Professional Ethics Division

Exposure draft:

Proposed new definition of *publicly traded entity* and revised definition of *public interest entity* (ET sec. 0.400)

June 15, 2023

Comments are requested by September 15, 2023

ethics-exposuredraft@aicpa.org

Standard-setting

Proposed new definition of *publicly traded entity* and revised definition of *public interest entity*

Invitation to comment

June 15, 2023

Are you interested in the ethics of accounting? If so, we want to hear your thoughts on this ethics exposure draft. Your comments are integral to the standard-setting process, and you don't need to be an AICPA member to participate.

This proposal is part of the AICPA's Professional Ethics Executive Committee (PEEC) effort to converge with the International Ethics Standards Board for Accountants (IESBA) revisions to their definitions of listed entity and public interest entity.

This exposure draft explains the proposed revisions to the AICPA Code of Professional Conduct and includes the full text of the guidance under consideration.

At the conclusion of the exposure period, PEEC will evaluate the comments and determine whether to publish the new and revised definitions.

Again, your comments are an important part of the standard-setting process — please take this opportunity to provide feedback. We must receive your response by September 15, 2023. All written replies to this exposure draft will become part of the public record of the AICPA.

Please email your comments to ethics-exposuredraft@aicpa.org.

Sincerely,

Anna Dourdourekas, Chair
Professional Ethics Executive Committee

Toni Lee-Andrews, Director, CPA, PFS, CGMA
Professional Ethics Division

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Explanation of the proposed new and revised definitions

The Professional Ethics Executive Committee (PEEC) is exposing for comment the following:

- A new definition of *publicly traded entity* (ET sec. 0.400.45)[1]
- A revised definition of *public interest entity* (ET sec. 0.400.43)

This project is part of our ongoing efforts to converge the AICPA Code of Professional Conduct (AICPA code) with that of the International Ethics Standards Board for Accountants (IESBA).

If adopted as final, the new and revised definitions will be applicable to members in public practice.

Overview

1. 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 public interest entities (PIEs). For example, the IESBA code prohibits members from providing non-assurance – or nonattest – services[2] to a PIE audit or review client if such services might create a self-review threat. In contrast, the AICPA code does not contain separate independence provisions for PIEs. 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 to meet the purpose described in paragraph 400.10 of the IESBA code.[3]

[1] All ET sections can be found in AICPA *Professional Standards*.

[2] "Non-assurance services" is IESBA's term for what the AICPA calls "nonattest services."

[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

2. IESBA's application guidance explains that bodies responsible for setting ethics standards are expected to refine these categories more explicitly to align with their jurisdictions. The application guidance also

    a. indicates that bodies responsible for setting ethics standards are expected to add categories but are not expected to remove any.

    b. encourages firms to consider whether to treat additional entities as PIEs.

3. The application guidance provides ethics standard-setting bodies with a list of factors to consider when determining whether an entity should be considered a PIE because there is significant public interest in the entity's financial condition. These are the factors IESBA has provided for ethics standard-setting bodies to consider:

    a. Nature of the business or activities, such as the holding of assets in a fiduciary capacity for a large number of stakeholders taking on financial obligations to the public as part of the entity's primary business. Examples might include financial institutions, such as banks and insurance companies, and pension funds.

    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 regulation in the United States

4. The three mandatory categories covered by the new IESBA PIE definition are already heavily regulated in the United States by the SEC, PCAOB, FDIC, and the National Association of Insurance Commissioners (NAIC). These regulators have established appropriate independence requirements for the entities they oversee.

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assessing the entity's financial condition."

5. PEEC believes the more robust independence standards of these regulators are appropriate when a member is performing a financial statement audit or review engagement for a client subject to the applicable regulator's oversight but does not believe these independence standards would need to be applied to the client for other attest engagements that are not subject to the applicable regulator's oversight.

6. As such, this proposal includes IESBA's mandatory categories in the definition of PIE but defers to the relevant regulators for purposes of the specific independence requirements. Adding a separate set of independence standards for PIEs would introduce significant complexity to the AICPA code, which could in turn lead to inconsistencies between the AICPA code and the rules of a particular regulator.

