

**Track 2: Listed Entity and Public Interest Entity (PIE) – Question 2**

**2. Do you agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why?**

**Q02 Agree****2. Regulators and Audit Oversight Authorities****Botswana Accountancy Oversight Authority (BAOA)**

Agree, with comments below

We agree as the definition of PIE is aligned with the PIE definition in our jurisdiction.

**3. Jurisdictional and National Auditing Standard Setters****Instituto Mexicano de Contadores Públicos, A.C. (IMCP)**

Agree (with no further comments)

**5. Member Bodies and Other Professional Organizations****Botswana Institute of Chartered Accountants**

Agree (with no further comments)

**Chartered Accountants Ireland**

Agree (with no further comments)

**Federación Argentina de Consejos Profesionales de Cs. Económicas (FACPCE)**

Agree (with no further comments)

**Federation of Accounting Professions of Thailand**

Agree (with no further comments)

**Institute of Chartered Accountants of Jamaica**

Agree (with no further comments)

**Korean Institute of Certified Public Accountants (KICPA)**

Agree (with no further comments)

**Malaysian Institute of Certified Public Accountants (MICPA)**

Agree (with no further comments)

**Virginia Society of CPAs**

Agree (with no further comments)

## Q02 Agree With Comments

### 1. Monitoring Group

#### International Forum of Independent Audit Regulators (IFIAR)

##### Definitions of PIE and “Publicly Traded Entity”

We agree with extension of provisions of the ISAs to a wider range of entities through the application of the revised definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200. This meets the aim of ensuring consistency and alignment of these important concepts between the standards issued by the respective Boards. However, we note the likely persistence of differences in how individual jurisdictions define PIEs.

#### International Organization of Securities Commission (IOSCO)

With that said, with the inclusion of paragraph R400.17A1 of the IESBA Code in paragraph A29D of ISQM 1, we believe it would be beneficial for the IAASB to provide application material where a significant public interest in an entity's financial condition does not exist, but the entity is still designated as a public interest entity (similar to the factors provided in paragraph A29G of ISQM 1 in situations when the firm is making its determination on whether it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs). We agree with the proposal, notwithstanding our previous comments on the IESBA's Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, we agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200 to converge with the revised definitions in the IESBA Code.

With that said, we would like to raise an additional related matter for consideration to the IAASB as it relates to a firm's application of the PIE definition. Within the ED, ISQM 1 paragraph 18A states the following:

“The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)-(iii).”

For consistency purposes with the Code, we believe that the phrase “as well as consider” proposed in the ED should be replaced with “and shall take into account” to avoid suggesting that a firm only needs to consider but not apply the relevant local refinement when complying with paragraph 16(p)A. This comment should also be considered for the ED wording proposed in paragraph 23A of ISA 200.

##### PIE Definition

We appreciate the IESBA's considerations of IOSCO's feedback contained in the aforementioned comment letter on the definition of “publicly traded entity” in IESBA's Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest in the Code. However, we wanted to raise the following additional considerations below with respect to the IESBA Code's definition of “publicly traded entity” that we believe may likely cause divergence in the consistency of its application. These inconsistencies could potentially extend into the application of ISQM 1 and ISA 200 via direct adoption of the definitions from the Code without further modification or clarity:

We do not believe there is sufficient understanding or guidance on the term “publicly accessible market mechanism” in the ED. We acknowledge that paragraph 81 of IESBA's Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest in the Code provides additional guidance on whether this term captures trades in a secondary market, or securities issued by entities outside of a recognized exchange, however, we do not believe that parties applying the standards should be expected to refer to a

Basis of Conclusions document issued by the IESBA to obtain an understanding of how this term should be applied for assurance purposes since such parties may not be subject to the IESBA Code. We believe the IAASB should incorporate this guidance into the application material within ISQM 1 and ISA 200 to support consistent application across jurisdictions and consistent application with the IESBA Code.

We acknowledge that paragraphs 78-80 of IESBA's Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest in the Code concludes that the term "financial instruments" should not be defined, however, we believe that the IAASB should consider defining this term to avoid confusion in its application since it is a term that is generally not well understood and possibly not consistently defined and applied across jurisdictions.

As an overarching consideration from an interoperability perspective between the IAASB and IESBA standards, we believe it would be beneficial for the IAASB and IESBA to collaborate and consider the above comments and other feedback received from stakeholders about challenges experienced in adopting the definition of PIE and assess possible solutions to address such feedback. Overall Comments

#### General

We have, for many years, advocated for close coordination and collaboration between the IAASB and the International Ethics Standards Board for Accountants (IESBA)(collectively the Boards) on matters of mutual interest, and, therefore, support the objectives of this project to maintain interoperability between the IESBA's International Code of Ethics for Professional Accountants (including International Independence Standards)(the IESBA Code), the ISAs, the ISREs, and the ISQMs, following the revisions to the definitions of listed entity and PIE in the IESBA Code. We appreciate the IAASB's initiative to undertake this project which includes the important objective of achieving convergence between definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and determining the extent to which to amend the applicability of existing differential requirements for listed entities in the ISQMs, ISREs, and ISAs.

## 2. Regulators and Audit Oversight Authorities

### Financial Reporting Council – UK (FRC)

Agree, with comments below

We welcome this proposed change; the adoption of these definitions support the aim of ensuring consistency and alignment of these important concepts between the ISAs and ISQMs on the one hand, and the IESBA Code on the other. The FRC welcomes the IAASB's initiative aimed at converging definitions and key concepts between the IESBA Code and the ISQMs and ISAs; and reconsidering the applicability and scope of existing differential requirements in the auditing and assurance standards issued by the Board. We particularly welcome the increased and continuing co-ordination between the IAASB and the IESBA to support convergence on key concepts. This convergence facilitates the interoperability of pronouncements made by each board, and further supports enhancing confidence and public trust in audit and assurance.

### Independent Regulatory Board for Auditors – South Africa (IRBA)

Agree, with comments below

We support the adoption of the PIE and publicly traded entity definitions.

In South Africa, the IRBA has prescribed rules that extend some of the differential requirements in ISQM 1 to PIEs. The IRBA's Four Rules Arising from the International Standards on Quality Management can be viewed by clicking on this link.

In relation to the ISAs, our IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities (EAR Rule) (among other requirements) extends the communication of Key Audit Matters to audits of PIEs. This rule can be viewed by clicking on this link.

With the IAASB's proposed approach, we do not envisage operational challenges with our rules as the proposals are inline with our published rules. In the future, once the IAASB's proposals are published as final amendments, and are effective, the IRBA will consider alignment of the revisions with the IRBA Rules and assess the need to either withdraw or maintain the rules.

### 3. Jurisdictional and National Auditing Standard Setters

#### Australian Auditing and Assurance Standards Board (AUASB)

Agree, with comments below

The AUASB agrees with adopting the definitions of “public interest entity” (PIE) and “Publicly Traded Entity” as this supports convergence and consistency with the IESBA. However, adopting those definitions does not necessarily mean that the differential requirements should be extended to apply to PIEs, these are two mutually exclusive matters. Refer to our responses in Questions 3A and 3D for more details.

#### Canadian Auditing and Assurance Standards Board

Concern: Lack of clarity on the determination of PIEs in the context of a group audit

The ED is silent on the auditor's determination of PIE in the context of a group audit. In our view, guidance is needed on how:

When a group entity is a PIE, this would impact the auditor's determination of whether the components are PIEs; and

When a component is a PIE, this would impact the auditor's determination of whether the group is a PIE.

We note that paragraph 43 of the IAASB's Basis for Conclusions on its PIE Track 1 project referred to how the IESBA addressed whether an entity in a group audit situation was a PIE for purposes of the independence standards. However:

it may not be appropriate to presume that the IESBA's decision about whether the entity is a PIE in a group audit situation would be the same as the IAASB's decision. The considerations of whether an entity is a PIE for the purposes of the auditing standards may be different given that the purpose of the differential requirements in the ISQMs/ISAs include more than one rationale and address broader matters than auditor independence (as discussed in paragraph 16 of the EM); and

given PIEs are now defined by the ISQMs/ISAs, guidance on how this decision is made in a group audit situation needs to be included directly within the auditing standards.

Suggest:

We suggest the IAASB consider, and make the necessary revisions to its standards, to address how the definition of PIE should be applied under various group audit scenarios. Agree, with comments below

We agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200. However, in our consultations with practitioners, concerns were raised about the following:

Category (iv) of the definition of PIE might inadvertently imply that firms and auditors are responsible for looking beyond the national auditing standards (i.e., to external bodies that set laws, regulations, or other

professional requirements) to determine which additional entities qualify as PIEs for the purposes of the auditing standards.

Lack of clarity whether the IAASB intends that a firm/auditor can arrive at a different conclusion on whether to treat other entities as PIEs between the IESBA Code and ISQMs/ISAs

Concern 1: Category (iv) of the definition of PIE

We recognize the need for category (iv) in the definition of PIE to facilitate the addition of other categories of PIEs by relevant local bodies based on the facts and circumstances in a specific jurisdiction. In our view, category (iv) is intended to support national auditing standard-setters to add categories of PIEs specified in law, regulation or professional requirements at the jurisdictional level.

However, we heard during outreach that the wording may be read to imply that it is the responsibility of firms and auditors to look beyond the auditing standards (i.e., to external bodies that set laws, regulations, or other professional requirements) to determine which additional entities qualify as PIEs. This would include auditors needing to assess whether entities are designated as PIE by others for reasons unrelated to the significant public interest in the financial condition of the entities and therefore should be excluded from category iv. Firms and auditors may not have the information and insights to make such an assessment. Consequently, resulting in inconsistent practices.

Suggest:

We suggest clarifying paragraph A29F of ISQM 1 (and paragraph A81F of ISA 200) to make explicit that national auditing standards-setters are responsible for determining the types of entities to be included in category (iv) of the definition of PIE as follows:

Paragraph 16(p)A(iv) anticipates that national auditing standard setters those responsible for setting law, regulation or professional requirements may add categories of public interest entities specified in law, regulation or professional requirements to meet the purpose described in paragraph A29B, and may consider the matters in paragraph A29C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include...

Concern 2: Lack of clarity whether the IAASB intends that a firm/auditor can arrive at a different conclusion on whether to treat other entities as PIEs between the IESBA Code and ISQMs/ISAs.

In our consultations, some parties raised questions about the intention of the sentence in paragraph A29G of ISQM 1 (and paragraph A81G in ISA 200) that states:

“When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence.”

