

## Agenda Item 3-A: Draft Content of the EM for Track 2

Exposure Draft

[Month] 2024

Comments due: [Month, Date], 2024

Proposed Narrow Scope Amendments to:

- International Standards on Quality Management;
- International Standards on Auditing;
- and
- International Standard on Review Engagements 2400 (Revised),  
*Engagements to Review Historical Financial Statements*

as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

## About the IAASB

This document has been prepared and approved by the International Auditing and Assurance Standards Board. It does not constitute an authoritative pronouncement of the IAASB, nor does it amend, extend or override the International Standards on Auditing or other of the IAASB's International Standards.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

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## REQUEST FOR COMMENTS

This Explanatory Memorandum (EM) accompanies, and should be read along with, the Exposure Draft (ED), proposed *Narrow Scope Amendments to the International Standards on Quality Management (ISQMs); International Standards on Auditing (ISAs); and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statement as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code*,<sup>1</sup> which was developed and approved by the International Auditing and Assurance Standards Board® (IAASB®). This publication may be downloaded from the IAASB website: [www.iaasb.org](http://www.iaasb.org). The approved text is published in the English language.

The proposals in this ED may be modified based on comments received before being issued in final form. **Comments are requested by [Month, Date], 2024.**

### *Use of Response Template*

**We encourage all respondents to submit their comments electronically using the Response Template [add link] provided.** The response template has been developed to facilitate responses to the questions in **Section 2** of this EM. Use of the template will facilitate our collation and analysis of the responses.

*Recognizing that the IAASB utilizes software to support our analysis of comments received from respondents to public consultations, you can assist our review of the responses by bearing the following in mind in preparing your submission:*

- Respond directly to the questions in the template and **provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements or application material. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.**
- You may respond to all questions or only those questions for which you have specific comments.
- When formulating your responses to a question, it is most helpful to identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
- Avoid inserting tables or text boxes in the template when providing your responses to the questions.

**The completed response template can be uploaded using the “Submit Comment” link [add link] on the IAASB website: [www.iaasb.org](http://www.iaasb.org).** When submitting your completed response template, it is not necessary to include a covering letter with a summary of your key issues. The response template provides the opportunity to provide details about your organization and, should you choose to do so, any overall views you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

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<sup>1</sup> The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

# EXPLANATORY MEMORANDUM

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## Introduction

1. This memorandum provides background to, and an explanation of, the IAASB's proposed narrow scope amendments to certain International Standards as a result of the revisions to the definitions of listed entity and PIE in the IESBA Code. The IAASB approved the proposed amendments to the ISQMs, ISAs and ISRE 2400 (Revised) on December 14, 2023, for exposure. [Text subject to IAASB approval of Exposure Draft in December 2023].

## Background

### *IESBA's Project on the Definitions of Listed Entity and PIE*

2. In December 2021, the IESBA concluded its project on the [Definitions of Listed Entity and Public Interest Entity](#), which included revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE (the IESBA PIE Revisions).<sup>2</sup>
3. The IESBA PIE Revisions become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, and include the following key features:
  - (a) An overarching objective in paragraph 400.8, setting out the basis for defining a class of entities as PIEs for which auditors are subject to additional independence requirements under the IESBA Code.
  - (b) Factors, in paragraph 400.9, for consideration in evaluating the extent of public interest in the financial condition of an entity. These factors may be used by relevant local bodies responsible for setting ethics standards for professional accountants and firms as described in (d)(i) and (d)(ii)(a) below.
  - (c) An explanation, in paragraph 400.10, that clarifies why there are additional independence requirements that are applicable only to audits of financial statements of PIEs in the IESBA Code (i.e., to meet the heightened expectations of stakeholders regarding the independence of a firm when performing an audit engagement for a PIE given the significance of the public interest in the financial condition of such entities).
  - (d) A revised definition of PIE in paragraph R400.17 and the IESBA Code Glossary, that includes a broadly defined list of mandatory categories of entities that firms should treat as PIEs, subject to refinement by relevant local bodies as part of the adoption and implementation process of the approved IESBA PIE Revisions. This is accompanied by:
    - (i) A requirement in paragraph R400.18, for firms to take into account more explicit definitions of PIEs established by law, regulation or professional standards when deciding whether an entity falls within the scope of the mandatory PIE categories.
    - (ii) Guidance explaining the interrelationship of the PIE definition in the IESBA Code with definitions established by relevant local bodies responsible for setting ethics standards for professional accountants, which includes an explanation that the IESBA Code:
      - a. Provides for bodies responsible for setting ethics standards for professional accountants to more explicitly define mandatory categories of PIEs, with

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<sup>2</sup> See the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

examples of how these categories may be defined at the local level (paragraph 400.18 A1); and

- b. Anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of PIEs, with examples of such categories (e.g., pension funds and collective investment vehicles) (paragraph 400.18 A2).
- (e) Guidance in paragraph 400.19 A1, that encourages firms to determine if any additional entities should be treated as PIEs for purposes of Part 4A of the IESBA Code, with factors for firms to consider in making this determination.
- (f) Replacing the term “listed entity” in the IESBA Code Glossary with a newly defined term, “publicly traded entity.” Publicly traded entity is one of the mandatory categories of entities included in the revised PIE definition.
- (g) Requirements in paragraphs R400.20–R400.21, for firms to publicly disclose when a firm has applied the independence requirements for PIEs in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders (i.e., the IESBA’s transparency requirement).

#### *IAASB’s Project on Listed Entity and PIE*

- 4. The IAASB leveraged the IESBA’s Exposure Draft, [\*Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code\*](#) (the IESBA PIE ED) in exploring a project for revising the ISQMs and ISAs as a result of the revisions to the definitions of listed entity and PIE in the IESBA Code. Considering this information gathering, in March 2022, the IAASB approved a [\*project proposal\*](#) to undertake a narrow scope project on listed entity and PIE.
- 5. The IESBA PIE ED incorporated specific questions that discussed various matters that were also relevant to the IAASB standards, particularly the ISQMs and ISAs, and incorporated specific questions to seek preliminary views from the IAASB’s stakeholders on those matters. This included specific questions about:<sup>3</sup>
  - (a) Whether the overarching objective established by the IESBA could be used by both the IESBA and the IAASB in establishing differential requirements for certain entities, including how this might be approached for the ISQMs and ISAs.
  - (b) Seeking feedback about the proposed case-by-case approach for determining whether differential requirements already established within the IAASB standards should be applied only to listed entities or might be more broadly applied to all categories of PIEs.
  - (c) The appropriate mechanism that may be used to publicly disclose when a firm has applied the independence requirements for PIEs. This included a question about whether it would be appropriate to make such disclosure within the auditor’s report and if so, how might this be approached in the auditor’s report.

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<sup>3</sup> The matters for the IESBA consideration included questions 1-14 of the IESBA PIE ED, however feedback on these questions also had relevance to the IAASB. Question 15 (a)-(c) of the IESBA PIE ED was specific to the IAASB.

6. The following are the project objectives that support the public interest, with the project being undertaken as two Tracks:

Track 1:

- Determine whether the auditor's report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements (i.e., to operationalize the IESBA's transparency requirement).

Track 2:

- Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.
- Establish an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
- Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities 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.

7. Track 1 of the project was concluded in June 2023, when the IAASB approved the narrow scope amendments to ISA 700 (Revised)<sup>4</sup> and ISA 260 (Revised)<sup>5</sup> to operationalize the IESBA's transparency requirement.<sup>6</sup> This ED deals with the proposed amendments to the ISQMs, ISAs and ISRE 2400 (Revised) in undertaking Track 2 of the IAASB's narrow scope project on listed entity and PIE.

### **Coordination Between the IESBA and IAASB**

8. The IESBA and the IAASB recognize the importance of coordination between the two Boards to achieve convergence, to the greatest extent possible, between the concepts of PIE and "publicly traded entity" in the IESBA's and the IAASB's standards. Such convergence enables the interoperability of the proposals made by each Board.
9. Accordingly, throughout the IAASB's and the IESBA's projects, there has been extensive coordination between the two Boards through Staff coordination, the participation of the IAASB and the IESBA correspondent members in the respective Boards' Task Forces, plenary discussions involving representatives of the IAASB and the IESBA at the respective Boards' meetings, incorporating specific questions to seek views from stakeholders in the IAASB and the IESBA exposure drafts, joint IAASB-IESBA Consultative Advisory Group discussions and joint IAASB-IESBA Jurisdictional / National Standard Setter (NSS) sessions.

