Listed Entity and Public Interest Entity (PIE) – Background Information

This Agenda Item provides background information relevant to the case-by-case analysis of extant differential requirements for listed entities in the ISQMs\(^1\) and ISAs,\(^2\) as follows:

- **Section A** – provides an overview of previous IAASB deliberations when certain differential requirements were established in the ISAs.
- **Section B** – sets out other relevant information gathering undertaken by the IAASB, including the findings from the Auditor Reporting post-implementation review and the scope of entities that should be subject to an engagement quality review.
- **Section C** – provides an overview of the approach to the definition of PIE in the IESBA Code\(^3\) and a summary of key decisions made by IESBA in this regard during their project on the revisions to the definition of listed entity and PIE.

**Section A – Previous IAASB Decisions When Certain Differential Requirements were Established**

1. This section provides a summary of the history of previous IAASB public consultations, deliberations and decisions at the time when certain differential requirements were established and that are affected by the case-by-case approach, as follows:
   
   (a) ISA 260 (Revised)\(^4\) going back to March 2003.
   
   (b) ISA 700 (Revised)\(^5\) and ISA 701\(^6\) going back to June 2012.
   
   (c) ISA 720 (Revised)\(^7\) going back to November 2012.

**Communicating Auditor Independence with Those Charged with Governance (TCWG)**

2. In March 2003, the IAASB initiated a project to revise ISA 260, *Communication of Audit Matters with Those Charged with Governance*, which was initially issued in 1999.

3. In the course of the project, the Project Task Force initially proposed to require certain disclosures regarding auditor independence to TCWG in all instances (i.e., for audits of all entities). However, following IAASB deliberations, the Project Task Force was asked to reconsider whether the requirement should be mandated only for particular entities, (e.g., for listed entities, PIEs, or large

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\(^1\) International Standards on Quality Management  
\(^2\) International Standards on Auditing  
\(^3\) The International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)*  
\(^4\) ISA 260 (Revised), *Communication with Those Charged with Governance*  
\(^5\) ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*  
\(^6\) ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*  
\(^7\) ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*
entities), given the Board’s view that when there is minimal separation between management and TCWG, such disclosures may be unnecessary.

4. In response, in the Exposure Draft (ED-260), the Project Task Force revised the proposed requirement to apply only for audits of listed entities, along with supporting application material to explain that:

(a) The auditor considers whether such communication with TCWG is appropriate in the case of entities that are not listed entities, and

(b) The communication with TCWG about independence may be unnecessary when all of TCWG have been informed of relevant facts through their management activities (e.g., where the entity is owner-managed, and the auditor’s firm and network firms have little involvement with the entity beyond an annual audit).

5. Many respondents to ED-260 recommended that the proposed requirement be widened to include other entities. The main suggestions were to include all public sector entities, PIEs, or all entities. The IAASB gave due consideration to the comments received on exposure, however decided not to revise the applicability of the requirement to entities other than listed given that the requirement was restricted to listed entities to be consistent with the IESBA Code.

6. In May 2006, the IAASB approved a “close off” document of ISA 260 (Revised) in a pre-clarity format. The IAASB’s Clarity conventions were applied to that document and an Exposure Draft of proposed ISA 260 (Revised and Redrafted), Communication with Those Charged with Governance, was approved for publication in October 2006.

7. As explained further in the Basis for Conclusion: ISA 260 (Revised and Redrafted), Communication with Those Charged with Governance, a number of respondents to the Exposure Draft of proposed ISA 260 (Revised and Redrafted), including Monitoring Group respondents, suggested that the communication with TCWG related to independence, should be required more broadly, for example, for all entities or for PIEs. Respondents noted that the application to PIEs would be consistent with changes currently being considered by the IESBA Code. The IAASB decided that to extend the requirement beyond listed entities would not be appropriate as part of the Clarity project but would be considered again when changes to the IESBA Code as a result of its IESBA exposure draft have been finalized. It was noted that a decision on the matter at that time would have the benefit of being informed by feedback received by the IESBA on its exposure draft.

