

Public interest entity: Definition and scope



On June 16, 2014, after publication in the Official Journal, European Union (EU) audit legislation entered into force. For all provisions including those pertaining to nonaudit services (NAS), the effective date is June 17, 2016 (first financial year starting on or after June 17, 2016), except for mandatory firm rotation (MFR) requirement where specific transitional measures are provided. Certain member states have provided other start dates for the specific provisions of this legislation. The legislation is in the form of a [Directive](#) and a [Regulation](#). A number of options have been afforded to member states to be decided on at the local level. Member states are currently determining the implementation of various provisions as they have two years to transpose the EU audit legislation into their national law. Many provisions in the legislation are intended to strengthen corporate governance and to enhance transparency of audits to investors and audit

committees. The provisions that have received the most attention, such as MFR and prohibited NAS, are contained in the Regulation and only apply to public interest entities (PIEs) and their statutory auditors.

This legislation is complex, and the summary descriptions of legislative and implementation considerations outlined below do not constitute legal advice. Several areas of the legislation require interpretation and may evolve over time, and market participants may wish to seek legal advice before taking measures to comply with the legislation.

Overview

The definition of a PIE was included in the [Statutory Audit Directive \(2006\)](#). The new (2014) PIE definition includes¹:

- Companies with transferable securities² listed on EU [regulated markets](#)³ (as opposed to all markets in the EU) and governed by the law of an EU member state⁴ (requirement is consistent with the same category under Statutory Audit Directive (2006));
- Credit institutions authorized by EU member states' authorities (requirement is broadly the same as in Statutory Audit Directive (2006) except member states are no longer allowed to exempt nonlisted PIEs from the requirements of this category);
- Insurance undertakings authorized by EU member states' authorities (requirement is broadly the same as in Statutory Audit Directive (2006) except member states are no longer allowed to exempt nonlisted PIEs from the requirements of this category);
- Other entities a member state may choose to designate as a PIE (requirement is consistent with the same category under Statutory Audit Directive (2006)).

The PIE definition applies to individual entities and is irrespective of size; however, member states may designate additional entities as PIEs and may use a size criteria in some cases. There are no separate rules for entities that belong to a group of companies. If an individual entity qualifies as a PIE, generally the [Regulation](#) will apply in its entirety to that PIE irrespective of whether its parent company is a PIE and irrespective of whether its parent is outside the EU.

The definition of a "public interest entity" varies across member states. Special caution should be exercised when considering the definition of PIE in any member state. Refer to the 2014 [survey](#)⁵ published by the Federation of European Accountants for further details regarding variation in the current PIE definition across member states (this definition may be changed when the regulation is implemented in the relevant member state law).

¹ See Article 2(13) of the Directive for a full definition: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.158.01.0196.01.ENG

² Transferable securities are defined in Article 4, paragraph 1 (18) of the [2004 Markets in Financial Instruments Directive](#) (MiFID) and under Article 4, paragraph 1 (44) of the [2014 Markets in Financial Instruments Directive](#) (MiFID 2) and generally mean those classes of securities that are negotiable on the capital market with the exception of instruments of payment.

³ Listing of the regulated markets is available at: <http://mifidatabase.esma.europa.eu/Index.aspx?sectionl>

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⁴ References to companies that are governed by the law of an EU member state are generally understood to mean companies that are incorporated in that member state. Companies incorporated outside the EU that are listed on a regulated market within the EU would not generally qualify as an EU-governed company.

⁵ http://www.fee.be/images/publications/public_sector/PIE_definition_survey_outcome_1410_BE-GE_changed_141112.pdf

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