

Implications for the IAASB Standards¹ of the IESBA² Project on the Definitions of Listed Entity and Public Interest Entity (PIE) – Issues and Development of a Project Proposal

Objective of the Agenda Item:

The objectives of this Agenda Item are to:

- (a) Provide an overview of the developments related to IESBA's project on listed entity and PIE, focused on key matters relevant to the IAASB, including an update on the September 2021 IESBA Board Meeting and the joint IESBA-IAASB CAG discussion. The Board's views on the key matters relevant to the IAASB are essential, given that the IESBA plans to finalize their proposals in December 2021.
- (b) Discuss the overarching public interest issues that will be addressed by the IAASB's proposed narrow scope maintenance of standards project on listed entity and PIE (the IAASB's project), and the possible project objectives, the broad project scope and the project timeline. The Board's views on these matters will help inform the IAASB PIE Working Group (IAASB PIE WG) in developing a project proposal, which will be presented for discussion and approval at the March 2022 IAASB meeting.

Introduction

1. In July 2021, the IAASB PIE WG presented the feedback from respondents to the IESBA's Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED) to the IAASB and discussed the IAASB PIE WG initial views on the matters for the IAASB's consideration,³ including the:
 - (a) Use of the overarching objective for both the IESBA and IAASB in establishing differential requirements for certain entities;
 - (b) Proposed case-by-case approach relating to requirements applicable to listed entities in the IAASB's Standards; and
 - (c) Disclosure within the auditor's report that the firm has treated an entity as a PIE.

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¹ For this Agenda Item, "IAASB Standards" refers to International Standards on Auditing (ISAs) and International Standards on Quality Management (ISQMs).

² International Ethics Standards Board for Accountants

³ Question 15 (a)-(c) of the PIE ED related to matters for IAASB's Consideration. The Matters for IESBA's Consideration were addressed by Questions 1-14 of the PIE ED.

2. At the July 2021 meeting, the Board expressed their support for:
 - (a) The IAASB PIE WG's proposed approach to the overarching objective for use by both the IAASB and IESBA in establishing differential requirements for certain entities, and noted the importance for the IAASB and IESBA to seek alignment to the greatest extent possible;
 - (b) Exploring a case-by-case approach in determining whether extant requirements for listed entities should be expanded to all PIEs as part of a narrow scope project for targeted changes to one or more IAASB Standards; and
 - (c) Further exploring enhanced transparency in the auditor's report about the when a firm has applied the independence requirements for PIEs.

The approved minutes from the IAASB July 2021 mid-quarter meeting are presented in **Appendix 2**.

3. The IESBA discussed the feedback from respondents to the PIE ED and the IESBA PIE Task Force (IESBA PIE TF) proposals to address the significant comments from respondents at their June and September 2021 meetings (see [Agenda Item 3](#) and [Agenda Item 2](#), respectively). A joint session was also held for the IESBA and IAASB CAGs in September 2021 that provided an overview of the respondent feedback to the PIE ED and IESBA's proposals to address the feedback. The IESBA plans to approve the revisions to the Code⁴ in December 2021.
4. The IESBA and IAASB are coordinating closely on this project. This coordination has been accomplished through Staff level coordination, the participation of the IAASB correspondent members in the IESBA PIE TF, and updates to the respective boards on the progress of each Board's activities. The aim is to obtain the concurrence of the two Boards on the proposals to the greatest extent possible, such that the IAASB may use the IESBA's revised concepts in the Code, as appropriate, for any amendments to the IAASB Standards.
5. Although the IAASB is coordinating with IESBA on their revisions to the Code, it is important to note that the IAASB will still need to follow its own due process in determining whether, and if so, how to incorporate the revised concepts in the Code in the IAASB Standards. This involves the IAASB undergoing public exposure and consultation as part of its own project.
6. This paper sets out the following:
 - (a) **Part A:** A summary of the developments on the IESBA's project on listed entity and PIE, including the most recent proposals on key matters relevant to the IAASB. The summary provides an overview of the proposals discussed at the September 2021 IESBA Board meeting and the IESBA's feedback on the proposals, as well as the feedback from the joint IESBA-IAASB CAG meeting (see **Sections I-IV** of this paper). The IAASB's views on the most recent proposals on key matters relevant to the IAASB are important at this stage, given the forthcoming finalization of IESBA's project in December 2021.

⁴ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

Key Matters Relevant for IAASB	Section
Matters related to the “publicly traded entity” definition	I
Overarching objective for establishing differential requirements	II
The PIE definition	III
Requirement to publicly disclose the application of independence requirements for PIEs	IV

- (b) **Part B:** Aspects that will be addressed in the IAASB’s project proposal to undertake a narrow scope maintenance of standards project related to listed entity and PIE, including the project scope, overarching public interest issues, proposed project objectives and project timeline.
- (c) **Part C:** The way forward.

Materials Presented—Appendices and Supplements Accompanying This Paper

7. This Agenda Item includes the following appendices and supplements:

Appendix 1	IAASB PIE WG members and activities
Appendix 2	Approved minutes from the IAASB July 2021 mid-quarter meeting
Appendix 3	Comparison of the various versions of the definitions of “listed entity” and “publicly traded entity,” i.e., the definition as drafted in extant standards, the definition in the PIE ED, and the proposed definition in IESBA’s September 2021 proposals
Appendix 4	Illustration of how the case-by-case approach may be applied to a requirement in the ISAs ⁵
Agenda Item 1-A (Supplemental)	Proposed text (mark-up from PIE ED) presented to the IESBA at their September 2021 meeting
Agenda Item 1-B (Supplemental)	Summary of extant paragraphs of ISQMs ⁶ and ISAs considered in the scope of IAASB’s project

⁵ International Standards on Auditing

⁶ International Standards on Quality Management

Part A: Summary of the Developments on the IESBA’s Project on Listed Entity and PIE

I. Matters Related to the “Publicly Traded Entity” Definition

Other Relevant Papers Presented to the IAASB / IESBA on this Topic

[Agenda Item 3](#) of the IAASB July 2021 meeting: Paragraphs 34-37 and 98-104 included a preliminary summary of the respondents’ feedback to the PIE ED on the “publicly traded entity” definition, an overview of the IESBA PIE TF’s preliminary views and a summary of the IESBA June 2021 meeting discussion on this topic.

[Agenda Item 2-A](#) of the IESBA September 2021 Meeting: Paragraphs 79-112 (Section D: Publicly Traded Entity – PIE ED Question 4) includes:

- IESBA’s final analysis of respondent feedback on the definition of “publicly traded entity”; and
- The IESBA PIE TF’s proposals to address respondents’ comments on the matters related to the “publicly traded entity” definition.

The section that follows summarizes the proposals discussed by IESBA in September 2021 and include the IESBA’s and joint IESBA-IAASB CAG’s feedback in the September 2021 meetings.

Background to IESBA’s Proposed Changes to the Definition of “Listed Entity” in the Code

8. At present, the definition of the term “listed entity” in the Code is identical to that in the IAASB Standards as follows:

“An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.”

9. The IESBA heard through stakeholder feedback to the IESBA’s survey for its Strategy and Work Plan for 2019-2023 a number of issues related to the extant definition of “listed entity,” in particular:
- (a) The need to clarify the term “recognized stock exchange” in the extant definition of “listed entity” and whether this is intended to be the same as, or a broader than, the concept of a “regulated market” in the definition of a PIE in the European Union (EU) Audit Legislation. It was suggested that there may be an interpretation that there is a difference as exchanges exist that have a lower level of regulation compared with larger or more established securities exchanges.
 - (b) Whether the definition needed to be modernized to reflect developments in capital markets around the world and newer forms of capital raising, such as crowd funding, and how these are regulated.
10. In response to the stakeholders’ feedback, IESBA considered the definition of the term “listed entity” in the Code as part of its project on listed entity and PIE. The IESBA recognized the need for close

coordination with the IAASB to establish agreement between the IESBA and IAASB on a common revised definition of the term “listed entity” that would be operable for both Boards’ standards.⁷

IESBA’s Rationale for Replacing “Listed Entity” with “Publicly Traded Entity” as Proposed in the PIE ED

11. The proposals as set out in the PIE ED included introducing a new term “publicly traded entity” to replace “listed entity” in the extant Code, which would be defined as follows:

“An entity that issues financial instruments that are transferrable and publicly traded.”

The proposals in the PIE ED also suggested that “publicly traded entity” would replace “listed entity” as one of the high-level categories of entities included within the revised PIE definition.

12. In developing its proposals for the new term “publicly traded entity,” the IESBA introduced the following key concepts:

- (a) It is assumed that there is a facilitated trading mechanism that aims to match buyers and sellers (i.e., it is not restricted to trading on “exchanges”). The new term is not intended to capture entities for which the only way to trade their financial instruments is through privately negotiated agreements.
- (b) The term “financial instruments” is intended to be broadly applied, covering “shares, stock or debt” (as currently specified in the extant definition of “listed entity”), or other types of instruments such as warrants or hybrid securities.
- (c) The term “publicly traded” is used instead of “publicly listed” as some financial instruments might only be listed and are not intended to be traded.
- (d) The focus is on the entity which “issues” the financial instruments. This change was made to avoid capturing those situations when instruments that may be linked to an entity are traded without its approval or knowledge.

13. The changes described above have the following consequences:

- (a) IESBA’s proposed new definition for “publicly traded entity” in the PIE ED addressed the confusion and ambiguity created by the term “recognized stock exchange” in the extant definition of “listed entity.”
- (b) The proposed new definition would include a broader range of entities as it is not confined to entities trading shares, stock or debt on formal exchanges. It also encompasses entities trading financial instruments in less regulated markets, such as second-tier markets or over-the-counter trading platforms.
- (c) On the other hand, the proposed new definition would *scope out* those entities whose shares, stock or debt are quoted or listed on a recognized stock exchange, but are not freely transferable or publicly traded.

⁷ See paragraph 20 of the IESBA PIE project [Approved Project Proposal](#).

IESBA PIE TF Proposals in September 2021 to Respond to Respondents' Feedback to the PIE ED

14. A substantial portion of the respondents supported the new term “publicly traded entity,” and incorporating it as one of the categories of PIE. Notwithstanding the support for the new term, a Monitoring Group (MG) respondent raised concern about using the term “publicly traded entity.” The MG respondent instead proposed that IESBA retain “listed entity” on the basis that it is an important and well understood term, which is encapsulated in existing national accountancy regulation across numerous jurisdictions, and therefore should continue to be prominently featured in the Code.⁸
15. The IESBA PIE TF held a virtual meeting with the MG respondent representatives in July 2021 to discuss their comments about the need to retain the term “listed entity.” At the meeting, the MG respondent’s representatives expressed their preliminary view that if “listed entity” is incorporated into the proposed new term “publicly traded entity” with accompanying guidance, this would largely address their concerns about “listed entity” being replaced by the proposed new term.
16. Accordingly, the IESBA PIE TF proposed retaining the term “publicly traded entity” and revising the definition as follows:

Extract from [Agenda Item 2-B](#) (Proposed Revised Text for the Code Presented at the IESBA September 2021 meeting – mark up from PIE ED)

Publicly traded entity

An entity that issues financial instruments that are transferrable and ~~publicly traded, 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.