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<sup>4</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>5</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>6</sup> See the [Final Pronouncement: Narrow Scope Amendments to ISA 700 \(Revised\) and ISA 260 \(Revised\) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs](#).

## Coordination with Other IAASB Task Forces

10. In developing the ED, consideration was given to the following matters that are being contemplated by other IAASB projects:
- Audits of Less Complex Entities (LCEs): The IAASB reflected on the impact that the adoption of the PIE definition would have on the Authority of the ISA for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). This included consideration of how not to create complexity for jurisdictions when determining the scope of entities for which the use of the ISA for LCE is prohibited.
  - Fraud and Going Concern Projects: The IAASB recognizes that further consideration may be necessary for certain proposals contemplated by the fraud and going concern projects that include establishing differential requirements that currently apply to listed entities. Such matters will be considered once the IAASB's deliberations for Track 2 are concluded. The IAASB is also mindful about coordinating the possible effective date for this ED and the revised standards on fraud and going concern given these projects are considering, among other proposed actions, possible changes to enhance transparency in the auditor's report (see paragraph 63).

## Section 1 Significant Matters

### Section 1-A – Public Interest Issues Addressed

11. In developing this ED, the IAASB considered the qualitative standard-setting characteristics set out in paragraph 31 of the project proposal and those included in the Public Interest Framework (PIF)<sup>7</sup> as criteria to assess the proposed standard's responsiveness to the public interest.
12. **Appendix 2** to this EM sets out a table that maps the proposed narrow scope revisions to the standard-setting actions included in the project proposal as the actions are directly related to the project objectives that support the public interest. **Appendix 2** to this EM also highlights what qualitative standard-setting characteristics were at the forefront, or of most relevance, when determining how to address each proposed action.

### Section 1-B – Objective for Establishing Differential Requirements for PIEs

13. Respondents to relevant IAASB matters addressed in the IESBA PIE ED supported the use of a common objective as an overarching principle for establishing differential requirements for certain entities across the IAASB standards and the IESBA Code.
14. Considering this support, the IAASB agreed to adopt the objective in paragraph 400.8 of the IESBA PIE Revisions into ISQM 1<sup>8</sup> and ISA 200,<sup>9</sup> given these standards prescribe the authority for all ISQMs and ISAs respectively (see proposed paragraph A29A of ISQM 1 and paragraph A81A of ISA 200 in the ED). In doing so, the IAASB adapted the objective with minimal tailoring, so it remains appropriate

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<sup>7</sup> See the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#) (pages 22–23 of the PIF's section on "What qualitative characteristics should the standards exhibit?").

<sup>8</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

<sup>9</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*



in the context of the ISQMs and ISAs.<sup>10</sup>

15. Respondents to the IESBA PIE ED also commented that the purpose for establishing differential requirements in the IAASB standards may include a different rationale than the “*independence of a firm*” as stated in paragraph 400.10 of the IESBA PIE Revisions.
16. The IAASB proposes that for the ISQMs and ISAs, the purpose of the differential requirements is to meet “the heightened expectations of stakeholders regarding *the audit engagement*” (see proposed paragraph A29B of ISQM 1 and paragraph A81B of ISA 200 in the ED). The IAASB believes this is appropriate because the differential requirements in the ISQMs and ISAs include more than one rationale and address broader matters than auditor independence, including:
  - Establishing policies or procedures by the firm that address engagement quality reviews.<sup>11</sup>
  - Providing transparency to intended users about aspects of the audit (e.g., auditor independence, communicating key audit matters (KAM), the name of the engagement partner and providing transparency about other information).<sup>12</sup>
  - Communicating to those charged with governance (TCWG) to assist them in fulfilling their responsibility to oversee the financial reporting process (e.g., communicating about the system of quality management and auditor independence).<sup>13</sup>
17. The IAASB acknowledges that ISQM 1 applies to all engagements performed under the IAASB standards, including the ISA for LCE, reviews of financial statements in accordance with International Standards on Review Engagements (ISREs), and other assurance or related services engagements in accordance with International Standards on Assurance Engagements (ISAEs) and International Standards on Related Services (ISRSs). However, the ISREs, ISAEs and ISRSs standards do not presently include differential requirements,<sup>14</sup> and as such, the focus on the *audit engagement* in ISQM 1 would not at this time be inconsistent with the overall body of standards. Similarly, the ISA for LCE does not include differential requirements, and its authority prohibits application for listed entities or entities with public interest characteristics.
18. In addition, the IAASB considered, but decided against providing an objective that would be specific about the nature of the differential requirements described in paragraph 17, because of:
  - The desire for *consistency, coherence, and conciseness* across the ISQMs and ISAs. Providing more specificity would necessitate different explanations in the ISQMs and the ISAs given the nature of the differential requirements across those standards are different. This

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<sup>10</sup> This included providing a reference to the ISQMs and ISAs in place of the relevant Part of the IESBA Code and removing the reference to “application material” given these paragraphs already form part of the application and other explanatory material to the authority section of ISQM 1 and ISA 200.

<sup>11</sup> ISQM 1, paragraph 34(f)

<sup>12</sup> ISA 700 (Revised), paragraphs 30–31, 40(b)–(c), 46, 50(l), ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, paragraph 5 and ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*, paragraphs 21–22(b)

<sup>13</sup> ISQM 1, paragraph 34(e) and ISA 260 (Revised), paragraph 17

<sup>14</sup> The differential requirements in the ISQMs and ISAs apply only to listed entities. The proposed narrow scope amendments to ISRE 2400 (Revised) discussed in **Section 1-E** of the EM include a proposal for a conditional requirement that applies to certain entities specified in the relevant ethical requirements, which does not constitute a differential requirement.

could lead to an inconsistent approach across the overall body of standards and may inadvertently create complexity across the differential requirements in the IAASB standards.

- The need for *relevance* through recognizing and responding to emerging public interest issues and evolving user needs over time. Providing more specificity could inadvertently predetermine the scope of matters for which differential requirements are appropriate and restrict flexibility for circumstances when differential requirements are necessary in the ISQMs and ISAs as part of future standard-setting.

## Section 1-C – Definitions of PIE and “Publicly Traded Entity”

19. Respondents to relevant IAASB matters addressed in the IESBA PIE ED encouraged the IAASB and the IESBA to seek consistency and alignment of important concepts and definitions used in the respective Boards’ standards, and in doing so supported alignment in the types of entities to which differential requirements apply.
20. Considering this support, the IAASB is proposing to adopt the definitions of PIE and “publicly traded entity” in the Definitions section of ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–(p)B of ISQM 1 and paragraphs 13(l)A–(l)B of ISA 200 in the ED). In addition, upon finalization of the approved pronouncement for Track 2, these definitions will become accessible through the IAASB Glossary of Terms,<sup>15</sup> to assist with common and consistent interpretation (including for translations).
21. In adopting the definitions, the IAASB also considered that the definitions of PIE and “publicly traded entity” were exposed for public comment by IESBA in their project on the definitions of listed entity and PIE and therefore the changes to the scope of entities addressed by the definitions have undergone a proper due process in their development.

### Definition of PIE

22. The definition of PIE includes a broadly defined list of mandatory, high-level PIE categories, shown in the box below.

Mandatory, high-level PIE 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; or
- (d) An entity specified as such by law, regulation or professional requirements, for a purpose related to the significance of the public interest in the financial condition of the entity.<sup>16</sup>

<sup>15</sup> The IAASB Glossary of Terms is a non-authoritative document. Paragraph A67 of ISA 200 explains that the IAASB Glossary of Terms contains a complete listing of terms defined in the IAASB standards and includes descriptions of other terms found in the IAASB standards to assist in common and consistent interpretation and translation.