8. ISA 260 was again revised during the IAASB’s Auditor Reporting Project, with the revised standard being issued in January 2015. However, the applicability of the requirement to communicate auditor independence with TCWG was not affected, given the revisions were focused only on those that relate to amendments made to the auditor reporting standards in the 700-series.

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8 See Exposure Draft of proposed ISA 260 (Revised), Communication with Those Charged with Governance (ED-260) issued for public comment in March 2005.
9 The concept of PIE was established in the IESBA Code in 2008, when the IESBA finalized revisions to the independence provisions in the former Section 290 of the Code.
10 See IESBA’s Exposure Draft of proposed revisions to the independence provisions in the former Section 290 of the Code, December 2006
11 See https://www.iaasb.org/projects/auditor-reporting
IAASB’s Auditor Reporting Project

9. In May 2011, the IAASB issued a Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, to explore how auditor reporting and, more broadly, the role of the auditor could be improved. On the basis of the information-gathering, the IAASB decided that a standard-setting project should be commenced on a priority basis.

10. In December 2011, the IAASB approved a project proposal to enhance the communicative value of auditor reporting to users of audited financial statements that included proposed revisions to the auditor reporting standards in the 700-series as well as in related standards. The new and revised auditor reporting standards were approved by the IAASB in September 2014, including ISA 700 (Revised) and ISA 701.

Applicability of ISA 701

11. In June 2012, the IAASB published the *Invitation to Comment: Improving the Auditor’s Report* (ITC). Given demands for additional transparency in the auditor’s report, which came primarily from institutional investors and analysts evaluating financial statements of listed entities, the ITC proposed that “auditor commentary” should be required, at a minimum, for audits of listed entities. However, the IAASB also believed that there was strong merit in extending the requirement to PIEs particularly because of the growing emphasis being placed on this broader group of entities and the ongoing legislative proposals in certain jurisdictions.

12. The ITC acknowledged that should the proposals to include “audit commentary” for PIE be supported, a definition of PIE will be necessary for this purpose. It was recognized that in the context of the IAASB’s Auditor Reporting project, agreeing on a global definition of a PIE gives rise to specific challenges. For example:

   (a) Very small entities would be required to include “auditor commentary” if defined in law or regulation as a PIE.

   (b) Public sector organizations may be inconsistently treated if defined as PIEs in some jurisdictions and not in others.

   (c) Large non-listed entities with a large number of stakeholders, such as pension funds, may not be included in a national definition of PIEs, but users of their financial statements may benefit from “auditor commentary.”

13. While noting the potential benefits of extending the “audit commentary” to PIEs, respondents to the ITC acknowledged the challenges of establishing a globally accepted definition of PIE and suggested it would be more appropriate for the IAASB to initially limit its proposals to audits of financial statements of listed entities. Furthermore, respondents commented that the definition of PIE as conceived by the IESBA Code was primarily developed for independence purposes and not for differentiating auditor reporting requirements.

14. The IAASB agreed to initially limit the application of ISA 701 to audits of financial statements of listed entities. The Exposure Draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* articulated the IAASB’s decision in this regard and emphasized the IAASB’s commitment to undertake a post-implementation review of the new and

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12 The concept of Key Audit Matter (KAM) was developed based on the notion of “audit commentary” described in ITC.
revised Auditor Reporting Standards and seek specific feedback from stakeholders to inform the IAASB whether broader applicability of proposed ISA 701 to entities other than listed entities, might be appropriate in the future (also see paragraphs 27-30).

15. As explained further in the Basis for Conclusions: Reporting On Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments, the IAASB did not pose a specific question about the IAASB’s approach to limiting the applicability of ISA 701 to listed entities. Acknowledging that the matter will be considered further in the context of the post-implementation review, respondents expressed views as follows:

(a) Two Monitoring Group members, supported by others, were of the view that ISA 701 should apply to PIEs (specifically in order to scope in banks and insurance companies, regardless of whether they are listed entities).

(b) Certain other respondents were of the view that ISA 701 should apply to all entities in light of views of the importance of comparability of auditor’s reports across entities of different sizes.

