

10 May 2021

Mr Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, NY 10017
USA

Dear Sir,

RESPONSE TO THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (“IESBA”) EXPOSURE DRAFT (“ED”) – PROPOSED REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY (“PIE”) IN THE CODE

In preparation of this comment letter, the Institute of Singapore Chartered Accountants (“ISCA”) has gone through a rigorous due diligence process to deliberate the proposals in the ED. ISCA has sought views from its members on the ED through a one-month public consultation and discussed the ED with members of the ISCA Auditing and Assurance Standards Committee (“ISCA AASC”) and ISCA Ethics Committee (“ISCA EC”).

ISCA EC formed a working group (“ISCA PIE WG”) to deep-dive into the local concerns in applying the proposed revisions to the definitions of listed entity and PIE in ISCA’s EP 100 *Code of Professional Conduct and Ethics* (“EP 100”). To consider inputs across all stakeholders, members of the ISCA PIE WG include representatives who are practitioners from accounting firms, professional accountants in business, academic community, charities and members from regulatory bodies.

We are supportive of IESBA’s direction in determining a global PIE definition, with customisation at the local level. However, we disagree with the proposal to require firms to determine whether to treat additional entities or certain categories of entities as PIEs. Different firms may apply different criteria to determine whether an entity is a PIE, which would result in inconsistency and would cause confusion.

On the “Role of Firms”, we would like to suggest for IESBA to consider requiring firms to:

- Communicate to management and those charged with governance (“TCWG”) that they have the right to request for their entity to be treated as a PIE; and
- Obtain concurrence of management and TCWG on whether an entity should be treated as a PIE and to provide recourse in the event of a disagreement. As such, we are of the view that it would be more appropriate for the disclosure of the treatment of an entity as a PIE to be included in the corporate governance report.

Our comments to the specific questions in the ED are as follows:

Overarching Objective

Question 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?

Proposed paragraph 400.8 – Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities. The extent of public interest will depend on factors including:

- The nature of the business or activities, such as taking on financial obligations to the public as part of an entity's primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- 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 employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

Proposed paragraph 400.9 – 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 of those financial statements.

We support the overarching objective set out in proposed paragraphs 400.8 and 400.9 which now provides a clear framework for additional entities to be considered as PIEs. This framework highlights:

- Significant public interest in the financial condition of certain entities;
- The importance of public confidence in those entities' financial statements;
- Confidence in their audits will enhance public confidence in those financial statements; and
- Additional independence requirements will enhance confidence in their audits which in turn will enhance confidence in those financial statements.

We believe that this overarching objective will allow local bodies and firms to better assess and determine whether an entity should be a PIE.

However, we received feedback that the concept of a PIE goes beyond looking at an entity's "financial condition" because there is a greater public interest in the accountability aspects, for example, in a charitable organisation. In this regard, the focus might be on the veracity of the reported numbers rather than on an entity's "financial condition".

Accordingly, IESBA could consider the term "financial accountability" in place of "financial condition" in identifying entities of "significant public interest".

The term "financial accountability" would better capture the essence of what a PIE is. An entity which is a PIE is one where the public has significant interest in, which pertains to the issue of whether there is appropriate accountability for its financial resources. For example, a large charity can be considered a PIE because the immediate concern of donors would likely be whether their donations to the charity will be put to proper use and accounted for, as opposed to the financial health/condition of the charity.

The concept of “financial condition” may not completely capture the essence of PIE because poor financial condition could be driven by a multitude of factors unrelated to public interest such as the state of the general economy, the global pandemic, etc, which the public could accept. However, should an entity’s poor financial condition be caused by the lack of financial accountability such as embezzlement or fraud, this would be a matter of significant public interest. In short, “financial accountability” better reflects the essence of a PIE.

Question 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?

Under paragraph 400.8 of the extant Code, firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as PIEs because they have a large number and wide range of stakeholders. Factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.

We are supportive of the additional factors listed under proposed paragraph 400.8. These factors go beyond the factors listed under the extant Code.

Approach to Revising the PIE Definition

Question 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?**

IESBA’s broad approach is a longer and more broadly defined list which local regulators and authorities can modify by tightening definitions, setting size criteria and adding or exempting particular entities. The broad approach is made up of:

- (a) Role of Code;
- (b) Role of Local Bodies; and
- (c) Role of Firms.

We note that it would be challenging for IESBA to develop a single definition of PIE that could be applied widely across all jurisdictions without modifications. Accordingly, we support a global PIE definition that is principles-based such that local regulators and authorities are in the position to refine.

Overall, we are supportive of the broad approach. However, on the “Role of Firms”, please refer to our response in Question 9 and Question 10.

