

EU audit reform – Public Interest Entities (PIEs)

Summary of scope of the adopted legislation regarding the definition of PIEs

EU legislation providing a new EU regulatory framework for statutory audit was adopted in April 2014. The laws will apply on or after 16 June 2016 – with the exception of MFR, which is subject to transition arrangements. Below is a summary of the definition of those entities which are classified as a PIE in the EU legislation.

Summary of definition

Public Interest Entities ¹
<ul style="list-style-type: none"> • All entities² that are both governed by the law of a Member State and listed on a regulated market
<ul style="list-style-type: none"> • All credit institutions in the EU, irrespective of whether listed or not
<ul style="list-style-type: none"> • All insurance undertakings in the EU, regardless of whether they are listed or not and regardless of whether they are life, non-life, insurance or reinsurance undertakings
<ul style="list-style-type: none"> • Entities designated by Member States as public-interest entities, for instance undertakings that are of significant public relevance because of the nature of their business, their size, or number of employees³

Definition of terms

Term	Definition
Regulated market	A 'regulated market' is defined in the Markets in Financial Instruments Directive (MiFID II) ⁴ and is overseen by the European Securities & Markets Authority (ESMA). There are currently almost 100 exchanges/markets, chiefly covering the principal stock exchanges of the 28 EU Member States, and a range of 'product based' markets (for example the Electronic Bond and Share Exchanges, the European Energy Exchange, the Wholesale Securities, Regulated Derivatives and Spot Regulated markets). The list is up-dated periodically and is available at: http://mifiddatabase.esma.europa.eu/Index.aspx?sectionlinks_id=23&language=0&pageName=REGULATED_MARKETS_Display&subsection_id=0
Credit institution ⁵	Means an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account
Insurance undertaking ⁶	Essentially any undertaking carrying on regulated insurance business including life, general, reinsurance and permanent health

¹ Article 2(13) [Directive 2006/43/EC](#)

² Point 14, Article 4(1) of [Directive 2004/39/EC](#)

³ Funds in general (e.g. Undertakings for Collective Investment in Transferable Securities (UCITs) or Alternative Investment Funds (AIFs)) are not PIEs (unless so designated by a Member State), but funds with their prices listed on an EU Regulated exchange are included

⁴ Point 14 of Article 4(1) of [Directive 2004/39/EC](#) states: 'Regulated market' means a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with the provisions of Title III (Regulated markets – Articles 36-47)

⁵ In the Regulation (2014/537/EU) Point 1, Article 1 of [Directive 2000/12/EC](#) applies

In the Directive (2014/56/EU) Point 1, Article 3(1) of [Directive 2013/36/EU](#) which cross-refers to Point 1, Article 4(1) of [Regulation 2013/575/EU](#), apply – this exempts entities listed in Article 2 of this Directive, for example, Central Banks, Post Office Giro operations, and a range of other member state public entities

⁶ Article 2(1) of [Directive 91/674/EEC](#), states:

- undertakings within the meaning of Article 1 of [Directive 73/239/EEC](#), excluding those mutual associations which are excluded from the scope of that Directive by virtue of Article 3 thereof but including those bodies referred to in Article 4 (a), (b), (c) and (e) thereof except where their activity does not consist wholly or mainly in carrying on insurance business;
- undertakings within the meaning of Article 1 of [Directive 79/267/EEC](#), excluding those bodies and mutual associations referred to in Articles 2 (2) and (3) and 3 of that Directive; or
- undertakings carrying on reinsurance business.

Subsidiaries	A subsidiary of a PIE is not necessarily a PIE in its own right unless it: <ul style="list-style-type: none">• Is separately listed and governed by the law of an EU member state; or,• Is a credit institution or insurance undertaking itself
Branches	EU branches of EU banks or insurance undertakings are seen as an indivisible part of their 'parent' organisation rather than being considered to be a 'stand-alone' entity in their own right (i.e. they have no separately 'legal personality') and are therefore not treated as a separate PIE Branches of non-EU banks or insurance undertakings are not considered to be PIEs Note: Member states can still designate branches as PIEs