The sentence seems to suggest that how the firm/auditor treated an entity as a PIE for the purposes of applying relevant ethical requirements is only a consideration in determining whether to treat an entity as a PIE for the purposes of the auditing standards. Consequently, an auditor's decision of whether to treat other entities as PIEs for purposes of the ISQMs/ISAs may differ from the determination made for independence purposes.

In our view, it is in the public interest that when the auditor decides to treat an entity as a PIE for the purposes of applying relevant ethical requirements, that entity should ordinarily be treated as a PIE for the purposes of the ISQMs/ISAs.

Reason being, under the narrow scope amendments to ISA 700 (Revised) in the IAASB's PIE Track 1 project, if the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied, the Basis of Opinion would state "... we are independent of the Company in accordance with the [relevant ethical requirements as applicable to audits of financial statements of PIEs] ..."

Therefore, it is reasonable to presume that based on the statement in the Basis of Opinion referring to PIEs, financial statement users will also believe that the entity was treated as PIE for the purposes of the ISQMs/ISAs. However, if the auditor did not treat the entity as a PIE for the purposes of the auditing standards, the financial statement users' confidence in the entity's financial statements may be unduly enhanced, widening the expectation gap.

Suggest:

We suggest that the wording in paragraph A29G of ISQM 1 (and paragraph A81G in ISA 200) be strengthened to send a stronger message that other entities treated as a PIE for purposes of applying relevant ethical requirements should ordinarily be treated as a PIE for purposes of the ISQMs/ISAs:

"The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated aAn entity that is treated as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence, is ordinarily treated as a public interest entity for purposes of the ISQMs. In addition However, if any entity is not treated as a public interest entity for purposes of applying relevant ethical requirements, the firm may still determine that it is appropriate to treat the entity as a public interest entity for the purposes of the ISQMs. When making this determination, the firm may consider the matters set out in paragraph A29C as well as the following factors..." [Similar changes should be made to paragraph A81G of ISA 200.]

#### **Compagnie Nationale des Commissaires aux Comptes (CNCC) and Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)**

Agree, with comments below

We note that the proposed definition of PIE is not aligned with that of the EU Regulation 537/2014 on specific requirements regarding statutory audit of PIEs:

Union legislation requires that the financial statements, comprising annual financial statements or consolidated financial statements, of credit institutions, insurance undertakings, issuers of securities admitted to trading on a regulated market, payment institutions, undertakings for collective investment in transferable securities (UCITS), electronic money institutions and alternative investment funds be audited by one or more persons entitled to carry out such audits in accordance with Union law.

In addition, we also note that the definition of publicly traded entities is not aligned with the European definition which refers to "entities whose transferable securities are admitted to trading on a regulated market", when the IESBA definition refers to "entities that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism" and includes entities trading financial instruments in less regulated markets such as entities trading on second tier markets or over-the counter trading platforms.

In order to avoid the confusion for the Markets and the Public of having to reconcile the differences between the local legal definition of PIEs and the IESBA definition, we believe that there should be an overall principle stated somewhere in ISA 200 or elsewhere that the auditor can use the legal definition of PIE and

Publicly Traded Entity applicable in its country and claim compliance with the ISAs if he/she has complied with that local definition of PIE and Publicly Traded Entity, set by law or regulation.

We understand from the recent paper discussed in IESBA (Agenda item 8A, paragraph 26 and 27) that our request above is consistent with IESBA position:

Agenda Item 8A, paragraph 26: “[...] the responsibility for determining which entities or class of entities should be categorized as PIEs rests with legislators or other relevant local bodies. The IESBA therefore agreed that firms should not be required to determine if other entities should be treated as PIEs. [...]”

Agenda Item 8A, paragraph 27: “[...] for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are committed to complying with the Code, such as a member firm of the FoF) means first and foremost compliance with local laws and regulations, [...]” Nevertheless, as already mentioned in our answer to the IESBA exposure draft on PIEs, we question the feasibility of defining PIEs in a standard, considering the practical difficulties of implementation and the unintended consequences it may have. The status of PIE is usually defined by law or regulation in most countries and jurisdictions. It entails obligations for the auditor but primarily for the entity. Asking firms to treat certain entities as PIEs when they are not categorised as PIEs in the law or regulation of their country may create the wrong perception in the Public that those entities are subject to all the obligations of PIEs, especially in terms of Governance and transparency, when in fact the auditor has unilaterally decided to treat them as PIEs.

In order to avoid the confusion for the Markets and the Public of having to reconcile the differences between the local legal definition of PIEs and the IESBA definition, we believe that there should be an overall principle stated somewhere in ISA 200 or elsewhere that the auditor can use the legal definition of PIE and Publicly Traded Entity applicable in its country and claim compliance with the ISAs if he/she has complied with that local definition of PIE and Publicly Traded Entity, set by law or regulation.

### **Hong Kong Institute of Certified Public Accountants**

Overall, we support the IAASB's proposals put forth in the ED. As stated in our comment letter to the IESBA's consultation on the proposed revisions to the PIE Provisions in the Code (January 2021), our stakeholders expressed that a more converged definition of public interest entity (“PIE”) or publicly traded entity should be developed by international standard setters, which would be helpful to minimize the expectation gap on financial reporting and auditing among stakeholders. Therefore, incorporating the definitions of PIE and publicly traded entity from the IESBA Code into the IAASB's pronouncements would enhance understanding and application of these concepts in audit engagements.

### **Japanese Institute of Certified Public Accountants**

Agree, with comments below

We agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200. As these definitions have already been deliberated and undergone proper due process at the IESBA, we believe it is appropriate to adopt the same definitions in the ISQMs and ISAs.

### **New Zealand Auditing and Assurance Standards Board**

It is our understanding that the intent of the IAASB is that an entity defined as a PIE in accordance with the IAASB standards would also be defined as a PIE in accordance with the international code of ethics. We are concerned that the second sentence in paragraph A29G in ISQM 1 (and the comparable sentence in ISA



200) could be interpreted as implying that entities identified as PIEs in accordance with the IAASB standards may be different from the entities identified as PIEs under the code of ethics.

We seek clarification if it is the intent of the IAASB that all entities identified as public interest entities under the local code of ethics, are expected to be, captured as public interest entities under the local assurance standards, in adopting the IAASB proposal, given that the definition recognizes the need for local jurisdictions to tailor the definition of a public interest entity. We seek to clarify whether it is conceptually possible, and/or aligns with the IAASB's intent to align, that a local jurisdiction might tailor the public interest entity definitions differently for independence purposes and the differential requirements in the assurance standards. Agree, with comments below

We commend the IAASB for working closely with the IESBA. We are supportive of consistency of key terms and definitions between the international auditing and assurance standards and the international code of ethics.

#### **Nordic Federation of Public Accountants (NRF)**

Agree, with comments below

We strongly support an ambition to achieve as much consistency and alignment of important concepts and definitions used in the respective Boards' standards.

Having said that, this particular alignment comes with some practical challenges.

The IESBA's new PIE definition is broadly defined, and the approach expressed in the Ethics Code anticipates that relevant local bodies play a pivotal role in establishing the local PIE definition. The proposed changes will be effective for audits of financial statements for periods beginning on or after December 15, 2024.

Given the effective date of the new IESBA PIE definition, we are a bit concerned that the IAASB might assume that the IESBA PIE definition has been implemented on a national level by the time this project will enter into effect. That might not be the case, especially since the authority and public oversight of compliance with the Ethics Code versus compliance with the ISAs and the Quality Management Standards might differ both within but also between jurisdictions. In addition, there may already exist legal PIE definitions in certain jurisdictions.

We understand that the IAASB has tried to align as much as possible to the IESBA definition while at the same time describing their approach in a more condensed way. However, by taking that approach we are worried that the intentional key role the relevant local bodies have in this regard is not sufficiently evident here. To some extent the drafting implies that the users are well versed in the IESBA's underlying approach. This may be particularly problematic in jurisdictions that have not already acted in the way the IESBA anticipated.

Also, some further guidance may be necessary to clarify paragraph 16 (p) A (iv) in ISQM1 and the equivalent in ISA 200.

#### **Royal Netherlands Institute of Chartered Accountants (NBA)**

Agree, with comments below

We agree, however we are of the opinion that this should be implemented in the Code of Ethics.



## Saudi Organization for Chartered and Professional Accountants (SOCPA)

Agree, with comments below

As highlighted in the comment to the first question, SOCPA supports the efforts of both international standards boards (IAASB and IESBA) to align professional and ethical requirements since SOCPA has fully adopted the IAASB's standards and IESBA's Code. SOCPA believes that such alignment is critical to satisfy the objectives of both sets of standards (technical and ethical requirements). Since SOCPA has approved IESBA's recent project on the development of PIE and publicly traded entities definitions in the Code, it believes that proposed amendments in this project can help in enhancing the consistent application of both sets of standards.

## Wirtschaftsprüferkammer (WPK)

In the proposed new requirement 23A of ISA 200, the last sentence reads "In doing so, the auditor shall follow the firm's related policies or procedures.". This would mean that any non-compliance with the firm's policies or procedures would automatically constitute a non-compliance with ISA 200. Since it is rather unusual to include such requirement to follow the firm's procedures into an IAASB standard, we suggest to omit the last sentence. Otherwise, if this sentence was meant to be an explicit permission to consider and follow the firm's related policies or procedures, the phrase "the auditor shall follow" should be amended to the wording "the auditor shall take responsibility to follow" or "the auditor shall (or may) also consider the firm's related policies or procedures." Agree, with comments below

The WPK principally welcomes the harmonization of the definitions of PIE and "publicly traded entities" between the IESBA Code and the mentioned IAASB standards.

With regard to the interaction with national regulation, reference is made to our general comments above. Paragraph A29D in the application material to ISQM1 states that "Law, regulation or professional requirements may use terms other than "public interest entity" to describe entities in which there is a significant public interest in the financial condition (see paragraph A29B)." In this context, it does not seem to be clear what "may use terms" mean. If this relates to paragraph 16. (p)A (iv) "An entity specified by such as law ...", a clear reference to this paragraph would be helpful. Otherwise, a clarification would be required. The European Union already has a robust legal definition of PIE and links sophisticated professional and technical requirements to this definition. EU legislation refers to listed entities, but does not include companies traded on secondary markets (cf. Directive 2006/43/EC, Art. 2 (13) in conjunction with the definition of 'regulated market' in Directive 2004/39/EC Art. 4 No 1 (14)). The German Commercial Code (§§ 264d, 319a HGB) refers to "capital market-oriented companies" which do not include companies traded on secondary markets either. It is essential that the users can rely on this definition. Therefore, the final decision what constitutes a PIE must be left to supra-national or national regulation which would take precedence over the IAASB definition.