(c) Others suggested the IAASB should at least promote voluntary application for entities other than listed entities if the IAASB continued to believe mandating ISA 701 for all entities was not appropriate.

Disclosure of the Name of the Engagement Partner

16. The proposals in the ITC included a new requirement to disclose the engagement partner’s name in the auditor’s report for all entities. This aligned with the border objective of making the auditor’s report, and the audit process, more transparent.

17. Feedback received in response to the ITC indicated divergent views about the proposed requirement. There was generally more support from those jurisdictions where disclosure of the name of the engagement partner was already required by law or regulation, and less from those jurisdictions where it was not, especially when such a disclosure was thought to expose the named individual to possible litigation.

18. Investors and analysts, regulators and oversight authorities, and others who supported disclosure of the engagement partner’s name in the auditor’s report were of the view that doing so:

(a) Improves transparency for users of the auditor’s report; and

(b) Is believed to provide the engagement partner with a greater sense of personal responsibility and accountability, which they believe translates to improved audit quality.

19. The IAASB believed it was important to respond to the public interest call for increased transparency and retain the proposed requirement. However, rather than requiring disclosure of the name of the engagement partner for all entities as suggested in the ITC, the IAASB concluded it would be appropriate to limit the requirement in proposed ISA 700 (Revised) to audits of financial statements of listed entities. This was because the demand for such transparency had primarily come from institutional investors and, for many non-listed entities, the engagement partner’s name would already be available or known to the users of the financial statements through other means, even if informal in many circumstances.

20. As explained further in the Basis for Conclusions: Reporting On Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments, respondents’
comments on exposure continued to be mixed, i.e., investors, regulators and audit oversight authorities expressed support for the proposals, while other respondents, in particular respondents from jurisdictions in which the name of the engagement partner was not currently required to be included in the auditor’s report, continued to disagree with the IAASB’s proposal.

**Transparency in the Auditor’s Report with Respect to Other Information**

21. In November 2012, the IAASB exposed for public comment proposed ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon* (ED-720 (2012)). The proposals included new reporting responsibilities with respect to other information, including requiring identification in the auditor’s report of the specific documents the auditor has read and considered, and whether, based on reading and considering the other information, the auditor has identified material inconsistencies. The proposed requirement applied in all instances (i.e., for audits of all entities) when the auditor obtained the other information prior to the date of the auditor’s report. Application material provided further guidance regarding the auditor’s responsibilities to read and consider the other information not available at the date of the auditor’s report, noting that such information will not be identified in the auditor’s report as it was not available at the time the auditor’s report was dated.

22. While overall respondents to ED-720 (2012) supported the IAASB’s intention to increase the transparency of the auditor’s work on other information via the auditor’s report, there were significant concerns raised about the way in which the specific proposals were formulated. Accordingly, in April 2014, the IAASB issued for re-exposure, Exposure Draft, ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* (ED-720 (2014)).

23. The IAASB’s proposals in ED-720 (2014), continued to require the auditor to read and consider other information obtained after the date of the auditor’s report, but to neither identify such other information in the auditor’s report nor to provide a description of the actions the auditor is required to take with respect to such other information. Overall, a majority of respondents supported the position of requiring the same work effort on the other information obtained after the date of the auditor’s report, but not to mandate reporting on such other information. However certain respondents also:

(a) Opposed any auditor’s responsibility for the other information obtained after the date of the auditor’s report given the lack of consistency across jurisdictions arising from the differing legal environments, the possible inability of the auditor to perform the procedures required by the standards when the engagement has ceased (for example, when the auditor has resigned from the engagement), and the difficulty in prescribing procedures for the auditor to undertake if a material misstatement is discovered in such other information.

(b) Wanted a strengthened requirement addressing such other information, including two Monitoring Group respondents. Respondents were of the view that auditors should be required to include in the auditor’s report the documents that are expected to comprise the other information obtained after the date of the auditor’s report and the expected work effort on such other information. In addition, the two Monitoring Group respondents preferred that the

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13 See Exposure Draft, ISA 720, *The Auditor’s Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor’s Report Thereon*
proposed standard stipulate the actions that should be taken, including, for example, providing a new or revised auditor's report when appropriate.

