



Meeting with SMPC Technical Issues Working Group
(via videoconference)

Date: 1 April 2021, Thursday
Time: 2:30 p.m. – 5:00 p.m.

IESBA's ED on *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*

- Members generally acknowledged the adoption of an overarching approach is reasonable for setting a global definition of a PIE. However, they also highlighted that there would be lack of consistency across jurisdictions and among firms.
- Members raised concerns on the proposed revision, including:
 - One member commented that while the proposed revision of the definition is overarching in nature, but it also scoped in more entities as PIE.
 - Some members indicated their key concern and disagreement for proposed R400.16 which raised the bar, from “encourage to determine” to “shall determine” whether additional entities to be treated as PIE. One member highlighted that, unlike many other jurisdictions, Hong Kong requires a statutory audit for most of the entities and corporations, the proposed revision will impose additional cost and pressure on SMP due to the requirement to assess whether each client is a PIE. Those members also commented that the “reasonable and informed third party” approach would often be taken as hindsight and may challenged by regulators. Regulators may question a firm as to why an entity in a certain industry has not been treated as a PIE where peers have treated entities in the same industry as PIE.
 - One member commented the proposal appear to create two-levels of independence when performing an audit (ie. PIE vs non-PIE), and there is no direct linkage between the additional independence requirements for PIE and quality of audit work (including the response to audit risk).
 - One member added that the definition of “financial condition” is unclear; the auditor has no responsibility for the “financial condition” of the entity other than to provide an audit opinion on the financial statement based on their audit work. This member also commented that there may be “hindsight” views from the regulators, especially when there is a corporate failure. Members noted that it may be difficult to distinguish the “financial condition” of an entity and other aspects of the entity, for example, poor financial condition of an Incorporated Owners of a building may create certain implications (e.g insurance, poor service quality), even though the property owners may still provide funding to it.
 - Members commented that the factors to be considered in the overarching principle in 400.8 are inconsistent and too wide, for example:
 - In “...The importance of the entity to the sector in which it operates...”, the word “sector” is not defined and lack objective assessment.
 - In “...entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligation...”, the regulatory supervision could be very wide scope. Does it mean that every regulated entity is considered a PIE?
 - While certain factors consider the financial obligation to the public as a whole, but some other factors extend to a specific sector, nature of stakeholders (eg customers and employees), or even to other sectors.

Member considers the factors do not make reference to the population of the public or sector.

- Members commented that a comprehensive list of criteria or scope of entity to be established by the local bodies would be helpful, it would help reduce the risk and cost faced by the SMP in determining the PIE at the firm level.
- One member commented that it is unlikely that a firm would define an entity as PIE at the firm level because it would incur additional cost and restriction (e.g EQCR) to the auditor.
- Members commented that would be unnecessary to publicly disclose an audit client has been treated as a PIE as in proposed paragraph R400.17 since it may create unintended consequences such as comparison by the users. Members added that management may use the audit report and claim itself as “PIE” in bank borrowing or lobbying for business, and in turn impose additional risk on the auditor.
- Member commented that the factors in proposed paragraph 400.16 A1 may not be feasible as the factors are unobservable and require additional efforts from SMP to gather and consider the information. For example, it appears to be forward-looking for the auditor to determine whether the entity is like to become a PIE in the near future. Members generally expect there would be more robust guideline from IEBSA or local bodies to help the firm to determine PIEs, for example, size test for the entities or other kind of indicators.
- Members commented that local bodies would need time to refine the definition and develop the extensive guideline, and firms would also need time to adopt the revised Code, thus Members suggest that the Code should be effective no earlier than December 2025.