7. Firms that voluntarily join the IFAC Forum of Firms[4] have committed to comply with the Forum of Firms Constitution and, as a condition of their membership, should consider the IESBA PIE requirements applicable to financial statement audit and review engagements performed for a PIE. When the IESBA PIE requirements are more restrictive than those of the relevant U.S. regulator referred to in the categories of the proposed PIE definition, such firms would need to consider application of the IESBA PIE requirements. A member who does not belong to a firm that is part of the Forum of Firms would continue to comply with the AICPA code and rules of applicable regulators.

Mandatory category 1: Publicly traded entity (SEC and PCAOB)

8. The first mandatory PIE category is "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.

9. The new IESBA definition includes not only entities whose shares, stock, or debt are traded on formal exchanges but also those entities trading on second-tier markets or over-the-counter (OTC) trading platforms.

10. The IESBA definition of *publicly traded entity* is appropriate to use in the AICPA PIE definition. However, IESBA's use of "listed entity" as an example is eliminated because

[4] IFAC is the International Federation of Accountants.

"issuer" is the common U.S. term for this type of entity.[5]

11. SEC independence rules apply to auditors of issuers and certain nonissuers. Those that apply to issuer audits are in many respects considered to be substantially similar to IESBA independence requirements for PIEs. This conclusion is supported by IESBA's benchmarking report.

12. Accordingly, this proposal refines this PIE category to extend only to those entities whose auditors are subject to the SEC ***issuer*** independence rules.

SEC independence rules that apply to both issuer and nonissuer audits	Additional SEC independence rules that apply to issuer audits only[6]
• General standard of auditor independence (Rule 2-01(b)) • Financial relationships (Rule 2-01(c)(1)) • Employment relationships (Rule 2-01(c)(2)(i)–(iii)(A) and (c)(2)(iv)) • Business relationships (Rule 2-01(c)(3)) • Nonaudit services (Rule 2-01(c)(4)) • Contingent fees and commissions (Rule 2-01(c)(5))	• Employment cooling off for former members of the audit engagement team (Rule 2-01(c)(2)(iii)(B)–(C)) • Partner rotation (Rule 2-01(c)(6)) • Audit committee administration of the engagement (that is, audit committee preapproval) (Rule 2-01(c)(7)) • Audit partner compensation (Rule 2-01(c)(8))

13. The AICPA's proposed new definition of *publicly traded entity* includes financial instruments of certain nonissuers, such as governmental bonds, as well as certain entities listed on OTC trading platforms.

14. However, the refined scope in the AICPA's revised definition of *public interest entity* clarifies that inclusion of such financial instruments in the definition depends on whether auditors of

[5] From the Sarbanes-Oxley Act of 2002: "The term 'issuer' means an issuer (as defined in Section 3 of the Securities Exchange Act of 1934), the securities of which are registered under Section 12 of that Act, or that is required to file reports under Section 15(d) of that Act, or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933, and that it has not withdrawn."

[6] The PCAOB also has certain independence rules that apply only to issuer audit clients (for example, PCAOB Rules 3523, 3524, and 3525).

these entities are subject to SEC issuer independence rules.

15. Issuers, publicly available mutual funds, and entities listed on OTC trading platforms are considered PIEs if their auditors are subject to SEC issuer independence rules. Entities are not considered PIEs if their auditors are not subject to issuer independence rules.

16. This aligns with IESBA's goal for the new definition to include not only entities having shares, stock, or debt traded on formal exchanges but also entities that trade in second-tier markets or on OTC trading platforms.

Mandatory category 2: Deposits from the public (FDIC)

17. PEEC is refining this category to include financial institutions that

    a. meet the annual audit requirement imposed by Part 363 of FDIC regulations and

    b. have total assets of $1 billion or more as of the beginning of the fiscal year.

18. Part 363 becomes applicable when a financial institution has more than $500 million in assets and requires that the auditor be subject to SEC issuer independence rules.

19. However, the FDIC has recognized a heightened risk for financial institutions with total assets of more than $1 billion. When that threshold is reached, several requirements of Part 363 are triggered. These requirements are as follows:

	Part 363 section	Requirement
Audit committee	Section 363.5	Establish an independent audit committee of its board of directors, the members of which shall be outside directors who are independent of management of the institution.
Management's report	Section 363.2(b)	Management prepares a report including their assessment of the effectiveness of their internal control structure and procedures.

