposed in the ED is not sufficiently clear. Further explanation should be developed with clear examples to ensure that there is a shared understanding of the proposal. Explanations provided in the explanatory memorandum may be a good starting point for such an additional guidance.

Role of bodies responsible for setting ethics standards for professional accountants

9. The ED refers only to the possibility for the bodies to **refine** (*emphasis added*) or to exclude some entities that would otherwise fall in the proposed categories of PIEs. It is unclear in the ED whether the term “refine” encompasses the possibility for the bodies to add new types of PIEs to the ED’s proposed list. It should be explicit that bodies are authorized to add new categories of PIEs.
10. It should also be specified that, if those bodies are authorized to delete one or more categories of PIEs proposed in the revised Code, this deletion should not be allowed for the categories (a), (b) or (c) defined by the Audit Directive. This would ensure a minimum common list of entities that will be treated as PIEs in all situations.
11. The role of these bodies will be key in the local adoption and implementation process of the ED. The Code should encourage these bodies to define a clear and transparent process for adding or refining categories of PIEs, including appropriate consultation with relevant stakeholders. This will ensure that issues identified at local level are addressed.



Role of audit firms

12. We agree to strengthening the Code beyond the current encouragement for audit firms to determine whether to treat additional entities, or certain categories of entities, as PIEs. We also concur that transparency is important in this context. It is unclear in the ED whether the revised Code would require audit firms to perform complete and regular assessments of their portfolio of clients in making this determination. Clarity should be provided on what is precisely expected from firms in this respect.

Definition of audit client/related entities

13. Furthermore, we draw your attention to our letters dated 5 May 2020 on IESBA's non-audit services and fees projects in which we encouraged further alignment of IESBA's proposals with EU legislation.

Coordination between IAASB and IESBA

14. We believe that coordination between the IESBA and the IAASB is beneficial, as using the same concepts in both frameworks facilitates auditors' understanding and acceptance of the definitions and their application.
15. We observe that question 15 of the ED is aimed at seeking initial feedback from stakeholders to assist the IAASB on its future deliberations on whether and, if so, how to incorporate the term "PIE" in its standards. We encourage the IAASB to further examine this topic.

Please do not hesitate to contact me or the Chair of the International Auditing Standards Subgroup should you have any questions on the content of this letter.

Yours faithfully,

Patrick Parent

Chairman