24. As explained further in the Basis for Conclusion: The Auditor’s Responsibilities Relating to Other Information, the Board on balance concluded that requiring auditors of financial statements of listed entities to identify in the auditor’s report other information not yet received at the date of the auditor’s report would improve transparency for those entities where law or regulation was most likely to clearly set out the expected nature, content and timing of such other information. For other entities, the IAASB determined that the practical difficulties that may be encountered outweighed the public interest benefits of aligning the reporting with that of listed entities. Instead, the Board decided to include application material to indicate that, for audits of entities other than listed entities, the auditor may consider identifying the other information expected to be obtained after the date of the auditor’s report that is subject to the auditor’s responsibilities (also see paragraphs 33-35).

Section B – Other Relevant IAASB Information-Gathering

Auditor Reporting Post-Implementation Review (PIR)

25. From 2019 to 2021, the IAASB conducted a PIR of the new and revised Auditor Reporting Standards and ISA 720 (Revised) (collectively referred to as “the Auditor Reporting Standards”), to help the IAASB understand whether the revisions made are being consistently understood and implemented, and to help inform considerations of any further possible actions. The objectives of the PIR included, among other, to understand the extent of global demand for wider application of the Auditor Reporting Standards requirements that currently apply only to audits of financial statements of listed entities.

26. As part of the information gathering and research activities of the PIR the Auditor Reporting Implementation Working Group (ARIWG) published the PIR Stakeholder Survey in July 2020 that focused on the enhancements made to the auditor’s report and also included specific questions to understand the demand for wider application of the requirements that currently apply only to audits of financial statements of listed entities. To keep stakeholders informed of its progress and to acknowledge the important input received, the IAASB published a Feedback Statement in June 2021 detailing the feedback received through the PIR Stakeholder Survey and other information-gathering sources. The auditor reporting PIR was concluded in September 2021 when the Board discussed and accepted the final recommendations of the ARIWG.

Requiring the Communication of KAM for PIEs

27. The chart below presents responses received to the PIR Stakeholder Survey from all stakeholder constituencies indicating their preference for mandatory communication of KAM for PIEs. There was a notable preference for communicating KAM for PIEs, across all stakeholder constituencies, with a substantially higher percentage (above 80%) indicated by investors and regulators relative to other respondent groups.

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14 See the Auditor Reporting Implementation project page for further information about the PIR.

15 The PIR Stakeholder Survey included 148 responses from a broad range of stakeholders across 48 jurisdictions.

16 In February 2021, the IAASB discussed the information-gathering activities undertaken by ARIWG in relation to the PIR and provided the Board with an overview of stakeholder feedback from the PIR Stakeholder Survey and other information-gathering activities (see Agenda Item 3).

17 See Agenda Item 5 presented to the IAASB at its September 2021 meeting.
28. In their narrative comments, respondents:

(a) Expressed views that before extending the requirement to communicate KAM to PIEs and proposing amendments to ISA 701, the IAASB would need to arrive at a common definition for PIEs in order to enable global consistency in the determination of the entities for which KAM is required to be communicated.

(b) Noted that in some jurisdictions where KAM reporting is already required for PIEs, this appears to have had the unintended consequence of scoping in entities for which the KAM disclosures are boilerplate in nature or for which stakeholders indicated that they did not find KAM particularly useful. These respondents suggested that KAM reporting in auditor’s reports for entities other than listed be a jurisdictional decision at the discretion of regulators or national standard setters.

29. In related responses to questions about whether communication of KAM should be mandated for all entities, respondents commented that:

(a) Communicating KAM is considered most useful when there is a significant separation between the entity and the users of its financial statements and therefore KAM reporting would not be particularly useful for certain types of entities, for example, owner-managed businesses, where the stakeholders have regular interactions with the auditor. For these entities, respondents shared the perception that the benefits of expanding the requirements would not outweigh the related costs.