<sup>16</sup> Some changes were applied to category (d) in incorporating the IESBA PIE Revisions which were necessary given the differences in the drafting conventions among the respective Boards’ standards. For example, the term “professional standards” was replaced with “professional requirements” because unlike the IESBA Code, the term “professional standards” has a defined meaning for the purpose of the ISQMs and ISAs. In addition, the reference to the purpose described in paragraph 400.10 of the

23. Respondents to the IESBA PIE ED suggested various refinements or clarifications to the mandatory categories of the PIE definition (e.g., to clarify the phrase “*deposits from the public*” or to explain the reference “*to the public*”). However, the IESBA determined that no further refinement was warranted given the broad support from respondents for categories (b) and (c) of the PIE definition. In reaching its view, the IESBA also considered that:<sup>17</sup>
- Further explanation of the phrase “*deposits from the public*” is not necessary or suitable, given the high-level nature of the PIE definition which allows relevant local bodies to further refine the categories taking into account their local context.
  - The reference “*to the public*” in the description should be broadly understood and not be further refined.
24. When developing the approach to revise the PIE definition, the IESBA recognized the difficulty of establishing a concise definition that can be universally adopted at the global level because of the variety of circumstances that exist across jurisdictions. Accordingly, under the proposed approach of the IESBA Code, the relevant local bodies (such as regulators or oversight bodies, NSS or professional accountancy bodies, as appropriate in a jurisdiction) play a pivotal role in establishing the local PIE definition through refining the PIE categories, setting size criteria and adding new types of entities or exempting particular entities. The IESBA noted that the relevant local bodies have the responsibility, and are also best placed, to assess and determine with greater precision which entities or types of entities should be treated as PIEs for the purposes of meeting the IESBA Code’s overarching objective. The IESBA also observed that a number of relevant local bodies have already done so by taking into consideration issues, concerns and nuances specific to the local environment and how these impact the public interest in their jurisdictions.
25. As discussed in paragraphs 31-33 below, the IAASB believes that it is essential to incorporate in the ISQMs and ISAs the entire approach to scoping PIE as contemplated in the IESBA Code because all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction. The IAASB has therefore proposed to incorporate the definition of PIE as part of the requirements with supporting application material based on the approach in the IESBA Code (see proposed paragraphs 18A–18B, A29D–A29F of ISQM 1 and paragraphs 23A–23B, A81D–A81F of ISA 200 in the ED).

#### *Definition of “Publicly Traded Entity” in Place of Listed Entity*

26. The IESBA PIE Revisions included replacing the definition of “listed entity” with a newly defined term – “publicly traded entity.” “Publicly traded entity” is also one of the mandatory categories of entities included in the PIE definition. As shown in the box below, the defined term “publicly traded entity” encapsulates the term listed entity as an example defined by relevant securities law or regulation (rather than a standalone definition). On this basis a listed entity as defined by relevant securities law or regulation in the jurisdiction will continue to meet the definition of a “publicly traded entity” provided the other criteria of the definition are met and subject to any refinements to this category by relevant local bodies (e.g., making reference to specific public markets for trading securities).

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IESBA PIE Revisions was not cross-referenced given it forms part of the application material of the ISQM 1 and ISA 200. Instead, the phrase “*because of the significance of the public interest in the financial condition of the entity*” was added to the text of category (d).

<sup>17</sup> See the IESBA’s [Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

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. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

27. The table below includes examples that have been sourced from the IESBA PIE ED and the Basis for Conclusions, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), illustrating how replacing the definition of “listed entity” with “publicly traded entity” would impact entities. This is relevant when considering how the scope of entities to which the extant differential requirements in the ISQMs and ISAs would change:

<i>Impact on Entities</i>	<i>Description</i>	<i>Example</i>
<b><i>The change would result in the entity being scoped in</i></b>	Entities issuing and trading financial instruments other than shares, stock or debt as currently specified in the extant definition of “listed entity.”	► Entities issuing and trading other types of instruments such as warrants or hybrid securities.
	Entities trading financial instruments in less regulated markets.	► Entities trading on second-tier markets or over-the-counter trading platforms.
<b><i>The change would result in the entity being scoped out</i></b>	Entities whose financial instruments might be listed but are not intended to be traded or are not freely transferable.	► Groups where the relevant instruments are held entirely intra-group.
	Entities trading through a market mechanism that is not publicly accessible or when there is no facilitated trading platform such as an auction-based exchange or electronic exchange.	► Privately negotiated agreements (with or without the assistance of a broker).

## Section 1-D – Differential Requirements in the ISQMs and ISAs

28. The IAASB previously explored, through its standard-setting projects, extending the applicability of its differential requirements for listed entities in the ISQMs and ISAs to apply more broadly to other entities that exhibit public interest or public accountability characteristics. This was largely driven by an increased emphasis by intended users regarding the performance of audit engagements on this broader group of entities and stakeholder demands for the requirements to be consistently applied to certain types of entities that may not be listed, but for which the requirements would be appropriate (e.g., for financial institutions including banks and insurance companies).

29. The IAASB is also aware of ongoing legislative developments in various jurisdictions who have already extended, or are considering extending, the applicability of the differential requirements for listed entities in their national equivalent ISQMs and ISAs to apply to PIE.<sup>18</sup>
30. The IAASB decided not to expand the differential requirements beyond listed entities in the ISQMs and ISAs in previous public consultations, deliberations, and discussions, mostly due to:
- The lack of a global baseline for the definition of PIE that could be consistently applied across jurisdictions.
  - The unintended consequences of the requirements applying to smaller entities or LCEs that could be scoped into the definition of a PIE (e.g., due to regulations or legislation) and for which it may be impracticable or overly burdensome to apply the requirements in such cases.
31. However, the IAASB believes that the revised approach to scoping PIEs in the IESBA Code addresses previous concerns raised from public consultations about extending the differential requirements in the ISQMs and ISAs to apply to PIEs.
32. This is because in developing the definition, the IESBA acknowledged the challenge described in paragraph 30 of inadvertently scoping in entities where the public interest in the financial condition of those entities is not significant. In response, the IESBA has:
- Provided for law, regulation, or professional standards to more explicitly define the mandatory categories of PIEs (see paragraph 400.18 A1 of the IESBA PIE Revisions) by, for example, referring to specific public markets for trading securities, referring to law or regulation containing definitions of entities, making exemptions or setting size criteria.
  - Set a requirement for firms to apply these more explicit definitions established by law, regulation, or professional standards (see paragraph R400.18 of the IESBA PIE Revisions).
33. Accordingly, the revised approach to PIEs in the IESBA Code places a significant focus on the entities that should be treated as PIEs in the context of the facts and circumstances in a specific jurisdiction (e.g., determining whether smaller entities should be excluded from any or all of the categories of PIE and what threshold should be set for such exclusion taking into account the need to balance the public interest and the burden of additional requirements imposed on the auditors of PIEs). In addition, the IESBA formed the view that establishing an overarching objective and expanding the PIE categories in the IESBA Code should bring some level of global consistency to the types of entities that should be treated as PIEs (i.e., a global baseline).<sup>19</sup>
34. Given that relevant local bodies play an essential role in the proposed approach when establishing national PIE definitions, the IESBA has also committed to an outreach and rollout program to assist developing or revising the definitions of PIE at the local level based on the IESBA PIE Revisions.<sup>20</sup>

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<sup>18</sup> For example, the United Kingdom, Netherlands, European Union, Japan and New Zealand (for reporting entities considered to have a higher level of public accountability) have extended in full or in part the differential requirements to apply to PIE. In addition, several jurisdictions, such as Australia, Canada, and South Africa, are currently assessing, or plan to assess in the near future, the extension of the applicability of the differential requirements in the ISQMs and ISAs to apply to entities other than listed entities.

<sup>19</sup> See the IESBA's Basis for Conclusions, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

<sup>20</sup> See the [IESBA's Rollout initiative](#), including non-authoritative materials to support the adoption and effective implementation of the IESBA PIE Revisions: the [IESBA's Database of PIE Definitions by Jurisdiction](#) and the IESBA Questions and Answers, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