17. The IESBA PIE TF explained that:
 - (a) Adding the proposed phrase “*including through listing on a stock exchange*” effectively incorporates the concept of listed entity, without needing to refer to a “recognized stock exchange.” The proposed phrase is intended to clarify that the trading activity is through primary stock exchanges and also secondary exchanges.
 - (b) The reference to “listed entity” as an example of a “publicly traded entity” means that “listed entity,” as defined by local securities law or regulation and which meets the characteristics specified in the definition, is a subset of “publicly traded entity.” Accordingly, any entities that are listed entities in their local jurisdictions will also be scoped in as PIEs under the IESBA PIE TF proposals.
18. The IESBA PIE TF noted respondents’ suggestions to clarify or define the term “financial instruments,” which is used in the proposed “publicly traded entity” definition. The IESBA PIE TF considered the definition of “financial instruments” as set out in [International Accounting Standard \(IAS\) 32, Financial Instruments: Presentation](#), and explored other options for addressing

⁸ See the [comment letter](#) from the International Organization of Securities Commissions (IOSCO).

respondents' feedback. In seeking the IESBA's input on whether the term should be further defined, the IESBA PIE TF expressed the following views:

- (a) The IAS definition may not be sufficiently clear for the purposes of the Code. Whilst the terms "financial asset", "financial liability" and "equity instrument" are further defined in IAS 32, the IESBA PIE TF did not consider that it would be appropriate to include these definitions in the Code. In addition, the focus within the context of "publicly traded entity" is primarily on financial liabilities or equity. Further, by including the IAS definition in the Code, the definition may require updating in the event of future revision of IAS 32 by the International Accounting Standards Board (IASB).
- (b) If a direct cross-reference to IAS 32 were made in the "publicly traded entity" definition, it would not be consistent with the approach used across the Code (i.e., the Code does not cross-refer to other international standards other than the IAASB standards). The IESBA PIE TF also questioned the need for users of the Code to refer to a full IASB standard in order to understand the term "financial instrument."
- (c) Given the term "publicly traded entity" is a global definition, it may not be appropriate to subject "financial instrument" to local variations by stating it is a "financial instrument as defined by the applicable financial reporting framework" (i.e., similar to how "financial reporting framework" is used in the definition of "financial statements" in the Code).

Overview of the September 2021 IESBA Meeting and the Joint IESBA-IAASB CAG Discussion on the Definition of "Publicly Traded Entity"

19. At its September 2021 meeting, the IESBA supported:
 - (a) Retaining the term "publicly traded entity" and the proposed definition.
 - (b) The proposal not to define "financial instrument."
20. Further comments and suggestions included:
 - (a) Providing further clarity and explanation of the phrase "*traded through a publicly accessible market mechanism*" in the Basis for Conclusions.
 - (b) Referring to "listed entity" in the description attached to the "publicly traded entity" definition as a category of "publicly traded entity," rather than as an example of a "publicly traded entity."
21. In the joint IESBA-IAASB CAG discussion in September 2021, CAG Representatives were supportive of the proposed term and definition for "publicly traded entity." Views were expressed that:
 - (a) It is not necessary to define the term "financial instrument" for the purpose of the Code, given that stakeholders have sufficient knowledge of what financial instruments are.
 - (b) Incorporating the phrase "listed on a stock exchange" (i.e., as a means to include the term "listed entity" in the definition of "publicly traded entity") will reduce confusion and promote adoption of the new PIE definition.

Other Relevant Matters for the "Publicly Traded Entity" Definition

22. **Appendix 3** provides a comparison of the various versions of the definitions of "listed entity" and "publicly traded entity," i.e., how the term "listed entity" is defined in the extant standards, and how

the term “publicly traded entity” was defined in the PIE ED and in the IESBA PIE TF proposals in September 2021.

23. The IESBA PIE TF is considering replacing the term “example” with the term “category” in describing “listed entity” as described in paragraph 20(b). Doing so would clarify that listed entities, as defined by relevant securities law or regulation, should be treated as a group of publicly traded entities and are therefore PIEs. The IESBA PIE TF will further discuss their proposals with the MG respondent representatives on October 21, 2021, to confirm whether the proposed revised “publicly traded entity” definition addresses their concerns.

IAASB PIE WG Deliberations

24. The IAASB PIE WG discussed the approaches taken in the IAASB Standards and the Code with respect to use of the terms “listed entity” and PIE, as summarized below:
 - (a) The ISQMs and ISAs include certain differential requirements for audits of financial statements of listed entities.
 - (b) The IAASB Standards recognize through application material that certain entities other than listed entities could have characteristics that give rise to similar public interest issues as listed entities and, therefore, that it may be appropriate to apply a requirement that was designed for an audit of a listed entity to audits of a broader range of entities. However, the IAASB Standards do not use the term PIE or refer to the PIE definition set out in the Code.
 - (c) In the extant Code, the term “listed entity” is defined separately, and is a component of the definition of a PIE. The *International Independence Standards (IIS)*⁹ in the Code include differential requirements for PIEs in Part 4A of the Code—*Independence for Audit and Review Engagements*, which apply when performing audit or review engagements. The Code takes a stricter view of audits of PIEs as opposed to entities that are not PIEs, due to the heightened stakeholder expectations regarding the independence of a firm that audits a PIE, and therefore there are a number of independence requirements in the IIS that are specific to PIEs.
25. The IAASB’s project would consider whether the differential requirements in the IAASB Standards that apply to “listed entities” should be expanded to apply to all categories of PIEs (see paragraph 74). In addition, as part of achieving convergence between the concepts used in the IAASB’s and IESBA’s standards to the greatest extent possible, the proposed IAASB project would explore whether the IESBA’s proposed new term “publicly traded entity” should be adopted into the IAASB’s Standards as a replacement of the term “listed entity” (see paragraph 69).
26. In making a decision as to whether the IAASB should adopt the definition of “publicly traded entity” as a replacement of the term “listed entity,” the IAASB would need to consider the impact on the IAASB Standards of the following matters:
 - (a) How “listed entity” is described by IESBA in the proposed definition of “publicly traded entity,”

⁹ The *International Independence Standards* of the Code set out material that applies to professional accountants in public practice when providing assurance services, as follows: Part 4A – *Independence for Audit and Review Engagements*, which applies when performing audit or review engagements; and Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*, which applies when performing assurance engagements that are not audit or review engagements.

i.e., it currently describes a “listed entity” as “defined by relevant securities law or regulation.” Depending on how the term “listed entity” is defined in securities law or regulation, the proposed new description of a listed entity may be broader or narrower than the extant definition of a “listed entity” in the IAASB Standards.

- (b) Which additional entities would be scoped into the proposed definition of “publicly traded entity” that are not currently scoped into the definition of “listed entity” (as described in paragraph 13).
- (c) The effect of (a) and (b) on the extant requirements that apply to “listed entities” if the requirements instead apply to “publicly traded entities,” i.e., it may or may not result in changes in the underlying entities that such requirements apply to.
- (d) IESBA’s proposal to remove the “listed entity” definition from the Code but retain the term as a description (rather than a standalone definition) encapsulated within the “publicly traded entity” definition.
- (e) The risk of adding complexity to the IAASB Standards and misalignment with the Code, which may arise if there are multiple definitions or the differential requirements are applied to varying types of entities.

Given the possible effect on the IAASB Standards of replacing “listed entity” with “publicly traded entity,” which would be considered as part of the IAASB’s project, it is essential for the IAASB to provide input to IESBA on the proposed “publicly traded entity” definition prior to IESBA’s final approval in December 2021.

Matters for IAASB Consideration:

1. Does the IAASB agree with the matters that may need to be considered as part of the IAASB’s project, in determining whether to replace “listed entity” with “publicly traded entity” (see paragraph 26)? In particular, are there any additional matters that may need to be considered?
2. Does the IAASB have any input for IESBA on the proposed “publicly traded entity” definition prior to IESBA’s final approval in December 2021?

II. Overarching Objective for Establishing Differential Requirements

Other Relevant Papers Presented to the IAASB / IESBA on this Topic

[Agenda Item 3](#) of the IAASB July 2021 meeting: Paragraphs 17-25 and 62-74 includes:

- A preliminary summary of the respondents’ feedback to the PIE ED on the overarching objective, an overview of the IESBA PIE TF’s preliminary views and a summary of the IESBA June 2021 meeting discussion on this topic; and
- An analysis of Question 15(a) of the PIE ED relating to the use of the overarching objective for both IESBA and IAASB in establishing differential requirements for certain entities, and the IAASB PIE WG’s initial views in this regard.

[Agenda Item 2-A](#) of the IESBA September 2021 Meeting: Paragraphs 8-44 (Section A: Overarching Objective – ED Question 1; and Section B: List of Factors to Determine Level of Public Interest – ED Question 2) includes:

- IESBA’s final analysis of respondent feedback on the overarching objective; and
- The IESBA PIE TF’s proposals to address respondents’ comments on the overarching objective for establishing differential requirements.

The section that follows summarizes the proposals discussed by IESBA in September 2021 and includes the IESBA’s and joint IESBA-IAASB CAG’s feedback in the September 2021 meetings.

IESBA PIE TF Proposals in September 2021 to Respond to Respondents’ Feedback to the PIE ED

27. In the IESBA June 2021 meeting, the IESBA discussed and broadly supported the IESBA PIE TF’s views with regards to the overarching objective. The IESBA PIE TF reaffirmed its views and proposals presented in the IESBA June 2021 meeting, and in September 2021 presented revised drafting to the IESBA as follows:

Extract from [Agenda Item 2-B](#) (Proposed Revised Text for the Code Presented at the IESBA September 2021 meeting – mark up from PIE ED)

400.8 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.

400.9 Factors to consider in evaluating the extent of public interest in the financial condition of an entity will depend on factors include:

- The nature of the business or activities, such as taking on financial obligations to the public as part of an entity’s primary business.
- Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
- Size of the entity.
- The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
- Number and nature of stakeholders including investors, customers, creditors and employees.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.910 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 their entity's financial statements that can be used when assessing the entity's financial condition.

