



**The Japanese Institute of  
Certified Public Accountants**  
4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan  
Phone: 81-3-3515-1130 Fax: 81-3-5226-3355  
Email: international@sec.jicpa.or.jp

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Mr. Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor,  
New York, NY 10017  
USA

Dear Mr. Siong:

**Re: JICPA comments on the IESBA Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code***

The Japanese Institute of Certified Public Accountants (JICPA) appreciates this opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) Exposure Draft, *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

Our responses to the specific questions raised by the IESBA are as follows:

**I. Request for Specific Comments**

*Overarching Objective*

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?
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(Comment)

We support the overarching objective.

We have no objection to the overarching objective of defining PIEs which requires additional independence requirements for audits, for the purpose of enhancing confidence in their financial statements by enhancing confidence in the audit of those financial statements.

However, while confidence in the audits and financial statements of entities defined as PIEs is enhanced, confidence in the audits and financial statements of entities not defined as PIEs might be interpreted as diminished. If the overarching objective is not intended to create a disparity in confidence in audits and financial statements depending on whether or not the entity is a PIE, we are concerned that this could result in a reduction in confidence in audits and financial statements for entities not defined as PIEs. (Please also refer to Questions 12 and 15.)

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?

(Comment)

We agree with the exception of the following.

- In the first example “such as taking on financial obligations to the public as part of an entity’s primary business” in paragraph 400.8, the terms “financial obligations” and “to the public” are used. These could be subject to differing interpretations, such as whether or not “financial obligations” is limited to cases in which banks, insurance companies, etc., take on obligations to repay, and whether or not it applies in cases of simple fundraising by issuing shares, or whether or not “to the public” applies in the case of a fund that focuses on a small number of investors, which is not included in the current PIE definition in Japan. Accordingly, we believe it is necessary to give a more concrete indications of the meaning and scope of such terms in separate guidance, or in a FAQ.
- In the first example “such as taking on financial obligations to the public as part of an entity’s primary business” in paragraph 400.8, the term “primary business” is used, but the term “main function” is used in paragraph R400.14. If this distinction is being made intentionally, we believe that the difference between “primary business” and “main function” should be clarified. If both are being used to express the same meaning, then the terms should be made consistent.

#### *Approach to Revising the PIE Definition*

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?

(Comment)

We support the proposed broad approach.

If the narrow approach were to be adopted it would be difficult for relevant local bodies to add to the PIE definition, and could lead to a continuation of the existing problem whereby variations arise between different jurisdictions, so we believe the adoption of the broad approach is reasonable.

In addition, because the situation varies from jurisdiction to jurisdiction and it is thus difficult to establish a unified global standard, we believe it is reasonable for high-level PIE categories to be prescribed, and for relevant local bodies to subsequently make refinement such as qualifying the definition, setting quantitative standards, and adding or exempting entities.

However, depending on the refinements made by different jurisdictions, we could see unintentional variances arising due to the scope of PIEs being made too narrow, or too broad, and so we believe it is important that IESBA supplements this approach by monitoring the situation in each jurisdiction and issuing additional guidance or FAQs, as required. In addition, after various jurisdictions have completed their refinements, we believe that IESBA should review them for appropriateness.

#### *PIE Definition*

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.

(Comment)

We support the proposals.

Taking into account such factors as the fact that PIEs are not limited to listed companies, that it is desirable to avoid the confusion caused by the inclusion of “recognized stock exchange” in the definition of “listed entity,” and that when “listed” is used it includes situations in which all listed shares of an entity are held by group companies with no intention of trading them (paragraphs 38 of the Exposure Draft), we believe it is reasonable to replace the term with “publicly traded entity.”

However, because it is not clear from the definition of the term “publicly traded entity” (“An entity that issues financial instruments that are transferable and publicly traded”) to what extent issuers of very liquid (or illiquid) financial instruments are included, or whether it includes issuers raising funds through non-traditional approaches such as Initial Coin Offerings (ICO), and because it is not clear whether “to the public” used in paragraph 400.8 and “publicly” used in the definition in question carry the same meaning (scope), we think that IESBA should supplement this by issuing additional guidance or FAQs.

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

(Comment)

We agree with the proposals, with the exception of the following.

Paragraph R400.14 (e) states that a “collective investment vehicle” shall be categorized as a PIE, but because there are many different types of fund, we are concerned that variations will arise as a result of refinements made by relevant local bodies. We think IESBA must clarify this by issuing additional guidance or FAQs that provide specific examples of funds that would fall into this category, for example, a private fund for qualified institutional investors would be categorized as a PIE, but a public fund would not be categorized as a PIE, and state that fund management companies do not fall under subparagraph (e), as noted in paragraph 41 of the Exposure Draft.

In addition, because the organizational form of a fund is different than that of a conventional entity, we believe the following issues should be clarified through the issuance of additional guidance or FAQs.

