

ISC Exposure Draft – Proposed Revisions Relating to Definitions of Public Interest Entity and Listed Entity in Canadian Independence Standards

June 2024

Comments requested by: September 30, 2024

Background and Overview

About the PTC

1. The Public Trust Committee (PTC) oversees the ethics standards and self-regulatory processes of the Chartered Professional Accountant (CPA) profession and serves to protect the integrity of the profession while maintaining public confidence and trust.
2. The detailed ethics standards are embodied in the provincial CPA bodies' (PTBs) codes of conduct and are monitored and enforced through the profession's self-regulatory activities. The ethical requirements of the harmonized Canadian CPA Code of Professional Conduct (CPA Code) are under active consideration to more closely align with the International Ethics Standards Board for Accountants (IESBA) Code of Ethics (IESBA Code) unless differences are required in regard to Canadian laws, regulations, or the public interest¹.

About the ISC

3. The Independence Standing Committee (ISC) is a subcommittee of the PTC, formed in 2021, with a mandate to assist the PTC by recommending high-quality Canadian Independence Standards for approval and proposed adoption by PTBs². The ISC is charged with reviewing all changes made by the IESBA to the International Independence Standards (IIS) in the IESBA Code.
4. This Exposure Draft (ED) outlines the ISC's proposals to define "public interest entity" (PIE) in the Canadian Independence Standards (CIS), to more closely align with these definitions in the IESBA Code. These proposals are part of the PTC's active consideration of the CIS with a view to ensuring that independence standards in Canada are not, in the absence of specific reasons related to the Canadian public interest, laws or regulations, less stringent than the IESBA Code. The IESBA Code prohibits more activities for auditors of PIEs than are currently prohibited for auditors of "reporting issuers" in the CIS in Rule 204 of the CPA Code. In due course, the PTC will be publicly exposing these additional prohibitions for

¹ The IESBA Code is not fully adopted in Canada. However, as an IFAC member, CPA Canada is committed to updating and maintaining the harmonized CPA Code such that it is no less stringent than the IESBA Code, except where required due to law, regulation or to serve the Canadian public interest

² The extent to which the CIS are adopted by individual PTBs is determined by those bodies

inclusion in the CIS in the context of the definition of a PIE, to determine whether differences are required in regard to Canadian laws, regulations, or the public interest.

5. The ISC and PTC need feedback from interested and affected stakeholders to determine whether these proposals to define a PIE are appropriate in the context of Canadian laws, regulation and the public interest. (see Request for Comments).

Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

6. In April 2022, IESBA revised its definitions of listed entity and public interest entity. The IESBA code includes separate and, in many cases, more restrictive independence provisions for PIEs. For example, the IESBA code prohibits members from providing non-assurance services to a PIE audit or review client if such services might create a self-review threat. IESBA's new PIE definition contains three mandatory categories of PIEs:

- 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

IESBA's revised PIE definition also contains a general category described as an entity specified as such by law, regulation, or professional standards due to significant public interest in their financial condition.

7. IESBA's application guidance explains that bodies responsible for setting ethics standards in their jurisdictions are expected to refine these categories more explicitly to consider the potential impact to the public of certain entities' financial well-being. The application guidance:
 - a) indicates that bodies responsible for setting ethics standards are expected to add categories but are not expected to remove any.
 - b) provides for those bodies responsible for setting ethics standards to more explicitly define these categories by, for example:
 - Making reference to specific public markets for trading securities.

- Making reference to the local law or regulation defining banks or insurance companies.
- Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
- Setting size criteria for certain types of entities.

c) encourages firms to consider whether to treat additional entities as PIEs.

8. These are the factors IESBA has provided for ethics standard-setting bodies to consider in determining whether there is significant public interest in an entity's financial condition:

- a) Nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business.
- b) Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- c) Size of the entity.
- d) Importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- e) Number and nature of stakeholders including investors, customers, creditors and employees.
- f) Potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

Current requirements in Canada

9. The Canadian Independence Standards require members and firms to consider independence in fact and appearance before and throughout each assurance engagement. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated, and safeguards are not capable of being applied to reduce the threat to an acceptable level.

10. Currently, additional independence requirements or “prohibitions” in the CIS only apply to audits of reporting issuers or listed entities (see table below). The existing prohibitions that apply to audits of reporting issuers and listed entities were developed with regard to the expectations of Canadian securities regulators, investor groups and other affected stakeholders.
11. The IESBA code has more prohibitions applicable to audits of PIEs than are currently in CIS. Following consideration of the IESBA’s definition of a PIE the ISC will, in accordance with its mandate, continue to evaluate and make recommendations for PTC approval to update those aspects of the CIS that are determined to be less stringent than the IESBA Code.