In this context, we would like to point out that the term "publicly traded entity" also covers companies traded in secondary markets. In accordance with the proposed definition of a public interest entity, "Law, regulation or professional requirements may define more explicitly the categories of entities in (i)–(iii) above". This also relates to the term "publicly traded entity". Furthermore, the proposed A29E in ISQM 1 as well as A81E of ISA 200 explicitly state that "law, regulation or professional requirements may more explicitly define these categories, by for example: Making reference to specific public markets for trading securities ...".

We interpret this in a way that such reference may also result in a restriction to specific markets which, for instance, may exclude less regulated markets like over-the-counter transactions. However, an unmistakable

clarification to this extent is needed or a clear statement that the definition of PIE can ultimately be based on national professional regulation, if available. The WPK strongly supports the IAASB's project to revise the definitions of listed entity and public interest entity (PIE) and appreciates the extensive coordination between the IAASB and the IESBA on this project in order to achieve the main objective to harmonize the definitions and concepts of listed entities and PIEs in the IESBA Code and in the IAASB standards to maintain their interoperability and to avoid any potential confusion of the users.

#### 4. Accounting Firms

##### BDO International Limited

We would like to bring the following matters to your attention in relation to the ED:

##### Examples of entities other than public interest entities

In expanding the scope of the requirements from listed entities to public interest entities, examples of entities that may have a public interest or public accountability perspective have been correctly deleted. New examples of entities other than public interest entities have however not been provided, yet the application material still directs that the requirements applicable to public interest entities may be appropriate for entities other than public interest entities. To enable consistent application of the ISAs, we suggest that the IAASB consider providing examples of such entities. This applies to the amendments in the following application material paragraphs:

##### ISA paragraph reference

##### Suggested change

##### ISQM 1. A128

Examples of entities other than public interest entities to be provided.

##### ISQM 1. A133

##### Third bullet

Examples of entities that operate in certain industries to be provided.

##### ISQM 1. A134

(Examples of conditions, events, circumstances, actions, or inactions giving rise to one or more quality risk(s) for which an engagement quality review may be an appropriate response)

Examples of financial institutions to be provided.

Examples of entities with a high public profile, or whose management or owners have a high public profile to be provided.

##### ISA 260 (Revised). A32

Examples of entities other than public interest entities to be provided.

##### ISA 700 (Revised). A40

Examples of entities other than public interest entities to be provided.

##### ISA 700 (Revised). A41

Examples of entities other than public interest entities to be provided. Similarly, it seems that the intention is for proposed paragraph A29G of ISQM 1 and A81G of ISA 200 to mirror paragraph 400.19 A1 of the IESBA Code and therefore we suggest that the language of these two paragraphs be aligned as follows:

ISQM 1.A29G. The firm may is encouraged to determine that it is appropriate whether to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the firm may consider the matters set out in paragraph A29C as well as the following factors:...

ISA 200.A81G. The auditor may is encouraged to determine that it is appropriate whether to treat other entities as public interest entities for the purposes of the ISAs. When making this determination, the auditor may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the auditor may consider the matters set out in paragraph A81C as well as the following factors:... Agree (with no further comments) ISQM 1, ISA 200 and the IESBA Code

It seems that the intention for proposed paragraph 18A of ISQM 1 and 23A of ISA 200 is to mirror paragraph R400.18 of the IESBA Code yet the word 'consider' contained in extant ISQM 1 implies a lower level of direction than the IESBA Code. We suggest that the language of these two paragraphs be aligned as follows:

ISQM 1.18A. The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider take into account more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)–(iii). (Ref: Para. A29A–A29G)

ISA 200.23A. The auditor shall treat an entity as a public interest entity in accordance with the definition in paragraph 13(l)A, as well as consider take into account more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 13(l)A(i)–(iii). In doing so, the auditor shall follow the firm's related policies or procedures. (Ref: Para. A81A–A81G)

#### **Crowe LLP**

We note the broad categories in the Proposal's definition of PIE and welcome the Proposal's explicit deference in ISQM 1, paragraph 18A, to the "more explicit definitions [of PIEs] established by law, regulation or professional requirements for the categories set out in paragraph 16A(i)–(iii)".

#### **Mazars**

Agree, with comments below

We are broadly supportive of the definitions of PIE and publicly traded entity, subject to our concerns about:

The potential consequences of the guidance included in paragraph A29D of ISQM1 (copied in paragraph 2(a)(iii) for reference).

With specific reference to the last sentence, clarification is sought, or may be required, as to who takes ownership of whether the requirements (relevant to PIEs) apply in the particular circumstances. We are not convinced that this question is adequately addressed by the proposals of the Exposure Draft. It is our conclusion that the Exposure Draft delegates a significant amount of judgment across various stakeholders and jurisdictions that are likely to inform and interpret unique decisions and conclusions about an entity's classification as a PIE. More importantly, we found it challenging to align the results of this approach with

standards or requirements that are principles-based that result in the consistent understanding and effective application of the ISAs. Needless to say, we are concerned about whether this approach serves the public interest benefit of making the IAASB's expectations clear to all users of its standards.

As also noted in our response to the equivalent Exposure Draft of the IESBA issued in January 2021, we do not support an approach which consists of a wide definition of PIE with an additional expectation that such definition should be further tailored to meet the particular needs of local jurisdictions, regulators and/or audit firms. We respectfully question the rationale of an approach that is likely to facilitate a high degree of unintended consequences, including substantial and likely scenarios of varying or inconsistent interpretations that may be based on similar data sets, facts or circumstances. Moreover, we believe this approach may be contradictory to the public interest objective to achieve convergence between the relevant definitions, including the key concepts underlying such definitions, as used in the revisions to the IESBA Code and the ISQMs and ISAs. To the contrary, we believe this may add to the confusion and may also be detrimental to the users' perception and understanding of audit engagements and reports.

Extracts from paragraph A29D in ISQM1:

Law, regulation or professional requirements may use terms other than "public interest entity" to describe entities in which there is a significant public interest in the financial condition (see paragraph A29B). The requirements in the ISQMs that are relevant to public interest entities also apply to such entities. However, if law, regulation or professional requirements designate entities as "public interest entities" for reasons unrelated to the significant public interest in the financial condition of the entities, the requirements for audits of financial statements of public interest entities in the ISQMs may not necessarily apply to such entities.

The meaning of the term "financial condition," as used in the objective and definition of PIE. Without a definition, and as the term is not used elsewhere in accounting or auditing standards, there is a possibility that interpretation of the term will differ.

The meaning of the term "taking on financial obligations to the public as part of an entity's primary business," as used in the application material to explain the extent of public interest. The meaning of the term is not clear and there is a possibility that interpretation of the term will differ.

We wish to also caution against the assertion that the enhancement of auditor independence standards is directly driving a change in auditor behavior that will result in a quality audit being performed.

Specific comments with respect to application material (these comments relate to both question 2 and question 6):

Reference:

Extract:

Comment:

ISQM1 paragraphs A29E & A29F

A29E.

The categories set out in paragraph 16(p)A(i)–(iii) are broadly defined and law, regulation or professional requirements may more explicitly define these categories, by for example:

Making reference to specific public markets for trading securities.

Making reference to the local law or regulation defining banks or insurance companies.

Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.

Setting size criteria for certain types of entities.

A29F.

Paragraph 16(p)A(iv) anticipates that those responsible for setting law, regulation or professional requirements may add categories of public interest entities to meet the purpose described in paragraph A29B, and may consider the matters in paragraph A29C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:

Pension funds.

Collective investment vehicles. Private entities with large numbers of stakeholders (other than investors).

Not-for-profit organizations or governmental entities.

Public utilities.

We question the premise or inclusion of this criteria in ISQM 1 (including the equivalent requirements in ISA 200), given it is NOT intended to drive behavior or decisions of firms or auditors. ISQM1 paragraph A29G and ISA 200 paragraph A81G

A29G and A81G:

The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the firm may consider the matters set out in paragraph A29C as well as the following factors:

...

Whether the entity has been specified as not being a public interest entity by law, regulation or professional requirements.

We question whether this bullet is required (i.e., could it be redundant?).

ISQM1 paragraph A29G and ISA 200 paragraph A81G

A29G and A81G:

The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the firm may consider the matters set out in paragraph A29C as well as the following factors:

...

The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.

We question the meaning of this bullet or guidance. What considerations would lead to these factors giving rise to a PIE? E.g., is the entity a PIE because those charged with governance are distinct from the owners or management. And if so, is this a reasonable assessment?

ISQM1 paragraph A29G and ISA 200 paragraph A81G

A29G and A81G:

The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the firm may consider the matters set out in paragraph A29C as well as the following factors:

...

Whether in similar circumstances, the firm has applied the differential requirements for public interest entities to other entities.

...

Whether in similar circumstances, a predecessor firm has applied differential requirements for public interest entities to the entity.

We suggest that these two bullets (or guidance) are consolidated, or reordered, to sequentially follow as they appear to be related points. Please see our comments in response to question 2 relating to specific application material paragraphs.

#### **RSM International Limited**

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

One of the proposed changes to ISQM 1 and ISA 200 to align to the revised IESBA Code of Ethics, is to incorporate a central list of factors 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. However, this list is not exhaustive, as indicated in paragraph 61 of the Explanatory Memorandum. We suggest the IAASB indicate that the list of factors is not exhaustive in the proposed paragraphs A29C and A29G of ISQM 1 and paragraphs A81C and A81G of ISA 200, to provide emphasis.

Proposed paragraphs A29G of ISQM 1 and A81G of ISA 200 explain that the firm or auditor may determine that it is appropriate to treat an entity as a PIE when the entity that does not meet the definition of a PIE, and those paragraphs also provide factors to consider in such determination, including whether the firm or auditor treated an entity as a PIE for purposes of applying relevant ethical and independence requirements. The factors included in these application paragraphs were based on the IESBA Code paragraph 400.24 A1.