Internal control over financial reporting	Section 363.3(b)	The independent public accountant shall examine, attest to, and report separately on the assertion of management concerning the effectiveness of the institution's internal control structure and procedures for financial reporting.

20. Financial institutions with greater than $500 million in total assets represent approximately 98 percent of the total assets held by financial institutions as of December 31, 2022. Financial institutions with greater than $1 billion in total assets represent approximately 96 percent of the total assets held by financial institutions as of December 31, 2022.

21. This refinement places significant importance on the size of the entity, which is a factor IESBA recommends considering during the refinement process.

22. Credit unions are not captured by this refinement as they are not publicly traded entities subject to SEC issuer independence rules. However, they are regulated by the National Credit Union Administration (NCUA), which protects the interest of credit union members. In addition, the regulator (NCUA) has determined that the AICPA independence standards are the appropriate independence standards auditors of credit unions should follow.

23. Accordingly, PEEC's decision to exclude credit unions places significant importance on the supervision of a regulator, which is another factor IESBA recommends considering during the refinement process.

Mandatory category 3: Insurance to the public (NAIC)

24. PEEC is refining this category to include only insurers that

    a. are subject to the NAIC Annual Financial Reporting Model Regulation (the Model Audit Rule, or MAR) adopted by the respective state insurance department and

    b. meet or exceed $500 million in direct and assumed premiums.

25. Insurers that are in publicly traded groups and nonpublic insurers with greater than $500 million in annual direct and assumed premiums represent approximately 45 percent of all insurers and 95 percent of total gross premiums as of December 31, 2021. With this threshold, categories (*a*) and (*c*) of the proposed revised AICPA PIE definition will include approximately 45 percent of all insurers.

26. Section 7 of the MAR has independence requirements for auditors of insurers subject to that rule. These independence requirements are comparable to those of the SEC issuer independence rules as they contain provisions related to the following:

- Partner rotation
- Prohibited nonaudit services
- Cooling-off period for employment
- Audit committee preapproval
- Good standing with the standards of the profession

27. The NAIC has recognized a heightened risk for insurers with direct and assumed premiums over $500 million. Reaching that threshold triggers several MAR requirements related to the insurer. These requirements are as follows:

	MAR section	Requirement
Audit committee	Section 14h	A supermajority (75% or more) of the members of the audit committee shall be independent.[7]
Internal audit function requirements	Section 15[8]	Establish an internal audit function that is organizationally independent and reports to the audit committee regularly.
Management's report on internal control over financial reporting	Section 17	Management must prepare and file a report with the insurance commissioner on the insurer's internal control over financial reporting.

28. Other identified insurance entities that do not have uniform application of MAR-specific

[7] In order to be considered independent, a member of the audit committee may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee, accept any consulting, advisory or other compensatory fee from the entity or be an affiliated person of the entity or any subsidiary thereof.

[8] Individual insurers are subject to this requirement if they have annual direct written and assumed premiums of $500 million or greater. In addition, when the insurer is a member of a group of insurers, the group will be subject to this requirement if the group has annual direct written and assumed premiums of $1 billion or greater.

requirements or regulations vary by state and include the following:

a. Health maintenance organizations, managed care organizations, health care entities

b. Warranty companies

c. Captives

d. Risk retention groups

29. These entities are not included in the refined PIE category because there is no uniform application of the MAR among them. However, PEEC acknowledges that respective state regulators (typically through either a state health department or a state insurance department), determine which independence rules auditors of these other insurance entities must follow.

Additional recommended categories

30. IESBA's application guidance indicates that ethics standard-setting bodies are expected to add categories and identifies the following possible categories:

a. Pension funds

b. Collective investment vehicles

c. Private entities with large numbers of stakeholders (other than investors)

d. Not-for-profit organizations or governmental entities

e. Public utilities

31. Additional categories that PEEC considered for possible inclusion in the PIE definition are described in the following sections.