Examples of <u>Additional</u> Independence Requirements for Reporting Issuers and Listed Entities in Current CPA Canada Code	Effect for Audit Clients Identified as Public Interest Entities
Long association of senior personnel	Mandatory rotation and cooling off requirements for lead and other engagement partners, as well as engagement quality reviewer (EQR)
Audit committee approval of services	Prior approval of audit committee required for all professional services to an audit client
Preparation of accounting records or financial statements	Prohibition against providing accounting or bookkeeping services related to the accounting records or financial statements, including maintaining or preparing the audit client or related entity's accounting records, preparing financial statements which form the basis of the financial statements on which the audit report is provided, or preparing or originating source data underlying such financial statements
Provision of valuation, actuarial, and internal audit services	Prohibition against providing these services to an audit client unless results are not subject to audit procedures during audit of the financial statements (rebuttable presumption that they are).
Litigation support and legal services	Prohibition against providing an audit client or related entity with legal services, or litigation support services for the purpose of advancing the entity's or related entity's interest in a civil, criminal, regulatory, administrative or legislative proceeding or investigation
Provision of IT system services	Prohibition against providing certain design and implementation services to an audit client
Relative size of fees	Requirements for disclosure to the audit committee and additional review equivalent to a EQR when fees to an audit client exceed 15% of firm revenue

Public Interest Considerations

12. The ISC believes that, following the IESBA's revisions to the definition of a PIE, it is appropriate to re-examine the types of entities that should be subject to additional independence requirements in Canada because of heightened public interest in their financial condition. This will ensure that the CIS remain of high-quality and globally comparable.

13. In developing its proposals for the categories of PIE in the CIS, the ISC considered that it is important to achieve an appropriate balance in recommending that auditors of certain types of entities comply with additional independence requirements. Specifically, the extent of public interest in the financial condition of PIEs should be sufficient to justify the cost of complying with additional independence requirements for the ISC's proposals to be practical for application in Canada.
14. The ISC used the IESBA's factors and preliminary outreach with interested and affected parties in Canada to evaluate the significance of public interest in the financial condition of each the IESBA's mandatory categories, as well in several additional categories of entities, to refine the IESBA's definition for Canadian-specific circumstances.
15. For example, the ISC's proposed definition includes categories of entities in Canada whose main activities involve taking on financial obligations to the public, a fundamental characteristic of PIEs. However, the ISC also considered that there may not be significant public interest in the financial condition of entities if they fail to meet several of the other fundamental characteristics of a PIE. Certain entities that take on financial obligations to the public are very small in size, serve narrow groups of members with special interests, are not important to the sectors in which they operate and there would be no systemic economic impact in the event of their financial insolvency.
16. The ISC is of the view that, if evaluation in accordance with the IESBA's factors indicates there is not significant public interest in an entity's financial condition, then imposing additional independence requirements will not serve the public interest. Increased regulatory burden and costs for professional services would be borne by smaller groups of stakeholders of such entities.
17. The ISC notes that this approach is consistent with the IESBA's application material for national standard-setters in defining PIEs in their jurisdictions and would therefore result in a definition in the CIS that is no less stringent than the IESBA Code and of high-quality relative to the definitions of PIE adopted elsewhere. For example, other jurisdictions have refined the IESBA's definition of PIE to provide size exemptions, and exemptions for member-owned entities such as credit unions, in order to strike an appropriate balance between the cost of additional regulatory burden and the public interest in the financial condition of such entities.

Coordination with AASB

18. In January, the International Auditing and Assurance Standards Board (IAASB) issued an Exposure Draft proposing narrow-scope amendments to International Standards on Quality Management (ISQMs) and the International Standards on Auditing (ISAs) to:
- (a) adopt the definition of PIE from the IESBA Code; and
 - (b) extend the applicability of some of the existing differential requirements for listed entities to apply more broadly to PIEs.
19. The Canadian Auditing and Assurance Standards Board (AASB) has issued a Canadian Exposure Draft proposing not to adopt the IAASB's amendments at this time and is planning to issue a subsequent Canadian Exposure Draft on proposed narrow-scope amendments to the Canadian Standards on Quality Management (CSQMs) and Canadian Auditing Standards (CASs), after considering the PTC's PIE definition for the purpose of the CIS.