Per paragraph 61 of the Explanatory Memorandum, the purpose of this was to drive a consistent approach when determining to treat other entities as PIEs between the IESBA Code and the ISQMs and ISAs. However, the proposed paragraphs A29G of ISQM 1 and A81G of ISA 200 indicate that the firm or auditor may consider these factors; thus given that the factors to consider in determining whether to treat an other entity as a PIE are similar, we believe it is unclear whether the firm or auditor would be required to treat an other entity that does not meet the definition of a PIE consistently for purposes of complying with the ISQMs and ISAs and for purposes of applying relevant ethical requirements, including those related to independence, in accordance with the IESBA Code. We believe it is also unclear if the auditor would need to comply with all relevant differential requirements for PIE, for an other entity that is treated as a PIE, but does not meet the definition of a PIE. We recommend that the IAASB clarify these points. In addition, if it is acceptable to treat an other entity that may not meet the definition of a PIE as a PIE for purposes of applying relevant ethical requirements and not as a PIE for purposes of the ISQMs and ISAs, or vice versa,

we believe the IAASB should consider providing examples of when this may occur. Agree, with comments below

As a member of the Forum of Firms, we committed to have policies and methodologies that conform to the International Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code of Ethics) and national codes of ethics. Accordingly, adopting the definitions of PIE and PTE into ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, and ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, will have a minimal impact on our network, since our member firms are required to comply with the IESBA Code of Ethics.

However, we acknowledge that there are jurisdictions that may use the IAASB quality management and auditing standards but have not adopted the IESBA Code of Ethics. We believe the IAASB should consider addressing these cases, as this may result in entities being considered a PIE or PTE for legal, regulatory or ethical purposes, but not being considered a PIE or PTE for quality management and auditing purposes or vice versa. We, therefore, consider that allowing national standard setters to define PIE and PTE, and not to incorporate these definitions into ISQM 1 and ISA 200, is the appropriate approach to follow. Requirements for PIEs in ISQM 1 and ISA 200

Paragraph 18A of ISQM 1 and paragraph 23A of ISA 200 state that the firm (ISQM 1) or auditor (ISA 200) shall treat an entity as a PIE in accordance with the definition in ISQM 1 and ISA 200, respectively, as well as consider more explicit definitions established by law, regulation or professional requirements. However, paragraph 23A of ISA 200 also includes the following that is not included in paragraph 18A of ISQM 1, 'in doing so, the auditor shall follow the firm's related policies and procedures.'

We believe it is unclear what is meant by 'follow the firm's policies and procedures'. In addition, we are unclear why this sentence is only included in paragraph 23A of ISA 200 and not included with paragraph 18A of ISQM 1.

## 5. Member Bodies and Other Professional Organizations

### Accountancy Europe

Agree, with comments below

We believe that the IESBA and the IAASB should align their terminologies to the extent possible. While doing this, the main objective should be to provide clarity and to avoid confusion.

The status of PIE is usually defined by law or regulation in many countries, and it usually creates additional requirements for

the entities themselves, such as the obligation to have an audit committee

the auditor, such as the obligation to issue a written report to the audit committee

for the supervisory authorities, such as the prohibition to delegate the inspection of PIE audit firms to professional organisations

Those differential requirements for auditors are relevant as long as they mirror differential requirements for the entity itself.

We also note that IESBA's PIE definition is not fully in line with the definition in the European Union (EU) legislation is as follows:



entities whose transferable securities are admitted to trading on a regulated market of any Member State  
credit institutions insurance undertakings entities designated by Member States as public-interest entities,  
for instance undertakings that are of significant public relevance because of the nature of their business,  
their size or the number of their employees

The first and second sentences of proposed paragraphs A29D of ISQM 1 and A81D of ISA 200 (Revised) appear to include a hidden requirement for firms and auditors to search for entities not named as PIEs but termed as something akin to PIEs, then stipulate that they would be subject to PIE-related requirements. Such an approach is onerous and therefore the fourth category in paragraphs 16(p)A of ISQM 1 and 13)l)A of ISA 200 should be removed. This would be in line with recent IESBA March Board issues paper, which clarifies the IESBA's position that firms should not be required to determine if other entities should be treated as PIEs and should first and foremost comply with compliance with local laws and regulations.

The third sentence in paragraph A29D of ISQM 1 implies the firm or auditor may determine that entities falling within a PIE definition in law, regulation or a professional requirement are not PIEs for the purposes of ISQM 1 or ISAs, respectively. Clarification is needed since application material should not be used to modify the scope of requirements. For example, what “to consider” means as used in the second clause in paragraphs 18A of ISQM 1 and 23A of ISA 200 in practical terms is not clear.

Therefore, in order to avoid the confusion for the markets we believe that there should be an overall principle in ISA 200 so that an auditor can use the legal definition of PIE and Publicly Traded Entity applicable in its jurisdiction.

#### **Asociación Interamericana de Contabilidad**

Yes, we agree.

We agree with IAASB that it is essential to incorporate in the standards issued by this issuer, in particular in the ISQM and the ISA, the entire approach to determining the scope of Public Interest Entities - with the same approach as contemplated in the IESBA Code, thus achieving convergence between the definitions of both issuers. Section 1-C, paragraphs 19 to 26 addresses this issue in detail.

#### **Chartered Accountants Australia and New Zealand (CA ANZ) and the Association of Chartered Certified Accountants (ACCA)**

Proposed paragraphs A29G of ISQM 1 and A81G of ISA 200 state; “When making this determination, the [firm/auditor] may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence”. This implies that some entities could be treated as PIEs under the IAASB Standards, but not under the IESBA Code, or vice versa. We do not believe this outcome would be in the public interest. Agree, with comments below

We agree with:

Adopting the term “public interest entity” (PIE), as defined in the IESBA Code, in all the IAASB Standards.

Replacing the extant defined term “listed entity” in all the IAASB Standards with a newly defined term in the IESBA Code; “publicly traded entity”.

Consistency and alignment of these important terms and definitions used in the IAASB standards and the IESBA Code would assist with common and consistent interpretation, and reduce the complexity related to the types of entities to which the differential requirements in the respective standards and code apply.

However, while we appreciate the desire to align the word choice and approach with IESBA we question the need for paragraphs 18A of ISQM 1 and 23A of ISA 200 as they seem to require the defined term to be applied. We are not aware of any other similar requirements. If the IAASB decides to keep these, the use of “as well as” seems to suggest that the definition does not cover the “more explicit definitions”. So maybe a more appropriate and less confusing connector is “including”.

#### **CPA Australia**

Agree, with comments below

CPA Australia agrees with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200.

The use of the term “public traded entity” does not, in itself, seem to create any obvious issues or problems. Our membership is generally supportive of the proposed revised definition of a PIE as set out in proposed paragraph R400.17 of the IESBA Code including the new term ‘Publicly Traded Entity’.

#### **Institute of Singapore Chartered Accountants (ISCA)**

Agree, with comments below

We agree to adopt the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200, which are aligned to the definitions under the IESBA Code. However, as individual jurisdictions are allowed to scope in additional entities as PIEs for the purposes of applying ethical requirements, entities that fall within the definition of PIE may be wider than that intended by the overarching objective of establishing the differential auditing requirements. One example is “financial institutions”, which may be defined differently under individual jurisdictions and designated as PIE under the respective Ethics Codes. However, they may not be affected by the factors listed under A29C of ISQM 1 and A81C of ISA 200, for considering the extent of public interest in the financial condition of an entity.

We have received feedback that applying the differential auditing requirements to all PIEs regardless of size and complexity may not serve the intended purpose of protecting the wider public interest. There may also be unintended consequences of high compliance costs for the entities involved but the value-add to the users of financial statements of such entities and other stakeholders may not be commensurate with the higher costs.

In this regard, we note that the application material under paragraph A29D of ISQM 1 and A81D of ISA 200 indicate that the requirements for audits of financial statements of PIEs may not necessarily apply to entities designated as “PIEs” by law, regulation or professional requirements for reasons unrelated to the significant public interest in the financial condition of the entities.

We recommend that the guidance under these application materials be included as part of the definition of PIE in paragraphs 16(p)A of ISQM 1 and 13(l)A of ISA 200. This will help provide clarity that at the jurisdictional level, entities that fall within the definition of PIE under the jurisdiction’s Ethics Codes but are not related to the significance of the public interest in the financial condition of the entity will not be subjected to the differential auditing requirements.

#### **International Federation of Accountants (IFAC)**

Harmonization of terminology with the IESBA is important, and we support consistency of definitions between the Standard Setting Boards. In our response to the IESBA PIE ED we raised this as a critical matter.

Paragraph 60 of the EM to the ED refers to the definitions of listed entity and PIE having already been exposed for public comment by the IESBA and consequently the definitions having ‘undergone a proper due process’. Whilst it is fair to acknowledge that there has been opportunity for stakeholders to comment on the definitions, it is not clear that the same stakeholders would necessarily respond to a consultation from the IESBA, or respond in the same way, as they would to a consultation from the IAASB, as the context may differ. Additionally, the explicit implications the changes in definition would later have on the IAASB standards would not have been clear at that time without the presentation of proposed revisions.

We appreciate the efforts the IESBA and the IAASB have been putting into communication and co-operation. However, in instances such as where important definitions are to be considered in future, we would support a joint approach to public comment and even closer co-ordination to ensure the opportunity for stakeholders to comment on relevant matters in parallel is maximized. Agree, with comments below

The definitions of PIEs in the ED for ISQM 1 16(p)A(iv) and ISA 200 13(l)A(iv) refer to inclusion of further entities specified as such by law, regulation or professional requirements. Whilst we support alignment with the IESBA definition, we would like to note that this means the IAASB will not have control over which entities fall within scope of a local definition and therefore cannot realistically have determined the appropriateness of the requirements. This could impact SMEs – please see our response to question 3A below accordingly.

Within the ED, proposed ISQM 1 A29D and ISA 200 A81D also note that law, regulation or professional requirements may use terms other than PIE “to describe entities in which there is a significant public interest in the financial condition.” It is not entirely clear how the auditor is required to deal with such an entity when addressed in law, regulation or professional requirements. Law and regulation may use terms such as a ‘large’ or ‘significant’ company, but these would not necessarily be defined as PIEs – does the IAASB intend the auditor to search for any such “additional” PIEs? Definitions in some regions, such as Europe, can be particularly confusing as there can be large differences in requirements based upon whether something is listed on a regulated exchange or not (e.g., in the UK FTSE listed vs AIM listed).

There is also no clarity regarding the process – if any – the auditor would be required to go through to identify such entities. It should be clarified whether the proposals envision positive action be taken to identify PIEs that are not labelled as such, or whether the reference is more related to when something is uncovered to substantively be a PIE through unrelated efforts or other work (i.e., a “become aware” approach). If there is an expectation for the auditor to go through all law, regulation and other similar guidance to identify entities that may fit the definition but are not labelled as PIEs, this would pose a significant practical challenge. Additionally, the potential treatment of this application material as if it was a mandatory requirement by regulators would also raise further difficulties and the threat of this may impact auditor behavior. We also have some further comments on the proposals and wording within the ED:

ISQM 1 A29G and ISA 200 A81G in the ED refer to instances where the firm/auditor may determine that it is appropriate to treat other entities as PIEs. It is not explicitly clear when such a decision is made whether all differential requirements in relation to PIEs would need to be followed. As a result, firms may select the differential requirements they deem to be appropriate if they have voluntarily designated entities as PIEs rather than apply the full differential requirements. It would be useful to provide explicit clarity on requirements where the firm has made this designation, as diversity in practice may otherwise result.