### *Case-by-Case Analysis*

35. Respondents to relevant IAASB matters addressed in the IESBA PIE ED broadly supported that the IAASB should undertake a case-by-case approach to determine whether the differential requirements established in the IAASB standards that currently apply only to listed entities should be revised to apply more broadly to all categories of PIEs. In doing so, 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. Respondents also supported a balanced approach to avoid creating complexity through introducing too many differential requirements in the IAASB standards.
36. Given this support, the IAASB undertook a case-by-case analysis of extant differential requirements in the ISQMs and ISAs, which included consideration of:
- The purpose of the extant differential requirements to validate that the public interest factors which drive those requirements is consistent with the objective described in **Section 1-B**.
  - The related application material to the differential requirements in order to identify whether any unintended consequences exist, such as matters around jurisdictional considerations or practicality and operability for audits of financial statements of entities other than PIEs.
  - Whether there was indication of support for extending the applicability of the differential requirements to apply to PIEs or more broadly from previous IAASB public consultations, deliberations and decisions at the time when the extant differential requirements were established.
  - Other relevant IAASB information gathering.<sup>21</sup>
- A summary of the outcome from the case-by-case analysis is provided in **Appendix 1**.
37. The IAASB’s key observation regarding the case-by-case analysis is that the public interest factors which drive the extant differential requirements in the ISQMs and ISAs support enhancing stakeholders’ confidence in the audit and the audited financial statements of listed entities. This aligns with the purpose stated in the objective for establishing differential requirements more broadly for PIEs discussed in **Section 1-B**. Consequently, it would be *consistent* with the objective if they were extended to apply to PIEs. In addition, the feedback from other IAASB information gathering indicated broad support from stakeholders for the applicability of the extant differential requirements in the ISQMs and ISAs to apply to PIEs, with one notable exception. Extending the reporting requirements in paragraphs 21–22(b) of ISA 720 (Revised) to entities other than listed entities was not supported, because respondents found the practical difficulties associated with identifying and considering the other information received after the date of the auditor’s report to outweigh the public interest benefits of doing so.
38. Except for ISA 720 (Revised), the IAASB believes that extending the extant differential requirements in the ISQMs and ISAs to PIEs, as summarized in **Appendix 1**, would support the public interest as this would:
- Be responsive to stakeholder feedback from previous IAASB information gathering and public consultations, including capturing certain financial institutions such as banks and insurance

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<sup>21</sup> For example, the post-implementation review (PIR) of the Auditor Reporting Standards and, where appropriate, how NSS have addressed this issue at jurisdictional levels.

companies for which stakeholders have indicated it would be appropriate to apply the differential requirements for listed entities in the ISQMs and ISAs.

- Promote more consistency among jurisdictions globally when applying the ISQMs and ISAs, given that some jurisdictions have already extended (or are considering extending) the applicability of the differential requirements to apply to PIEs in their national equivalent auditing standards.
- Result in alignment of key concepts and definitions across the IAASB and the IESBA standards and enable less complexity related to the types of entities to which the differential requirements in the respective standards apply.

39. The table below references, by affected ISQM and ISA, the paragraphs proposed in the ED for extending the relevant extant differential requirements to apply to PIEs. Paragraphs 40-51 below provide additional explanation of the proposed changes relating to engagements subject to engagement quality review (ISQM 1), auditor independence (ISA 260 (Revised)) and communicating KAM (ISA 701), as well as for not proposing changes in relation to transparency about other information (ISA 720 (Revised)).

<i>Description</i>	<i>Paragraph in the ED</i>
Engagements Subject to an Engagement Quality Review	ISQM 1, paragraph 34(f)
Communication with TCWG About the System of Quality Management	ISQM 1, paragraph 34(e)
Auditor Independence	ISA 260 (Revised), paragraph 17; ISA 700 (Revised), paragraph 40(b)
Communicating KAM	ISA 700 (Revised), paragraphs 30–31, 40(c); ISA 701, paragraph 5
Name of the Engagement Partner	ISA 700 (Revised), paragraphs 46, 50(l)
Transparency About the Other Information	ISA 720 (Revised), paragraphs 21–22(b)

#### Engagements Subject to an Engagement Quality Review

40. In addition to the rationale set out in paragraph 38 above for extending the applicability of the extant differential requirement for engagement quality reviews, the IAASB also considered that entities with a significant public interest in their financial condition would likely already be covered in the scope of entities subject to engagement quality reviews given the risk-based approach in ISQM 1 to determining engagements subject to an engagement quality review.
41. In determining the proposed revisions, the IAASB also considered that ISQM 1 became effective as of December 15, 2022, and that further revisions to the standard in short succession would not be optimal or practical for stakeholder constituencies. However, given the possible effective date of December 2026 for the proposed narrow scope amendments contemplated under Track 2 of the



project (see paragraph 63 below), the IAASB believes that there is a sufficient period of stability provided to support stakeholder implementation efforts in relation to ISQM 1. In addition, given that the IESBA PIE Revisions become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, this would also benefit stakeholder constituencies to have already considered and implemented the definition of PIE in their national jurisdictions.

#### Auditor Independence

42. The IAASB is proposing to amend the applicability of the extant differential requirement in paragraph 17 of ISA 260 (Revised) by bifurcating the requirement as follows:
- A requirement that would apply to audits of financial statements of all entities to communicate with TCWG a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.
  - A requirement that would apply only to PIEs to communicate with TCWG a statement that would address the matters set out in subparagraphs 17(i)–(ii) of extant ISA 260 (Revised) (i.e., in accordance with the rationale set out in paragraph 38 above for differential requirements that apply to PIEs).
43. In proposing that paragraph 17 of ISA 260 (Revised) in the ED should apply to audits of financial statements of all entities, the IAASB considered:
- The requirement in paragraph 28(c) of ISA 700 (Revised) that requires communication about compliance with independence requirements in the auditor's report for all audit engagements. It is therefore illogical and inconsistent that the auditor would communicate with TCWG about compliance with independence requirements only if the entity is a listed entity (or PIE).
  - The interrelationship with the new requirement in paragraph 16A of ISA 260 (Revised), approved under Track 1 of the project, that applies to audits of all entities, and requires the communication with TCWG about the relevant ethical requirements, including those related to independence, that the auditor applies for the audit engagement.
44. In coordinating with the IESBA, it was noted that the extant requirement in paragraph 17(a) of ISA 260 (Revised) is not consistent with recently revised requirements to communicate with TCWG in the IESBA Code.<sup>22</sup> The IAASB considered whether ISA 260 (Revised) should be updated to better align with the IESBA Code, however believes that doing so is duplicative, and creates complexities and confusion if the requirements in the IAASB standards do not fully address all requirements in the IESBA Code dealing with communication with TCWG. As such, the IAASB proposes removing the explicit requirement to communicate fee-related matters in paragraph 17(a) of ISA 260 (Revised), and instead refer to the IESBA Code in the application material to draw attention to the fact that the IESBA Code also contains requirements regarding communication with TCWG (see proposed paragraph A29A in ISA 260 (Revised) of the ED).

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<sup>22</sup> For example, ISA 260 (Revised) requires communication of “*all relationships and other matters between the firm, network firms, and the entity.*” This would not include all direct financial interests or material indirect financial interests in the audit client as required by paragraph R510.4 of the IESBA Code. Similarly, the IESBA has introduced new requirements to communicate with TCWG in recent projects such as the [Revisions to the Non-Assurance Service Provisions of the Code](#) and the [Revisions to the Fee-related Provisions of the Code](#).



45. The IAASB believes this approach is appropriate because it is consistent with the objective of the listed entity and PIE project to achieve to the greatest extent possible convergence between the key concepts in the IESBA Code and the IAASB standards so as to maintain their interoperability. In addition, the IAASB believes doing so would not weaken the ISAs because the auditor is already required to comply with relevant ethical requirements in accordance with paragraph 14 of ISA 200. The IESBA Code is better placed to robustly address any need to communicate matters to TCWG regarding ethics and independence. Furthermore, revising the ISAs to replicate requirements in the IESBA Code does not promote a framework neutral approach to ethical requirements.
46. As a consequence of the proposals discussed in paragraph 42 above to bifurcate the extant requirement in paragraph 17 of ISA 260 (Revised), the IAASB has also proposed to align the requirement in paragraph 40(b) of ISA 700 (Revised) in the ED. In addition, alignment changes have been proposed to the illustrative auditor's reports that are affected.

#### Communicating KAM

47. In addition to the rationale set out in paragraph 38 above for extending the applicability of the extant differential requirement for communicating KAM, the IAASB also considered:
- The support from the Auditor Reporting Post Implementation Review (PIR) Stakeholder Survey indicating respondents' preference for mandatory communication of KAM for PIEs. While there was majority support from all stakeholder constituencies, a substantially higher percentage of respondents who responded to the PIR Stakeholder Survey (above 80%) was indicated by investors and regulators relative to other respondent groups.
  - The guidance in paragraph A59 of ISA 701 that draws attention that there may be certain limited circumstances (e.g., for a listed entity that has very limited operations) when there are no matters that required significant auditor attention. In such circumstances, the auditor would not determine KAM.

