

24 November 2017

Warren Allen
Chief Executive
External Reporting Board
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Via email: submissions@xrb.govt.nz

Dear Warren

EXPOSURE DRAFT NZAuASB 2017-3 PROPOSED AMENDMENTS TO THE DEFINITION OF A PUBLIC INTEREST ENTITY

Introduction

1. The purpose of this submission is to provide the New Zealand Auditing and Assurance Standards Board (“NZAuASB”) with BDO’s comments on Exposure Draft NZAuASB 2017-3 *Proposed Amendments to the Definition of a Public Interest Entity* (“the Exposure Draft”). More information on BDO is provided in Appendix A to this letter. Thank you for the opportunity to comment on the Exposure Draft.
2. We acknowledge that this submission will be made publicly available.

General comments

3. BDO considers that high audit quality is important to New Zealand’s capital markets and businesses. Further, we consider that robust ethical standards are an essential foundation of high audit quality. Consequently, BDO supports the alignment of PES 1 (Revised) *Code of Ethics for Assurance Practitioners* (“PES 1 (Revised)”) with the Code of Ethics for Professional Accountants (“the International Code”) issued by the International Ethics Standards Board of Accountants.
4. Further, BDO agrees that it is appropriate to apply more stringent auditor independence requirements to those entities that have greater economic significance and/or a broader range and greater number of stakeholders (i.e. to those entities defined as public interest entities (“PIEs”) in the International Code).
5. BDO notes, however, that, as stated in the Exposure Draft, the definition of a PIE in PES 1 (Revised) is broader than the definition intended by the International Code.
6. BDO agrees that those entities that are required to report under New Zealand equivalents to International Financial Reporting Standards, or Public Benefit Entity Standards (collectively, “Tier 1 Reporters”) meet the definition of a PIE intended by the International Code. However, we agree with the NZAuASB’s conclusion, as expressed in the Exposure Draft, that those entities that elect, rather than are required, to be Tier 1 Reporters (referred to as “voluntary” PIEs in the Exposure Draft) do not meet the definition of a PIE intended by the International Code.

7. Further, we agree with the NZAuASB's comment, in the Exposure Draft, that including "voluntary" PIEs in the definition of a PIE in PES 1 (Revised) is having the unintended consequence of stopping some entities from adopting the more robust financial reporting requirements that apply to Tier 1 Reporters.
8. On that basis, BDO agrees with the NZAuASB's proposal to amend the definition of a PIE in PES 1 (Revised) so that "voluntary" PIEs are no longer captured within the definition.
9. BDO notes that the Exposure Draft proposes that the amended definition of a PIE will be effective from 15 December 2018, to align with the proposed changes to PES 1 (Revised) in relation to the requirements regarding long association of audit personnel with an assurance client. BDO does not consider that there is a reasonable basis for delaying the removal of "voluntary" PIEs from the PES 1 (Revised) definition of a PIE and consequently considers that the amended definition of a PIE should become effective immediately after the definition is changed.

Responses to questions posed in the Exposure Draft

10. Our response to each of the questions posed in the Exposure Draft is provided in Appendix B to this letter.

Conclusion

11. We support the NZAuASB's proposal to amend the PES 1 (Revised) definition of a PIE by removing "voluntary" PIEs from the definition.
12. We do not consider that there is a reasonable basis for delaying the effective date of the amended definition of a PIE to 15 December 2018. We consider that the amended definition should come into effect immediately after the amendment is made.
13. If you require further information, or would like to discuss any aspect of our submission further, please do not hesitate to contact Michael Rondel or, in his absence, Jackie Russell-Green.

Yours sincerely
BDO New Zealand



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**APPENDIX A:
INFORMATION ON BDO**

1. BDO is a network of eleven independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 89 partners and over 800 staff.
4. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
5. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with over 67,700 people in 1,401 offices across over 158 countries and territories.

**APPENDIX B:
RESPONSES TO QUESTIONS POSED IN THE EXPOSURE DRAFT**

1. Our response to each of the questions posed in the Exposure Draft is provided in the table below:

Question	BDO response
<p><i>Question 1:</i></p> <p>Do you agree with the proposal to amend the New Zealand definition of ‘a public interest entity’ so that “voluntary” PIEs are no longer automatically caught within the public interest entity definition?</p>	<p>As outlined in our general comments above, we agree with the NZAuASB’s proposal to remove “voluntary” PIEs from the PES 1 (Revised) definition of a PIE.</p>
<p><i>Question 2:</i></p> <p>Do you agree with the proposed effective date? If not, why not, and what alternative do you propose?</p>	<p>As outlined in our general comments above, we agree with the NZAuASB’s view that including “voluntary” PIEs in the definition of a PIE in PES 1 (Revised) is having the unintended consequence of stopping some entities from adopting the more robust financial reporting requirements that apply to Tier 1 Reporters. Due to that, we consider that the adoption of the amended definition of a PIE should not be delayed and we consequently recommend that the amended definition of a PIE become effective immediately after the definition is changed.</p>