

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: New York, United States of America

Meeting Date: September 12–13, 2023

Agenda Item D.1

Listed Entity and Public Interest Entity (PIE) – Cover and Report Back

Objective of Agenda Item

1. The objective of this Agenda Item is to report back on Representatives' comments made at the March 2023 IAASB CAG meeting.

Project Status

2. At its June 2023 meeting, the IAASB approved the narrow scope amendments to ISA 700 (Revised)¹ and ISA 260 (Revised)² as a result of the revisions to the IESBA Code³ that require a firm to publicly disclose when a firm has applied the independence requirements for PIEs.
3. The narrow scope amendments formed part of Track 1 of the IAASB's project on listed entity and PIE and aimed to 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 IESBA's transparency requirement).⁴
4. The Appendix to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

IAASB-IESBA Coordination

5. There has been extensive coordination between the IAASB and the IESBA on the topic of listed entity and PIE. This has been accomplished through:
 - Staff coordination;
 - Participation of IAASB and IESBA correspondent members in the respective Boards' Task Forces;
 - Plenary discussions involving representatives of the IAASB and the IESBA at the respective Board's meetings;

¹ International Standard on Auditing 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

² ISA 260 (Revised), *Communication with Those Charged with Governance*

³ The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

⁴ See paragraphs R400.20 – R400.21 of the IESBA's [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

- Incorporating specific questions to seek views from stakeholders in the IAASB/IESBA exposure drafts;
- Joint IAASB-IESBA CAG discussions; and
- Joint IAASB-IESBA Jurisdictional / National Standard Setter sessions.

Way Forward

6. The Board will formally release the narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) in October 2023, after confirmation is received from the PIOB that due process was followed. The final approved text of the narrow scope amendments is available in [Agenda Item 5-C.2](#), which will become effective for periods beginning on or after December 15, 2024.

Report Back

7. Extracts from the approved March 2023 IAASB CAG meeting minutes relevant to listed entity and PIE, as well as an indication of how the PIE Task Force or the IAASB has responded to the Representatives' comments, is included in the table below.

Report Back on the March 2023 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
<i>Track 1 – Exposure Draft for Proposed Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised)</i> ⁵	
Approach to the Revisions in ISA 700 (Revised)	
Mses. Blomme, Meng, Messrs. Ruthman, Fritz and Drs. Norberg and Manabat expressed support for the conditional approach to revising paragraph 28(c) of ISA 700 (Revised) proposed in the ED to operationalize the transparency requirement in paragraph R400.20 of the IESBA Code. Ms. Blomme and Mr. Fritz also noted support for a conditional approach when contemplating revisions for International Standards on Review Engagements (ISRE) 2400 (Revised) ⁶ under Track 2 of the project that would mirror the proposed amendments in ISA 700 (Revised) included in the ED. Mr. Ruthman acknowledged that the proposals in the ED would present a suitable and workable	Support noted.

⁵ Exposure Draft (ED): [Proposed 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](#)

⁶ International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

Report Back on the March 2023 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
solution for audits of entities operating in the public sector.	
<p>Messrs. Ishiwata and Hansen expressed preference for an unconditional requirement that would mandate the transparency disclosure in the auditor's report in all cases. Mr. Ishiwata commented that this approach would provide the greatest level of transparency for intended users to understand which independence standards were applied. Mr. Hansen noted that an unconditional approach would provide the greatest level of global consistency when providing the disclosure in the auditor's report that the differential independence requirements for certain entities were applied. He also expressed support for the unconditional approach when contemplating revisions to ISRE 2400 (Revised) under Track 2 of the project.</p>	<p>Point noted.</p> <p>Ms. Almond noted that these views will be further deliberated by the IAASB in March 2023 and acknowledged that there were respondents who supported an unconditional approach. She emphasized that the PIE Task Force had reflected on all responses provided to the ED, across stakeholder groups, to determine an optimal recommendation to IAASB that addressed the comments received on exposure, including those who emphasized the need for jurisdictional flexibility and cautioned about the unintended consequences of an unconditional approach.</p> <p>The PIE Task Force also further engaged in direct discussions with Monitoring Group respondents⁷ who supported an approach that would mandate the transparency disclosure in the auditor's report in all cases, provided that the relevant ethical requirements do not specifically prohibit such disclosure. In doing so, the PIE Task Force elaborated on its rationale for the proposed approach and explained the practical challenges, concerns, and complexities raised by respondents to the ED should such an approach be pursued by the IAASB. As a result of these discussions, it was suggested that the full extent of the practical challenges associated with an unconditional approach across various jurisdictions should be articulated further in the Basis for Conclusions for Track 1 of the narrow scope project on listed entity and PIE.</p>
Responses to the Exposure Draft	
Ms. Meng expressed support for approval of the final pronouncement, following the IAASB's	Support noted.