#### Transparency About Other Information

48. The IAASB has decided not to amend the differential requirements for listed entities in paragraphs 21–22(b) of ISA 720 (Revised).
49. In reaching its view, the IAASB considered the findings from the Auditor Reporting PIR that noted challenges and practical difficulties which arose in various jurisdictions with the implementation of ISA 720 (Revised), including:
- Identifying which other information is included in the annual report and therefore affecting the scope of the auditor's responsibilities to read and consider the other information.
  - Practical issues that arise when the other information is not available at the time the auditor's report is signed. Respondents' views included that for those jurisdictions where the other information is usually received after the auditor's report is signed and for entities other than listed entities, the practical difficulties encountered with considering the other information outweighed the public interest benefits.
50. Given these difficulties, the IAASB believes that it is in the public interest not to extend the differential requirements in ISA 720 (Revised) as this may exacerbate the identified issues. However, the IAASB notes that the public interest factors that drive these requirements include to provide transparency to

intended users about the other information and the auditor's work effort in relation to such information, including whether there is a material misstatement that may undermine the credibility of the financial statements and the auditor's report thereon or inappropriately influence the economic decisions of the users for whom the auditor's report is prepared. Because these factors align with the objective for establishing differential requirements for PIEs discussed in **Section 1-B**, the IAASB intends to defer a discussion on extending these requirements to apply to PIEs until a comprehensive revision of the standard is undertaken based on future IAASB work plan decisions.

51. Given that listed entity is no longer a defined term for the purposes of the ISAs (see paragraph 26), the IAASB proposes to retain a description of listed entity in the IAASB Glossary of Terms, referring to the definition of "publicly traded entity" to assist with common and consistent interpretation and translation. In addition, the IAASB proposes to clarify the scope in paragraph 6 of ISA 720 (Revised) in the ED to address the auditor's reporting responsibilities in the context of this standard, without causing confusion or complexity for other ISAs that refer to either publicly traded entities or listed entities. Also, certain changes to the illustrative auditor's reports in the Appendix of ISA 720 (Revised) were made to maintain the *coherence* with the proposed extensions for the differential requirements for listed entities in ISA 700 (Revised) and ISA 701 to apply to PIEs.

#### **Section 1-E – Proposed Revisions to ISRE 2400 (Revised)**

52. As discussed in paragraph 7, in June 2023, under Track 1 of the project, the IAASB approved narrow scope amendments to ISA 700 (Revised) that supported operationalizing the IESBA's transparency requirement. This included amending paragraph 28(c) of ISA 700 (Revised) to include a requirement that applies only when the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied, such as PIEs in the IESBA Code. If this is the case, then the auditor is required to indicate in the auditor's report that the relevant ethical requirements for independence for those entities were applied.<sup>23</sup>
53. Given that Part 4A of the IESBA Code also applies to review engagements,<sup>24</sup> the IAASB is proposing amending ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, in order to maintain the *coherence* and interoperability with the IESBA Code. In doing so, the IAASB believes that pursuing a *consistent* approach to the practitioner's review report with the revisions to the auditor's report would support the public interest because it would avoid confusion for intended users that may arise if the disclosure of independence requirements for audit and review engagements are misaligned.
54. Paragraph 86(j) of extant ISRE 2400 (Revised) requires the practitioner to include a reference in the practitioner's report of the obligation to comply with relevant ethical requirements. However, the practitioner is not required to provide a statement similar to the requirement in paragraph 28(c) of ISA 700 (Revised), which requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code. In addition, ISRE 2400 (Revised) is not aligned with the

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<sup>23</sup> See the [Final Pronouncement: Narrow Scope Amendments to ISA 700 \(Revised\) and ISA 260 \(Revised\) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs](#).

<sup>24</sup> Paragraph 400.2 of the IESBA Code explains that Part 4A (which includes the transparency requirement in paragraphs R400.20–R400.21 of the IESBA PIE Revisions) applies to both audit and review engagements unless otherwise stated, and that the terms "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to review, review team, review engagement, review client, and review engagement report.

changes to the auditor's report introduced as part of the IAASB's auditor reporting project,<sup>25</sup> such as the structure of the report and including new elements introduced to the auditor's report.

55. The proposed amendments to paragraph 86(j)A of ISRE 2400 (Revised) in the ED include a new requirement that applies only when the relevant ethical requirements require public disclosure that specific independence requirements for reviews of financial statements of certain entities were applied, such as PIEs in the IESBA Code. If this is the case, then the practitioner is required to include a statement in the practitioner's report that identifies the jurisdiction of origin of the relevant ethical requirements or refers to the IESBA Code and indicates that the practitioner is independent of the entity in accordance with the independence requirements applicable to reviews of financial statements for those entities.
56. Proposed paragraph A137A of ISRE 2400 (Revised) in the ED includes new application material in support of the requirement. Among other matters, the application material refers to the IESBA Code as an example of relevant ethical requirements that have a transparency requirement and provides an illustration of the disclosure in the practitioner's report when the IESBA Code comprises all the relevant ethical requirements that apply to the review engagement.
57. The IAASB is also aware that reviews of PIEs' historical financial statements under ISRE 2400 (Revised) are rare in practice,<sup>26</sup> and it is more common among jurisdictions that an interim review engagement would be performed by the independent auditor for listed entities or PIEs under ISRE 2410.<sup>27</sup> However, in line with the actions discussed in the project proposal, the IAASB is not proposing amendments to ISRE 2410 at this time given that ISRE 2410 is still in pre-clarity format and has not been subject to conforming and consequential amendments arising from other IAASB projects in recent years to avoid giving the impression that this standard is up to date. The IAASB also acknowledges that any resulting revisions to ISRE 2410 would need to be part of a broader project to revise this standard that would be determined as part of the IAASB's future work plan decisions.

## Section 1-F – Other Matters

### *Central List of Factors in Evaluating the Extent of Public Interest of an Entity*

58. The application material to the current differential requirements for listed entities in the ISQMs and ISAs includes various examples that illustrate:
  - The types of entities that may exhibit public interest or public accountability characteristics for which it may also be appropriate to apply a certain differential requirement.<sup>28</sup>
  - Circumstances when law or regulation may require the application of a differential requirement to entities other than listed entities.<sup>29</sup>

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<sup>25</sup> As part of the [auditor reporting project](#), completed by the IAASB in September 2014, the IAASB determined not to make revisions to assurance reports for other engagements (including for reviews of financial statements) to include elements similar to those in the auditor's report on an audit of financial statements.

<sup>26</sup> Form its information gathering with NSS, only one jurisdiction (i.e., South Africa) noted that there is a regulatory reporting requirement in accordance with ISRE 2400 (Revised) for banks which would qualify as PIEs under the revised PIE definition.

<sup>27</sup> ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

<sup>28</sup> For example, see paragraph A32 of ISA 260 (Revised).

<sup>29</sup> For example, see paragraph A40 of ISA 700 (Revised).

59. The IAASB is proposing a central list of factors, based on paragraphs 400.9 and 400.18 A2 of the IESBA PIE Revisions, incorporated in ISQM 1 and ISA 200 to support consideration of whether there are other types of entities for which it may be appropriate to apply the differential requirements in the ISQMs and ISAs (see proposed paragraphs A29C, A29G of ISQM 1 and paragraphs A81C, A81G of ISA 200 in the ED). The IAASB believes this would drive *consistency* and reduce the duplicative nature of this application material across the ISQMs and ISAs.
60. In incorporating the factors, the IAASB considered the commonality between the factors in the IESBA Code and the existing application material in the ISQMs and ISAs that describes other entities to which the differential requirements may be relevant. In addition, the IAASB notes that these factors were exposed for public comment by the IESBA in their project on the definitions of listed entity and PIE and have therefore undergone a proper due process.
61. The central list of factors is not exhaustive, which is consistent with the approach of the IESBA Code. Law, regulation, or relevant local bodies may identify additional entities that are PIEs, or a firm may identify additional entities to which the firm applies a requirement that is applicable to audits of PIEs.

#### *Alignment Changes*

62. Because of the proposals in this ED, various alignment changes were necessary for the introductory and application material in the ISQMs and ISAs. For example, in the illustrative auditor's reports included in the Appendices of the 500, 700 and 800 series of ISAs, the term "listed entity" (or "entity other than listed entity") was replaced with "public interest entity" (or "entity other than a public interest entity"). Also, when applicable, the application material that relates to a differential requirement(s) has been updated as a result of changes to entities to which the extant differential requirements apply and to align with the concepts underpinning PIE.