- The treatment of a “fund vehicle” and its related entities
- The treatment of those charged with governance of “fund vehicles”

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

(Comment)

We believe that, rather than adding the entities that raise funds through non-traditional approaches such as ICOs as a PIE category in paragraph R400.14, it would be appropriate for relevant local bodies to consider whether or not it is necessary to make additions after taking into account the overarching objectives of paragraphs 400.8 and 400.9, and depending on the systems and use cases in the jurisdiction in question.

For example, given that one of the characteristics of ICOs is that no audit of the financial statements is required in the time leading up to the fundraising, and that regulation of non-traditional fundraising such as ICOs varies by jurisdiction (and that ICOs are prohibited in some jurisdictions), we believe it would be inappropriate to establish a uniform category for PIEs.

Also, after relevant local bodies have implemented refinements, we think it would be desirable for IESBA to conduct a review of the treatment of entities that raise funds using non-traditional

approaches, and to revisit the definition of PIEs.

*Role of Local Bodies*

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?

(Comment)

We support the proposed paragraph.

However, we are concerned that problems related to the capacity of relevant local bodies (ability, knowledge, or resources) could result in inappropriate refinements, and that unintentional variances could occur as a result of unilateral refinements made by local bodies.

In addition we are concerned that if inappropriate refinements made by relevant local bodies were to lead to many additional entities being identified as PIEs by firms then, for example, in cases where audits are conducted jointly (with another firm) for an audit client, or where firms that audit the parent company and the subsidiary are different, or where the same audit client changed auditing firms, the scope of PIE could differ depending on the firm.

Accordingly, it is important that the refinements are made appropriately by relevant local bodies, and we believe that IESBA should issue guidance or FAQs, as well as implementing outreach activities (as mentioned below) and educational support.

Moreover, paragraph 400.15 A1 in effect consists of application guidelines for relevant local bodies, and we believe that consideration should be given to whether or not it is appropriate for these to be included in the Code.

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?

(Comment)

We support the IESBA's proposed outreach and education support described in paragraph 59 of the Exposure Draft.

The details and perspectives used in the outreach and education support might include the following.

- In the proposed revisions to the PIE definition this review of the PIE definition, what is most important is the role played by relevant local bodies and in particular, it should be made clear that relevant local bodies are expected to consider whether categories that were not included in paragraph R400.14 because their public interest is significant only in specific jurisdictions, or entities using non-traditional forms of fundraising such as ICOs, should be added to the PIE

categories or not.

- The IESBA should give concrete explanations of background to the replacement of “listed entities” by “publicly traded entities,” and of which entities are expected to be added or exempted as a result of the changes in the definition.

#### *Role of Firms*

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

(Comment)

We support the proposal.

Because it would be difficult to create an exhaustive definition of all PIE categories, we believe it is reasonable to ultimately consider whether there are entities that firms should add after relevant local bodies have refined PIE categories. We believe that it is important to raise awareness of the refinement of the IESBA’s provisions by local bodies and determination by firms to treat additional entities as PIEs.

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

(Comment)

1. The paragraph 400.16 A1 lists additional factors to consider when the firm is determining whether additional entities or categories of entities should be treated as PIEs (“factors to consider when determining whether additional **entities or certain categories of entities** should be treated as public interest entities include:”), but the individual elements enumerated could be read as factors to consider when adding an entity, so we believe it would be appropriate to include the term “category.” For example, in the first bullet point (“Whether the entity has been specified as not being a public interest entity by law or regulation”) and fourth (“Whether in similar circumstances the firm has treated other entities as a public interest entity”) of paragraph 400.16 A1, “entity” could be replaced with “entity or certain category of entities.”
2. With regard to the fifth bullet point (“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”), we are concerned that the scope of PIE would become too broad. In cases where one of the factors to consider is whether the entity or other stakeholders requested the firm to treat the entity as a PIE, it could be interpreted as meaning that if there is a request from the entity or other stakeholders the entity should be treated as an additional PIE. The decision

should be made objectively and based on the reasonable and informed third party test, and it should be clarified that requests from the entity or stakeholders will only be agreed to if there are reasonable grounds for this request. Accordingly, we believe it would be appropriate to replace “whether there are any reasons for not meeting this request” with “whether there are reasonable grounds for this request.”

*Transparency Requirement for Firms*

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

(Comment)

We support the proposal.

We believe that increasing the transparency of PIE-related information is likely to contribute to enhanced confidence in financial statement audits. In addition, from the perspective of increasing transparency, it should be made clear in the provision that relevant local bodies have a role to refine PIE definition that enable stakeholders to determine whether an entity falls into a PIE category or not, even without disclosure from firms.

Furthermore, in relation to paragraph R400.17, it should be clarified whether firms should be required to disclose only additional entities that have been treated as PIEs, or whether to require that all entities treated as PIEs be disclosed, and whether to also disclose entities that were not treated as PIEs. Also, in terms of the background to the addition of this disclosure requirement, we believe that the points listed in Paragraph 66 of the Exposure Draft should be clarified through the issuance of additional guidance or FAQs.

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.