ISQM 18A and ISA 200 23A refer to treating entities as PIEs in accordance with the relevant definition paragraphs. They also state firms/auditors should “consider more explicit definitions established by law,

regulation or professional requirements.” The use of the word ‘consider’ in these paragraphs is not helpful, it is not clear what action should specifically be taken as there is ambiguity associated with this word.

### **Malaysian Institute of Accountants – Auditing and Assurance Standards Board (MIA)**

Agree, with comments below

The objective of establishing the revised definition of PIE in the IESBA Code was to specify a broader list of categories of entities as PIEs whose audits should be subject to additional independence requirements to meet stakeholders’ heightened expectations concerning auditor independence when an entity is a PIE. These same stakeholders would also have heightened expectations of the auditors’ conduct of the engagements and implementation of systems in quality management for these entities and these adoptions of the definitions addresses them.

We agree with the IAASB’s objective to seek consistency and alignment of important concepts and definitions used in the IESBA Code and IAASB standards. We therefore agree with the adoption of the new definitions into ISQM 1 and ISA 200, and the Glossary of Terms.

### **The Malta Institute of Accountants**

Agree, with comments below

We agree with the IAASB objective to seek consistency and alignment of important concepts and definitions used in the IESBA Code and IAASB standards. This will avoid confusion. We therefore agree with the adoption of the new definitions into ISQM 1 and ISA 200, and the Glossary of Terms.

## **Q02 Neither Agree Nor Disagree**

### **2. Regulators and Audit Oversight Authorities**

#### **Committee of European Auditing Oversight Bodies (CEAOB)**

Neither agree/disagree, but see comments below

General  
In our comment letter for IESBA, the CEAOB drew the IESBA’s attention to the need to further align its proposed revised list of PIEs with the one used in the European Union (“EU”) as well as to align the definition of PTE with that of the equivalent category set out in article 2.13 (a) of the Directive 2006/43/EC (amended by Directive 2014/56/EU) (“Audit Directive”). Appendix 1 to this comment letter presents more prominently the differences between both definitions. In particular, the EU definition in article 2.13(a) only applies to entities with a listing on a regulated market, while the proposed PTE definition is wider.

This comment is particularly relevant in relation to the proposed amendments to the ISQMs and ISAs, particularly those instances where it is proposed to apply the extant requirements for ‘listed entities’ to the new PIE definition, such as the requirement for an engagement quality review in paragraph 34(f)(i) of ISQM 1. Indeed, national standard setters in the EU, who decide to use the definition of PIEs provided by the European legislation instead of the IESBA and IAASB’s definition of PIEs, will limit the scope of PIEs, especially for the entities referred to in article 2.13 (a) of the Audit Directive, that is only those listed on a regulated market. This will have the consequence of lessening the requirements in the ISQMs and ISAs for entities with a listing on an unregulated market in those jurisdictions.

While national standard setters in the EU may choose to use the IESBA’s and IAASB’s definition of PTEs alongside the EU PIE definition in their national standards equivalent to ISQM1 and the ISAs, the PTEs that are outside the scope of the EU PIE definition, i.e. those that are not listed on a regulated market, might only

be subject to those requirements in the revised ISQM 1 and ISAs that apply to PTEs only (i.e. the differential requirements in ISA 720 (Revised)).

#### Definition of PIE

The proposed definition of PIE in paragraph 16(p)A of ISQM1 and paragraph 13(l)A of ISA 200 states that “Law, regulation or professional requirements may define more explicitly the categories of entities in (i) – (iii) above.” For avoidance of doubt and for clarity, this statement should clearly mention that in such cases the national definition of PIE is applicable.

In this context, the language used in paragraph 18A of ISQM1 and 23A of ISA 200 is unhelpful as it states that the firm shall ‘consider’ the definitions set at national level, which implies that the IAASB’s definition may take precedence and must be applied in all cases.

The last paragraph of the PIE definition in ISQM1 and ISA 200 should be cross referenced to the Application and Other Explanatory Materials A29D, E and F for ISQM1 respectively A81D, E and F for ISA 200.

The Application and Other Explanatory Materials could be set out in a more logical order. In particular, paragraphs A29D, E and F for ISQM1 and A81D, E and F for ISA 200 should be moved after paragraph A29B of ISQM1 respectively A81B of ISA 200.

In paragraph A29G of ISQM1 and A81G of ISA 200, the third bullet point should be corrected to delete the word “not” in the sentence: “Whether the entity has been specified as not being a public interest entity [...]”.

In paragraph A29G of ISQM1 and A81G of ISA 200, it is unclear how an entity’s corporate governance arrangements as set out in the penultimate bullet point may impact the consideration as to whether an entity should be treated as a PIE.

The language in paragraph A133 of ISQM1 should be amended to clarify, consistent with the PIE definition stated in paragraph 16(p)A, that law, regulation, or professional requirements may also define the PIE categories more explicitly and may add categories of PIEs.

#### Definition of PTE

The definition of PTE still mentions the term “listed entities” (“A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity”). As the definition of PTE will replace the definition of listed entities and as the latter will disappear, it seems confusing to continue using the term “listed”. The CEAOB welcomes the IAASB’s initiative to coordinate with the IESBA to achieve convergence in the concept of Public Interest Entity (hereafter “PIE”) and Publicly Traded Entity (hereafter “PTE”). As the IESBA Code of Ethics (hereafter “Code”) is used in several European jurisdictions, and as various audit firms and networks have voluntarily committed to complying with the Code, the CEAOB clearly sees an interest in enhancing such convergence.

#### General

In our comment letter for IESBA, the CEAOB drew the IESBA’s attention to the need to further align its proposed revised list of PIEs with the one used in the European Union (“EU”) as well as to align the definition of PTE with that of the equivalent category set out in article 2.13 (a) of the Directive 2006/43/EC (amended by Directive 2014/56/EU) (“Audit Directive”). Appendix 1 to this comment letter presents more prominently the differences between both definitions. In particular, the EU definition in article 2.13(a) only applies to entities with a listing on a regulated market, while the proposed PTE definition is wider.

This comment is particularly relevant in relation to the proposed amendments to the ISQMs and ISAs, particularly those instances where it is proposed to apply the extant requirements for 'listed entities' to the new PIE definition, such as the requirement for an engagement quality review in paragraph 34(f)(i) of ISQM 1. Indeed, national standard setters in the EU, who decide to use the definition of PIEs provided by the European legislation instead of the IESBA and IAASB's definition of PIEs, will limit the scope of PIEs, especially for the entities referred to in article 2.13 (a) of the Audit Directive, that is only those listed on a regulated market. This will have the consequence of lessening the requirements in the ISQMs and ISAs for entities with a listing on an unregulated market in those jurisdictions.

While national standard setters in the EU may choose to use the IESBA's and IAASB's definition of PTEs alongside the EU PIE definition in their national standards equivalent to ISQM1 and the ISAs, the PTEs that are outside the scope of the EU PIE definition, i.e. those that are not listed on a regulated market, might only be subject to those requirements in the revised ISQM 1 and ISAs that apply to PTEs only (i.e. the differential requirements in ISA 720 (Revised)).

#### Definition of PIE

The proposed definition of PIE in paragraph 16(p)A of ISQM1 and paragraph 13(l)A of ISA 200 states that "Law, regulation or professional requirements may define more explicitly the categories of entities in (i) – (iii) above." For avoidance of doubt and for clarity, this statement should clearly mention that in such cases the national definition of PIE is applicable.

In this context, the language used in paragraph 18A of ISQM1 and 23A of ISA 200 is unhelpful as it states that the firm shall 'consider' the definitions set at national level, which implies that the IAASB's definition may take precedence and must be applied in all cases.

The last paragraph of the PIE definition in ISQM1 and ISA 200 should be cross referenced to the Application and Other Explanatory Materials A29D, E and F for ISQM1 respectively A81D, E and F for ISA 200.

The Application and Other Explanatory Materials could be set out in a more logical order. In particular, paragraphs A29D, E and F for ISQM1 and A81D, E and F for ISA 200 should be moved after paragraph A29B of ISQM1 respectively A81B of ISA 200.

In paragraph A29G of ISQM1 and A81G of ISA 200, the third bullet point should be corrected to delete the word "not" in the sentence: "Whether the entity has been specified as not being a public interest entity [...]".

In paragraph A29G of ISQM1 and A81G of ISA 200, it is unclear how an entity's corporate governance arrangements as set out in the penultimate bullet point may impact the consideration as to whether an entity should be treated as a PIE.

The language in paragraph A133 of ISQM1 should be amended to clarify, consistent with the PIE definition stated in paragraph 16(p)A, that law, regulation, or professional requirements may also define the PIE categories more explicitly and may add categories of PIEs.

#### Definition of PTE

The definition of PTE still mentions the term "listed entities" ("A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity"). As the definition of PTE will replace the definition of listed entities and as the latter will disappear, it seems confusing to continue using the term "listed".

#### Examples in ISQM1

The first example mentioned in the box under paragraph A166 states “The nature of the identified deficiency: The firm’s procedures to understand the root cause(s) of an identified deficiency may be more rigorous in circumstances when an engagement report related to an audit of financial statements of a listed publicly traded entity was issued that was inappropriate or the identified deficiency relates to leadership’s actions and behaviors regarding quality.” The CEAOB believes that this also applies to PIE and the term PTE in this example should be replaced by PIE.

### 3. Jurisdictional and National Auditing Standard Setters

#### American Institute of Certified Public Accountants (AICPA)

##### Confidence in the Audit of PIEs is Increased When the Underlying Reporting is Readily Accessible

As we shared in our response to Track 1 of the PIE project, we do not believe the IAASB’s PIE-related aims will meet “heightened expectations” if the distribution of the auditor’s report is limited or not readily available to the stakeholders which the expanded PIE reporting aims to serve. For the reasons noted below, we believe it is an imperative that the IESBA and the IAASB collaborate to provide authoritative guidance regarding a firm’s compliance with the IESBA PIE transparency requirement if the IESBA does not provide an authoritative interpretation of its March 2024 decision (immediately described below). Or, if authoritative guidance is not provided for in the IESBA Code or IAASB standards then a mechanism for firms to demonstrate compliance will be necessary.