28. Key features of the IESBA PIE TF's proposals outlined in the proposed drafting above are as follows:

- (a) The term “financial condition” has been retained in paragraph 400.8, given the overall strong support received from respondents for the proposed overarching objective, including from the MG respondent. The phrase “due to the potential impact of their financial well-being on stakeholders” was added to paragraph 400.8 in order to clarify the meaning of the term “financial condition,” including clarification that financial condition does not mean financial position.
- (b) The non-exhaustive list of factors to consider in evaluating the extent of public interest in the financial condition of an entity have been relocated to a separate paragraph (i.e., to paragraph 400.9) because:
 - (i) It allows for an overarching objective in paragraph 400.8 that may be considered by the IAASB as a common overarching objective for its Standards; and
 - (ii) It provides a clearer link with the list of factors for consideration by firms when determining whether to apply the independence requirements to audits of other entities (see proposed paragraph 400.17 A1 of **Agenda Item 1-A**).

The IESBA PIE TF is of the view that these factors are also relevant for local bodies to consider when refining the PIE definition or adding new categories based on national circumstances.

- (c) The reference to “enhancing confidence in the audit of those financial statements” has been removed from paragraph 400.10 to address respondents' concerns that the proposals in the PIE ED may inadvertently create a public perception that auditors of PIEs have a higher level of independence than auditors of non-PIEs and that PIE audits are of a higher quality. Further clarity has been added in paragraph 400.10 to support the purpose of the PIE independence requirements, by explaining that stakeholders have heightened expectations regarding independence of auditors performing an audit of a PIE because of the significance of the public interest in the financial condition of PIEs.
- (d) In order to clarify that an entity's financial condition is considered broader than its financial statements, an explanation has been added to paragraph 400.10, which emphasizes that financial statements can be used by stakeholders to assess the entity's financial condition.

Overview of the September 2021 IESBA Meeting and the Joint IESBA-IAASB CAG Discussion on Key Matters Relating to the Overarching Objective

29. The IESBA broadly supported the IESBA PIE TF's proposals and commented that keeping the list of factors separate from paragraph 400.8 would be helpful for establishing a common overarching objective for use by both the IAASB and IESBA. IESBA members asked the IESBA PIE TF to consider:

- (a) How the overarching objective set out in paragraph 400.8 relates to the firm's determination of whether to apply the independence requirements to audits of entities other than PIEs (paragraph 400.17 A1 of **Agenda Item 1-A**); and

- (b) Whether further explanation might be provided for the term “financial condition” as some might perceive it to be a synonym of the term “financial well-being.” Suggestions were made to use the Basis for Conclusions to provide these further clarifications.
30. CAG Representatives expressed support for revised paragraph 400.8, including retaining the focus on the term “financial condition.” They also noted support for a common overarching objective for use by both the IAASB and IESBA in establishing differential requirements in the standards.

IAASB PIE WG Deliberations

31. At its July 2021 meeting, the IAASB provided specific comments on the use of the term “financial condition” in paragraph 400.8 of the PIE ED (see **Appendix 2** for the approved minutes of the IAASB July 2021 mid-quarter meeting). In particular, the IAASB suggested that the PIE WG consider whether the use of the term is consistent with how it is used elsewhere in the IAASB’s Standards.
32. The IAASB PIE WG noted that the term “financial condition” is only used a few times, but in a similar context across the IAASB Standards. Specifically, the term is used in the application material of ISA 260 (Revised),¹⁰ ISA 300,¹¹ and ISA 315 (Revised 2019),¹² to describe that “*changes in the entity’s environment, financial condition or activities*” may have an effect on the financial statements or disclosures and the audit. The PIE WG is of the view that the use of the term “financial condition” in the IAASB Standards is not inconsistent with the term in IESBA’s proposed revisions to the Code.
33. In July 2021, the IAASB also questioned whether it is appropriate to use “financial condition” in establishing differential requirements for certain entities in the IAASB’s Standards, including whether it may inadvertently result in differential requirements related to going concern. The IAASB PIE WG noted that the manner in which the term “financial condition” is used in IESBA’s proposals is in a neutral way (i.e., it does not indicate that it applies to “poor” financial condition, which may be associated with significant doubt on an entity’s ability to continue as a going concern). The IAASB PIE WG notes that any considerations regarding the need for differential requirements in relation to going concern would be considered as part of the IAASB’s Going Concern workstream.¹³

Matters for IAASB Consideration:

3. Does the IAASB continue to support using paragraph 400.8 of IESBA’s proposed revisions to the Code as a common overarching objective for use by both the IAASB and IESBA in establishing differential requirements in the Boards’ standards?

III. The PIE Definition

Other Relevant Papers Presented to the IAASB / IESBA on this Topic

[Agenda Item 3](#) of the IAASB July 2021 meeting: Paragraphs 26-33 include a preliminary summary of the respondents’ feedback to the PIE ED on the PIE definition and provide an overview of the IESBA June

¹⁰ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph A13

¹¹ ISA 300, *Planning an Audit of Financial Statements*, paragraph A14

¹² ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*, paragraph A46

¹³ See the [Going Concern workstream project webpage](#) for more information.

2021 meeting discussion on the IESBA PIE TF's preliminary views on this topic.

[Agenda Item 2-A](#), of the IESBA September 2021 Meeting: Paragraphs 45-78 and 113-155 (Section C: Approach to Developing the PIE Definition – ED Questions 3 and 7; and Section E: Other Proposed PIE Categories and Potential New Categories – ED Questions 5 and 6) include:

- IESBA's final analysis of respondent feedback on the PIE definition; and
- The IESBA PIE TF's proposals to address respondents' comments on the matters related to the PIE definition.

The section that follows summarizes the proposals discussed by IESBA in September 2021 and includes the IESBA's and joint IESBA-IAASB CAG's feedback in the September 2021 meetings.

IESBA PIE TF Proposals in September 2021 to Respond to Respondents' Feedback to the PIE ED

34. In the proposals presented to the IESBA in June 2021, the IESBA PIE TF expressed a preliminary view that the broad approach to the PIE definition should be retained, and that the following categories should be removed from the PIE definition proposed in the PIE ED:

- (a) Category (d): *An entity whose function is to provide post-employment benefits; and*
- (b) Category (e): *An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public.*

In July 2021, the IAASB discussed the IESBA PIE TF's preliminary proposals.

35. The IESBA PIE TF reaffirmed its views and proposals presented in the IESBA June 2021 meeting, and in September 2021 presented revised drafting to the IESBA as follows:

Extract from [Agenda Item 2-B](#) (Proposed Revised Text for the Code Presented at the IESBA September 2021 meeting – mark up from PIE ED)

Public interest entity

For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:

- (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;
- ~~(d) An entity whose function is to provide post-employment benefits;~~
- ~~(e) An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public; or~~
- (f) An entity specified as such by law, or regulation or professional standards to meet the objective purpose set out in paragraph 400.910.

The Code provides for the categories to be revised or entities to be excluded as described in paragraph 400.15 A1 more explicitly defined or added to as described in paragraphs 400.16 A1 and 400.16 A2.

Overview of the September 2021 IESBA Meeting and the Joint IESBA-IAASB CAG Discussion on Key Matters Relating to the PIE Definition

36. At its September 2021 meeting, the IESBA discussed the IESBA PIE TF's proposals as outlined in paragraphs 34-35 above.
37. The PIOB observer reiterated the PIOB's concerns with respect to the proposed removal of categories (d) and (e) from the PIE definition as highlighted in the [PIOB's August 2021 public interest issues on the IESBA projects](#). The PIOB observer noted that these categories do have public interest benefits and therefore should be included, rather than allowing specific concerns such as size to set the direction. In addition, the PIOB observer noted that whilst there is acknowledgement of the risk associated with reliance on local bodies, the overall model and framework still include a substantial role for local bodies and firms. The PIOB observer suggested a number of options that could be further explored to address these risks, including, for example, providing exceptions in the standard, monitoring implementation via national standard setters and undertaking a post-implementation review.
38. The IESBA supported the IESBA PIE TF's proposal to remove categories (d) and (e), recognizing the PIOB's concerns. Amongst other matters, the following comments were raised by IESBA members in support of their views:
 - (a) Excluding categories (d) and (e) from the broad definition does not mean that these two categories are excluded at the local level.
 - (b) Given the substantially larger variety of entities in categories (d) and (e) compared with categories (b) and (c), it is more appropriate for local bodies to calibrate categories (d) and (e) and add them at the local level.
 - (c) Notwithstanding the public interest significance of some entities within categories (d) and (e), these are areas where market and economic evolution has led to great variety of legal forms, management forms and scope, resulting in wide variation within and across jurisdictions. Including those two categories would therefore place an inordinate burden of refinement on relevant local bodies, significantly increasing the risk of untimely or incomplete action by those bodies.
 - (d) In many jurisdictions, some collective investment vehicles would already be scoped into the PIE definition through category (a) because they are listed or there is a market mechanism for trading in them.
 - (e) The revised approach would reduce the risk associated with adoption and implementation of an innovative and untested model. Yet, local jurisdictions would still have the ability to include categories (d) and (e) at the national level.
 - (f) Application material could be added to the effect that local bodies might consider adding categories (d) and (e) at the local level.

39. At the September 2021 joint CAG IESBA-IAASB meeting, CAG Representatives supported the IESBA PIE TF's proposals to retain the broad approach and to remove categories (d) and (e) from the PIE definition.
40. IESBA representatives will further discuss the PIOB's concerns at the October 2021 PIOB meeting. The IESBA PIE TF will take into consideration the outcome of this discussion as it develops its revised proposals for the December 2021 IESBA meeting.

Matters for IAASB Consideration:

4. Does the IAASB have any observations on the IESBA's proposals for the PIE definition that would be relevant to the IAASB's project or in view of supporting IESBA in progressing their work prior to IESBA's final approval in December 2021?

IV. Requirement to Publicly Disclose the Application of the Independence Requirements for PIEs

Other Relevant Papers Presented to the IAASB / IESBA on this Topic

[Agenda Item 3](#) presented to the IAASB at its July 2021 meeting: Paragraphs 49-54 and 84-97 include:

- A preliminary summary of the respondents' feedback to the PIE ED on the transparency requirements for firms and an overview of the IESBA June 2021 meeting discussion on the IESBA PIE TF's preliminary views; and
- An analysis of Question 15(c) of the PIE ED relating to the disclosure within the auditor's report that the firm has treated an entity as a PIE, and the IAASB PIE WG's initial views in this regard.

[Agenda Item 2-A](#) of the IESBA September 2021 Meeting: Paragraphs 156-179 and 190-226 (Section F: Requirement for Firms to Determine to Add Entities as PIEs – ED Question 9; Section H: Transparency Requirements for Firms – ED Question 11; and Section I: Mechanisms for Firm Transparency Requirement – ED Question 12) include:

- IESBA's final analysis of respondent feedback on the transparency requirement for firms; and
- The IESBA PIE TF's proposals to address respondents' comments on the matters related to the transparency requirement for firms.