(b) Considering that the standard already allows for the voluntary reporting of KAM some preparers requested their auditors for a report prepared in accordance with ISA 701, even though the standard would not apply to their audit. This was largely motivated by a desire to increase the credibility of their financial reporting with providers of capital, indicative that some preparers perceive there to be value in the greater transparency over the audit process that KAMs provide.

(c) Investors and regulators indicated that in addition to PIEs and listed entities that carry a higher level of public accountability, mandatory reporting of KAM could be considered for financial institutions, regulated entities, non-governmental organizations, and donor funded projects.

30. In their recommendations, the ARIWG was of the view that, given the support from respondents for communicating KAM for PIEs, the IAASB should further explore this matter, and concluded that this would
be best undertaken in the course of IAASB’s narrow scope maintenance of standards project on listed entity and PIE. As the PIE Task Force considers whether the differential requirements for listed entities should be extended to PIEs, the ARIWG also recommended that the following broad reflections from stakeholders’ feedback should be taken into account:

- The majority support across all stakeholder constituencies for the communication of KAM for PIEs, with some respondents expressing a preference for this to remain a jurisdicational decision.
- Whether the requirement to communicate KAM would provide the same value and benefit for all entities that are categorized as PIEs.

Modifications and Changes to National Equivalent Auditor Reporting Standards

31. The Auditor Reporting PIR Stakeholder Survey also included questions to National Standard Setters and Professional Accountancy Organizations about whether there have been any changes or modifications (e.g., new or different or incremental requirements) to the equivalent national standards of the new and revised Auditor Reporting Standards. In addition, a subsequent follow up with those stakeholders was undertaken to determine whether there had been any developments in their jurisdictions since the survey closed for responses in November 2020.

32. From the information gathered across 25 respondents, among other, the following was noted:\(^{18}\)

(a) Some jurisdictions in their equivalent national standards had extended the requirements that currently apply only for audits of listed entities (e.g., in Europe, to align with the EU regulations, the scope of the standards was extended PIEs and, in New Zealand, to those reporting entities considered to have a higher level of public accountability).

(b) One jurisdiction (Canada) provided information that the application of KAM was limited to exclude certain listed entities for which it had been determined that the costs of communicating KAM would outweigh the benefits (i.e., for certain listed investment funds).

(c) Some jurisdictions reported modifications with respect to disclosing the name of the engagement partner. For example, in Canada not requiring the name of the engagement partner for companies with dual listing in the USA or in other jurisdictions including the name of the engagement partner for a broader range of entities as required by law or regulation.

(d) One jurisdiction (South Africa) responded that it is exploring more substantial modifications to the national auditor reporting requirements, including exploring possible changes to extend the scope of entities for which the disclosure of KAM is required.

“Other Information” Section of the Auditor’s Report

33. The PIR Stakeholder Survey noted certain challenges and questions that arose in various jurisdictions with ISA 720 (Revised) implementation, especially with regards to:

(a) Identifying which other information is included in the annual report and therefore affecting the scope of the auditor’s responsibilities to read and consider the other information.

(b) Practical issues that arise when the other information is not available at the time the auditor’s report is signed.

\(^{18}\) See [Agenda Item 5-Supplement C](#) presented to the IAASB at its September 2021 meeting.
34. Respondents commented that for those jurisdictions where the other information is usually received after the auditor’s report is signed and for entities other than listed entities, there were views that the practical difficulties encountered with considering the other information outweighed the public interest benefits. Comments were also made that when not all information is received at the date of the auditor’s report the communication in the auditor’s report could be simplified (i.e., not specifically indicating what information had or had not been received).

35. Respondents also noted that there is lack of clarity around exactly what the auditor is expected to do when a material misstatement or inconsistency is identified in the other information that is received after the date of the auditor’s report, and that more guidance is required on whether the auditor’s report can or should be reissued when the other information has been received, and how to deal with describing the other information when the auditor’s report is reissued and whether dual dating is required.