Specifically, we note that the IESBA in March 2024 stated that the auditor is deemed in compliance with paragraph R400.20 of the IESBA Code if the auditor’s report is used to publicly disclose when the relevant ethical requirements for independence have been applied for certain entities, such as those for PIEs in the IESBA Code. The IESBA believes that is still the case even if the auditor’s report has limited distribution, since those who do not have access to the auditor’s report would not be relying on the added independence requirements associated with the entity being treated as a PIE. Other IESBA members added that the “relevant” public interest stakeholder such as the regulator of the audited PIE would still receive the auditor’s report in a limited distribution situation, so those IESBA members believe the “relevant” public interest is nevertheless being served. Other IESBA members raised their support to re-evaluate this matter when the IESBA conducts a post-implementation review of its PIE revisions project during its 2024-2027 strategy and work plan period.

In recognition of these views, the IESBA agreed it was necessary to update Q19 of the IESBA staff nonauthoritative PIE Q&As to reflect the IAASB’s decision that the auditor’s report is the appropriate disclosure mechanism to be deemed in compliance with paragraph R400.20 of the IESBA Code.

We disagree with the IESBA’s rationale expressed at the IESBA’s March 2024 meeting and we further disagree with attempting to interpret the matter through staff-prepared nonauthoritative guidance. As we shared in our Track 1 response, we believe the IAASB needs to work with the IESBA to evaluate “transparency without accessibility circumstances” in the public interest and that the IESBA needs to provide suitable examples of other disclosure mechanisms available for audit firms in the IESBA Code that demonstrate compliance. By its nature, a staff prepared “Q&A” is nonauthoritative because it seeks to clarify, not interpret, a standard. Based on the IESBA’s March 2024 intent, we do not believe it is sufficient for a forthcoming update to the IESBA Q&As to interpret the IESBA’s standards by deeming compliance with paragraph R400.20 of the IESBA Code if the auditor’s report is used to publicly disclose when the relevant ethical requirements for independence have been applied for a PIE. Thus, we do not believe an update to staff prepared, nonauthoritative Q&As will sufficiently resolve whether the firm or auditor is in compliance



with paragraph R400.20 in the IESBA Code when firms and auditors are evaluated by their applicable jurisdictional audit oversight authorities.

We note that while application material is also nonauthoritative, it is nevertheless subject to a more comprehensive due process because of its position in a standard. When the IESBA recently wrote its fee-dependency PIE-related transparency requirement for firms in paragraph R410.31 A3, which also used language “in a matter deemed appropriate taking into account the timing and accessibility of the information”, the IESBA also provided in paragraph R410.31 A3 examples such as a firm website, transparency report, quality report, targeted communication, and the auditor’s report. (We also note that these examples were not written as “and/or”). A shortcoming of the IESBA’s March 2024 approach is that nonauthoritative Q&As are less likely adopted or otherwise accepted by applicable audit oversight authorities.

To reiterate our recommendation above, we believe it is an imperative that the IESBA and the IAASB collaborate to provide authoritative guidance regarding a firm’s compliance with the IESBA PIE transparency requirement if the IESBA does not provide an authoritative interpretation of its March 2024 decision (immediately described below). Or, if authoritative guidance is not provided for in the IESBA Code or IAASB standards then a mechanism for firms to demonstrate compliance will be necessary. *Defer Some Exposure Draft Decisions Pending Further Global Stakeholder Understanding*

As explained more fully in Questions 3B and 3C, we strongly encourage the IAASB to defer several of the decisions proposed in the Exposure Draft until a global baseline of stakeholders, such as users, preparers, those charged with governance, and applicable jurisdictional regulatory and oversight authorities are more fully educated and aware of the intended PIE requirements and related effects. This need may be most acute in many jurisdictions where the PIE concept is not mature or widely understood. This would be consistent with the IAASB’s 2024-2027 Strategy and Work Plan, which desires to limit fragmentation and to increase the global acceptance of IAASB standards by jurisdictional and national standard setters.

We also recommend the IAASB consider the work performed, and information gathered from the IESBA’s PIE Rollout efforts, particularly in consideration of those jurisdictions where the IESBA PIE definition is not used. Such an understanding could (1) provide the IAASB a global baseline of PIE definition, use, and application, (2) inform how long to defer certain Exposure Draft decisions, (3) inform the related effective dates, (4) inform how to assess future differential audit requirements, and (5) influence any related first-time implementation guidance.

We believe a demonstrative understanding from the IAASB about the IESBA’s PIE rollout efforts will enhance the effectiveness of any future IAASB differential audit requirements and foster a stronger global understanding of the PIE concept. Education of and cooperation with national standard setters and audit oversight regulators among national jurisdictions where the PIE concept is less developed should be a high priority stakeholder group for IAASB engagement. *Due Process for the Standard Setting Boards*

The discussion in paragraph 21 of the Explanatory Memorandum states, “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. Therefore, these changes have undergone proper due process for the Standard Setting Boards (SSBs) under the International Foundation for Ethics and Audit” (IFEA). It is unclear whether such delegation of due process for foundational content to be included in IAASB standards has occurred before. Is it allowed under the oversight of the Public Interest Oversight Board and/or governing and operating structure of the IFEA that such delegated standard setting occurs when the SSBs are addressing crossover topics?

For the reasons cited below, if the SSBs are embarking on a new model of standard setting, we ask the IAASB to provide more transparency on this change in due process, including seeking public comment, and to update its applicable due process and other applicable operating policies to reflect this change. We raise this observation because, while there are certainly some standard-setting efficiencies and synergies that can be gained by this approach, we note several instances of issues and challenges with such an approach. For example, as noted in the Explanatory Memorandum, both boards performed their work with the “heightened expectations of stakeholders” in mind, but the two boards describe those expectations differently. This is likely because the purviews of each standard setter are different and, despite some overlap, they also have different constituents served by their respective work. So, in the case of setting the definitions for Publicly Traded Entities (PTE) and PIEs, the IESBA may not have benefited from the totality of stakeholders that would normally follow and respond to the IAASB had the IAASB independently conducted information and other outreach prior to the adoption of its LE/PIE project proposal. Additionally, to the extent the IESBA leads in the gathering of information or issues a proposal for exposure that includes standard setting matters under the purview of the IAASB (as in the case of PIEs), that increases the likelihood that the IESBA could inadvertently exceed its standard setting purview and set performance requirements that should be under the IAASB’s purview. Evaluate the Cumulative Effect of Recent/Proposed Changes to the Auditor’s Report

We reiterate feedback previously shared that the IAASB should act now to demonstrate how the cumulative and combined effects of changes to the auditor’s report - regarding going concern, fraud, the recently approved PIE Track 1 reporting changes, and the proposed reporting changes in Exposure Draft - enhance the communicative value and relevance of the auditor’s report. To achieve this, we continue to urge the IAASB to develop pro forma illustrations of the auditor’s report reflecting the continuing revisions to the auditor’s report from all active projects. The value of “standing back” to see the collective effect of all proposed changes —before the various active projects are finalized or become effective — is that stakeholders will be able to comprehend the full scope of the changes in requirements of auditor reporting and have a more informed view of the auditor’s report of the future. It would also help identify any potential inconsistencies in the changes being contemplated. Overall Recommendation

We recommend the IAASB defer deliberations on the Exposure Draft until both standard setting boards can develop a joint strategy and comprehensive approach to PIEs. We believe the focus of a joint strategy should be to ensure (1) the standard setting boards have the same PIE goals, as applicable, (2) existing or proposed PIE-related requirements are in harmony with and appropriately determined under the respective purview of each board, (3) standard setting boards are fully informed about the status of the PEEC’s PIE rollout and where jurisdictional variability arises to determine the impact on current and on-going PIE standard setting, and (4) that the boards are not misaligned concerning PIEs on extant high profile public interest projects (e.g. sustainability) and future projects. Neither agree/disagree, but see comments below

As a matter of principle, we agree with aligning definitions and key concepts among the ISAs, ISQMs, and the IESBA Code because it should enhance the interoperability of standards by firms and auditors that apply them at the same time. We also agree that duplication in the ISQMs and ISAs should be minimized; to that end, we agree with the decision by the IAASB that the requirements for PIEs in paragraph 18A of ISQM 1 and paragraphs 23A of ISA 200 should be combined, given that it was not necessary to repeat the categories of entities included in the PIE definition.

We note the IAASB’s approach described in paragraph 24 of the Explanatory Memorandum to “incorporate in the ISQMs and ISAs the entire approach to scoping PIEs as contemplated in the IESBA Code” creates a strong possibility for irreconcilability with the PIE treatment set by national independence standard setters.

We note the rationale of the IESBA in paragraph 17 of the IESBA PIE Basis of Conclusion was to develop an overall framework with a “top-down list of mandatory high-level PIE categories subject to local refinement and a bottom-up list of PIE categories that could be added by the relevant local bodies to the local PIE definitions”.

Our concern is that the streamlined requirements for PIEs in paragraphs 18A of ISQM 1 and paragraphs 23A of ISA 200 to reference back to the earlier paragraphs that define PIEs, respectively (which is the almost verbatim inclusion of the IESBA PIE definition), nevertheless may cause firms and auditors to override the PIE treatment set by a national jurisdiction; thus, the differential requirements in the ISQMs and ISAs would not be appropriate in the circumstances of the jurisdiction. We offer two examples from a United States (U.S.) context that illustrates our concerns with the Exposure Draft potentially overriding the decision of a local body:

In the U.S., certain insurance operating entities are subject to the National Association of Insurance Commissioners (NAIC) Model Audit Rule (MAR). Section 7 of the NAIC MAR outlines the independence standards that are applicable to the auditor and these standards are similar to the IESBA's PIE requirements. Section 12: Accountant's Letter of Qualifications of the NAIC MAR requires a letter be included with the filing of the annual audited financial report that represents that the accountant is following the requirements of Section 7 of the NAIC MAR as well as conforms with the standards in the Code of Professional Conduct of the AICPA and the appropriate state board of accountancy, and other compliance matters. If a firm, such as a member of the Forum of Firms, includes a statement in either this letter or in its audit report that they also complied with IESBA's PIE requirements, their engagements could be viewed by the regulator (e.g., NAIC) as being different from the engagements performed by other firms who do not include such statement.