Explanation of the proposed new definitions

20. The ISC has undertaken preliminary outreach with parties in Canada charged with the prudential oversight of each category, to develop proposals to amend the CIS to more closely align with the IESBA's revisions to the definitions of listed entity and public interest entity. The ISC's proposed definitions include refinements to reflect the current expectations of interested and affected stakeholders in Canada, about the significance of the public interest in the financial condition of certain entities.
21. The ISC is proposing that an entity that falls into **any** of the following categories (Category A – Category F) is a PIE and that auditors of such entities be subject to the additional independence requirements in Canadian Independence Standards:

Mandatory categories

Category A: A reporting issuer, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000

22. IESBA's first mandatory PIE category is "A publicly traded entity." IESBA adopted the following definition of publicly traded entity to help users understand what this category includes:

An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

23. In the IESBA Code, "publicly traded entity" (PTE) replaces "listed entity" and includes entities whose shares, stock, or debt is traded on formal exchanges as well as entities trading on second-tier markets or over-the counter (OTC) trading platforms. In Canada, all entities with securities listed on formal stock exchanges, as well as certain entities trading through other publicly accessible market mechanisms such as OTC platforms fall within the definition of a "reporting issuer", as determined by relevant securities legislation. The term "listed entity" is not used in securities law or regulation in Canada.

24. Early outreach with those charged with the protection of Canadian investors indicates that the IESBA's definition of a publicly traded entity is broad and might be unclear and inconsistently interpreted, particularly given that Canada's public company audit regulator, the Canadian Public Accountability Board (CPAB) oversees auditors of reporting issuers, specifically. Accordingly, the ISC is proposing that the IESBA's mandatory PIE category for publicly traded entities would be more clear in a Canadian context if it referred instead to a reporting issuer, as defined in relevant securities law and regulation. The ISC is further proposing that the term "listed entity" is not needed in the CIS because entities with any securities which have been at any time listed and posted for trading on any stock exchange in Canada, regardless of when the listing and posting for trading began, are included in the definition of a reporting issuer.

25. The ISC then considered whether the CIS should continue to include an exemption for reporting issuers with market capitalization and total assets that are each less than \$10,000,000.
26. The ISC observes that this size exemption has been in place for a number of years in Canada, to support a unique junior issuer market in this country, and the ISC is not aware of any concerns, rather there has been general support expressed by interested and affected stakeholders. The ISC also observes that issuers with less than \$10,000,000 in market capitalization currently represent approximately 0.02% of the Toronto Stock Exchange (TSX) and 4.43% of the TSX Venture Exchange. Such entities are small in size relative to other issuers and Canadian capital markets as a whole, and a financial failure would not be systemic to their sector or the broader Canadian economy.
27. Therefore, the ISC believes that the Canadian Independence Standards that apply to all audit and assurance engagements continue to be sufficiently robust to protect the Canadian public interest in the case of smaller reporting issuers, and that additional prohibitions could have unintended and unnecessary consequences for these entities and their stakeholders.
28. Accordingly, the ISC is proposing to continue to include the current exemption for reporting issuers with both market capitalization and total assets of less than \$10,000,000 in the definition of a public interest entity, and inviting feedback from interested and affected stakeholders on what the consequences, if any, might be of these proposals (see [Request for comments](#)).

Category B: An entity one of whose main functions is to take deposits that is subject to either:

- regulation under the federal Bank Act, Trust and Loan Companies Act or Cooperative Credit Associations Act; or
- provincial regulation as a credit union or caisse populaire, other than an entity that has, in respect of a particular fiscal year, less than \$500 million in total assets

29. The ISC observes that, in Canada, the Office of the Superintendent of Financial Institutions (OSFI) regulates and supervises federally regulated financial institutions to determine whether they are in sound financial condition and meeting their requirements. This includes all banks in Canada, and all federally incorporated or registered trust and loan companies and cooperative credit associations, including two federal credit unions. The ISC's initial outreach with those charged with oversight of this sector indicates that all federally

regulated deposit-taking institutions in Canada meet the fundamental characteristics of a PIE, because the nature of their business involves taking on financial obligations to the Canadian public, and they are systemically important to the financial sector and Canadian economy.