The section that follows summarizes the proposals discussed by IESBA in September 2021 and includes the IESBA's and joint IESBA-IAASB CAG's feedback in the September 2021 meetings.

IESBA PIE TF Proposals in September 2021 to Respond to Respondents' Feedback to the PIE ED

41. In the proposals presented to the IESBA in June 2021, the IESBA PIE TF expressed a preliminary view on the way forward regarding publicly disclosing when a firm has applied the independence requirements for PIEs, i.e.:
 - (a) Retaining a transparency requirement for firms;

- (b) Refocusing the transparency requirement from whether an entity has been treated as a PIE to whether the firm has complied with additional independence requirements applicable to the audits of PIEs; and
- (c) Coordinating closely with the IAASB (and providing any necessary support) as the IAASB explores whether the auditor's report is a suitable location for such disclosure.

In July 2021, the IAASB discussed the IESBA PIE TF's preliminary proposals.

42. In September 2021, the IESBA PIE TF maintained its view that it is in the public interest for a firm to disclose if PIE independence requirements have been applied, consistent with the proposals presented in the IESBA June 2021 meeting. Accordingly, the IESBA PIE TF presented the following drafting to IESBA:

Extract from [Agenda Item 2-B](#) (Proposed Revised Text for the Code Presented at the IESBA September 2021 meeting – mark up from PIE ED)

Public Disclosure - Application of Independence Requirements For Public Interest Entities

R400.18 When a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, A the firm shall publicly disclose if an audit client has been treated as a public interest entity that fact.

43. The IESBA PIE TF noted that the IAASB Standards at present require transparency regarding the relevant ethical requirements applied, in particular through disclosing the jurisdiction of origin of the relevant ethical requirements or indicating that the Code was applied. The IESBA PIE TF observed that when differential requirements for certain entities are embedded in the relevant ethical requirements issued by the body or jurisdiction and reference in the disclosure is made only to the whole set of relevant ethical requirements, some element of transparency is lost. Accordingly, the IESBA PIE TF expressed the view that, in the case of PIEs, given the significant public interest, increased transparency is important, in particular when the firm has determined to apply the differential requirements for independence applicable to PIEs to the audit of an entity that does not fall within the PIE definition.
44. Further observations and views of the IESBA PIE TF in September 2021 included the following:
- (a) The proposed revisions remove the focus on whether an audit client has been treated as a PIE and therefore minimize the potential confusion that may arise about the meaning of the disclosure.
 - (a) The disclosure should be public, given that the objective of the transparency requirement is disclosure to the public. The IESBA PIE TF noted that it should be left to the IAASB to explore whether the auditor's report is a suitable location for such disclosure and, if so, how this may be accomplished.
 - (b) If a firm determined with respect to a specific audit engagement that it needs not apply the independence requirements for PIEs, the firm should not be required to disclose that it has not applied such requirements. Proposed paragraph R400.18 has clarified this point.

45. The IESBA PIE TF noted that the UK Financial Reporting Council (FRC) requires the auditor, when identifying the relevant ethical requirements in the auditor's report, to indicate these include the FRC's Ethical Standard, applied as required for the types of entity determined to be appropriate in the circumstances for which the FRC Ethical Standard includes additional requirements (see example).

2. BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services

provided to the Group and Company for the period are disclosed in note 4 to the Group financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Additional Jurisdictions that Provide Transparency about Independence Requirements Beyond what is Required by ISA 700 (Revised)¹⁴

The IAASB PIE WG is seeking further information about whether there are other jurisdictions that provide similar transparency, through inquiries of the IAASB National Standard Setters group.

The IAASB PIE WG is aware that there may be other jurisdictions where additional transparency is provided in the auditor's report on differential requirements for independence that have been applied, which may be provided by the auditor on a voluntary basis. For example, in the Netherlands, the independence statement discloses that the specific requirements regarding statutory audit of PIEs in accordance with the EU Regulation have been complied with (see example below).

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of Koninklijke Ahold Delhaize N.V. in accordance with the European Union Regulation on specific requirements regarding statutory audit of public-interest entities, the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

¹⁴ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Overview of the September 2021 IESBA Meeting and the Joint IESBA-IAASB CAG Discussion on Key Matters Relating to the Transparency Requirement for Firms

46. In September 2021, the IESBA supported the IESBA PIE TF's proposals. Amongst other matters, the following comments were raised:
- (a) For those circumstances when the auditor's report has limited distribution, further explanation is needed as to how the requirement to publicly disclose the application of the independence requirements for PIEs can be achieved. It was suggested that this could be addressed through providing an explanation in the Basis for Conclusions. The IESBA PIE TF Chair suggested in a response to this comment that it may be rare that there is significant public interest in the entity's financial condition and the auditor's report for the entity is not widely distributed.
 - (b) A potential breach of confidentiality might arise in situations when an auditor is in possession of material nonpublic information about an audit client's plans to be listed and undergo an initial public offering. In such circumstances, by complying with the requirement to publicly disclose the application of the independence requirements for PIEs, this could have the unintended consequence of signaling to the marketplace material nonpublic information. In this regard, it was noted that the issue should not arise as there is no public trading in the entity's shares yet; however, there might be a concern about confidentiality in the case of a merger or acquisition. The IESBA PIE TF Chair noted that the requirement to publicly disclose the application of the independence requirements for PIEs should not undermine the other requirements in the Code with respect to Confidentiality. Accordingly, it was suggested that more explanation in the Basis for Conclusions could be explored, although these situations may be rare.
 - (c) Acknowledging the future work of the IAASB to explore whether the auditor's report is a suitable location for disclosing that a firm has applied the independence requirements for PIEs, a question was raised about the need to provide guidance for firms regarding the appropriate disclosure mechanisms that would achieve the requirement in the Code. The IESBA PIE TF Chair noted that it may not be appropriate to include examples of other disclosure mechanisms in the Code at this time given that the IAASB is separately considering whether the auditor's report is a suitable location for the proposed public disclosure. A suggestion was to explain this timing issue in the Basis for Conclusions and to indicate that the IESBA will consider the need for any further action once the IAASB has finalized its work and deliberations on this matter.
47. CAG Representatives were supportive of the IESBA PIE TF's proposals. Amongst other matters, Representatives provided the following individual comments:
- (a) Representatives noted their support for the proposed transparency requirement for firms and for publicly disclosing that the PIE independence requirements have been applied when that is the case.
 - (b) Representatives supported the auditor's report as a suitable location for the disclosure and the IESBA PIE TF was encouraged to continue to work closely with the IAASB in this regard.
 - (c) There was a question about what other suitable mechanisms other than the auditor's report could be considered for the proposed public disclosure. In response, the IESBA PIE TF Chair noted that the [IESBA's Fees project](#) led to the development of guidance in the Code about a number of other mechanisms to achieve public disclosure about fees (e.g., firms' transparency reports and websites).

- (d) Representatives expressed the view that in addition to PIE audits, an explicit statement of what independence requirements have been complied with should also be provided for audits of non-PIEs.

IAASB PIE WG Deliberations

48. The IAASB PIE WG notes that the IAASB's project intends to explore whether the auditor's report is a suitable location for disclosing when a firm has applied the independence requirements for PIEs, and if so, how this may be accomplished (see paragraph 81).
49. The IAASB PIE WG is of the view that the IESBA needs to determine whether locating the disclosure in the auditor's report achieves the requirement in the Code to *publicly* disclose that a firm has applied the independence requirements for public interest entities. In particular, the IAASB PIE WG notes the questions from the IESBA members about confidentiality breaches and circumstances when the auditor's report is not made public or its distribution is limited, and is of the view that these matters would need to be further considered by IESBA.
50. The IAASB PIE WG observed that should the IAASB find that the auditor's report is not a suitable location for the disclosure, it may create uncertainty or a lack of clarity as to what other mechanisms can be used to comply with IESBA's requirement. The IAASB and IESBA Staff have discussed this situation, and noted that in that eventuality, a plan forward would be agreed with IESBA, which may include development of non-authoritative guidance.
51. The intent is that the IAASB would make every effort to finalize its changes to the IAASB Standards as these may relate to disclosure in the auditor's report, to ensure alignment with the Code. Specifically, the intent is to finalize any revisions to the IAASB Standards by September 2023, with PIOB approval in December 2023. If these dates were achieved, it would enable the effective date of the IAASB's changes to be the same as for the revisions to the Code (i.e., December 2024). However, various concerns have been raised about the IAASB's timeline, which are further explained in paragraphs 85-90.

Matters for IAASB Consideration:

5. Does the IAASB have any observations on IESBA's proposal for the requirement to publicly disclose the application of the independence requirements for PIEs that would be relevant to the IAASB's project or in view of supporting IESBA in progressing their work prior to IESBA's final approval in December 2021?

Part B: The IAASB’s Project Proposal to Undertake a Narrow Scope Maintenance of Standards Project Related to Listed Entity and PIE

Introduction

52. Respondents’ feedback from the PIE ED has provided important information for the IAASB to consider as a basis for determining whether amendments to the IAASB Standards are needed to achieve convergence between the concepts in the Code and the IAASB Standards to the greatest extent possible. Based on the feedback from respondents, the further discussion with the IAASB in July 2021 (see [Agenda Item 3](#)), and recent deliberations of the IESBA in their September 2021 meeting, the IAASB PIE WG is of the view that it would be in the public interest to pursue a project to undertake amendments of the IAASB Standards through a narrow scope maintenance of standards project. This Section explores the following elements of a proposed project:

- (a) The project scope;
- (b) The public interest issues that will be addressed;
- (c) The project objectives; and
- (d) The project timeline.

Should the IAASB support the pursuit of a project, a project proposal will be presented for approval at the IAASB’s March 2022 meeting.

53. The IAASB’s project aims to consider and address the implications to the IAASB Standards as a consequence of the IESBA’s revisions to the Code in relation to their project on the definitions of listed entity and PIE. It is envisaged that the project will be undertaken in accordance with Component III of the [IAASB Framework for Activities](#) and will focus only on targeted changes to one or more IAASB Standards.¹⁵

54. In developing the public interest issues for the IAASB project, the IAASB PIE WG considered the [Public Interest Framework for the Development of the International Audit-Related Standards](#) (PIF) published by the Monitoring Group in July 2020 as part of their report “*Strengthening the International Audit and Ethics Standard-Setting System*” (the MG Report). The PIF provides a framework for the development and oversight of international audit-related standards that are responsive to the public interest and sets out considerations essential to the judgments needed by the IAASB when developing standards. The PIF, together with the IAASB’s due process, articulates the public interest responsiveness of setting international audit-related standards.