**Engagements Subject to an Engagement Quality Review**

36. In December 2015, the IAASB released the Invitation to Comment, *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (ITC). Among the proposals in the ITC, the IAASB explored whether the requirements for engagements that should be subject to an engagement quality review should be strengthened by requiring an engagement quality review for audits of PIEs, given this term is used in the IESBA Code.

37. Respondents to the ITC supported strengthening the requirement, however, there was not extensive support for requiring the performance of an engagement quality review for audits of PIEs. Respondents noted concerns about the lack of a universal definition of PIE on a global basis and the various definitions and interpretations across different jurisdictions that could lead to inconsistent application in practice. Further, respondents noted that in many jurisdictions PIEs could include very small or non-complex entities (such as small charities) and performing an engagement quality review for audits of such entities would be overly burdensome.

38. Notwithstanding, the IAASB believed it was important to extend the scope of engagements subject to an engagement quality review to audits of entities other than listed entities, and proposed a new requirement in the ISQM 1 for the firm’s policies or procedures to require an engagement quality review for audits of financial statements of entities that the firm determines are of significant public interest. The application material to the proposed requirement provided guidance relevant to firms to determining entities to be of significant public interest, which may include entities such as financial institutions (e.g. certain banks, insurance companies, and pension funds), and other entities such as certain not-for-profit organizations.

**Respondents’ Feedback on Exposure**

39. Question 11 of the Exposure Draft, *Proposed International Standard on Quality Management 1 (Previously International Standard on Quality Control 1), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1 ED) sought views from respondents on the proposals regarding the scope of engagements that should be subject to an engagement quality review. As shown in the chart, the majority of
respondents, including the three Monitoring Group respondents, supported the proposals in the ISQM 1 ED for extending the scope of engagements subject to an engagement quality review beyond audits of listed entities. Respondents, including Monitoring Group members, commented that it would be in the public interest to mandate for audit firms to carry out engagement quality reviews on internationally active banks and insurers.

40. Notwithstanding their support, a large number of respondents were of the view that the term “significant public interest” could not be consistently interpreted, and therefore may be confusing or may result in inconsistent application of the requirement. Respondents also raised comments about how the term significant public interest related to the term PIE in the IESBA Code, and encouraged the IAASB to coordinate with IESBA on its definitions of listed entity and PIE project, as appropriate.

41. Those respondents who did not support the proposed requirement cited similar concerns about the term “significant public interest” and also noted that because ISQM 1 already requires a risk-based approach to determining engagements subject to an engagement quality review, engagements of significant public interest would likely already be covered by other parts of the requirement. In addition, respondents who disagreed expressed views that the proposals will not result in a proper identification of engagements subject to engagement quality reviews in the public sector.

IAASB Decisions

42. As explained further in the Basis for Conclusions, ISQM 2, Engagement Quality Reviews, the IAASB considered the need for an appropriate balance between the public interest objective of extending the requirement for an engagement quality review to engagements in addition to audits of financial statements of listed entities and the direction from respondents indicating that the term “significant public interest” may be confusing or may result in inconsistent application of the requirement. In the course of its deliberations:

(a) The IAASB considered whether it would be possible to define the term significant public interest or to provide guidance for determining engagements that are of significant public interest. However, the IAASB determined that this would not be practicable, given it would be difficult to overcome the global jurisdictional implications or barriers because of the disparity of the factors or characteristics ascribed to the term significant public interest in different jurisdictions or regions.

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19 See paragraphs 11-29 of IAASB September 2019 Agenda Item 7 that provides a summary of the feedback received in response to question 11 of the ISQM 1 ED.
(b) The IAASB also further considered requiring engagement quality reviews to be performed on certain engagements based on various criteria relating to the nature and circumstances of the engagement or the entity, which may be for reasons other than addressing one or more quality risk(s). However, the IAASB was generally of the view that requiring an engagement quality review in response to reasons that are not risk-based is inconsistent with, and may be viewed as undermining the principle of a risk-based approach established in ISQM 1.