#### *Effective Date*

63. The IAASB anticipates that the final pronouncement for Track 2 of the listed entity and PIE project would be approved in December 2024. Recognizing the need to coordinate effective dates with the fraud and going concern projects that are also considering actions that may result in revisions that impact auditor reports, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18-24 months after the PIOB's process of certification of the final narrow scope amendments for Track 2.<sup>30</sup> The IAASB is of the view that this timeframe is adequate to allow jurisdictions sufficient time for translation of the final text of the standard, for national adoption processes to occur, and for practitioners to update templates and associated internal materials.

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<sup>30</sup> After approval by the IAASB, the PIOB will consider its public certification of an approved new or revised standard(s) to confirm the PIOB's oversight of the standard-setting process throughout the full development cycle, that the standard was developed in a manner consistent with agreed due process and that the standard is responsive to the public interest, in accordance with the Public Interest Framework.

## Section 2 Questions for Respondents

Respondents are asked to respond to the questions below using the Response Template [\[link\]](#) as explained in the **Request for Comments** on page 3 of this EM.

Specific Questions for Respondents	Sections or paragraphs in this EM for reference
<i>Objective for Establishing Differential Requirements for PIEs</i>	
1. Do you agree with the overarching objective for establishing differential requirements for PIEs proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why?	Section 1-B, paragraphs 13–18
<i>Definitions of PIE and “Publicly Traded Entity”</i>	
2. Do you agree with:  2A. Adopting the definition of PIE into the Definitions and Authority of ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A, 18A of ISQM 1 and paragraphs 13(l)A, 23A of ISA 200 in the ED)? If not, what do you propose and why?  2B. The entire approach to scoping PIEs from the IESBA PIE Revisions is necessary for consistency and to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction (also see paragraphs 18B, A29D–A29F of ISQM 1 and paragraphs 23B, A81D–A81F of ISA 200 in the ED)? If not, why not and what alternatives do you suggest?	Section 1-C, paragraphs 19–25
3. Do you agree with adopting the definition of “publicly traded entity” into the Definitions of ISQM 1 and ISA 200 as a replacement for listed entity (see proposed paragraph 16(p)B of ISQM 1 and paragraph 13(l)B of ISA 200 in the ED)? If not, what do you propose and why?	Section 1-C, paragraphs 19–21, 26–27
<i>Differential Requirements in the ISQMs and ISAs</i>	
4. Based on the outcome of the case-by-case analysis discussed in <b>Section 1-D</b> , do you agree with the IAASB’s proposals for extending the extant differential requirements in the ISQMs and ISAs to apply to PIEs?  If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?	Section 1-D, paragraphs 28–47 Appendix 1

Specific Questions for Respondents	Sections or paragraphs in this EM for reference
<p><b>Please answer these questions separately for each of the relevant differential requirements, as follows</b> (references are to the proposed paragraphs in the ED):</p> <p>4A. ISQM 1, paragraph 34(f) – engagement quality reviews.</p> <p>4B. ISQM 1, paragraph 34(e) – communication with TCWG about the firm's system of quality management.</p> <p>4C. ISA 260 (Revised), paragraphs 17, 17A, and ISA 700 (Revised), paragraph 40(b) – communicating about auditor independence.</p> <p>4D. ISA 700 (Revised), paragraphs 30-31, 40(c), and ISA 701, paragraph 5 – communicating KAM.</p> <p>4E. ISA 700 (Revised), paragraph 46, 50(l) – name of the engagement partner.</p>	
<p>5. Do you agree with the IAASB's proposal <u>not</u> to currently extend the differential requirements for listed entities in ISA 720 (Revised) to apply to PIEs? If you do not agree, what alternatives do you suggest?</p>	<p>Section 1-D, paragraphs 48–51  Appendix 1</p>
<p><i>Proposed Revisions to ISRE 2400 (Revised)</i></p>	
<p>6. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner's review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, why not and what alternatives do you suggest?</p>	<p>Section 1-E, paragraphs 52–57</p>
<p><i>Other Matters</i></p>	
<p>7. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.</p>	

### Request for General Comments

The IAASB is also seeking comments on the matters set out below:

- Translations—Recognizing that many respondents may intend to translate the final narrow scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.

9. **Effective Date**—Given the need to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after the PIOB's process of certification of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

## Appendix 1 – Summary of the Case-by-Case Analysis of Extant Differential Requirements in the ISQMs and ISAs

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability <sup>31</sup>
<b>Engagements Subject to an Engagement Quality Review</b>			
ISQM 1, paragraph 34(f)	Providing <i>greater confidence</i> to the public in the consistent performance of quality engagements.	ISQM 1, paragraph A134: <i>A firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks. This could include entities that have public accountability characteristics (e.g., banks, insurance companies, pension funds), entities with high public profile or whose management/owners have high public profile and entities with large number and wide range of stakeholders.</i>	<b>Yes<sup>32</sup></b>  Support to apply for PIEs and for mandating for audit firms to carry out engagement quality reviews on internationally active banks and insurers.  Trends noted in jurisdictions to require an engagement quality review for PIEs.
<b>Communication with TCWG About the System of Quality Management</b>			
ISQM 1, paragraph 34(e)	Providing TCWG with <i>greater transparency and confidence</i> about how the firm's system of quality	ISQM 1, paragraph A128: <i>May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions</i>	<b>Yes<sup>33</sup></b>  Broad support for enhanced communication and transparency with stakeholders about how

<sup>31</sup> See [Agenda Item 6-B](#) discussed with the IAASB in December 2022, that provides background information including an overview of previous IAASB deliberations when certain differential requirements were established and sets out other relevant information gathering undertaken by the IAASB.

<sup>32</sup> See respondents feedback received in response to question 11 of the Exposure Draft, [Proposed International Standard on Quality Management 1 \(Previously International Standard on Quality Control 1\), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#) (February 2019). Also see the Basis for Conclusions, [ISQM 2, Engagement Quality Reviews](#) (December 2020) that provides a summary of the IAASB deliberations and decisions.

<sup>33</sup> See respondents feedback received in response to question 10 of the Exposure Draft, [Proposed International Standard on Quality Management 1 \(Previously International Standard on Quality Control 1\), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#) (February 2019). Also see the Basis for Conclusions, [ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#) (December 2020) that provides a summary of the IAASB deliberations and decisions.



EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability <sup>31</sup>
	management supports quality audit engagements to assist them in fulfilling their responsibility to oversee the financial reporting process.	<i>(banks, insurance companies and pension funds) and charities.</i>	the system of quality management supports quality engagements.
<b>Auditor Independence</b>			
ISA 260 (Revised), paragraph 17	Assisting TCWG in fulfilling their responsibility to oversee the financial reporting process and to <i>enhance their confidence</i> in the audit of the entity's financial statements.	<p><i>ISA 260 (Revised), paragraph A32:</i></p> <p><i>May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.</i></p> <p><i>ISA 260 (Revised), paragraph A32:</i></p> <p><i>May not be relevant for situations when all of TCWG are informed through their management activities of relevant facts or where the entity is owner-managed and the auditor's firm has little involvement with the entity beyond the financial statement audit.</i></p>	<p><b>Yes<sup>34</sup></b></p> <p>Support to be applied more broadly to all entities (including for PIEs).</p>
ISA 700 (Revised), paragraph 40(b)	Providing transparency to intended users about auditor independence so as to <i>enhance their confidence</i> in the audit of the entity's financial statements.		

<sup>34</sup> See respondents feedback to the Exposure Draft of proposed ISA 260 (Revised), *Communication with Those Charged with Governance* (March 2005), the Exposure Draft of proposed ISA 260 (Revised and Redrafted), *Communication with Those Charged with Governance* (October 2006), and the [Basis for Conclusion: ISA 260 \(Revised and Redrafted\), Communication with Those Charged with Governance](#) (December 2007) that provides a summary of the IAASB deliberations and decisions.