55. However, as implementation of the Monitoring Group’s recommendations in the MG report is still in the planning phase, not all elements of the PIF have been addressed in the recalibration of the structure of an IAASB standard-setting project proposal. As this project will likely continue during the time that the PIF is implemented, specific important aspects have been considered in presenting a restructured project proposal format, while still adhering to the due process requirements currently in place.

¹⁵ Projects within Category III of the IAASB Framework for Activities include narrow scope maintenance of standards and are intended to achieve a limited number of targeted changes to either a single standard or across multiple standards. To proceed with a narrow scope maintenance of standards project, the IAASB follows its due process and working procedures.

Scope of the Narrow Scope Maintenance of Standards Project on Listed Entity and PIE

56. The PIE WG identified two key aspects to consider in determining the scope of the project:
- (a) Which IAASB Standards and Frameworks¹⁶ should be addressed by the project; and
 - (b) What are the various matters that need to be considered by the IAASB to achieve convergence between the concepts in the Code and the IAASB Standards to the greatest extent possible?

Which IAASB Standards and Frameworks Should be Addressed by the Project?

57. The IAASB PIE WG performed an analysis of the IAASB's Standards and Frameworks to identify areas that may be affected by this project, such as references to listed entities and related terms¹⁷ in the IAASB's Standards, or material that describes entities with public interest characteristics.¹⁸
58. While the ISQMs and ISAs have a number of references to listed entities or the concepts underpinning public interest entities, there are only minimal references to these concepts in the other IAASB Standards, as follows:
- (a) Paragraph 63 of ISRE 2410;¹⁹ and
 - (b) Paragraph A17 of ISRS 4410 (Revised).²⁰
59. ISRE 2410 is still in a pre-clarity format and this standard has not been updated for conforming amendments in relation to other recent projects of the IAASB. A revision of ISRE 2410 is already being contemplated (see consultation on IAASB Work Plan 2022–2023).²¹ The reference to these concepts in ISRS 4410 (Revised) is limited to an example of commonly used general purpose financial reporting frameworks²² and therefore does not refer to the IAASB Standards themselves.
60. There are references to “listed companies, listed entities and public interest entities” in the *Framework for Audit Quality*, but these terms are not used in the *Amended International Framework for Assurance Engagements*. In the *Framework for Audit Quality*, the majority of the instances when these terms are used is in examples.²³ In limited other instances, the *Framework for Audit Quality*

¹⁶ These include *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality (Framework for Audit Quality)* and the *Amended International Framework for Assurance Engagements*.

¹⁷ Related terms include the following: “non-listed”, “other than listed”, “unlisted” and “smaller listed” entity.

¹⁸ References in the application material made with respect to “public interest entities”, “public entities”, “entities with public accountability”, “entities with public interest or public interest characteristics”, “entities with significant public interest” and other similar descriptions.

¹⁹ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

²⁰ ISRS 4410 (Revised), *Compilation Engagements*

²¹ Refer to [Agenda Item 4](#) of the September 2021 IAASB meeting for feedback relating to the Work Plan consultation.

²² The example in paragraph A17 of ISRS 4410 (Revised) refers to the International Financial Reporting Standards (IFRS) and established national financial reporting standards applicable for “publicly-listed entities.”

²³ For example, explanations of the interactions between audit committees and auditors of listed companies; the design of the financial reporting disclosures to protect the interests of shareholders that do not have access to internal financial information; the financial reporting timeline and reporting deadlines for listed companies; and in relation to the inspections (including investigation and disciplinary action) undertaken by independent audit regulators in accordance with laws and regulations for listed companies and public interest entities.

describes certain requirements in the ISQMs and ISAs, such as in relation to communication of key audit matters and when engagement quality control reviews are required to be performed. In previous projects undertaken by the IAASB, it is usual practice to update the *Amended International Framework for Assurance Engagements* as necessary. However, this is not the case for the *Framework for Audit Quality* given it was established at a point in time, and any revisions would possibly give rise to the need for a more wholesome revision to this framework.

61. The IAASB PIE WG therefore proposes that the narrow scope maintenance project on listed entity and PIE be limited to the ISQMs and ISAs. **Agenda Item 1-B** provides a summary of the extant paragraphs in the ISQMs and ISAs that would be in the scope of the IAASB's project.

What are the Various Matters that Need to be Considered by the IAASB to Achieve Convergence Between the Concepts in the Code and the IAASB Standards to the Greatest Extent Possible?

Objective or Guidelines for Establishing Differential Requirements in the IAASB Standards

62. Respondents to the PIE ED broadly supported that the IAASB and IESBA seek consistency and alignment of important principles across the Code and the IAASB's Standards and expressed support for the use of a common overarching objective for establishing differential requirements in the respective standards for certain entities. Notwithstanding the support, respondents cautioned that a careful and balanced approach is needed to avoid creating complexity for the IAASB Standards through introducing too many differential requirements. Respondents noted that there may be a different rationale for the differential requirements in the Code and the IAASB's Standards, and that there may be more than one rationale for differential requirements for certain entities in the IAASB's Standards.
63. At its July 2021 meeting, the IAASB discussed the proposed approach to developing the objective for establishing differential requirements in the IAASB Standards as follows:
- (a) Establish a common objective for the IAASB and IESBA, based on paragraph 400.8 of the PIE ED (now revised paragraph 400.8 of **Agenda Item 1-A**);
 - (b) Develop a tailored objective for the IAASB's Standards, based on paragraph 400.9 of the PIE ED (now revised paragraph 400.10 of **Agenda Item 1-A**); and
 - (c) Consider how the list of non-exhaustive factors from the common objective (previously paragraph 400.8 of the PIE ED and now revised paragraph 400.9 of **Agenda Item 1-A**) are relevant to the IAASB's tailored objective.
64. The IAASB PIE WG are of the view that the above approach discussed with the IAASB remains an appropriate way forward. However, the IAASB PIE WG have noted that the objective may need to be supported by guidelines to help support the IAASB's judgments when considering specific matters for which differential requirements may be appropriate. Such guidelines may include the factors outlined in revised paragraph 400.9 of **Agenda Item 1-A**.
65. The objective and guidelines would be used as a basis for:
- (a) Undertaking a case-by-case analysis of existing differential requirements for listed entities in the IAASB Standards to determine whether those requirements might need to apply to all categories of PIEs; and

- (b) Future IAASB projects in determining whether differential requirements need to be established for certain entities (i.e., it would be used to inform the approach by providing principles against which future proposals for differential requirements can be tested).
66. As part of establishing the objective or guidelines, the project would also explore the location of the objective or guidelines, so that it is accessible for future projects.

Whether to Align Concepts in the IAASB Standards to the Proposed Revised Code, Including the Definitions of “Publicly Traded Entity” and PIE, and the Factors to Consider in Evaluating the Extent of Public Interest in the Financial Condition of an Entity

67. As explained in **Section I**, at present, the definition of the term “listed entity” in the IAASB Standards is identical to that in the Code. The IAASB Standards do not include the concept of PIE, or refer to PIEs throughout the standards. The IESBA has proposed that the term “listed entity” be replaced with a newly defined term, “publicly traded entity.” In addition, the IESBA has proposed changes to the definition of PIE, of which one change is to include “publicly traded entity” as one of the categories of entities included in the revised PIE definition.
68. The IESBA has also proposed factors to consider in evaluating the extent of public interest in the financial condition of an entity (see revised paragraph 400.9 of **Agenda Item 1-A**). These factors may be used for various purposes, including when the bodies responsible for setting ethics standards for professional accountants in a jurisdiction are refining the definition of PIE for their jurisdiction, or when firms are determining whether to apply the independence requirements for PIEs to the audits of financial statements of other entities. The IESBA has also included further factors for firms to consider in determining whether to apply the independence requirements for PIEs to other entities (see revised paragraph 400.17 A1 of **Agenda Item 1-A**).
69. As part of achieving convergence between the concepts used in the IAASB’s and the IESBA’s standards to the greatest extent possible, the project intends to explore whether the IESBA’s proposed new definition of “publicly traded entity” should be adopted into the IAASB’s Standards to replace the term “listed entity.” Paragraph 26 explains that the IAASB would need to consider the impact of adopting the definition of “publicly traded entity” on the IAASB Standards, and outlines the matters the IAASB would need to consider in considering such impact. Paragraph 74 further explains that this exercise is therefore part of the case-by-case approach.
70. In addition, although the concept of PIE is not currently addressed in the IAASB Standards, the project intends to explore whether this definition should be adopted in the IAASB Standards. This consideration will likely be affected by the IAASB’s decisions about:
- (a) The objective and guidelines for establishing differential requirements in the IAASB Standards, i.e., whether it is contemplated that differential requirements for PIEs may exist in the IAASB Standards, through adjusting existing differential requirements for listed entities (see case-by-case approach below) or establishing differential requirements as part of future projects undertaken by the IAASB;
 - (b) Enhancing the existing requirement in paragraph 28(c) of ISA 700 (Revised), which requires transparency in the auditor’s report about the independence requirements applied in performing the audit, to also require the auditor to specify if the PIE independence requirements of the Code have been applied; and

- (c) The extent to which application material in the IAASB Standards that describes entities that have public interest or public accountability characteristics should reflect the concepts underpinning the definition of PIE. Specifically, the IAASB Standards include application material to explain that certain entities other than listed entities could have characteristics that give rise to similar public interest issues as listed entities to alert auditors that it may be appropriate to apply a requirement that was designed for an audit of financial statements of a listed entity to a broader range of entities. Various examples are included in application material to illustrate the types of entities that may exhibit such characteristics and this usually pertains to the consideration of entities that have a large number and wide range of stakeholders, and the nature and size of the business.
71. The project may also explore the effect, if any, of IESBA's proposed factors to consider in evaluating the extent of public interest in the financial condition of an entity (revised paragraph 400.9 of **Agenda Item 1-A**) and factors for firms to consider in determining whether to apply the independence requirements for PIEs to other entities (revised paragraph 400.17 A1 of **Agenda Item 1-A**) on the IAASB Standards.

Undertaking a Case-by-Case Approach for Considering Whether Extant Differential Requirements for Listed Entities in the IAASB Standards Should be Applied to All Categories of PIEs

72. Respondents to the PIE ED broadly supported the proposal for the IAASB to undertake a case-by-case approach to determine whether the differential requirements established in IAASB Standards that currently apply only to listed entities should be revised to apply more broadly to all categories of PIEs. However there were varying views about how this may be undertaken. Respondents commented that the approach undertaken should remain sufficiently flexible (i.e., avoid a “one-size fits all” approach) and that it should take into consideration the public interest factors in the context of the individual objectives of the standards where differential requirements exist (e.g., there are different public interest factors that drive the need for communicating key audit matters, versus the need for an engagement quality review).
73. With the exception of the engagement quality review requirements in ISQM 1,²⁴ the current differential requirements for listed entities are focused on enhancing transparency about aspects of the audit to those charged with governance or to intended users of the auditor's report through communication with those charged with governance or including specific statements or information in the auditor's report, respectively. In summary, these differential requirements include:
- Communicating with those charged with governance about the system of quality management and establishing policies or procedures that address the selection of engagements for engagement quality review in accordance with ISQM 1.
 - Communicating with those charged with governance about auditor independence in accordance with ISA 260 (Revised).
 - Reporting on specific matters for audits of financial statements of listed entities in accordance with ISA 700 (Revised).