New category: Investment companies

32. PEEC is proposing a new category to capture investment companies (including mutual funds) that are registered with the SEC pursuant to the Investment Company Act of 1940 (1940 Act), except those that are insurance company products. By limiting this category to only 1940 Act investment companies that are not products of an insurance company, PEEC is treating only those investment companies that have significant public interest as a PIE (for example, a mutual fund that is available to the public). Entities such as nontraded real estate investment trusts (REITs) would not be considered PIEs.

33. Insurance company products (that is, products that use separate accounts, such as variable

annuities, variable life products, indexed linked annuities, buffered linked annuities) are already factored into PEEC's consideration of category (*c*). Therefore, insurance company products are excluded from this proposed new category.

Other categories considered

Pension funds

34. Because of the significant variation in legal structure, governance, participant interest versus broad public interest, and robust regulatory oversight, PEEC concluded that pension funds (including 11-K filers) should not be included in the definition of PIEs.

Rationale

35. PEEC considered various types of employee benefit plans in the United States; these include plans subject to Title 1 of the Employee Retirement Income Security Act of 1974 (ERISA), governmental employee benefit plans, church plans, and other plans established and maintained solely for the purpose of complying with applicable workers' compensation, unemployment compensation, or disability insurance laws.

36. The population of employee benefit plan types is broad and includes significant variation in legal structure, governance, regulatory oversight, and type of arrangements covered (that is, limited to certain pension arrangements as opposed to other post-employment benefits such as health insurance). In considering this category, PEEC noted that interest in the financial condition of the plan is generally limited to its participants as opposed to the broader public interest which is a factor IESBA recommends considering when determining whether additional categories should be included as PIEs.

37. Plans subject to Title 1 of ERISA are required to file a Form 5500 with the DOL along with other documents to be filed with the IRS and Pension Benefit Guaranty Corporation. ERISA established participation, vesting, and minimum funding standards along with trust requirements.

38. Plans with more than 100 eligible participants are required to have a financial statement audit performed by an independent qualified public accountant. The DOL, which regulates these plans, recently updated its independence rules. In some respects, the DOL independence rules are more restrictive than those of the AICPA and the SEC (rules pertaining to the scope of financial relationships, for example); but in other respects, the DOL rules are less restrictive than the SEC's issuer independence rules.

39. The DOL's regulatory supervision is designed to provide confidence that the entity will meet its financial obligations.

40. Governmental employee benefit plans and public pension plans are primarily regulated

under state statutes, local ordinances, and state constitutions. Laws can vary widely from one jurisdiction to another. Although public pension plans have no guarantor of plan benefits, states generally have constitutional or statutory provisions that dictate how pension plans are to be funded, protected, managed, or governed.

41. PEEC separately considered whether to specifically include, as an additional category under the PIE definition, employee benefit plans that are required by the SEC to file a Form 11-K. These plans have a company stock fund component, where participants can invest in the sponsor company's publicly traded stock and auditors must comply with the SEC issuer independence rules. These plans are subject to Title 1 of ERISA and are regulated by the DOL.

42. As with other employee benefit plans, significant interest in the financial condition of benefit plans filing Form 11-K is limited to plan participants as opposed to the broader public. In addition, PEEC believes consideration of the public interest is focused on the financial condition of the plan *sponsor* rather than on the plan itself, and the plan sponsor is already captured under category (*a*) of the AICPA's proposed PIE definition.

Nonissuer broker-dealers and certain funds

43. After deliberation, PEEC concluded it is not appropriate to treat entities in this category as PIEs and subject their auditors to more restrictive independence requirements.

Rationale

44. The PIE definition excludes certain entities whose auditors are subject only to the nonissuer requirements of SEC independence rules (see the chart in paragraph 12 above), such as these:

    a. Nonissuer broker-dealers registered with the SEC

    b. Private funds advised by an SEC-registered investment adviser who chooses to rely on the audit of the fund to meet the exemption under SEC Rule 206(4)-2, *Custody of funds or securities of clients by investment advisers*, under the Investment Advisers Act of 1940 (the custody rule).

45. Because these types of private funds are subject to SEC independence rules, and because nonissuer broker-dealers are themselves subject to certain PCAOB independence rules, PEEC considered whether to include them as additional categories under the PIE definition.