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability <sup>31</sup>
<b>Communicating KAM</b>			
ISA 700 (Revised), paragraphs 30–31, 40(c)  ISA 701, paragraph 5	Enhance the communicative value of the auditor's report by providing <i>greater transparency</i> about the audit that was performed.  <i>Increase intended user confidence</i> in the audit and the audited financial statements.	<i>ISA 700 (Revised), paragraphs A40–A41:</i>  <i>Law or regulation may require communication of KAM for other entities, e.g., PIEs.</i>  <i>May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.</i>	<b>Yes<sup>35,36</sup></b>  Support for requiring the communication of KAM for PIEs and scoping in banks and insurance companies, regardless of whether they are listed entities  Majority preference from all stakeholder constituencies for mandatory communication of KAM for PIEs.  Trends noted in jurisdictions to extend applicability of KAM to PIEs.
<b>Name of the Engagement Partner</b>			
ISA 700 (Revised), paragraphs 46, 50(l)	Providing <i>transparency to intended users</i> about the engagement partner who is responsible for the audit to	<i>ISA 700 (Revised), paragraph A62:</i>  <i>Law, regulation, or national auditing standards may require that the auditor's report include the name of the engagement partner responsible for audits of other entities than those of financial</i>	<b>Yes<sup>37</sup></b>  Support from users, regulators and those jurisdictions in which the name of the engagement partner is required to be included

<sup>35</sup> See respondents feedback to the Exposure Draft, [Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing \(ISAs\)](#) (July 2013) and the Basis for Conclusions: [Reporting On Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments](#) (January 2015), that provides a summary of the IAASB deliberations and decisions.

<sup>36</sup> See respondents feedback to the Auditor Reporting PIR [Stakeholder Survey](#) that included 148 responses from a broad range of stakeholders across 48 jurisdictions. In addition, [Agenda Item 3](#) discussed by the IAASB in February 2021, provides an overview of stakeholder feedback from the Auditor Reporting PIR Stakeholder Survey and other information-gathering activities and [Agenda Item 5](#) presented to the IAASB at its September 2021 meeting provides the recommendations to the Auditor Reporting PIR.

<sup>37</sup> See the [Invitation to Comment: Improving the Auditor's Report](#) (June 2012) and the Basis for Conclusions: [Reporting On Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments](#) (January 2015).

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ISQM / ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Stakeholder Support for Extending the Applicability <sup>31</sup>
	<i>enhance their confidence in the audit that has been performed.</i>	<p><i>statements of listed entities.</i></p> <p><i>Law, regulation, or national auditing standards may require including additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner (e.g., professional license number that is relevant to the jurisdiction where the auditor practices).</i></p>	in the auditor's report by law or regulation.
<b>Transparency About the Other Information</b>			
ISA 720 (Revised), paragraphs 21–22(b)	Providing <i>transparency to intended users</i> about the other information and auditor's work effort in relation to such information, including whether there is a material misstatement that may undermine the credibility of the financial statements and the auditor's report thereon or inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.	<p><i>ISA 720 (Revised), paragraph A52:</i></p> <p><i>May also be appropriate to consider identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report for an entity other than listed entity. This may be the case when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.</i></p>	<p><b>No</b><sup>38</sup></p> <p>Views that the practical difficulties encountered with identifying and considering the other information received after the date of the auditor's report outweighed the public interest benefits of doing so.</p>

<sup>38</sup> See respondents feedback to the Exposure Draft, [ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon](#) (November 2012), the re-exposure of Exposure Draft, ISA 720 (Revised), [The Auditor's Responsibilities Relating to Other Information](#) (April 2014), the Basis for Conclusion: [The Auditor's Responsibilities Relating to Other Information](#) (April 2015), and the findings and recommendations of the Auditor Reporting PIR discussed in [Agenda Item 3](#) (February 2021) and [Agenda Item 5](#) (September 2021).

## Appendix 2 – Mapping the Key Changes Proposed by the Narrow Scope Amendments to the Actions and Objectives in the Project Proposal that Support the Public Interest

### Qualitative Standard-Setting Characteristics Considered

- ▶ *Scalability* – addresses both less and more complex circumstances, commensurate to the facts and circumstances specific to a particular jurisdictional context (e.g., through establishing a global baseline for the categories of entities in the definition of PIE that could be consistently applied across jurisdictions and the revised approach to refining the categories of PIEs by placing a significant focus on the entities that should be treated as PIEs in the context of the facts and circumstances in a specific jurisdiction).
- ▶ *Proportionality* – addresses the issues in a proportionate manner by considering the relative impact that the proposals may have on different stakeholders (e.g., by considering the need for a more robust and consistent approach as to when the differential requirements in the ISQMs and ISAs are appropriate to apply for PIEs, and by recognizing heightened stakeholder expectations regarding the performance of audit engagements for certain types of entities that may not be listed, but for which the differential requirements would be appropriate to apply (e.g., for financial institutions, including banks and insurance companies)).
- ▶ *Coherence* – among the overall body of the IAASB's and the IESBA's standards (e.g., by acknowledging and not potentially undermining the revisions to the IESBA Code – either through being inconsistent or through failing to draw appropriate attention to the revised requirements in the IESBA Code when it is appropriate to do so).
- ▶ *Relevance* – focuses on responding to emerging issues, evolving stakeholder needs and perceptions and changes in business environments (e.g., the need to maintain the relevance and robustness of the ISQMs and ISAs given the heightened expectations of stakeholders regarding the performance of audit engagements for PIEs, and by recognizing situations when the IESBA Code requires an action that also has relevance to the IAASB's standards).
- ▶ *Clarity and conciseness*, including overall *understandability* – addresses minimizing the likelihood of differing interpretations when concepts across the IAASB's and the IESBA's standards differ or are misaligned (e.g., by including requirements and application guidance to support that the IAASB's and the IESBA's standards operate in harmony, and without confusion, given that many jurisdictions utilize both).
- ▶ *Implementability* and ability of being *consistently applied and globally operable* – focuses on reducing complexity and supporting consistent application and understanding when concepts across the IAASB and the IESBA standards are aligned, including when there is alignment in the types of entities to which differential requirements apply (e.g., by supporting consistency among jurisdictions globally when applying the ISQMs and ISAs through adopting a common overarching objective for establishing differential requirements for PIEs, aligning definitions and the approach to scoping in PIEs, and by minimizing complexity when too many differential requirements for certain types of entities apply or when requirements are misaligned).

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>39</sup>
	Description	
A. Project Objective: Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.		
<p><b>A.1: The IESBA definition of PIE</b></p> <p><i>Consider adopting the IESBA definition of PIE into the ISQMs and ISAs, or the IAASB Glossary of Terms.</i></p> <p>This project would consider whether the PIE definition should be adopted in the ISQMs and ISAs, because extant differential requirements for listed entities in the ISQMs and ISAs may be amended to apply to all categories of PIEs (also see item C.4 below).</p> <p>This project would also consider the application material in the ISQMs and ISAs that describes entities that have public interest or public accountability characteristics, and any new application material supporting the differential requirements considered as part of this project, and whether it should also reflect the concepts underpinning the definition of PIE (also see item C.5 below).</p> <p>This project would consider whether the PIE definition should be included in the IAASB Glossary of Terms, if it is not defined in the ISQMs and ISAs, but still used, for example, in application material (also see item C.5 below).</p>	<p><i>Definitions</i></p> <ul style="list-style-type: none"><li>Adopting the definition of PIE in the Definitions section of the ISQMs and ISAs, and in IAASB Glossary of Terms.</li></ul> <p><i>Para's. 16(p)A of ISQM 1; 13(l)A of ISA 200 in the ED</i></p> <p><i>Requirements and Application Material</i></p> <ul style="list-style-type: none"><li>Incorporating requirements and application material in the authority of ISQM 1 and ISA 200 to support the entire approach to scoping PIE as contemplated in the IESBA Code, given that all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction.</li></ul> <p><i>Para's. 18A–18B, A29D–A29F of ISQM 1; 23A–23B, A81D–A81F of ISA 200 in the ED</i></p>	<ul style="list-style-type: none"><li><i>Scalability</i></li><li><i>Coherence</i></li><li><i>Relevance</i></li><li><i>Clarity and conciseness</i></li><li><i>Implementability, and ability of being consistently applied and globally operable</i></li></ul>

<sup>39</sup> The qualitative standard-setting characteristics listed are those that were at the forefront, or of most relevance, when determining how to address each proposed action.