²⁴ ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

- Communicating key audit matters in the auditor's report in accordance with ISA 701.²⁵
 - Reporting specific matters regarding other information for audits of financial statements of listed entities in accordance with ISA 720 (Revised).²⁶
74. The IAASB's project intends to explore, on a case-by-case basis:
- (a) Whether the application of the current differential requirements for listed entities should be expanded to apply to all categories of PIEs.
 - (b) The impact on adopting the definition of “publicly traded entity” as a replacement of the “listed entity” (see paragraphs 26 and 69).
75. In exploring what types of entities the current differential requirements should apply to, the IAASB will need to consider, among other matters:
- (a) The objective or guidelines described in paragraph 63 for establishing differential requirements in the IAASB Standards.
 - (b) The feedback and input gathered from the post-implementation review of the auditor reporting standards, including the recommendations to explore the communication of key audit matters for audit of financial statements of PIEs.²⁷
 - (c) Respondents' feedback from 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) regarding the scope of entities that should be subject to an engagement quality review.²⁸
 - (d) The Board's deliberations and decisions at the time when certain differential requirements were established in the ISQMs and ISAs that are affected.
 - (e) The implications of the differential requirements applying to a particular category of entities.
76. While the case-by-case approach should remain flexible, consideration will be given to minimize, to the greatest extent possible, inconsistencies and complexities across the IAASB Standards. For example, it may become overly complex and confusing should some of the differential requirements in the auditor reporting standards apply to PIEs, while other requirements are applied to “publicly traded entities” or “listed entities.”
77. Once the IAASB determines which entities the current differential requirements should apply to, the project will also need to consider the implications for the related application material. In particular, in many instances when there are differential requirements in the IAASB Standards for listed entities, the related application material discusses entities other than listed entities that could have characteristics when it may be appropriate to also apply the requirement to such entities. Such application material often describes entities of significant public interest or with public interest characteristics. If, for

²⁵ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

²⁶ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

²⁷ See [Agenda Item 5](#), paragraphs 14-15 and 45-48.

²⁸ See question 11 of the ISQM 1 ED.

example, the differential requirements are expanded to PIEs, the application material may need to be revised (e.g., the application material may need to be aligned with IESBA’s proposed factors that firms may consider in determining whether to apply requirements for PIEs to other entities, as described in paragraph 71).

78. An illustration of how the case-by-case approach may be applied to a requirement in the ISAs is provided in **Appendix 4**.

Enhanced Communication with Users About Independence in the Auditor’s Report

79. Respondents to the PIE ED had mixed views on whether it would be appropriate to disclose within the auditor’s report that the firm has treated an entity as a PIE:
- (a) Those respondents who broadly agreed that disclosure should be made, commented that this is consistent with the overall objective for increasing confidence in the audit of those financial statements. These respondents indicated that the additional transparency is important for users who should be made aware if the entity subject to an audit was treated as a PIE for the purposes of understanding that the auditor was subject to additional independence requirements.
 - (b) Respondents who did not support the enhanced disclosure commented that it may lead to unintended consequences since it may be incorrectly interpreted that there are different levels of independence and that audits of non-PIEs are of lesser quality than those of PIEs.

There were also mixed views on the appropriate mechanisms to disclose whether a firm has treated an entity as PIE, and while the majority supported the use of the auditor’s report as an appropriate mechanism for public disclosure to users, some did not agree with the proposed requirement for firms to determine whether to treat additional entities, or certain categories of entities as PIEs. Other respondents either did not support such disclosure in the auditor’s report, recommended that more research is needed, or suggested other mechanisms of disclosure.

80. As explained in **Section IV**, in order to address the views of respondents to the PIE ED, the IESBA PIE TF has proposed that when a firm has applied the independence requirements for PIEs, the firm is required to publicly disclose that fact (see revised paragraph R400.18 of **Agenda Item 1-A**). The IESBA discussed this proposal in its September 2021 meeting, and broadly supported this as a way forward. However, the IESBA has not specified the mechanism for such public disclosure, given that matters to be disclosed in an auditor’s report are within the IAASB’s remit.
81. The IAASB’s project will explore whether the auditor’s report is a suitable location for the disclosure about when a firm has applied the independence requirements for PIEs, and if so, how this may be accomplished. In particular, if the IAASB determines that it is appropriate to disclose in the auditor’s report that the auditor has applied the independence requirements for PIEs, the project will need to address:
- (a) The appropriate location of the communication in the auditor’s report. For example, such communication may expand upon the required statement in accordance with paragraph 28(c) of ISA 700 (Revised), i.e., that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, as well as identifying the jurisdiction of origin of the relevant ethical requirements or referring to the Code.

- (b) How the auditor should explain that the independence requirements for PIEs were applied, including whether additional information is needed to explain the additional requirements in the Code.

In addition, the illustrative auditor's reports in the ISAs may need to be adjusted, as appropriate, to demonstrate how such disclosure would be made.

Matters for IAASB Consideration:

6. Does the Board agree that the IAASB project be limited to the ISQMs and ISAs?
7. Have the various matters that need to be considered part of the scope of the IAASB project been appropriately described (see paragraphs 62-81)?

How the Project will Serve the Public Interest: The Public Interest Issues

82. The PIF describes stakeholder interests that are relevant for standard setters to consider when responding to users' needs, and in doing so to focus the IAASB on the public interest served in the development of the standards. These stakeholder interests as described in the PIF are as follows:
- (a) Promote consistent practice and behaviors by auditors and assurance providers, other professional accountants in public practice, and professional accountants in business across jurisdictions (**A**);
 - (b) Facilitate identification of areas most relevant to the business of an audited company, and drive effective measures to respond to related risks (**B**);
 - (c) Reinforce the professional accountant's role and mindset and the auditor's professional skepticism needed in gathering evidence, challenging assumptions, and developing conclusions (**C**); and
 - (d) Ensure transparent, independent, rigorous and balanced reporting that prompts the adoption of appropriate measures by those charged with governance, as well as corrective action by oversight bodies, including prudential and market authorities, also to address any potential threat to financial stability (**D**).
83. The IAASB PIE WG considered the matters that are needed for the IAASB to achieve convergence between the concepts in the Code and the IAASB Standards, as described in paragraphs 62-81. Based on these matters, the IAASB PIE WG identified the key public interest issues in the table that follows. The table also indicates how the issues will be broadly addressed and the relevant stakeholder interests in the PIF that will be served.

Key Public Interest Issue	How the Issue will be Addressed	Relevant Stakeholder Interests (see PIF & para.82)		
		A	B	D
<p>Key Public Interest Issue # 1:</p> <p>Achieve to the greatest extent possible convergence between the key concepts used in the revised Code and the IAASB Standards to maintain their interoperability.</p>				
<p>Achieving convergence between the concepts used in the revised Code and the IAASB's Standards to the greatest extent possible would serve the public interest by:</p> <ul style="list-style-type: none"> • Minimizing complexity that arises when concepts across the IAASB and IESBA standards differ; and • Enabling greater consistency in applying standards. 	<p>The project would explore:</p> <ul style="list-style-type: none"> • Developing a common overarching objective for use by both the IAASB and IESBA for establishing differential requirements and application material in their standards for certain entities; • The definition of “publicly traded entity” proposed by the IESBA in the revised Code, and whether the term should be adopted in the IAASB Standards as a replacement for “listed entity”; and • The PIE definition proposed by IESBA in the revised Code, and the factors to consider in evaluating the extent of public interest in the financial condition of an entity, and how such concepts affect the IAASB Standards. 	X		
<p>Key Public Interest Issue # 2:</p> <p>Addressing the differential requirements in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.</p>				
<p>The IAASB's Standards are applicable to all audits or reviews of financial statements, and other assurance and related services</p>	<p>The project would explore the development of an objective (and guidelines as appropriate) that describe the purpose for why differential requirements for certain entities may be appropriate in the</p>		X	

Key Public Interest Issue	How the Issue will be Addressed	Relevant Stakeholder Interests (see PIF & para.82)		
		A	B	D
<p>engagements, and firms performing such engagements.</p> <p>Users’ needs may vary based on the type of entity subject to the engagement, and the type of engagement performed. Therefore, objectives (and guidelines as appropriate) to support the IAASB’s judgments when developing standards regarding specific matters for which differential requirements are appropriate would serve the public interest, given that it would:</p> <ul style="list-style-type: none"> • Enable a focus on what interests need to be served, and identifying the need to establish differential requirements based on those interests; • Support proportionality in establishing requirements; • Promote coherence and consistency across the IAASB Standards; and • Limit the extent to which there are exceptions across the IAASB Standards. 	<p>IAASB Standards. The objective would be used in undertaking a case-by-case analysis of existing differential requirements in ISQM 1 and the ISAs for listed entities to determine whether those requirements need to be expanded to apply to all categories of PIEs. The objective (and guidelines as appropriate) may also be used as a reference point for any future standard-setting activities of the IAASB, as appropriate.</p> <p>In undertaking the case-by-case analysis, consideration would be given to the benefits and costs of changing existing differential requirements and the need to avoid variance in the entities to which the differential requirements apply, as it could cause complexity.</p> <p>Furthermore, the project would explore the need to align the application material in the ISQMs and ISAs to the concepts in the Code (i.e., the proposed PIE definition, the factors for evaluating the extent of public interest in the financial condition of an entity and the factors for firms to consider in determining whether to apply the requirements for PIEs to other entities).</p>			
<p>Key Public Interest Issue # 3:</p> <p>Enhance transparency about the relevant ethical requirements for independence applied when performing an audit of financial statements, in conjunction with the revisions proposed to the Code.</p>				

Key Public Interest Issue	How the Issue will be Addressed	Relevant Stakeholder Interests (see PIF & para.82)		
		A	B	D
<p>The IAASB Standards at present require the auditor to identify the jurisdiction of origin of the relevant ethical requirements applied in performing the audit, or to refer to the Code. Given the heightened expectations of stakeholders regarding the independence of the auditor in performing engagements for certain entities, it is in the public interest to improve the transparency about which independence requirements were applied in performing the audit. This includes providing further specificity when there are differential independence requirements in the relevant ethical requirements that have been applied. Communication between the auditor and stakeholders in a transparent manner enables stakeholders to understand the audit and build confidence that the audit was performed appropriately, thereby building confidence in the financial statements.</p>	<p>The project would explore whether the auditor’s report is a suitable location for providing enhanced transparency about when there are differential independence requirements in the relevant ethical requirements that have been applied. If enhanced transparency is pursued, the project will also explore how this will be accomplished.²⁹</p>			X

Matters for IAASB Consideration:

8. Are the public interest issues relating to the IAASB project appropriate?
9. Are there other public interest issues that the IAASB PIE WG should consider as part of developing a project proposal?