46. The SEC has required neither auditors of nonissuer broker-dealers nor those of the private funds described in paragraph 44 to be subject to the SEC issuer independence

requirements under Rule 2-01.[9] The public's interests are protected by the existing independence standards required for auditors of these entities.

Not-for-profit and governmental entities

47. PEEC debated and then concluded that because enhanced independence requirements already govern these entities as needed, it is not appropriate to treat not-for-profit and governmental entities as PIEs.

Rationale

48. In 2018, the U.S. Government Accountability Office (GAO) strengthened the independence standards that apply to auditors of entities subject to *Government Auditing Standards* (also known as the Yellow Book). During its revision project, the GAO did not adopt the more restrictive SEC issuer independence rules.

49. The GAO's revised independence standards are, in some respects, more restrictive than those of the AICPA (for example, the GAO considers accounting records preparation and financial statement preparation services to be significant threats to independence).

50. Not-for-profit entities and governments that expend $750,000 or more in federal assistance require an audit subject to the Yellow Book. Some states require compliance with the Yellow Book regardless of how much federal assistance is received. In any case, requirements are not consistent from one state to another.

Firm provision

51. IESBA's application guidance also encourages firms to consider whether to treat additional entities as PIEs.

52. These are the additional factors IESBA provided for firms to consider in their evaluation:

    a. Whether the entity is likely to become a PIE in the near future

    b. Whether, in similar circumstances, a predecessor firm has applied independence requirements for PIEs to the entity

    c. Whether in similar circumstances, the firm has applied independence requirements for PIEs to other entities

    d. Whether the entity has been specified as not being a PIE by law, regulation, or

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[9] In August 2003, the SEC issued a Q&A that clarified "for brokers and dealers or investment advisors that are not issuers as defined in the Act, the auditors would not be subject to the rotation requirements, or the compensation requirements of the Commission's independence rules."

professional standards

e. Whether the entity or other stakeholders required the firm to apply independence requirements for PIEs 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

53. The proposed PIE definition removes language that encourages the firm's consideration of factors in the list above. PEEC believes this deletion is appropriate because typically the request to apply enhanced independence requirements is driven by the financial statement audit or review client rather than the firm. Although these requests are not common occurrences in the United States, they do come about, when, for example, the entity is expecting to file an initial public offering. In such cases, the member may apply the SEC issuer independence requirements and treat the client as a PIE as described under category (*a*) of the proposed definition. PEEC believes the AICPA code, with or without this language, allows a member to apply enhanced independence requirements and to treat the client as a PIE, where appropriate.

54. This exposure draft poses questions related to these circumstances to determine what nonauthoritative guidance might be needed to assist members when this occurs. The questions also address any transparency issues as described in the following section.

Transparency requirement

55. IESBA's standard includes a transparency requirement under which the firm shall publicly disclose that the firm has applied the independence requirements for PIEs in performing an audit of the financial statements of an entity.

56. Because the requirement doesn't stipulate where the disclosure is made, the International Auditing and Assurance Standards Board has a project underway to determine where the disclosure should be made.

57. Based on the regulatory requirements applicable to each of the entities captured by the proposed PIE definition, PEEC is not incorporating the transparency requirement into the AICPA code. The object of the transparency requirement will be achieved through the regulations requiring disclosure of the applicable independence standards in the auditor's report (or, in the case of the NAIC, through a letter attached to the auditor's report).

Effective date

58. PEEC recommends that the proposed revisions be effective for periods beginning on or after December 15, 2024, with early implementation allowed. This date aligns with IESBA's

effective date.

Request for comments

59. PEEC welcomes comments on all aspects of the proposed new and revised definitions. In addition, PEEC seeks feedback on the following specific aspects of this proposal:

    a. Do you agree with the decision to defer to the relevant regulators for purposes of the specific independence requirements applicable to each PIE category? If not, please explain why.

    b. Do you agree with the refinement to the "publicly traded entity" category to include only those entities whose auditors are subject to Regulation S-X, SEC Rule 2-01? If not, please explain why.

    c. Do you agree with the refinement to the "deposits from the public" category to include only those entities that have consolidated total assets of $1 billion or more and meet the annual audit requirement imposed by Part 363 of FDIC regulations (12 CFR 363 – "Annual Independent Audits and Reporting Requirements")? If not, please explain why.