30. The ISC also considered whether certain types of entities, such as provincially regulated credit unions with mutual ownership, should be included in this category or specifically exempt from the definition of a PIE, which the ISC observes is the approach taken in several other major jurisdictions.
31. The ISC's preliminary outreach with those charged with oversight of this sector indicates that, although they are owned by their members, from a public interest perspective, Canadian credit unions are comparable to banks in both substance and form.
32. However, the ISC acknowledges that many provincially regulated credit unions are quite small, may be open only to specific types of members, such as residents of the credit union's home province, a particular geographic area, or even a particular industry or profession. For example, the New Brunswick Teachers Association (NBTA) Credit Union focuses on teachers in New Brunswick but is also open to the general public in New Brunswick. On the other hand, the Ontario Provincial Police Association (OPPA) Credit Union is only open to OPP officers, OPPA members, and family members of officers or OPPA members.
33. Consequently, the ISC considered whether it is necessary to impose additional independence requirements on smaller credit unions whose membership may be limited to much narrower groups of stakeholders, and whether doing so may impede such credit unions from best serving the interests of their members.
34. The ISC understands based on preliminary outreach with stakeholders in this sector that \$500 million in total assets provides a prudent cutoff between smaller institutions where there is no significant public interest in a credit union's financial condition, and larger, more systemically important credit unions that are subject to additional regulatory requirements, reflecting heightened public interest in their financial condition.
35. Industry data indicates that Canadian credit unions (outside Quebec) with greater than \$500 million in total assets account for more than 90% of the combined consolidated assets

of the sector (excluding Quebec). In Quebec, Desjardins caisse populaire & credit union is regulated by the Autorite des Marches Financiers, and accounts for 100% of the sector.

36. Accordingly, the ISC is proposing that it is not necessary or in the public interest to include credit unions with less than \$500 million in total assets in the definition of a PIE. Such smaller credit unions do not meet the fundamental characteristics of a PIE because they are relatively small in size, serve a narrower group of stakeholders or members, and are not systemically important to the sector or broader Canadian economy in the event of a financial failure.

Category C: An entity one of whose main functions is to provide insurance that is either a:

- **federally incorporated insurance company, regulated under the Insurance Act; or**
- **provincially incorporated insurance company, other than an entity that has, in respect of a particular fiscal year, less than \$500 million in total insurance revenue**

37. In Canada, the federal and provincial governments share jurisdiction over both life and health and property and casualty (P&C) insurers. Federal supervision encompasses insurers incorporated or continued under the Insurance Companies Act as well as foreign insurers who have been granted an order to insure in Canada risks. In general, OSFI conducts prudential reviews of the federally regulated insurers to determine their financial soundness, while the provinces regulate the licensing of insurers operating within their jurisdictions as well as the marketing of insurance products.

38. The ISC's initial outreach with those charged with oversight of this sector indicates that all federally regulated insurance companies in Canada meet the fundamental characteristics of a PIE, because the nature of their business involves taking on financial obligations to the Canadian public, and they are systemically important to the financial sector and Canadian economy.

39. The ISC also considered whether certain types of entities, such as provincially incorporated insurance companies with mutual ownership, should be included in this category or specifically exempt from the definition of a PIE, because there is no significant public interest in their financial condition.

40. The ISC observes that, although some provincially incorporated insurance companies have different forms of ownership or types of stakeholders, from a public interest perspective

these entities provide the same services to the public as federally incorporated insurers in both substance and form.

41. However, the ISC acknowledges that many provincially incorporated insurance companies are quite small, may only insure types or groups of members, such as residents of that province, a particular geographic area, or even a particular industry or profession, such as fraternal benefit societies.
42. Consequently, the ISC considered whether it is necessary to impose additional independence requirements on smaller insurance companies whose policyholders or subscribers may be limited to much narrower groups of stakeholders, and whether doing so may impede such insurers from best serving the interests of their policyholders.
43. The ISC understands based on preliminary outreach with stakeholders in this sector that \$500 million in total insurance revenue provides a prudent cutoff between smaller insurers where there is no significant public interest in that entity's financial condition, and larger, systemically important insurers with heightened public interest in their financial condition.
44. Available data for the insurance industry indicates that insurance companies licensed to sell life and health insurance in Canada with greater than \$500 million in premiums represent more than 95% of total premiums as of December 2022, and that a P&C insurer with \$500 million in total insurance revenue would hold a market share of only 0.5%. The ISC understands that some Internationally Active Insurance Groups (IAIGs) may have insurance operations in Canada that fall below the proposed threshold of \$500 million in total insurance revenue, and therefore would be exempt from the proposed definition of a public interest entity in Canada. However, the ISC observes that, with few exceptions, such IAIGs would meet the definition of a PIE in their home jurisdictions, which are predominantly Europe, United Kingdom, and United States.
45. Accordingly, the ISC is proposing that it is not necessary or in the Canadian public interest to include provincially incorporated insurance companies with less than \$500 million in total insurance revenue in the definition of a PIE. Such smaller insurers do not meet the fundamental characteristics of a PIE because they are relatively small in size, serve a narrower group of stakeholders or members, and are not systemically important to the sector or broader Canadian economy in the event of a financial failure.