In the U.S., Section 36 of the Federal Deposit Insurance Act (FDI Act) and Part 363 of the Federal Deposit Insurance Corporation's ("FDIC") regulations impose annual audit and reporting requirements on insured depository institutions with \$500 million or more in total assets. Section 363.3(f): Independence of the FDI Act outlines the independence standards that are applicable to the auditor and these standards are similar to the IESBA's PIE requirements. Section 363.4 Filing and notice requirements requires each insured depository institution to file with each of the FDIC, the appropriate Federal banking agency, and any appropriate State bank supervisor, two copies of its Part 363 Annual Report. A Part 363 Annual Report must contain audited comparative annual financial statements, the independent public accountant's report thereon, a management report, and, if applicable, the independent public accountant's attestation report on management's assessment concerning the institution's internal control structure and procedures for financial reporting. If a firm, such as a member of the Forum of Firms, includes a statement in either this management letter or in its audit report that they also complied with IESBA's PIE requirements, their engagements could be viewed by the regulator (e.g., FDIC) as being different from the engagements performed by other firms who do not include such statement.

We are also concerned that the requirements in paragraphs 18A of ISQM 1 and paragraphs 23A of ISA 200 (which reference back to the earlier paragraphs that define PIEs using the IESBA definition) will be inoperable with the well-established obligations of those firms who are members of an international network of firms of the same name or an association of global firms, such as the Forum of Firms, that have members commit to having policies and methodologies that conform to the to the IESBA Code and national codes of ethics. Again, because of the tension between the IESBA and IAASB positions as to who are the appropriate parties to treat entities as PIEs, we anticipate that paragraphs 18A of ISQM 1 and paragraphs 23A of ISA 200 will be inoperable, particularly for firms that are members of larger networks or alliances.

To mitigate the conflict with national jurisdictions (and for those firms who are members of an international network of firms of the same name, or an association of global firms), we recommend that the “requirement” in paragraph 18A of ISQM 1 be simply for the firm to follow the applicable code of independence and ethics, law, or regulation applicable to the jurisdiction associated with the opinion expressed in the auditor’s report for the PIE. And, in turn, under paragraphs 23A of ISA 200, the auditor should then follow related firm policies.

As an alternative, we recommend that paragraph 18A be modified as follows (additions are marked as underline and deletions are shown in strikethrough): “The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A as well as consider taking into account the more explicit definitions established by law, regulation, or professional requirements for the categories set out in paragraph 16(p)A(i)-(iii).” We believe this alternative aligns with the IESBA Code and the March 2024 views of the IESBA where the IESBA expressed that firms should first and foremost comply with local laws and regulations.

#### Conforming and Consequential Amendments

In our review of the Issues Papers and other materials discussed by the IAASB in December 2022 and December 2023, we observed that the IAASB did not perform comprehensive analysis of each instance in the ISQMs and ISAs where conforming and consequential amendments were made to ensure that the changes are appropriate in the context of the original requirement or application material paragraph when such paragraphs were designed for listed entities.

We recommend such an analysis be performed prior to the finalization of the Exposure Draft to avoid inadvertently scoping in entities where the public interest in the financial condition of those entities is not significant (e.g., proposed amendments to paragraph A62 of ISA 700 (Revised)), or where the original meaning of a sentence or paragraph may no longer hold true (e.g., proposed amendments to paragraph A59 of ISA 701).

We also recommend including an analysis of where the Exposure Draft made (or where it may be necessary to make further) conforming and consequential changes to the ISQMs and ISAs for terms akin to the definitions of PIE and PTE are used, such as those cited in footnote 42 of the Project Proposal. By identifying where in the ISQMs and ISAs such terms are located, the IAASB can assess how they are applied or understood in practice by IAASB stakeholders to eliminate ambiguity and unintended consequences and support adoption and implementation actions by auditors when terms are changed. The Exposure Draft May be Inoperable with the IESBA Code

We urge that before the Exposure Draft deliberations are complete, the IAASB and International Ethics Standards Board for Accountants (IESBA) jointly develop a long-term vision and strategy for public interest entities (PIEs). We believe this is critically important because the IAASB’s objective to establish through the Exposure Draft an overarching objective for firms and auditors to treat entities as PIEs may conflict with the views raised at a meeting of the IESBA in March 2024 and what the IESBA originally intended with their PIE revisions released in April 2022. The IESBA reaffirmed in March 2024 its view that the responsible local bodies (not firms and auditors) are best placed to decide which entities or class of entities should be scoped in as PIEs, given their local knowledge, and understanding of the broader issues that affect public expectations. This foundational difference may cause the application of the Exposure Draft to be inoperable with the International Code of Ethics for Professional Accountants (IESBA Code).

## Institut der Wirtschaftsprüfer in Deutschland e.V.(IDW)

Neither agree/disagree, but see comments below

As noted in our response to Question 2, as a matter of principle, we believe that the definitions in the IESBA Code and IAASB standards should be aligned, and we recognize that the IAASB is seeking to align its approach to the definitions with that of the IESBA. However, as we also noted in this response, we do not believe that the IAASB should emulate a construct of definitions in its standards that does not work technically and that is not in line with its own drafting conventions (see our comment in our response to Part A on the difference between IAASB standards and the IESBA Code in this respect). The fact that these definitions were subject to due process for IESBA does not mean that they “pass the test” of due process for IAASB purposes, since the stakeholder groups may be different and the demands on the construction and use of definitions and requirements for quality management and audits may differ from those for ethical standards. We address the issues with the definitions in paragraph 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 together, but in turn by occurrence of the issue within the definitions. In doing so we will address those matters with which we agree and disagree.

### Public interest entity

First, we note that the phrase in the definition of a public interest entity “An entity is a public interest entity when” does not constitute a definition, but a description. The words can be simplified to represent a definition as follows: “An entity that falls within any of the following categories: ...”.

Second, we agree with the inclusion of the categories and descriptions in 16 (p)A (i) to (iii) of ISQM 1 and 13(l)A (i) to (iii) of ISA 200 because these appropriately delineate the “minimum bar” for public interest entities worldwide. In our view, the application by auditors of only local definitions that are narrower would therefore, and quite rightly, lead to the consequence of noncompliance with the standards.

Third, we are not convinced that the category in 16 (p)A (iv) and 13(l)A (iv) is needed. As we note in our response to Question 1, if local definitions are narrower than those in IAASB standards, then compliance with IAASB standards requires using the broader IAASB definition. If local definitions are broader than that in IAASB standards, then local requirements (whether law, regulation, or professional requirements) will set forth what the additional practitioner responsibilities for these additional categories are – there is no need to extend the requirements for PIEs in IAASB standards to these additional entities because they are not PIEs as defined in IAASB standards. In fact, extending the requirements in IAASB standards for PIEs to these additional entities would usurp the role of local requirements that may have been set without reference to the IESBA Code and that therefore may not have intended that the requirements in the IESBA Code and IAASB Standards for PIEs, as defined in the IESBA Code and IAASB standards, apply to such entities. We therefore believe that the fourth category ought to be deleted. As noted in our response to Question 1, this would not preclude introducing a requirement for firms to set policies and procedures for determining (for ISQM 1) and for auditors, in applying such policies and procedures, to consider (for ISA 200) whether entities not defined as PIEs by IAASB standards but defined as PIEs by local law, regulation or professional requirements (and other entities) are to be treated as PIEs under IAASB standards. The guidance in paragraphs A29C and A29G (after considering our proposed amendments to these paragraphs – see our response to Question 6) may assist auditors in such a consideration.

Fourth and most importantly, we do not understand the role of the hanging sentence (“Law, regulation or professional requirements may define more explicitly the categories of entities in (i) to (iii) above”) at the end of the definition of public interest entity. It is not a definition and appears to be application material, which implies it should not be included in the definition. In any case, we do not believe that law, regulation or

professional requirements will define more explicitly the categories in the IAASB standards – they may, however, define the categories in local law, regulation or professional requirements, but that is not relevant to the definition in the IAASB standards other than for the potential requirement we note in our immediately preceding paragraph. However, it is true that local professional requirements may seek to interpret the categories in the IAASB definition for the local jurisdiction, but that does not mean that such requirements “define them more explicitly”, which suggests some form of “deviation” from the IAASB definition that may undermine the definition, rather than requirements with interpretative character. For this reason, we suggest that this sentence be moved to the application material and be changed to read “Local professional requirements may interpret the definitions of public interest entities to determine which types of entities in the local jurisdiction fall within the categories (i)-(iii)”.

#### Publicly traded entity

We agree with the definition of publicly traded entity with the exception of the following matters.

First, reference is made to financial instruments that are “transferrable and traded”. Such instruments cannot be traded unless they are transferrable and therefore the words “and” and “transferrable” are redundant and can be deleted.

Second, the last sentence represents an example. Under drafting principle 8.1.4 of CUSP, examples should not be included in definitions. For this reason, we believe that this sentence should be moved to the application material of the definition.

We take issue with the table on page 12 of the Explanatory Memorandum, which suggests that entities trading financial instruments in less regulated markets and entities trading on second-tier markets or over-the-counter trading platforms would now be scoped into the definition of publicly traded entity but were previously scoped-out of the definition of listed entity. The current definition of listed entity in ISQM 1 (and previously in ISA 220 prior to its revision) refers to “or are marketed under the regulations of ... other equivalent body”, which has consistently been interpreted within the EU as including less regulated markets and entities trading on second-tier markets or over-the-counter trading platforms. We therefore suggest that any Basis for Conclusions or other implementation guidance issued in relation to this project correct the misperception in the Explanatory Memorandum. Requirements in Paragraphs 18A of ISQM 1 and 23A of ISA 200

In the requirements in paragraphs 18A of ISQM 1 and 23A of ISA 200, the words “as well as consider more explicit definitions established by law, regulation or professional requirements” in both requirements are ambiguous because it is not clear what “consider” means in this respect. Does this requirement mean that 1. the definitions established by law, regulation or professional requirements take precedence over (i.e., replace) the IAASB definition for the purposes of applying the standards, 2. if the definitions established by law, regulation or professional requirements are broader than the IAASB definition, then the broader definition applies, or 3. if the definitions established by law, regulation or professional requirements are narrower than the IAASB definition, then the narrower definition applies? This is an important question because users of IAASB standards need some legal and audit enforcement certainty as to what the standards require, and therefore the wording of any such requirement needs to be clear as to the relationship between the IAASB definition and local definitions. We have concluded that such a requirement would be inappropriate in any case for the following reasons.

If local definitions are narrower than those in IAASB standards, then compliance with IAASB standards requires using the broader IAASB definition, since IAASB standards need to set a minimum bar internationally to foster international harmonization. If local definitions are broader than that in IAASB

standards, then local requirements (whether law, regulation, or professional requirements) will set forth what the additional practitioner responsibilities for these additional categories are: there is no need to extend the requirements for PIEs in IAASB standards to these additional entities because they are not PIEs as defined in IAASB standards. In fact, extending the requirements for PIEs in IAASB standards to these additional entities would usurp the role of local requirements that may have been set without reference to the IESBA Code that therefore may not have intended that the requirements in the IESBA Code and IAASB Standards for PIEs, as defined in the IESBA Code and IAASB standards, apply to such entities.