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>39</sup>
	Description	
<p><b>A.2: The IESBA definition of “publicly traded entity”</b></p> <p><i>Consider adopting the IESBA definition of “publicly traded entity” into the ISQMs and ISAs, as a replacement of listed entity.</i></p> <p>The project would consider the impact on the ISQMs and ISAs of adopting the definition of “publicly traded entity” and replacing “listed entity” with “publicly traded entity” (also see item C.4 below). In particular, the replacement of the term may result in changes in the underlying entities that such requirements apply to, for example:</p> <ul style="list-style-type: none"> <li>• Additional entities may be scoped into the definition of “publicly traded entity” that are not scoped into the extant definition of “listed entity” in the ISQMs and ISAs.</li> <li>• The definition of “publicly traded entity” refers to “a listed entity as defined by relevant securities law or regulation” as an example of a publicly traded entity. As a result, depending on how the term “listed entity” is defined in securities law or regulation, the notion of a listed entity may be broader or narrower than the extant definition of a “listed entity” in the ISQMs and ISAs.</li> </ul>	<p><i>Definitions</i></p> <ul style="list-style-type: none"> <li>• Adopting the definition of “publicly traded entity” in the Definitions section of the ISQMs and ISAs, and in IAASB Glossary of Terms.</li> </ul> <p><i>Para’s. 16(p)B of ISQM 1; 13(l)B of ISA 200 in the ED</i></p>	<ul style="list-style-type: none"> <li>• Scalability</li> <li>• Coherence</li> <li>• Relevance</li> <li>• Clarity and conciseness</li> <li>• Implementability, and ability of being consistently applied and globally operable</li> </ul>
<p><b>B. Project Objective: Establish an objective and guidelines to support the IAASB’s judgments regarding specific matters for which differential requirements for certain entities are appropriate.</b></p>		
<p><b>B.3: An objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs</b></p> <p><i>Adopt the overarching objective established by the IESBA in paragraph 400.8 of the IESBA Code as a principle for establishing differential requirements for certain entities and application material in the ISQMs</i></p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>• Adopting the overarching objective for establishing differential requirements in the ISQMs and ISAs, based on paragraph 400.8 of the IESBA PIE Revisions.</li> </ul>	<ul style="list-style-type: none"> <li>• Scalability</li> <li>• Proportionality</li> <li>• Coherence</li> <li>• Relevance</li> </ul>

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>39</sup>
	Description	
<p>and ISAs.</p> <p><i>Develop a tailored objective, based upon the overarching objective, and taking into consideration paragraph 400.10 of the IESBA Code, that explains the purpose for differential requirements for certain entities in the ISQMs and ISAs.</i></p> <p><i>Develop guidelines that assist the IAASB in identifying when differential requirements for certain entities may be appropriate, and if so, how such requirements should be established in the ISQMs and ISAs.</i></p> <p><i>Determine the appropriate location and accessibility of the objective or guidelines described above.</i></p> <p>The objective and guidelines would be used as a basis for:</p> <ul style="list-style-type: none"> <li>• Undertaking a case-by-case analysis of existing differential requirements for listed entities in the ISQMs and ISAs to determine whether those requirements need to be amended to apply to all categories of PIEs (also see item C.4 below); and</li> <li>• Future IAASB projects in determining whether differential requirements need to be established for certain entities in the ISQMs and ISAs (i.e., it would be used to inform the approach by providing principles against which future proposals for differential requirements can be tested).</li> </ul>	<ul style="list-style-type: none"> <li>• Tailoring the purpose for the objective in paragraph 400.10 of the IESBA PIE Revisions to meet “the heightened expectations of stakeholders regarding the audit engagement.”</li> </ul> <p><i>Paras. A29A–A29B of ISQM 1; A81A–A81B of ISA 200 in the ED</i></p>	<ul style="list-style-type: none"> <li>• <i>Clarity and conciseness</i></li> <li>• <i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>39</sup>
	Description	
C. Project Objective: Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities 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.		
<b>C.4: Case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs</b>  <i>Undertake a case-by-case analysis to determine:</i> <ul style="list-style-type: none"><li><i>Whether the extant differential requirements for listed entities should be amended to apply to all categories of PIEs; and</i></li><li><i>The impact on extant differential requirements for listed entities of adopting the definition of “publicly traded entity” as a replacement of “listed entity.”</i></li></ul> In undertaking the case-by-case analysis, the project would consider: <ul style="list-style-type: none"><li>The objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs (also see item B.3 above).</li><li>The impact of amending the extant differential requirements for listed entities to apply to other entities, including the impact of adopting the definition of “publicly traded entity” as a replacement of “listed entity” if the differential requirements were to apply to “publicly traded entities” (also see items A.1 and A.2 above).</li><li>Other information available (e.g., the post-implementation review of the auditor reporting standards, respondents’ feedback from</li></ul>	<i>Scope and Requirements</i> <ul style="list-style-type: none"><li>Extending the differential requirements for listed entities to apply to PIEs in ISQM 1, ISA 260 (Revised), ISA 700 (Revised) and ISA 701.</li><li>Bifurcating the requirements in paragraph 17 of ISA 260 (Revised), to address the communication about compliance with independence requirements in the auditor’s report for all audit engagements.</li><li>Deferring extending the differential requirements in paragraphs 21– 22(b) of ISA 720 (Revised) until a comprehensive revision to the standards is undertaken.</li></ul> <i>Paras. 34(e)–(f) of ISQM 1; 17, 17A of ISA 260 (Revised); 30–31, 40(b)–(c), 46, 50(l) of ISA 700 (Revised); 5 of ISA 701 in the ED</i>	<ul style="list-style-type: none"><li><i>Scalability</i></li><li><i>Proportionality</i></li><li><i>Relevance</i></li><li><i>Clarity and conciseness</i></li><li><i>Implementability, and ability of being consistently applied and globally operable</i></li></ul>



Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>39</sup>
	Description	
the Exposure Draft on Proposed ISQM 1 <sup>40</sup> regarding the scope of entities that should be subject to an engagement quality review, the Board's deliberations and decisions at the time when certain differential requirements were established, and, where appropriate, how national standard setters have addressed this issue at jurisdictional levels).		
<p><b>C.5: Application and introductory material in the ISQMs and ISAs</b></p> <p><i>As a consequence of undertaking the case-by-case analysis, consider whether:</i></p> <ul style="list-style-type: none"> <li><i>The application material in the ISQMs and ISAs should be updated as a result of any changes to entities to which the extant differential requirements apply and to align with the concepts underpinning PIE.</i></li> <li><i>Updates may be needed to application material (e.g., examples and appendices) and introductory material (e.g., scope and scalability paragraphs) that use the term “listed entity(ies)” or otherwise make reference to listed entities (e.g., entities that are listed or entities other than listed entities).</i></li> </ul> <p>The ISQMs and ISAs 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</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>Inclusion of a central list of factors in the authority of ISQM 1 and ISA 200 that supports consideration of whether there are other types of entities for which it may be appropriate to apply the differential requirements in the ISQMs and ISAs.</li> <li>Changes to align the entities to which the extant differential requirements apply as well as to align with the concepts underpinning the definition of PIE.</li> </ul> <p><i>Various application and introductory material paragraphs and the illustrative auditor's reports in the ED</i></p>	<ul style="list-style-type: none"> <li><i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>

<sup>40</sup> See 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](#).

EXPLANATORY MEMORANDUM TO THE ED FOR PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>39</sup>
	Description	
<p>entities.<sup>41</sup> Various examples are included in application material to illustrate the types of entities that may exhibit such characteristics.</p> <p>This project will consider whether such application material should be updated:</p> <ul style="list-style-type: none"> <li>• As a consequence of the IAASB's decisions regarding which entities the differential requirements apply to; and</li> <li>• To include the categories of entities included in the definition of PIE (i.e., if the requirement continues to apply to listed entities or publicly traded entities only), the factors in the IESBA Code for evaluating the extent of public interest in the financial condition of an entity and the factors in the IESBA Code for firms to consider in determining whether to apply the requirements in the IESBA Code for PIEs to other entities.</li> </ul> <p>The ISQMs and ISAs include references to listed entities and related terms<sup>42</sup> (e.g., examples in application material, appendices, and scope and scalability paragraphs). The project will consider whether such application material needs to be updated.</p>		

<sup>41</sup> 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.

<sup>42</sup> Related terms include the following: "non-listed", "other than listed", "unlisted" and "smaller listed" entity.

**PROPOSED NARROW SCOPE AMENDMENTS TO THE ISQMs, ISAs  
AND ISRE 2400 (REVISED) AS A RESULT OF THE REVISIONS TO THE  
DEFINITIONS OF LISTED ENTITY AND PIE IN THE IESBA CODE**

**[MARKED-UP FROM EXTANT]**

(Effective for audits of financial statements for periods beginning on or after [DATE])

**[Placeholder]**

...

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