43. In order to address the comments from respondents, the IAASB concluded to:

(a) Remove the requirement for an engagement quality review for audits of financial statements of entities that the firm determines are of significant public interest; and

(b) Add to the requirement other engagements for which the firm determines that an engagement quality review is an appropriate response to address one or more quality risk(s).

Communication with TCWG About the System of Quality Management

44. Question 10 of the ISQM 1 ED sought views from respondents about the proposed requirement for communication with external parties. The requirement aimed to promote the exchange of valuable and insightful information about the firm’s system of quality management with the firm’s stakeholders so as to maintain their confidence in the quality of the firm’s engagements that applied in all instances (i.e., for all engagements). In particular, views were sought on whether the proposals will encourage firms to communicate, via a transparency report or otherwise, when it is appropriate to do so.

45. As explained further in the Basis for Conclusions, ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, respondents broadly agreed that the proposed requirement in ISQM 1 ED would promote the exchange of valuable and insightful information about the firm’s system of quality management with the firm’s stakeholders, and encourage communication externally as appropriate.

46. However, there were mixed views on how ISQM 1 ED dealt with transparency reports. Certain respondents were concerned with explicitly stating “transparency report” in a requirement, mostly because it could imply that a transparency report is required in all circumstances. Others were of the view that the requirement was not strong enough.

47. ISQM 1 ED did not contain a requirement for firms to publish a transparency report. The proposals required firms to establish policies or procedures to address communication to external parties, in a transparency report or otherwise, when the firm determines it appropriate to do so. The intention of the IAASB was to promote the exchange of information about the firm’s system of quality management with stakeholders without stifling innovation or other developments at a jurisdictional level.

48. Following exposure, the IAASB considered global developments regarding transparency reports, in particular focusing on how they have evolved since the IAASB previously undertook information gathering in this regard. On the basis of this additional information, the IAASB agreed that given global variances, transparency reports are best dealt with by regulators at a jurisdictional level. Furthermore, the IAASB was of the view that including an explicit requirement in ISQM 1 in this regard would inappropriately focus on transparency reports as the only form or manner of effective communication, when other forms of communication may be better in the firm’s circumstances.

49. However, the IAASB did recognize the broad support from stakeholders for enhanced transparency and communication about the firm’s system of quality management with the firm’s stakeholders. In
response, the IAASB formed the view that transparency with TCWG about the firm’s system of quality management is particularly relevant, given their role in providing oversight to the financial reporting process.

50. The IAASB concluded that in the case of audits of financial statements of listed entities, the firm has a responsibility to provide information to TCWG about the system of quality management and accordingly, a requirement was added in ISQM 1 for the firm to establish policies or procedures that require communication with TCWG about how the system of quality management supports the consistent performance of quality audit engagements. The requirement only required communication with TCWG of listed entities for whom the firm performs an audit of financial statements, however application material draws attention that the firm may determine that it is also appropriate to communicate with TCWG of other entities for whom the firm performs engagements, such as those entities that have public interest or public accountability characteristics.

Section C – Overview of IESBA’s Approach to the Definition of PIE

Background

51. In December 2019, IESBA approved its project, Definitions of Listed Entity and Public Interest Entity in response to demands globally for reexamining the PIE definition, in particular to include financial institutions such as banks. Given that a number of jurisdictions have their own definition of PIE, the IESBA suggested that a revised definition could drive greater convergence globally on the meaning and interpretation of a PIE. At the same time, the IESBA noted that questions have been raised about whether the definition of a listed entity should be updated to reflect developments in capital markets around the world and new forms of capital raising.

52. Given the importance of the concepts of PIE and “publicly traded entity” for both the IESBA’s and IAASB’s standards, there has been ongoing coordination and collaboration between the respective Boards’ on this topic. The aim of the coordination is to achieve convergence to the greatest extent possible that is necessary to enable the interoperability of the proposals considered and made by each Board for each of its standards.

53. In January 2021, IESBA published an Exposure Draft Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (PIE ED), with the comment period closing May 3, 2021. In December 2021, the IESBA approved the revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE that become effective for audits of financial statements for periods beginning on or after December 15, 2024.