Additional Categories

46. In addition to the mandatory categories of PIE, IESBA's application material indicates that ethics standards-setting bodies are expected to add categories and identifies the following possible categories:

- (a) Collective investment vehicles
- (b) Pension funds
- (c) Private entities with large numbers of stakeholders (other than investors)
- (d) Not-for-profit organizations or governmental entities
- (e) Public utilities

47. The ISC notes that in Canada, collective investment vehicles, such as most mutual funds, meet the definition of a reporting issuer under Canadian securities legislation, and therefore this category does not need to be considered here.

Category D: An entity that is a provincially regulated pension plan or pension fund, other than an entity that, in respect of a particular fiscal year, has less than \$500 million in plan assets

48. The ISC is of the view that certain pension plans meet some of the fundamental characteristics of public interest entities, because the nature of their business is to take on financial obligations, and they are subject to regulatory oversight for the purpose of ensuring that they can meet those obligations. The ISC also observes that, in Canada, private pension plans represent a significant source of retirement income and accordingly there is public interest in their financial condition.

49. However, the ISC also observes that the vast majority of pension plans in Canada are small, for example 56% of Canadian private pension plans have less than 10 members and 36% have only 1 member. Industry data indicates that approximately 2% of Canadian pension plans (345/16,164 registered pension plans) have more than \$500 million in plan assets, but these large pension plans account for almost 90% of total market value of plan assets, and more than 75% of plan members in Canada.

50. The ISC is therefore of the view that although certain large pension plans do meet the fundamental characteristics of a PIE, this category will need refinement to ensure that

additional independence requirements, and the ensuing cost of increased regulatory burden, are only required when the public interest in a pension plan or fund's financial condition is significant. Benefits of enhanced independence must be balanced by its potential cost. These additional costs would generally be borne, directly or indirectly, by pension plan members by diverting money away from the funding of their pension benefits and present an additional obstacle to the promotion of pension plans.

51. Accordingly, the ISC is proposing that it is only necessary and in the public interest to include pension plans or funds with greater than \$500 million in plan assets in the definition of a PIE in the CIS, because there is no significant public interest in the financial condition of smaller pension plans in Canada, that serve a narrower group of stakeholders or members, and are not systemically important to the sector or broader Canadian economy in the event of a financial failure.

[Category E: An investment dealer that is a member of the Canadian Investment Regulatory Organization \(CIRO\) and that is permitted under the rules of CIRO to hold the cash and securities of a client or investment fund](#)

52. The ISC considered whether there may be significant public interest in the financial condition in certain categories of registrants under Canadian securities legislation.

53. Initial outreach with those charged with oversight of securities registrants in Canada indicates that there is heightened public interest in the financial condition of investment dealers when they hold (i.e., have custody of) the cash and securities of clients or investment funds. Under Canadian securities legislation, National Instrument 31-103 provides that, in addition to banks and trust companies (which the ISC has already proposed to include as categories of PIE), an investment dealer that is a member of CIRO may be permitted under the rules of CIRO to hold the cash and securities of a client or investment fund as a custodian in Canada.

54. The ISC agrees that investment dealers that hold assets in a fiduciary capacity for the public do meet the fundamental characteristics of a PIE, because of the nature of the services being offered to the public, and their systemic importance to Canadian capital markets.

55. The ISC further observes that in the US, the SEC already has additional independence requirements applying to non-issuer securities broker-dealers that handle securities or

funds of others in connection with securities transactions. The SEC determined that auditors of such entities should be strictly prohibited from providing certain services to their broker audit clients, namely accounting and bookkeeping, and performing certain management functions, to avoid the appearance of a self-review threat. However, additional SEC independence requirements for non-issuer broker-dealers do not include those related to partner rotation and cooling off periods.