²⁹ See revised paragraph R400.18 of **Agenda Item 1-A**.

Project Objectives

84. To address the public interest issues described above, the proposed objectives of the IAASB’s project are to:
- (a) Align the ISQMs and ISAs with the concepts in the Code underpinning the definition of “publicly traded entity” and PIE to the greatest extent possible;
 - (b) Establish an objective (and guidelines as appropriate) to support the IAASB’s judgments when developing standards regarding specific matters for which differential requirements are appropriate, to ensure that the IAASB’s Standards remain relevant, proportionate, coherent and consistent, and serve users’ needs;
 - (c) Determine whether the existing differential requirements in the ISQMs and ISAs that apply to listed entities remain appropriate, or whether they should be expanded to apply to all categories of PIEs; and
 - (d) Support IESBA’s efforts to promote enhanced transparency about the relevant ethical requirements for independence applied in the audits of financial statements.

Matter for IAASB Consideration:

10. Have the project objectives been appropriately described to address the public interest issues that have been identified?

The Proposed Project Timeline

85. In the PIE ED, the IESBA proposed that the effective date for the revisions to the Code would be December 15, 2024. Respondents to the PIE ED were broadly supportive of the proposal, with some stakeholders suggesting the effective date be extended due to, among other matters:
- (a) The amount of effort needed for local bodies to adopt the revisions and refine the definition of PIE for their jurisdiction; and
 - (b) The need for sufficient time for the IAASB to consider any revisions that need to be made to the IAASB Standards as a result of IESBA’s proposals.

The IESBA PIE TF intends to discuss the final effective date for the revisions to the Code with its Board at the December 2021 IESBA meeting.

86. The initial thinking for the timeline of the IAASB’s proposed project was as follows:

Project Proposal	Exposure Draft	Comment Period Closes	Final Approval
March 2022	September 2022	End of 2022	September 2023 ³⁰

In developing the initial timeline, the intent was that the IAASB proposals would be finalized to allow a 12-month implementation period and alignment of the effective date to that of IESBA.

³⁰ PIOB approval anticipated for December 2023.

87. IAASB and IESBA Staff have noted that further consideration of the timeline for the IAASB’s project may be needed. In particular, concern has been raised that a 12-month implementation period for all of the possible revisions to the ISQMs and ISAs may be insufficient and burdensome for stakeholders. For example, if the IAASB concluded that the requirement for engagement quality reviews in ISQM 1 should be expanded to include PIEs, firms would need adequate time to determine which engagements are affected, revise policies or procedures, identify suitable individuals to perform such reviews, and train individuals in performing the reviews. Similar concerns were identified for communicating key audit matters, and that expanding the requirement to other audits may create the need for additional training of engagement teams affected and review of their work. On the other hand, the need to provide additional specificity in the auditor’s report about which independence requirements were applied is likely a simpler change for stakeholders, and less effort would be needed to implement.
88. The IAASB PIE WG has reconsidered the timing of the project and the table below outlines several options. The IAASB PIE WG has noted the urgency of finalizing the IAASB’s conclusions as to whether the auditor’s report is a suitable location for the disclosure to enhance communication with users about auditor independence, and if so, how this may be accomplished. Accordingly, the IAASB PIE WG views this issue as a priority in remaining cohesive with IESBA. The remaining public interest issues outlined above are, in view of the IAASB PIE WG, less urgent and may take more time to finalize and implement, and there would unlikely be a lack of coherence with the Code on these matters.

Option 1: Single package of proposals	
All objectives and proposed activities to address the identified public interest issues kept in a single package that runs on a single timeline and with the same effective date for all proposals (i.e., aligned to that of the revisions to the IESBA Code).	
Pro’s	Con’s
<ul style="list-style-type: none"> • Less demanding on stakeholders in the short-term as would comprise a single ED issued for comments. • All proposals will be available in tandem, allowing stakeholders to consider them holistically during exposure and for implementation. • Project expected to be completed on a single timeline (i.e., overall project timeline will not be extended). 	<ul style="list-style-type: none"> • Should any issues arise during the project, the timeline does not allow for an extension, which could risk not resolving the public interest issues around enhancing transparency about independence on time. • A 12-month implementation period may be too short for stakeholders to implement all proposals.
Option 2: Keep as single package but bifurcate the project in two tracks as follows:	
<ul style="list-style-type: none"> • Faster Moving Track: Prioritize the proposals to address the public interest issues around enhancing transparency about independence in the auditor’s report to align effective date with IESBA Code. 	

<ul style="list-style-type: none"> • Slower Moving Track: The proposals to address aligning concepts with IESBA (i.e., the overarching objective and revised definitions in the Code) and to consider whether extant differential requirements should be expanded beyond listed entities (i.e., the case-by-case approach) with a future implementation date. 	
Pro's	Con's
<ul style="list-style-type: none"> • Possibility to fast track and prioritize the more urgent public interest issue, reducing the risk that the issue is not resolved on time, thereby ensuring a cohesive approach with IESBA. • More implementation time available for all matters, as the prioritized faster moving track could be completed sooner, and the slower moving track could select an implementation date further in the future. • Gives the IAASB more time to consider more carefully the case-by-case analysis (which includes application material and is likely to take more time to develop). 	<ul style="list-style-type: none"> • All proposals will not be available in tandem, preventing stakeholders from being able to consider them holistically. • Stakeholders will need to respond to separate EDs. • Multiple changes to the IAASB's Standards for stakeholders to address. • Possibly having a longer period of time of misalignment of concepts in IAASB Standards with the revisions made to the Code.
<p>Option 3: Keep as single package of proposals but with different effective dates</p> <p>All objectives and proposed activities to address the identified public interest issues kept in a single package that runs on a single timeline but with different effective dates for the proposals on the transparency about independence, versus all other proposals.</p>	
Pro's	Con's
<ul style="list-style-type: none"> • Less demanding on stakeholders in the short-term (single ED issued for comments). • All proposals will be available in tandem, allowing stakeholders to consider them holistically during exposure and for implementation. • Project expected to be completed on a single timeline (i.e., overall project timeline will not be extended). • More reasonable implementation period for proposals that may need more time to implement. 	<ul style="list-style-type: none"> • Should any issues arise during the project, the timeline does not allow for an extension, which could risk not resolving the public interest issues around enhancing transparency about independence on time.

89. The IAASB PIE WG considered the options outlined above and is of the view that Option 2 would be an appropriate way forward. The IAASB PIE WG rationale includes the following:
- (a) Given that the prioritized fast track (i.e., enhancing transparency about independence) could move faster than originally planned, it may allow the IAASB to gather feedback sooner, and collaborate with IESBA on additional guidance that may be necessary to address feedback from respondents (see paragraph 50).
 - (b) It is likely that more time would be needed to consider respondents' feedback on the case-by-case approach. Furthermore, as explained previously, if certain differential requirements are expanded to PIEs, it is likely that stakeholders will need more than 12 months to appropriately implement such proposals.
 - (c) Notwithstanding that Option 2 bifurcates the proposals into two tracks, it will still allow for a holistic approach, i.e., a single project proposal will be developed, and the project would be considered by a single task force. On the other hand, should the slower moving track progress faster than expected, there is still a possibility (and flexibility) to release all the proposals to the public for exposure at the same time.
90. In its deliberations, the IAASB PIE WG also considered whether the differential requirements for the auditor's communication with those charged with governance in paragraph 17 of ISA 260 (Revised) should be considered as part of enhancing transparency about independence in the auditor's report, i.e., whether it should form part of a faster track under Option 2 or earlier implementation under Option 3. The IAASB PIE WG wishes to obtain the Board's input whether it would be preferable to address the auditor's statement in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised) together with the requirement in paragraph 17 of ISA 260 (Revised) and the communication related thereto in paragraph 40(b) of ISA 700 (Revised).

Matters for IAASB Consideration:

11. Does the Board support the proposal to adopt Option 2, i.e., keep the project as a single package but bifurcate the project in two tracks as follows:
- (a) A faster moving track that prioritizes the proposals to address the public interest issues around enhancing transparency about independence in the auditor's report with alignment of the effective date with that of IESBA.
 - (b) A slower moving track to address the remaining public interest issues with a possible future effective date.
12. The Board is asked for its view on whether it would be preferable to address the auditor's statement in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised) together with the requirement in paragraph 17 of ISA 260 (Revised) and the communication related thereto in paragraph 40(b) of ISA 700 (Revised) (see paragraph 90).

Part C: Way Forward

91. Based on the feedback from the Board in October 2021, the IAASB PIE WG intends to present a project proposal on a narrow scope maintenance of standards project for discussion at the March 2022 IAASB meeting.

The input from the IAASB on the IESBA proposals outlined in **Section A** of this paper that are relevant to the work of IESBA will be considered by the IESBA PIE TF as it works towards finalizing its proposals for approval in December 2021. IAASB Staff and the IAASB correspondent members for the IESBA PIE TF will closely coordinate with the IESBA to ensure appropriate input is provided in the spirit of collaboration on this project.

IAASB PIE WG Members and Activities

IAASB PIE WG Members

1. The IAASB PIE WG consists of the following members:
 - Josephine Jackson, Chair
 - Chun Wee Chiew
 - Dan Montgomery
 - Denise Weber
2. Information about the project can be found [here](#).

IAASB PIE WG Activities

3. The PIE WG held 2 virtual meetings since July 2021.
4. In September 2021, the Chair of the IESBA PIE TF and the IAASB Technical Director provided CAG Representatives with a high-level overview of the significant comments from respondents to the PIE ED. Representatives also were provided an overview of the IESBA PIE TF proposals and received an update on the IAASB's initiatives in relation to this topic.

Coordination with Other Task Forces and Standard Setting Boards

5. Josephine Jackson and Chun Wee Chiew are correspondent members of the IESBA PIE TF and attend all IESBA task force meetings. Staff of IAASB and IESBA engage in ongoing coordination activities in relation to this topic.