Approach to Revising the PIE Definition

54. In developing the approach to revise the PIE definition, IESBA recognized the difficulty of establishing a concise definition that can be universally adopted at the global level because of the variety of circumstances that exist across jurisdictions. Accordingly, in the PIE ED the IESBA:

(a) Proposed a top-down, broadly defined list of mandatory high-level PIE categories for the definition, subject to refinement by the relevant local bodies as part of adoption of the approved

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For example, IESBA considered that in some jurisdictions there are varying types of refinement to the PIE definition in their local codes or have defined PIEs by using terms defined in other laws or regulations. Also, in some jurisdictions (e.g., the European Union) although there is a definition of PIEs, modification is allowed to the implementation of the definition among member states.
provisions.

(b) Anticipated that the local bodies might include additional PIE categories (a “bottom-up” list) to the local definition, taking into account the local context.

55. The IESBA acknowledged that because the top-down list of high-level mandatory categories included as PIEs are defined broadly, this could inevitably scope in entities in whose financial condition the public interest is not significant. The IESBA therefore believed that it is appropriate under these circumstances for the IESBA to deviate from its normal practice and allow for the relevant local bodies to refine the high-level categories by making it clearer:

- Which entities are intended to be included (e.g., including references to local legislation or public stock exchanges), and
- Which entities should be excluded that the IESBA Code would otherwise include (e.g., determining whether smaller entities should be excluded from any or all of the categories of PIE and what threshold should be set for such exclusion taking into account the need to balance the public interest and the burden of additional requirements imposed on the auditors of PIEs).

56. Under the proposed approach, the relevant local bodies (such as regulators or oversight bodies, national standard setters and professional accountancy bodies) play a pivotal role in establishing the local PIE definition through refining the definitions, setting size criteria and adding new types of entities or exempting particular entities. The IESBA noted that the relevant local bodies have the responsibility, and are also best placed, to assess and determine with greater precision which entities or types of entities should be treated as PIEs for the purposes of meeting the IESBA Code’s overarching objective. The IESBA also observed that a number of relevant local bodies have already done so by taking into consideration issues, concerns and nuances specific to the local environment and how these impact the public interest in their jurisdictions.

Feedback on Exposure

57. As explained further in the Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, there was a general acknowledgment from respondents to the PIE ED that while a globally consistent definition of PIE would be beneficial, it is difficult, if not impossible, to develop a single definition that could fit all jurisdictions.

58. A substantial body of respondents supported the use of high-level PIE categories. Other respondents, particularly global firms and respondents from the European Union as well as the one Monitoring Group respondent, preferred a baseline definition that could be adopted without the need for further refinement. Key issues raised by such respondents included that the proposed approach could create greater inconsistencies in practice and that it assumes reliance on the actions (or inactions) of local bodies which would be outside the IESBA’s remit and control (i.e., the approach might not be effective as a local body might choose not to, or might not have the requisite capacity to, make the necessary refinements).

IESBA Decisions

59. Following exposure, IESBA reaffirmed its view that if the PIE definition would be expanded to beyond listed entities, it would be impossible to establish a baseline definition globally without further local refinements. The IESBA noted that some jurisdictional variation should be expected and allowed given that each jurisdiction will have different criteria and drivers to determine which entities should
be subject to additional independence requirements.

60. In addition, the IESBA noted that:

(a) By establishing an overarching objective and expanding the PIE categories (although only at high-level), this would in fact bring some level of global consistency to the types of entities that should be treated as PIEs.

(b) Keeping the categories limited to banks and insurance companies and removing pension funds and collective investment vehicles from the high-level categories, is expected to significantly reduce the level of potential inconsistency and also reduce the challenges local bodies may face in refining the definitions.

(c) The IESBA’s commitment to develop a necessary outreach program as part its rollout program, including collaboration with the International Federation of Accountants (IFAC) and other stakeholders such as local national standard setters, will help to ensure that local refinement properly reflects contextual reasons and not a misunderstanding of the IESBA’s provisions and rationale.