(Comment)

PIE-related information could be disclosed in the auditor’s report, or in the transparency report issued by the firm in relation to audit quality, or disclosed in a combination of the two. As described in our comments to question 1, the disclosure that the entity is a PIE might give a perception to stakeholders that an audit quality is high, (an audit quality is low in case of no disclosure). To avoid such situation, the disclosure should be stated as “additional independence requirements have been applied for an audit of a client that is a PIE,” rather than “the client has been categorized as a PIE.”

The anticipated content of disclosure in the auditor’s report and/or transparency report, and the advantages and disadvantage of this disclosure, are as follows.

<Auditor’s report>

Anticipated content of disclosure	<ul style="list-style-type: none"> <li>● The entity being audited is categorized as a PIE and additional independence requirements have been applied</li> <li>● Reason for determining that it is categorized as a PIE (which category it falls under the categories prescribed by relevant local bodies, or the reason for the firm adding it as a PIE)</li> </ul>
Advantages	<ul style="list-style-type: none"> <li>● Users of financial statements will be able to learn in a timely manner that the entity being audited is a PIE</li> <li>● Reasons for categorizing the entity as a PIE can be confirmed</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>● It could give the impression that confidence in the financial statements of an entity not categorized as a PIE is lower than those of an entity categorized as a PIE.</li> </ul>

<Transparency Report>

Anticipated content of disclosure	<ul style="list-style-type: none"> <li>● The firm’s policy for determining a PIE (criteria for the firm adding an entity and the category for the entity as a PIE)</li> <li>● The proportion of PIEs among audit clients of the firm</li> </ul>
Advantages	<ul style="list-style-type: none"> <li>● Enables stakeholders (users of financial statements, audit clients, regulatory authorities, etc.) to understand the firm’s policy as it relates to determining PIEs, and raises transparency in relation to PIEs</li> <li>● Enables an understanding of the overall proportion of entities that are treated as PIEs</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>● Some small and medium practices do not issue a transparency report like those issued by larger firms, so it is possible that not all firms will take the same unified approach to the issue.</li> <li>● This could lead to the misunderstanding that differences in policies used to determine PIEs and differences in the proportion of PIEs are indications of differences in audit quality</li> </ul>

*Other Matters*

<p>13. For the purposes of this project, do you support the IESBA’s conclusions not to:</p> <p>(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?</p> <p>(b) Propose any amendments to Part 4B of the Code?</p>
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(Comment)

We support the conclusions.

- (a) With regard to reviewing the definition of “audit client,” we believe it is appropriate for this to be dealt with in a separate future work stream rather than as part of the PIE project.
- (b) From the perspective of this project, we believe it is reasonable not to amend Part 4B of the Code.

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

(Comment)

We support the proposed date.

In addition to relevant local bodies refining the PIE categories, work will be required by firms in relation to considering additions to PIEs, revising internal policies, upgrading systems, investigating the issue of PIE disclosures, and contemplating whether or not to provide non-assurance services in cases where the scope of the PIE has expanded, so sufficient preparation time must be provided before the revisions are applied.

*Matters for IAASB consideration*

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?

(Comment)

- (a) We support the use of the overarching objective by both the IESBA and the IAASB for establishing differential requirements for certain entities. However, with regard to the specific issue of whether the scope of requirements should be expanded or not, we believe that full

consideration should be given to the case-by-case approach described in (b) below, so as to avoid any unexpected side-effects as a result of such as expansion.

(b) Based on the overarching objectives set out in paragraphs 400.8 and 400.9 we believe that with regard to the issue of whether to broaden the application of requirements limited to “listed entities” to other PIEs, consideration of individual requirements is needed, and that a case-by-case approach is reasonable.

(c) Given the objective of this project, which is to raise confidence in financial statements by raising confidence in the audit of the financial statements, we believe it is appropriate to disclose PIE-related information in the auditor’s report.

We are concerned that this disclosure in the auditor’s report could lead to the misunderstanding that there is a disparity in the level of quality between an audit for clients that is a PIE and an audit of clients that is not a PIE. When, therefore, such disclosure is made, the disclosure must be formed in such a way as to clearly convey that there is no disparity in audit quality. In that regard, as described in our comment to question 12, in the case of a PIE audit, in the statement of compliance with the Code in the auditor’s report, there could be a statement that it complies with the additional independence requirements. Furthermore, we anticipate that IESBA discusses in depth with IAASB about the effect of the disclosure to stakeholder’s perception of audit quality.

## II. Request for General Comments

- *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

(Comment)

We do not have any specific comments.

- *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.

(Comment)

Not applicable.

- *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.

(Comment)

Not applicable.

- *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

(Comment)

We do not have any specific comments on the wording used in the Exposure Draft from the perspective of translation into Japanese.

However, English is not the official language in Japan, thus, it is inevitable to translate the Code from English to Japanese in an understandable manner. For this reason, we pay close attention to the wording used in the Code in respect of whether it is translatable and comprehensible when translated. We therefore request the IESBA to avoid lengthy sentences and to use concise and easily understandable wording.

We hope the comments provided above will contribute to the robust discussions at the IESBA.

Sincerely yours,

Toshiyuki Nishida

Executive Board Member - Ethics Standards

The Japanese Institute of Certified Public Accountants