PIE Definition

Question 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.

Proposed paragraph R400.14 – For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public;
- (d) An entity whose function is to provide post-employment benefits;
- (e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
- (f) An entity specified as such by law or regulation to meet the objective set out in paragraph 400.9.

The proposed definition of a “publicly traded entity” in the Glossary is an “entity that issues financial instruments that are transferrable and *publicly traded*”.

Clarity on “publicly traded”

More clarity can be provided on what “publicly traded” means as this term is generally synonymous with “exchange traded” and the intention of the revised terminology may not be properly understood in the absence of further guidance. Baseline principles or guidance would be useful in ensuring consistent application by local bodies across jurisdictions.

For example, if the financial instruments are traded on secondary markets but only available to accredited investors – would this meet the definition of “publicly traded”?

As secondary markets are generally less accessible to the public compared to formal exchanges, is the liquidity of that secondary market or volume of transactions on the over-the-counter (OTC) trading platforms a relevant consideration in determining whether the instruments are “publicly traded”?

We are supportive of replacing the term “listed entity” with the new term, “publicly traded entity” to the extent that a “publicly traded entity” will be broader than a “listed entity”.

The term “publicly traded entity” will scope in more entities than PIEs, including issuers of financial instruments that are not only listed on formal exchanges but also those in second-tier markets or OTC trading platforms.

However, we have concerns with those entities whose financial instruments are only listed or issued to the public with no trading. This would be excluded from the definition of a “publicly traded entity”. One example would be bonds listed on a formal exchange but not publicly traded as there may be private arrangements for one holder to transfer to another.

Alignment with IAASB standards

The requirements in the International Standards on Auditing (“ISAs”) and the International Standards on Quality Management (“ISQMs”) currently apply to audits of listed entities only.

We believe that the definition of “publicly traded entity” should be aligned to ISAs and ISQMs in close coordination with the International Auditing and Assurance Standards Board (“IAASB”) standards.

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

We note that the extant paragraph 400.8 of the Code provides financial institutions as examples of PIEs. IESBA has refined “financial institutions” to categories (b), (c) and (e) in proposed paragraph R400.14. Accordingly, we are supportive of the remaining categories of PIEs proposed in subparagraphs R400.14(b) to (f).

Question 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 recognising that local bodies would be expected to further refine the definition as appropriate.

For this question, we have consulted with the local regulatory bodies in Singapore and collated the feedback below.

A distinction should be drawn between ICO and Initial Public Offering (“IPO”) before we address this question. ICO is a crowdfunding method used by startups usually in the tech space (“ICO entities”) where they issue proprietary tokens to investors who will subscribe by sending Bitcoin or Ether to the ICO entity’s blockchain wallet address.

Unlike IPO, tokens issued through the ICO will be directly deposited into the investors’ private wallets on the blockchain and any subsequent transfers within the blockchain is akin to a bank customer making a wire transfer of funds from A to B. The tokens are not listed on trading platforms and are not immediately publicly traded. The listing of the tokens is a separate process. The issuing entity will have to seek a separate listing of its tokens on a crypto-exchange (i.e. Binance) in order for it to be publicly traded, subject to listing requirements. Otherwise, tokens will remain held in private wallets and only gets transferred within private holders.

We are cognisant of the overarching objective in this ED. However, we are of the view that it should be left to the local bodies to determine if ICO entities with tokens listed on cryptocurrency exchanges reflect significant public interest in their jurisdiction and ought to be captured as a PIE category.

Role of Local Bodies

Question 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?

Proposed paragraph 400.15 A1 – The categories set out in paragraph R400.14 are broadly defined and no recognition is given to any size or other criteria that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to refine these categories by, for example, making reference to local law and regulation governing certain types of entities. Similarly, the Code also 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 organisational structure.

We are supportive and have no further comments.

Question 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?

We agree with IESBA's proposed outreach and education support to the relevant local bodies.

Role of Firms

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

Whilst we are generally supportive of the broad approach in having a global PIE definition and for the local bodies to refine the list of entities designated as PIEs, we note that it may be practically challenging for the firms to determine additional entities as PIEs.

For example, one of the factors IESBA has included in proposed paragraph 400.16 A1 is whether in similar circumstances, a firm or a predecessor firm has treated the entity as a PIE. We wish to highlight the practical challenges given that different firms may potentially interpret or apply the Code differently. Such a requirement might also create inconsistency and confusion and result in additional burden to firms.

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

Proposed paragraph 400.16 A1 – In addition to the factors listed in paragraph 400.8, factors to consider when determining whether additional entities or certain categories of entities should be treated as public interest entities include:

- Whether the entity has been specified as not being a public interest entity by law or regulation.
- 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.
- Whether in similar circumstances the firm has treated other entities as a public interest entity.

