

REDEFINED DEFINITION OF A PUBLIC INTEREST ENTITY

Date Approved by Council: December 14, 2023

Effective: January 1, 2024

Overview

The following article has been drafted by the Auditing and Accounting Standards Committee (AASC) based on research material adapted from internet publications. While every effort has been made to ensure the accuracy and reliability of the information contained herein, readers are advised to independently verify any critical data or facts and exercise discretion when relying on this content for decision-making or reference. The AASC Committee and its contributors do not assume any liability for errors, omissions, or consequences that may arise from the use of this information.

A. The Background:

Section 290.25 of the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) defined a Public Interest Entity (PIE) as:

- (i) *All listed entities;*
- (ii) *An entity:*
 - *Defined by regulation or legislation as a public interest entity; or*
 - *For which the audit is required by regulation or legislation to be conducted in accordance with the same independence requirements that shall apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator including an audit regulator.*

In July 2017, following the guidance provided by the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code), the Council of ICATT approved the definition of a PIE, as an entity incorporated or registered in Trinidad and Tobago with any of the following characteristics:

- (i) *its securities are listed on the Trinidad and Tobago Stock Exchange;*
- (ii) *its debt or equity instruments are traded in a public market (e.g. a local, regional or international stock exchange) and/or have instruments registered with the Trinidad and Tobago Securities and Exchange Commission;*
- (iii) *it is regulated by the Central Bank of Trinidad and Tobago and/or designated as a Systemically Important Financial Institution (SIFI);*
- (iv) *it is a credit union;*
- (v) *it is ultimately controlled by the State (i.e. Government of the Republic of Trinidad and Tobago).*

B. The Issue:

In March 2021, the International Ethics Standards Board of Accountants, proposed a revision to the definition of a Public Interest Entity, introducing the following factors:

- (i) *Nature of Business and Activities*
- (vi) *Regulatory Supervision*
- (vii) *Size*
- (viii) *Importance to Sector*

- (ix) *Number and Nature of Stakeholders*
- (x) *Systematic Impact*

Taking the guidance of the Revised Code into account, and incorporating the experience of various segments in the local landscape, ICATT determined the following revised definition of a Public Interest Entities:

A PIE is defined as an entity incorporated or registered in Trinidad and Tobago with any of the following characteristics:

- 1. Its securities are listed on the Trinidad and Tobago Stock Exchange.*
- 2. Its debt or equity instruments are traded in a public market (e.g., a local, regional or international stock exchange) and/or have instruments registered with the Trinidad and Tobago Securities and Exchange Commission.*
- 3. Its main function is to take deposits from the public, and it has significant assets and a large number of depositors, large and significant being assessed by reference to the following criteria:*
 - a. Significant - Total assets are greater than **TT\$350 million**; and*
 - b. Large - Number of depositors greater than 1,000.*
- 4. Its main function is to underwrite insurance to the public.*
- 5. Its function is to administer and/or provide post-employment benefits and it has significant assets and a large number of participants, large and significant being assessed by reference to the following criteria:*
 - a. Total assets exceed **TT\$350 million**; and*
 - b. Number of participants exceed 1,000 persons.*
- 6. Its function is to act as a collective investment vehicle, issues redeemable financial instruments to the public and it has significant assets and a large number of depositors, large and significant being assessed by reference to the following criteria:*
 - a. Significant - Total assets are greater than **TT\$350 million**; and*
 - b. Large - Number of depositors greater than 1,000.*
- 7. It is ultimately controlled by the State (i.e. Government of the Republic of Trinidad and Tobago (GORTT)) and meets the following criteria:*
 - a. Is integral to revenue generation activities of the GORTT; or*
 - b. Utilizes a significant portion of GORTT's national budget. For purposes of this definition, significance can be equated to expenditure of more than 1% of the national budget for each of the preceding 3 years.*
- 8. It has more than 1,000 employees.*

The term “entity” in this definition is not restricted to a company and is meant to include other forms of legal entities, for example mutual funds, pension funds and trusts.

The above definitions of ‘significant’ and ‘large’ are based on judgement, taking account of the estimated portion of the Trinidad and Tobago public that would be concerned with the financial condition of the PIE due to the potential impact of the financial well-being on stakeholders.

C. Criteria Justification

In considering the values to be included in the PIE definition, the AASC considered those above which, there would be a reasonably expectation of public concerned with the financial condition of the Public Interest Entity due to the potential impact of their own financial well-being.

The AASC divided the business sector into segments, isolating those that would be considered PIEs by virtue of the nature of their operations, the public listing of the entities, or the registration of their securities. These are covered by characteristics (1), (2) and (4) above.

The AASC then sought to determine asset and participant thresholds for entities that take deposits from the public, those that provide post-employment benefits and those that function as collective investment vehicles that issue redeemable financial instruments to the public. A review of the 2021 Central Bank’s Framework for Determining a Domestic Systemically Important Bank and Higher Loss Absorbency Requirement did not provide adequate guidance in that regard. An evaluation of a list of credit union assets obtained from the Cooperative Division of the Ministry of Labour revealed eight (8) very large credit unions and six (6) large credit unions having assets values in excess of **\$350 million**. Considering the size and reach of those entities, as well as others with a comparable asset value, particularly those that provide post-employment benefits or operate as collective investment vehicles, the AASC is of the view that the asset value threshold of **\$350 million** is a reasonable and appropriate criterion for the determination of public interest entities.

The AASC, being cognisant of the need to consider the number of depositors impacted by entities that take deposits from the public, provide post-employment benefits or act as collective investment vehicles, considered such entities with depositors/participants in excess of 0.1% of the Trinidad and Tobago population should be considered a public interest entity. THE AASC adopted the prudent approach of rounding the determined depositors/participants from 1,300 to 1,000.

Historically, the public has shown significant interest in the financial well-being of entities that employ a significant number of persons, primarily due to the social impact of significant, sudden or sustained job-loss. In that vein, the AASC looked at major retrenchment that have impacted the populace and the number of employees affected. Based thereon, the AASC has determined that entities with 1,000 employees or more would be considered PIEs.

With regard to the public sector, the AASC considered that the public's focus would be on those entities which utilize a significant portion of the public purse, as well as those with significant revenue generation capabilities. An overview of entities controlled by the state suggested that those determined to be integral to revenue generation, and those that utilizes more than 1% of the national budget on a consistent basis would be considered public interest.

Notwithstanding the foregoing, the AASC understands the need for judgement in the application of the above criteria. Therefore, the following has been added to its proposed definition of a PIE:

The election to treat an entity as a PIE, although it fails to meet the above criteria, and the election to treat an entity as a non-PIE, although it meets the above criteria, must be justified.

Additionally, please note that ICATT reserves the right to change or reassess the appropriateness of the set quantitative thresholds when it is deemed necessary. There may be macroeconomic circumstances, regulatory changes, accounting standards updates, or market volatility that can trigger such a revision.

The redefined PIE definition was approved for audit periods beginning on January 1, 2024.