56. The ISC thinks that it is important to ensure that the Canadian Independence Standards are of high-quality relative to other major jurisdictions, and to meet investor expectations for auditor independence. Since many Canadians may transact in both Canadian and US securities markets, the ISC thinks that it is reasonable for Canadian investors to expect that auditors of entities facilitating these transactions and holding cash and securities on behalf of clients in Canada are subject to similar prohibited activities.

57. The ISC observes that an investment dealer that is a member of CIIRO is able to accept custody of client cash and securities of any member of the public in Canada and is not aware of circumstances within this sector, such as member-ownership, that require special consideration within this category. The ISC also notes that other CIIRO members that are permitted to hold the cash and securities of members of the public, such as banks and trust companies, would all meet the proposed definition of a PIE without exemption. The ISC is therefore of the view that all investment dealers that are members of CIIRO should be included in this category of PIE.

Category F: An entity, other than those set forth in Categories A to E above, for which an audit is required by a legislative or regulatory body to be conducted in compliance with the same additional independence requirements that apply to audits of public interest entities

58. Notwithstanding the definition of a PIE in the Canadian Independence Standards, including any related size exemptions, a legislative or regulatory body charged with prudential oversight of a sector may require that an audit or assurance engagement be conducted in accordance with the same additional independence requirements that apply to audits of public interest entities.

59. The ISC is proposing to make this explicit and include an additional category, which aligns with the IESBA's final category of PIE, "An entity specified as such by law, regulation, or

professional standards to meet the purpose described in paragraph 400.10”³. The ISC is concerned that IESBA’s category as drafted may be inconsistently understood and/or applied because it seems to require interpretation of a legislator or regulator’s intent. The ISC is therefore proposing to refer directly to a requirement by a legislative or regulatory body to apply the PIE independence requirements, for clarity.

Other categories considered

60. The ISC considered but decided not to propose to include additional categories of registrants under Canadian securities legislation in the definition of a PIE, because there are no indications of significant public interest in the financial condition of registrants that do not hold assets in a fiduciary capacity.
61. The ISC also observes that one objective of the IESBA’s revised definition of a PIE was to achieve global comparability. Consequently, the ISC believes that it is not in the public interest in Canada to include categories of PIE that would result in a definition that is significantly more stringent than the IESBA Code or other major jurisdictions, unless there is a compelling reason to do so in this jurisdiction.
62. The ISC acknowledges feedback from some stakeholders that there may be public interest in large private entities, not-for-profit organizations, government entities and public utilities. For example, some of these entities may rely on funding from the public, and/or deliver valuable services to the public.
63. The ISC discussed these views in conjunction with the IESBA’s factors and determined not to propose additional categories for private entities, not-for-profit organizations, governmental entities and public utilities in the definition of PIE in the CIS. Broadly speaking in Canada, entities within these categories do not share fundamental characteristics of PIEs, such as taking on financial obligations to the public, being large in size, or having a large number of stakeholders, for example. The ISC also understands that

³ Paragraph 400.10 states “Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders’ confidence in the entity’s financial statements that can be used when assessing the entity’s financial condition.”

feedback received from provincial bodies during outreach on the IESBA's proposed revisions to the definition of a PIE in 2021 was largely supportive of the IESBA's proposals to not include large private entities, not-for-profit organizations, public utilities and governmental entities as categories of PIEs.

64. The ISC has not identified compelling reasons in Canada to propose more stringent independence requirements for auditors of entities in these categories in the CIS than in the IESBA Code and thinks that doing so could lead to unintended consequences that are not in the public interest. The ISC notes that if legislation or regulation requires such entities to be treated as PIEs, they would be captured in the General Category, which is discussed above.

Guidance for Firms

65. The ISC is proposing to recommend including the IESBA's application material intended to assist firms in identifying additional PIEs, but notes that, as drafted by the IESBA, it refers to "law, regulation or professional standards". For example, firms should consider factors such as, "Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards". While the ISC believes that it is appropriate to retain reference to law or regulation, the ISC is of the view that it would not be in the public interest to retain the IESBA's references to professional standards in the CPA Code. It is not clear which, if any, professional standards this would refer to, or how this would be applied by firms. In addition, the PTC has the authority to set harmonized Canadian Independence Standards, including determining the types of entities that must apply the additional independence requirements to meet stakeholder expectations. The ISC thinks that retaining reference to professional standards might be perceived as dilutive of this authority.

66. Accordingly, the ISC is proposing to recommend including the IESBA's application material as guidance to accompany the definition of PIE in the CIS, amended to remove references to professional standards, to assist firms in identifying whether it is appropriate to treat additional entities as public interest entities.