- Whether the entity or other stakeholders requested the firm to treat the entity as a public interest entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example whether those charged with governance are distinct from the owners or management.

Notwithstanding our response in Question 9, we would like to suggest for IEBSA to consider requiring firms to:

- Communicate to management and TCWG that they have the right to request for their entity to be treated as a PIE; and
- Obtain concurrence of management and TCWG on whether an entity should be treated as PIE and to provide recourse in the event of a disagreement.

Transparency Requirement for Firms

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

We agree that IESBA's proposal on the role of firms to determine if any additional entities should be treated as PIEs may result in increased uncertainty by the public, given the local variations that might arise. Accordingly, we have highlighted practical challenges in our response to question 9. Should IESBA determine that firms have a role to play, we are of the view that requiring a firm to disclose if they have treated an audit client as a PIE would increase that uncertainty and confusion as it might lead to a misconception that audit procedures were carried out to a higher level of assurance for a PIE audit client. In any case, disclosure of fee related information will be required for PIE audit clients under the recently released Fees pronouncement, and that disclosure will already distinguish a PIE from a non-PIE.

In addition, as mentioned in our response to Question 15, we believe that the transparency requirement or disclosure should be considered as part of the IAASB's Auditor Reporting PIR if the intention is to disclose in auditor's report.

Question 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.

As mentioned in our response to Question 10, we propose for IEBSA to consider requiring firms to obtain concurrence of management and TCWG on whether an entity should be treated as PIE. As such, we are of the view that it would be more appropriate for the disclosure of the treatment of an entity as a PIE to be included in the corporate governance report.

Other Matters

Question 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?**

Proposed paragraph R400.20 – As defined, an audit client that is a publicly traded entity (including any modifications made by law or regulation) includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Noting that the proposed effective date of this project is 15 December 2024, we are mindful that extending the project to review the definition of “audit client” will require or likely result in a further delay in the effective date.

Accordingly, we support IESBA’s decision not to extend the project to consider any amendments to the definition of “audit client” and Part 4B of the Code.

Notwithstanding the above, we wish to highlight that it would be difficult to appreciate the full impact of IESBA’s proposals in relation to PIEs and listed entities without firming up the scope of the entities falling within the definition of “audit client”.

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

We note that the recently released Non-Assurance Services (“NAS”) and Fees pronouncements will be effective 15 December 2022. Most of the revisions to NAS and Fees provisions apply only to audit clients that are PIEs.

We appreciate IESBA’s commitment to accelerate the review of PIE definition as a clearer definition of PIE will help to facilitate the application of NAS and Fees provisions.

We acknowledge that IESBA’s intention is to allow firms to have sufficient time to revise and implement the relevant policies and procedures for the revised NAS and Fees provisions and apply them to their PIE clients under the extant Code before they need to be applied to any new PIE clients captured under the revised PIE definition.

Accordingly, we support the proposed effective date of 15 December 2024.

Matters for IAASB Consideration

Question 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) We 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.

The term "PIE" is not used in the auditing standards. The requirements in ISAs and ISQMs currently apply to audits of financial statements of listed entities and the IESBA is seeking views from respondents to this ED **whether differential requirements should continue to apply only to listed entities** or might be extended to other categories of PIE.

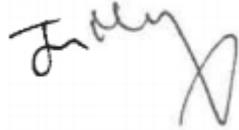
It is also important for IESBA to accelerate its strategic commitment to review the PIE definition in close coordination with the IAASB. We believe the definition within the Code should be a baseline, principles-based definition, to which local jurisdictions can supplement if and as required.

- (b) Barring any review and outcome arising from the IAASB's Auditor Reporting PIR, we believe that the differential requirements in the IAASB standards should continue to apply to only "listed entities" (or to "publicly traded entity" when this term is effective).
- (c) Further to our response above, we should consider the transparency requirement or disclosure as part of the IAASB's Auditor Reporting PIR because it will allow us to properly consider any potential impact or unintended consequences for auditor reporting.

Please also refer to our response in Question 11 and Question 12.

Should you require any further clarification, please feel free to contact myself or Ms Alice Tan, Senior Manager, TECHNICAL: Ethics & Specialised Industries, from ISCA via email at jumay.lim@isca.org.sg or alice.tan@isca.org.sg respectively.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ju May Lim', with a stylized flourish at the end.

Ms Ju May, LIM
Deputy Director
TECHNICAL: Financial & Corporate Reporting;
Ethics & Specialised Industries;
Audit & Assurance