⁷ This included discussions with representatives of the International Forum of Independent Audit Regulators (IFIAR) Standard's Coordination Working Group (SCWG) and the International Organization of Securities Commission (IOSCO) Auditing Subcommittee.

Report Back on the March 2023 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
consideration of stakeholder's comments received on exposure.	
Dr. Danbatta inquired whether the response rate to the ED is adequate, particularly in view of the shorter public comment period provided of 90-days. Dr. Manabat noted that the comment period is adequate considering the narrow scope nature of the proposed amendments, as well as the wide range of stakeholders represented in the 38 comment letters received.	<p>Point noted.</p> <p>Messrs. Botha and Seidenstein explained that the response rate to the public consultation and the 90-day public comment period are satisfactory given that this is a narrow scope amendments project as well as because the IESBA's revisions on listed entity and PIE were recently subject to public comment through their own due process. In addition, Mr. Seidenstein noted that the responses received embody comments from representative organizations who reflect a wide range of organizations and stakeholders which specifically informed those responses.</p>
Other Matters	
Mr. Pavas discussed the importance of the project for developing economies and particularly certain countries in the Latin America region. He explained that for these jurisdictions it would be useful to include more specificity to the IESBA's definition of PIE given these countries have many smaller listed entities.	<p>Point noted.</p> <p>Ms. Almond explained that the IAASB is considering the adoption of the IESBA's definition of PIE into the ISQMs⁸ and ISAs as part of Track 2 of the project, when further consideration will be provided for this matter, including providing examples of categories of entities that local bodies may consider when adding to the categories of entities included in their national definitions of PIE.</p>
Mr. Ishiwata noted that the implementation period to December 2024 to align with the effective date of the revisions to the IESBA Code is not long and suggested the IAASB consider sharing details to stakeholders about the narrow scope amendments in advance, as well as coordinating with the PIOB to consider earlier approval of due process.	<p>Point noted.</p> <p>Ms. Almond noted the broad support from respondents to the ED for the proposed effective date, including the support to align the effective dates of the IAASB and the IESBA revisions. She also commented that because the amendments proposed are narrow scope in nature, it is anticipated that the implementation period would be a sufficient period for practitioners to update</p>

⁸ International Standards on Quality Management

Report Back on the March 2023 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
	templates and associated internal materials and for national adoption processes to occur.
<i>Track 2 – Narrow Scope Amendments to the ISQMs and ISAs In Relation to Listed Entity and PIE</i>	
Overall Responses	
Mses. Blomme, Meng, Gamboa, Messrs. Hansen, Fritz, Ruthman, Drs. Norberg, Manabat and Cela expressed their support for amending the differential requirements that currently apply to listed entities to apply to PIEs and for replacing the definition of “listed entity” with “publicly traded entity” in the ISQMs and ISAs.	Support noted.
Adopting IESBA's Definitions of PIE and “Publicly Traded Entity” in the ISQMs and ISAs	
Messrs. Ruthman and Dalkin emphasized the importance of the proposals under Track 2 of the project for aligning the key concepts and definitions in the IAASB standards and the IESBA Code so they can continue to be applied together without confusion, given the many jurisdictions that utilize both.	Support noted.
Ms. Blomme noted that jurisdictions in the European Union have legally determined definitions for listed entity and PIE. She inquired whether these legal definitions would have precedent over those adopted in the ISQMs and ISAs.	Point noted. Ms. Almond explained that the proposals for Track 2 include adopting the entire approach to the IESBA definitions of PIE and “publicly traded entity” which recognizes more explicit definitions established by law or regulation.
Dr. Manabat commented that providing further clarifications on the applicability of the “publicly traded entity” definition could be helpful for certain jurisdictions, particularly to clarify whether entities who are inactive in terms of trading but still listed would meet the definition of “publicly traded entity”.	Point not accepted. Ms. Almond explained that IESBA's definition of “publicly traded entity” excludes entities whose financial instruments might be listed but are not intended to be traded.
Amending the Differential Requirements in the ISQMs and ISAs for Listed Entities to Apply to PIEs	
Ms. Meng and Dr. Cela expressed support for amending the scope of engagements subject to	Support noted.