    d. Do you agree with the refinement to the "insurance to the public" category to include only those entities that are subject to the NAIC Model Audit Rule that meet or exceed$500 million in annual direct written and assumed premiums? If not, please explain why.

    e. Do you agree with the "investment company" category PEEC proposes to include in the PIE definition? If not, please explain why.

    f. Do you believe other entities, such as credit unions, should be included as PIEs and thus subject to the more restrictive independence requirements consistent with those for IESBA PIEs?

        i. If so, which entities and why?

        ii. If so, should the AICPA code incorporate a second set of more restrictive independence standards (that is, consistent with IESBA PIEs), applicable to these other entities? If not, please explain an alternative approach.

    g. Is the definition of *publicly traded entity* clear? If not, please explain how it should be clarified.

    h. If an entity does not otherwise meet the definition of a PIE, are you aware of situations in which a member would treat an entity as a PIE when an engagement is

subject to AICPA Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, or Statements on Standards for Attestation Engagements?

   i. If so, describe such situations and which independence standards are typically applied.

   ii. Do you believe it would be helpful to have guidance related to such situations? If so, should that guidance be authoritative (that is, included in the AICPA code) or nonauthoritative (for example, a Q&A or practice aid)?

   iii. Do you believe that in such situations the member should be required to disclose that the independence requirements for PIEs have been applied? If so, how do you believe such disclosure should be achieved when the regulator's transparency requirement is not applicable?

i. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you'd like to see the definitions, you can find them in "Definitions" (ET sec. 0.400).

Text of proposed new definition *publicly traded entity*

0.400 Definitions

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

Additions appear in ***boldface italic***. Deletions appear in ~~strikethrough~~.

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you'd like to see the definitions, you can find them in "Definitions" (ET sec. 0.400).

Text of proposed revised definition *public interest entity*

0.400 Definitions

.43 Public interest *entity*~~entities~~. ***An entity is a public interest entity when it falls within any of the*** ~~All of the~~ following ***categories***:

a. ~~All listed entities, including entities that are outside the United States whose shares, stock, or debt are quoted or listed on a recognized stock exchange or marketed under the regulations of a recognized stock exchange or other equivalent body.~~ ***A publicly traded entity whose auditor is subject to Regulation S-X, SEC Rule 2-01, "Qualifications of Accountants"***

b. ***An entity one of whose main functions is to take deposits from the public***

- ***i. that meets the annual audit requirement imposed by Part 363 of the FDIC's regulations (12 CFR 363,*** **Annual Independent Audits and Reporting Requirements*) and***
- ***ii. that has consolidated total assets of $1 billion or more as of the beginning of the fiscal year.***

c. ***An entity one of whose main functions is to provide insurance to the public***

- ***i. that is subject to the National Association of Insurance Commissioners Annual Financial Reporting Model Regulation (Model Audit Rule) and***
- ***ii. that has $500 million or more in annual direct written and assumed premiums.***

d. ***An investment company, other than an insurance company product, that is registered with the SEC pursuant to the Investment Company Act of 1940***

b. Any entity for which an audit is required by regulation or legislation to be conducted in compliance with the same *independence* requirements that apply to an audit of listed entities (for example, requirements of the SEC, the PCAOB, or other similar regulators or standard setters).

Members may wish to consider whether additional entities should also be treated as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered may include

- the nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders;
- size; and
- number of employees.

When a member performs a financial statement audit or review subject to the regulatory requirements described in (*a*)–(*d*), a member *Members* should **comply with the applicable independence requirements as required by the "Governmental Bodies, Commissions, or Other Regulatory Agencies" interpretation [1.400.050] of the "Acts Discreditable Rule" [1.400.001]** refer to the *independence* regulations of applicable authoritative regulatory bodies when a *member* performs attest services and is required to be independent of the *attest client* under such regulations. [Prior reference: paragraph .20 of ET section 100-1]

Acknowledgments

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Many thanks

The Professional Ethics Division and PEEC are grateful for the input we received from observers and stakeholders while drafting these proposed changes to the Code of Professional Conduct.

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