Effective date

67. The ISC is planning to recommend a definition of “public interest entity” in harmonized Canadian Independence Standards for PTC approval in December 2024, and proposing that the definition be effective for audits and reviews of financial statements for periods beginning 18-24 months thereafter, to allow adequate time for implementation of the definition in Canada.

68. After the PTC approves the definition in the CIS, it will be recommended to the PTBs for adoption into their respective CPA Codes.

Request for Comments

The PTC welcomes comments on all aspects of the ISC’s proposed new definitions. In addition, the PTC seeks feedback on the following specific aspects of these proposals:

1. Do you agree with the ISC’s proposal to refine mandatory Category A in the definition of ‘public interest entity’ in the Canadian Independence Standards, to be a reporting issuer, as defined under the applicable Canadian provincial or territorial securities legislation, because this more closely aligns with our regulatory environment than the IESBA’s definition of a ‘publicly traded entity’? If not, please explain why. Refer to draft definitions of public interest entity and reporting issuer in [Appendix I](#) and [discussion of Category A](#).
2. Do you agree with the ISC’s proposed refinement to Category A, a reporting issuer, to provide an exemption for an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000? If not, please explain why. Refer to draft definition of public interest entity in [Appendix I](#) and [discussion of Category A](#).
3. Do you agree with the ISC’s proposal that the definition of a ‘listed entity’ can be removed from the Canadian Independence Standards because entities with any securities which have been at any time listed and posted for trading on any stock exchange in Canada, regardless of when the listing and posting for trading began, are included in the definition of a reporting issuer in provincial and territorial securities

legislation? If not, please explain why. Refer to draft definition of public interest entity in Appendix I and discussion of Category A.

4. Do you agree with the ISC's proposed refinement to mandatory Category B, to provide an exemption for a provincially regulated credit union that has, in respect of a particular fiscal year, less than \$500 million in total assets in the definition of 'public interest entity' in the Canadian Independence Standards? If not, please explain why. Refer to draft definition of public interest entity in Appendix I and discussion of Category B.
5. Do you agree with the proposed refinement to mandatory Category C, to provide an exemption for a provincially incorporated insurance company that has, in respect of a particular fiscal year, less than \$500 million in total insurance revenue in the definition of 'public interest entity' in the Canadian Independence Standards? If not, please explain why. Refer to draft definition of public interest entity in Appendix I and discussion of Category C.
6. Do you agree with the ISC's proposal to include Category D, a provincially regulated pension plan or pension fund, other than an entity that, in respect of a particular fiscal year, has less than \$500 million in plan assets, to the definition of 'public interest entity' in the Canadian Independence Standards? If not, please explain why. Refer to draft definition of public interest entity in Appendix I and discussion of Category D.
7. Do you agree with the ISC's proposal to include Category E, an investment dealer that is a member of the Canadian Investment Regulatory Organization (CIRO) and that is permitted under the rules of CIRO to hold the cash and securities of a client or investment fund, to the definition of 'public interest entity' in the Canadian Independence Standards, to include If not, please explain why. Refer to draft definition of public interest entity in Appendix I and discussion of Category E.
8. Do you believe any other categories of entities meet the fundamental characteristics of PIEs and should thus be subject to additional independence requirements? If so, which categories of entities and why? Refer to draft definition of public interest entity in Appendix I and discussion of other categories of entities that were considered.
9. Do you agree with the ISC's proposed guidance, including factors for firms to evaluate to determine whether to treat other entities as PIEs for the purpose of the CIS? Do you think that firms will require any additional guidance to apply the proposed definition of a

PIE in the Canadian Independence Standards consistently? If so, what additional guidance would be helpful? Refer to draft guidance proposed to accompany the definition of public interest entity in Appendix II and discussion of guidance for firms.

10. Do you agree that the effective date is appropriate to implement the proposals? If you disagree, please explain why. Refer to discussion of the proposed effective date.