Report Back on the March 2023 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
engagement quality reviews to apply to PIEs. Ms. Meng also expressed support for communicating Key Audit Matters (KAMs) for PIEs.	
Mr. Hansen inquired whether the proposals to amend the differential requirements for communicating KAMs to apply to PIEs would also apply to review engagements undertaken in accordance with the ISREs.	Point noted. Ms. Almond explained that communicating KAMs for review engagements undertaken in accordance with the ISREs is not required.
Messrs. Ishiwata and Pavas commented that it is critical to carefully consider stakeholder needs when determining the scope of the extensions of the differential requirements. They noted that this is particularly relevant when determining the scope of entities subject to communicating KAMs, given it may only be relevant to communicate KAMs for certain subsets of PIEs or larger PIEs and to allow jurisdictions flexibility when determining the entities subject to communicating KAMs.	Point noted. The PIE Task Force will further explore this matter as part of its actions contemplated under Track 2 of the project. In this respect, the PIE TF has initiated a request for information from Jurisdictional / National Standard Setters, the purpose of which is to gain further insights whether jurisdictions have extended (or anticipate extending) the applicability of the requirements in the ISQMs and ISAs that apply to listed entities to apply to PIEs. In addition, the exposure draft for Track 2 of the project will further explore this matter.
Timing of the ED for Track 2	
Mr. Ishiwata suggested that the proposals for Track 2 of the project are exposed for public comment after jurisdictions have already determined their national definitions of PIE.	Point noted. Mr. Botha noted that it is anticipated that the exposure draft for Track 2 will be presented to the Board for approval in December 2023 and the expected approval of the final pronouncement is anticipated to be in December 2024. Mr. Botha explained that subject to feedback from stakeholders, an effective date of December 2026 may be possible which would result in a two-year misalignment gap from the time of the effectiveness of the IESBA's revisions. He noted that, notwithstanding the two-year implementation gap, there would be the benefit for constituencies to have already implemented the definitions of PIE of the IESBA Code in national jurisdictions.

Appendix

Project Details and History

Project: Listed Entity and PIE

Link to IAASB Project Pages:

- [Listed entity and PIE \(Track 1\)](#)
- [Listed entity and PIE \(Track 2\)](#)

Task Force Members

- Sue Almond, IAASB Member and Task Force Chair
- Chun Wee Chiew, IAASB Member
- Fernando Ruiz Monroy, IAASB Member
- Susan Jones, IAASB Technical Advisor
- Sung-Nam Kim, IESBA Member (correspondent PIE Task Force member)

Summary

	IAASB CAG Meeting	IAASB Meeting
Information Gathering	N/A	July 2020 November 2020 July 2021 October 2021
Project proposal	March 2022	March 2022
<i>Track 1</i>		
Exposure Draft	June 2022	June 2022
Final pronouncement	March 2023	March 2023 June 2023
<i>Track 2</i>		
Exposure Draft	June 2022 March 2023	December 2022

IAASB CAG Discussions: Detailed References

Track 1

Project Proposal	<u>March 2022</u> See IAASB CAG meeting material (Agenda Item B).
Exposure Draft Development	<u>June 2022</u> See IAASB CAG meeting material (Agenda Item B).
Final pronouncement	<u>March 2023</u> See IAASB CAG meeting material (Agenda Item H).

Track 2

Project Proposal	<u>March 2022</u> See IAASB CAG meeting material (Agenda Item B).
Exposure Draft Development	<u>June 2022</u> See IAASB CAG meeting material (Agenda Item B). <u>March 2023</u> See IAASB CAG meeting material (Agenda Item H).