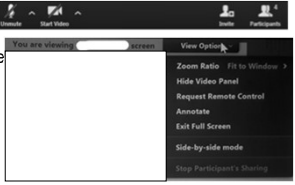


**Guidance for this virtual event** XRB

We look forward to hearing your thoughts and views on the PIE definition

1. Please mute your microphone and turn off your camera unless you wish to comment or ask a question
2. View Options: Recommend side-by-side
3. Polling questions  
The poll dialog box will appear on the meeting screen. Select the radio button to the left of your response and click submit
4. Session will be recorded




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1

**Public interest entity (PIE) definition**

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Misha Pieters, Senior Project Manager

March 2021

**XRB** EXTERNAL REPORTING BOARD  
17 Green Road, Porirua, Manawatu

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2

**Objective** XRB

**Raise awareness**

What are the audit independence implications for a tier 1 reporter?	What is the NZ PIE definition	An international exposure draft to revise the PIE definition
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Seek feedback on NZ issues with the PIE definition

Page 3

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3

**Independence implications for a tier 1 client** =XRB

- Auditors of audit clients that are PIEs have additional independence requirements.  
E.g.,
  - Time on and cooling off rotation requirements (long association)
  - Non-assurance services
  - Employment with an audit client
  - Fees
- Purpose of the additional requirements for PIEs is to enhance confidence in their financial statements through enhancing confidence in the audit of those financial statements
- It is NOT about different levels of independence but to increase confidence.



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**NZ PIE definition = Tier 1 reporters** =XRB

<p>FMC HPLPA (regulated and determined by the FMA*) including</p> <ul style="list-style-type: none"> <li>- Equity issuers</li> <li>- Debt issuers</li> <li>- Licensed derivative issuers</li> <li>- Listed issuers</li> <li>- Recipients of money from conduit issuer</li> <li>- Registered banks</li> <li>- Licensed insurers</li> <li>- Credit unions</li> <li>- Building societies</li> </ul> <p><small>(<a href="https://www.fma.govt.nz/compliance/exemptions/financial-reporting-exemption-information/#accountability">https://www.fma.govt.nz/compliance/exemptions/financial-reporting-exemption-information/#accountability</a>)</small></p>	<p>Large for-profit public sector entities</p> <p>Large NFPs</p> <p>Large public sector entities</p> <p>Entities that have public accountability</p>
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**Poll 1** =XRB

Do you consider the current NZ PIE definition is:

- a) Too broad
- b) About right
- c) Too narrow

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### International PIE ED Proposals

- Introduce an objective for additional PIE requirements
- Factors to consider when determining level of public interest
- Broaden the definition of PIEs to additional categories of entities
- Replace "listed entity" with "publicly traded entity"
- Require firms to determine if additional entities should be treated as PIEs
- Publicly disclose if an audit client was treated as a PIE

[IESBA-ED-Proposed-Revisions-to-the-Definitions-of-Listed-Entity-PIE-FINAL\\_0.pdf \(ifac.org\)](#)

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### International PIE ED - objective

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.

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### Poll 2

Do you support the proposed objective for defining entities as PIEs:

- Yes
- No – the objective applies equally to all audit engagements
- Would support a revised objective

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**Factors to determine extent of public interest**

- Nature of business or activities
- Subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations
- Size
- Importance of the entity to the sector including how easily replaceable it is in the event of financial failure
- Number and nature of stakeholders including investors, customers, creditors and employees
- Potential systemic impact in the event of financial failure

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**Poll 3**



Do you have concerns regarding the factors to consider to identify a PIE:

- a) Yes – these broaden out the possible types of PIEs beyond the NZ approach
- b) Yes - these broaden out the possible types of PIEs and go too far
- c) No – these confirm my current understanding of what entities would be identified as a PIE
- d) Maybe

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**Poll 4**



Do you consider that entities raising funds through less conventional means of capital raising should be PIEs (E.g., initial coin offering, the cryptocurrency equivalent to an IPO)

- a) Yes
- b) No
- c) Maybe

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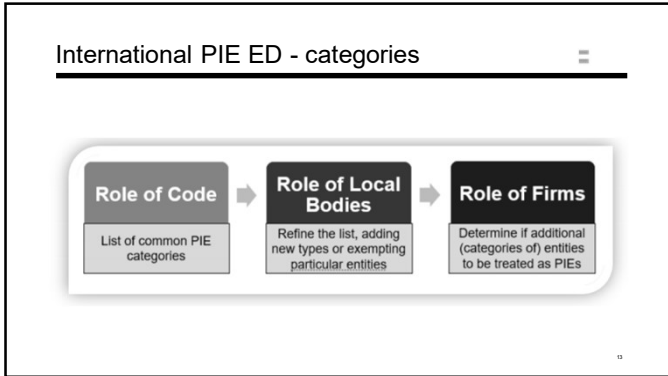
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**Broaden categories of a PIE**

Treat an entity as a PIE if it falls within the following categories:

1. A publicly traded entity;
2. Main functions is to take deposits from the public;
3. Main functions is to provide insurance to the public;
4. Function is to provide post-employment benefits;
5. Function to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or
6. Specified as such by law or regulation to enhance confidence in their financial statements through enhancing in the audit of those financial statements

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**Poll 5**

Given the proposed international changes do you consider the NZ PIE definition is:

- a) Too broad – includes entities that do not reflect significant
- b) About right
- c) Too narrow – is missing some entities for which there is significant public interest in the financial condition

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Listed versus publicly traded

"Publicly traded entity": An entity that issues financial instruments that are transferable and publicly traded

- Scope in more entities
- Encompass second tier markets or over the counter trading platforms
- Remove confusion of "recognized stock exchange"
- Assumes there is a facilitated trading mechanism
- Recognise that some instruments that are listed are not intended to be traded

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Poll 6

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Do you foresee a need for any change to the New Zealand approach may be needed given the change from "listed entity" to "publicly traded":

- a) Yes
- b) No

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Firms to determine PIEs

R400.16 [Moved from 400.8] A firm are encouraged shall to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. When making this determination the firm shall take into account whether a reasonable and informed third party would be likely to conclude such entities should be treated as public interest entities.

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**Poll 7** =XRB

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Do you support the proposal for firms to determine if any additional entities should be treated as a PIE?

a) Yes  
b) No

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**Disclosure** =

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A firm shall publicly disclose if an audit client has been treated as a public interest entity

PRO

- Promote transparency

CON

- Possibly undermine confidence in financial statements of non-PIEs
- Lacks clarity where and how such disclosure should be made

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**Poll 8** =XRB

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

a) Yes  
b) No

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**International PIE ED** =

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- PIE definition and additional independence requirements are included in the *International Independence Standards* applicable to audit engagements (audits of historical financial statements)
- No additional independence requirements for PIE clients for other assurance engagements (beyond the scope of this project)

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**Next steps** =XRB

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- NZAuASB to finalize submission to IESBA
  - Submit to NZAuASB by **25 March**
  - Or get in touch to share your ideas
  - Submit to IESBA by **3 May**
- IESBA to finalize the global approach
- NZAuASB will then prepare a NZ ED reflecting on the current New Zealand approach

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