Comments to the ISC are requested by September 30, 2024. iscconsultations@cpacanada.ca

Appendix I: Mark-up of Proposed Changes to Definitions in Canadian Independence Standards

~~“listed entity” means an entity whose shares, debt or other securities are quoted on, listed on or marketed through a recognized stock exchange or other equivalent body, whether within or outside of Canada, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a listed entity by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a listed entity thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.~~

“public interest entity” means an entity that falls within any of the following categories:

A. A reporting issuer, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000

B. An entity one of whose main functions is to take deposits and that is subject to either:

- **regulation under the federal Bank Act, Trust and Loan Companies Act or Cooperative Credit Associations Act; or**
- **provincial regulation as a credit union or caisse populaire, other than an entity that has, in respect of a particular fiscal year, less than \$500 million in total assets**

C. An entity one of whose main functions is to provide insurance that is either a:

- **federally incorporated insurance company, regulated under the Insurance Act; or**
- **provincially incorporated insurance company, other than an entity that has, in respect of a particular fiscal year, less than \$500 million in total insurance revenue.**

- D. An entity that is a provincially regulated pension plan or pension fund, other than an entity that, in respect of a particular fiscal year, has less than \$500 million in plan assets**
- E. An investment dealer that is a member of Canadian Investment Regulatory Organization (CIRO) and that is permitted under the rules of CIRO to hold the cash and securities of a client or investment fund**
- F. An entity, other than those set forth in Categories A to E above, for which an audit is required by a legislative or regulatory body to be conducted in compliance with the same additional independence requirements that apply to audits of public interest entities**

“reporting issuer” means an entity that is defined as a reporting issuer under the applicable Canadian provincial or territorial securities legislation. ~~other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a reporting issuer thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.~~

Appendix II: Mark-up of Proposed Guidance to Definitions in Canadian Independence Standards

"public interest entity"

1. Some of the rules and guidance set out in the Canadian Independence Standards are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

2. Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the rules and guidance for public interest entities as described in paragraph 1 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

3. A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of the Canadian Independence Standards. When making this determination, the firm might consider the following factors:

- (a) Whether the entity is likely to become a public interest entity in the near future.
- (b) Whether in similar circumstances, a predecessor firm has applied independence requirements for public interest entities to the entity.
- (c) Whether in similar circumstances, the firm has applied independence requirements for public interest entities to other entities.
- (d) Whether the entity has been specified as not being a public interest entity by law or regulation.
- (e) Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.

- (f) **The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.**

Appendix III: Glossary to Exposure Draft

CIS – Canadian Independence Standards in Rule 204, *Independence*

IAASB – International Auditing and Assurance Standards Board; Independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, quality control, review, other assurance, and related services

IESBA – International Ethics Standards Board for Accountants; Independent standard-setting board that develops, in the public interest, high-quality ethics standards and other pronouncements for professional accountants worldwide

IESBA Code – IESBA Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards); Global standards for professional ethics for the accountancy profession

IIS – International Independence Standards (as issued in Parts 1, 4A and 4B of the IESBA Code)

ISC – Independence Standing Committee; Subcommittee of the PTC charged with recommending high-quality independence standards for proposed adoption by the Canadian profession's Provincial Bodies in their own provincial codes of ethics for use by all CPAs

Listed Entity (extant harmonized Canadian Independence Standards) – an entity whose shares, debt or other securities are quoted on, listed on or marketed through a recognized stock exchange or other equivalent body, whether within or outside of Canada, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a listed entity by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a listed entity thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years

In the case of a period in which an entity makes a public offering:

(a) the term “market capitalization” shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured using the closing price on the day of the public offering;
and

(b) the term “total assets” shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document

PTB – Provincial or territorial CPA body

PTC – The Canadian profession’s Public Trust Committee; Oversight body for the ethics standards and self-regulatory processes of the CPA profession

Reporting Issuer (extant harmonized Canadian Independence Standards) – an entity that is defined as a reporting issuer under the applicable Canadian provincial or territorial securities legislation, other than an entity that has, in respect of a particular fiscal year, market capitalization and total assets that are each less than \$10,000,000. An entity that becomes a reporting issuer by virtue of the market capitalization or total assets becoming \$10,000,000 or more in respect of a particular fiscal year shall be considered to be a reporting issuer thenceforward unless and until the entity ceases to have its shares or debt quoted, listed or marketed in connection with a recognized stock exchange or the entity has remained under the market capitalization or total assets threshold for a period of two years.

In the case of a period in which an entity makes a public offering:

(a) the term “market capitalization” shall be read as referring to the market price of all outstanding listed securities and publicly traded debt measured using the closing price on the day of the public offering;
and

(b) the term “total assets” shall be read as referring to the amount of total assets presented on the most recent financial statements prepared in accordance with generally accepted accounting principles included in the public offering document.

In the case of a reporting issuer that does not have listed securities or publicly traded debt, the definition of reporting issuer shall be read without reference to market capitalization