Appendix 2

Approved Minutes from July 2021 IAASB Mid-Quarter Meeting – Definition of Listed Entity and Public Interest Entities (PIE)

Ms. Jackson and Mr. Siong provided an overview of respondents' comments to IESBA's ED, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code \(PIE ED\)](#) as set out in **Agenda Item 3**. Mr. Siong also explained the initial direction on certain key matters discussed by IESBA at their June 2021 meeting. Ms. Jackson presented the proposals of the IAASB PIE Working Group in response to feedback from respondents on the questions relevant to the IAASB. Ms. Jackson emphasized the need for IAASB to work closely with IESBA and provide inputs as they approve their final revisions to the Code in December 2021. The Board noted the importance of the IAASB undertaking its own due process in relation to this project.

USING THE OVERARCHING OBJECTIVE FOR BOTH IAASB AND IESBA IN ESTABLISHING DIFFERENTIAL REQUIREMENTS FOR CERTAIN ENTITIES

The Board supported the IAASB PIE Working Group's proposed approach to the overarching objective in establishing differential requirements for certain entities in the IAASB Standards as set out in Agenda Item 3. The Board provided specific comments on the use of the term "financial condition" in paragraph 400.8 of the PIE ED. The Board suggested:

- Considering whether the use of the term is consistent with how it is used elsewhere in the IAASB's International Standards; and
- Exploring whether it is appropriate to use "financial condition" in establishing differential requirements for certain entities in the IAASB's International Standards, including whether it may inadvertently result in differential requirements related to going concern.

The Board cautioned against introducing more differential requirements in the IAASB's International Standards beyond what is currently in place, noting that it creates complexity. The Board suggested that a careful and balanced approach is needed, and noted that the *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* may reduce the need for further differentiation in the IAASB Standards.

PROPOSED CASE-BY-CASE APPROACH IN CONSIDERING THE DIFFERENTIAL REQUIREMENTS APPLICABLE TO LISTED ENTITIES IN THE IAASB STANDARDS

The Board supported:

- Using a case-by-case approach in determining whether requirements for listed entities in the IAASB's International Standards should be expanded to all PIEs as part of a narrow-scope amendment project; and
- Considering whether the application material in the IAASB's International Standards needs to be aligned to the categories of entities within the proposed PIE definition. However, the Board cautioned that the scope of such revisions should not be too broad.

The Board noted that the PIE concept and how it is applied is complex, given the variation in PIE definitions and how they are applied in the Code, local ethical codes or jurisdictional requirements. The Board also

observed that within these codes and jurisdictional requirements, there is a varying degree of applicability of the requirements to PIEs across independence and audit.

DISCLOSURE WITHIN THE AUDITOR'S REPORT THAT THE FIRM HAS TREATED AN ENTITY AS A PIE

There was general support for exploring transparency in the auditor's report, with an emphasis on the need for the IAASB to follow its own due process in this regard. The Board noted the importance of being open-minded to transparency in the public interest. The Board:

- Noted the mixed feedback from respondents to the PIE ED about whether disclosure within the auditor's report that the firm has treated an entity as a PIE would be appropriate.
- Encouraged careful consideration of how the disclosure would be described within the auditor's report. In particular, the Board noted that:
 - The PIE concept and how it is applied is complex and therefore how the matters are described could give rise to confusion; and
 - The disclosures may increase the length of the auditor's report.
- Expressed mixed views on IESBA's proposal to require auditors to publicly disclose that the auditor has complied with the additional independence requirements applicable to audits of PIEs instead of requiring auditors to publicly disclose that the entity was treated as a PIE. Some Board members questioned the benefits of the proposed disclosure and whether disclosing what independence standards are being followed would provide additional information to users from a public interest perspective, because users generally seek to understand if the auditor is independent or not (i.e., this is a binary issue for users). Other Board members indicated that the proposed revisions to IESBA's transparency requirement are helpful and that users may want to know which independence requirements have been applied by the auditor.
- The Board observed the need to explore all disclosure mechanisms and analyze their advantages and disadvantages to determine which mechanism would be the most appropriate. The Board also noted that clarity is needed on what is meant by "publicly disclose." Related to the notion of "publicly disclose," a Board member questioned whether "publicly disclose" is appropriate, noting that it is unlikely possible to disclose anywhere other than the auditor's report, and that in some cases there is good reason that an auditor's report is not available and accessible to users.

The Board noted the timeline for the approval by IESBA, and suggested deferring finalizing IESBA's requirement for transparency about independence, to enable the IAASB to consider whether, and if so how, transparency about independence may be addressed in the IAASB's Standards.

CAG CHAIR REMARKS

Mr. Dalkin thanked the Board and indicated that although the CAG had previous discussions on this topic, the Definitions of Listed Entity and PIE project will be further discussed with the CAG at its September 2021 meeting. He commented that at previous CAG discussions there had been mixed views, and that it would be relevant to see the outcome of September 2021 CAG discussion.

PIOB OBSERVER REMARKS

Mr. Hafeman noted the importance for coordination between IESBA and IAASB on this initiative. He encouraged the IAASB to consider how requirements in the IAASB's International Standards apply and

where differentiation might be made. Mr. Hafeman noted the importance of keeping the IAASB's International Standards as simple as possible, and to focus on a clear and concise disclosure to meet user's needs. Mr. Hafeman emphasized the need to carefully consider the comments received in response to the PIE ED to ensure that the perspectives of all stakeholders, including users of financial statements, are appropriately considered.

Appendix 3

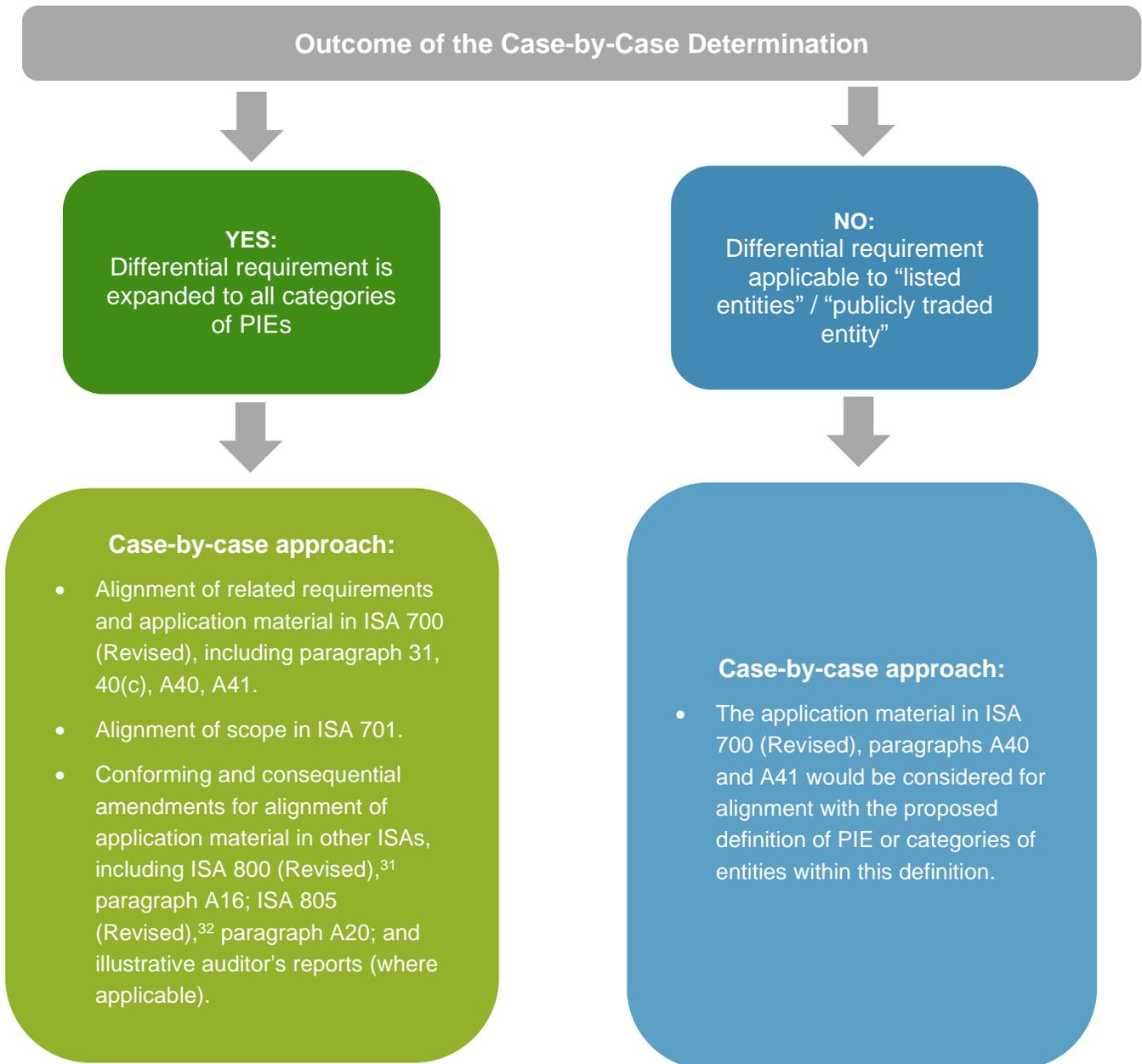
Comparison of the Various Versions of the Definitions of “Listed Entity” and “Publicly Traded Entity,” i.e., the Definition as Drafted in Extant Standards, the Definition in the PIE ED, and the Proposed Definition in IESBA’s September 2021 Proposals

Extant definition of “listed entity” in the Code and in IAASB Standards	Listed entity —An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.
Definition of “publicly traded entity” as proposed in the PIE ED	Publicly traded entity —An entity that issues financial instruments that are transferrable and publicly traded.
IESBA PIE TF revised proposals for the definition of “publicly traded entity,” presented to IESBA in September 2021	Publicly traded entity —An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. <i>A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.</i>

Appendix 4

Case-by-Case Approach: Example

1. To illustrate how the case-by-case approach would be undertaken, the example of ISA 700 (Revised), paragraph 30 has been considered: *“For audits of complete sets of general purpose financial statements of **listed entities**, the auditor shall communicate key audit matters in the auditor’s report in accordance with ISA 701.”*
2. In determining whether the differential requirement should be extended beyond listed entities, the case-by-case approach would further consider relevant matters, including the following:
 - The objective of the requirement and whether it is justified to extend it, taking into account the overall objective (and guidelines as appropriate) that support establishing differential requirements in the IAASB Standards to serve the public interest;
 - Any evidence from information the IAASB has gathered that provides support that the differential requirement should be extended (e.g., information gathered through the auditor reporting post-implementation review or at the time ISA 700 (Revised) was developed);
 - The implications for stakeholders should the requirement be extended beyond listed entities (e.g., cost-benefit considerations or the relative impact it may have on different stakeholders); and
 - Further implications for other differential requirements.
3. The chart below shows the further steps of the case-by-case approach once the outcome of the determination whether the differential requirement should be extended has been undertaken:



³¹ ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

³² ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*