For these reasons, we are convinced that the requirement “as well as consider more explicit definitions established by law, regulation or professional requirements” is not only ambiguous, but also inappropriate and therefore should be deleted. However, this would not preclude introducing a requirement for firms to set policies and procedures for determining (for ISQM 1), and auditors, in applying such policies and procedures, to consider (for ISA 200), whether entities not defined as PIEs by IAASB standards but defined as PIEs by local law, regulation or professional requirements (and other entities) are to be treated as PIEs under IAASB standards. The guidance in paragraphs A29C and A29G of ISQM 1 and ISA 200, respectively (after considering our proposed amendments to these paragraphs – see our response to Question 6), may assist auditors in such a consideration.

We refer to our response to Question 6 for the consequences of our proposals to the application material in paragraphs A29C to A29G of ISQM 1 and A81C to A81G of ISA 200.

#### Additional Comment on Paragraph 23A of ISA 200

The requirement in paragraph 23A of ISA 200 includes an additional sentence that “in doing so, the auditor shall follow the firm’s related policies and procedures”. By including a requirement to “follow the firm’s related policies and procedures”, any violation of such firm policies and procedures would also constitute a violation of the ISAs, with the attendant external sanctions for violations of standards, as opposed to lesser sanctions, if any, that may be applicable for violating firm policies and procedures. The IAASB has always been extraordinarily careful to generally not encompass firm policies and procedures as part of its requirements to avoid such consequences. The only exception to this is the requirement in paragraph 37 in ISA 220 (Revised) on the engagement team following firm policies and procedures for dealing with and resolving differences of opinion (this requirement has been carried forward from ISA 220 since the inception of ISQC 1). The other requirements in ISA 220 are phrased differently (e.g., the engagement partner taking responsibility for matters being done in accordance with firm policies and procedures). We suggest that the IAASB reconsider this requirement so as to avoid making violations of firm policies and procedures a violation of the ISAs. Given the nature and extent of substantive and technical issues that we have identified in this comment letter with the definitions and related requirements, we believe that projects at IESBA that have a direct impact on the terms and concepts, and their definitions, in IAASB standards ought to be done concurrently with a combined due process rather than separately with time lags and that both Boards need to be satisfied with the results before moving forward. We hope that the IAASB and IESBA reconsider their future cooperation in this sense at a strategic and operational level. We recognize that the public seeks additional information or comfort in relation to audits of financial statements of public interest entities beyond listed entities. This manifests itself through legislation affecting audits of financial statements of PIEs in many jurisdictions, including in the EU, which requires additional auditor communication with those charged with governance and other users, provides for more stringent requirements relating to the independence in appearance of auditors, and sets forth additional quality management requirements. We therefore support the objective of the project PIE Track 2.



As a matter of principle, we also believe that the definitions of terms and concepts used in the IESBA Code should be the same as those in IAASB Standards to the extent possible to avoid confusion and to prevent an unnecessary multiplication of such terms and concepts. We therefore support the IAASB seeking to align its definitions and requirements in IAASB standards with those in the IESBA Code. In this respect, we believe that the IAASB has done a remarkable job in seeking such alignment in this exposure draft.

However, such alignment does not take into account that the IESBA Code and IAASB standards treat departures, due to law or regulation, from requirements differently. In particular, R100.7 of the Code sets forth that law or regulation prevail when law or regulation preclude the professional accountant from complying with certain parts of the Code and 100.7 A1 clarifies that professional accountants must comply with the more stringent provisions of the Code unless prohibited by law or regulation. In other words, professional accountants can claim compliance with the Code even when law or regulation precludes the professional accountant from complying with the Code. In contrast, paragraph 18 in connection with paragraph A60 of ISA 200 and paragraph 21 in connection with paragraph A38 of ISA 210 clarify an auditor shall not represent compliance with the ISAs unless the auditor has complied with all of the ISAs relevant to the audit – regardless of the provisions in law or regulation. This is why, unlike the Code, requirements in the ISAs occasionally include the phrase “unless prohibited by law or regulation”, which then permits auditors to claim compliance with the ISAs even when law or regulation departs from the rest of that requirement. For these reasons, we do not believe that the IAASB should emulate a construct of definitions and requirements in its standards that does not work technically for IAASB standards and that is not in line with its own drafting conventions. The fact that these definitions and requirements were subject to due process through IESBA does not mean that they “pass the test” of due process for IAASB purposes, since the stakeholder groups may be different and the demands on the construction and use of definitions and requirements for quality management and audits may differ from those for ethical standards. While coordination between IESBA and the IAASB has improved greatly compared to the past, we are under the impression that there has been insufficient input by the IAASB into the development of the definitions and requirements in the IESBA Code in this respect given the expectation that the IAASB ought to “adopt” the definitions and requirements from the IESBA Code with as little change as possible. Application Material to Paragraph 18A of ISQM 1 and Paragraph 23A of ISA 200

We refer to our response to Question 1 and the consequences of that response to the requirements in paragraph 18A of ISQM 1 and paragraph 23A of ISA 200. In that response, we explain that the requirement in paragraph 18A of ISQM 1 and paragraph 23A of ISA 200 to consider more explicit definitions established by law, regulation or professional requirements could be replaced with a requirement for firms to set policies and procedures (for ISQM 1) and for auditors, in applying such policies and procedures, to consider (for ISA 200) whether entities not defined as PIEs under the IAASB definition but defined as PIEs by law, regulation or professional requirements (and other entities) are to be treated as PIEs for the purposes of the requirements for PIEs in IAASB standards. Given this view, we suggest that following changes to the “attached” application material not already addressed in our response to Question 1.

If the requirement in paragraph 18A of ISQM 1 and paragraph 23A of ISA 200 to consider more explicit definitions established by law, regulation or professional requirements is replaced with a requirement consider whether entities defined as PIEs only by law, regulation or professional requirements are to be treated as PIEs, the points listed in paragraph A29C of ISQM 1 and paragraph A81C of ISA 200 are only relevant in the context of such a consideration. Consequently, the content of this application material should be integrated into that in paragraph A29G of ISQM 1 and paragraph A81G of ISA 200 (the C paragraphs are already referenced in the G paragraphs). In addition, the second bullet in these paragraphs currently refers to regulatory supervision designed to provide confidence that all financial obligations of the entity will be

met, which would include obligations to private business partners, whereas only financial obligations to the public need mentioning. Hence the second bullet should be augmented by adding “to the public”.

While the first sentence of paragraph A29D of ISQM 1 and paragraph A81D of ISA 200, noting that law, regulation or professional requirements may use terms other than “public interest entity” to describe entities in which there is a significant public interest in the financial condition, is a statement of fact that is useful in interpreting paragraphs A29C and A81D, respectively, and should therefore be attached to that guidance. The second sentence of paragraph A29D of ISQM 1 and paragraph A81D of ISA 200 suggesting that the requirements in the ISQMs and the ISAs apply to entities that are defined as PIEs by local law, regulation and professional requirements is inappropriate as we set forth in our response to Questions 1 and 2. The sentence also suggests that entities that are PIEs in substance but not in form, are part of the definition, which they are not. We therefore recommend that the second sentence be deleted. The third sentence of paragraphs A29D and A81D is not relevant if the requirement is changed as we propose and should therefore also be deleted.

As we set forth in our response to Question 2, law, regulation or professional requirements do not “explicitly define” the categories set forth in the definitions in IAASB standards and cannot replace or alter the IAASB definitions. At most, professional requirements may seek to interpret the IAASB definition to determine which entities in the local jurisdiction fall within the categories as defined by the IAASB definition. For this reason, we believe that the introductory sentence in paragraph A29E of ISQM 1 and paragraph A81E of ISA 200 as written is inappropriate and ought to be deleted. Consideration could be given to retaining the guidance in the bullet points to these paragraphs to augment paragraph A29G and our proposed requirement to consider whether entities defined as PIEs only by law, regulation or professional requirements (and other entities) are to be treated as PIEs.

Likewise, the first sentence in paragraph A29F and A81F is not relevant and can be deleted. However, the guidance in the bullet points of these paragraphs may also be used as application material to augment paragraph A29G and our proposed requirement to consider whether entities defined as PIEs only by law, regulation or professional requirements (and other entities) are to be treated as PIEs.

Based on our proposals, the first sentence of paragraph A29G and A81G would be replaced by a requirement for firms to set policies and procedures (for ISQM 1) and for the auditor, in applying such policies and procedures, to consider whether entities defined as PIEs by law, regulation or professional requirements (and other entities) are to be treated as PIEs. In addition, the fifth bullet in the “G” paragraphs is too common to be an indicator of a PIE. Many jurisdictions have requirements – often related to labor laws – for the separation of owners or management from those charged with governance. For this reason, the fifth bullet should be deleted. General Comment

In relation to the requirements, we note that the point of setting definitions of “public interest entity” and “publicly traded entity” in paragraphs 16 (p)A and (p)B of ISQM 1 and paragraphs 13 (l)(A) and (i)B of ISA 200 is to set out the meaning of these terms when used in the requirements and application material. It is therefore not only redundant, but also misleading, to require the application of a definition in a requirement, since this can lead to confusion as to whether there are instances where the definition does not apply when these terms are used in a standard. Furthermore, such an interplay between definitions and requirements as used in the draft is not in line with how definitions, requirements and application material are supposed to function under the IAASB Clarity, Understandability, Scalability and Proportionality (CUSP) conventions – that is, under CUSP, the defined meaning applies when the term is used in the requirements or application material. While as a matter of principle, we believe that the definitions and requirements in the IESBA Code and IAASB standards should be aligned, and we recognize that the IAASB is seeking to align

its approach to the definitions and requirements with that of the IESBA, we do not believe that the IAASB should emulate a construct of definitions and requirements in its standards that does not work technically and that is not in line with its own drafting conventions (see our comment in our response to Part A on the difference between IAASB standards and the IESBA Code in this respect). The fact that these definitions and requirements were subject to due process for IESBA does not mean that they “pass the test” of due process for IAASB purposes, since the stakeholder groups may be different and the demands on the construction and use of definitions and requirements for quality management and audits may differ from those for ethical standards.

## **Q02 Disagree**

### **4. Accounting Firms**

#### **Deloitte Touche Tohmatsu Limited**

In addition, see our response to Question 2 for additional recommendations on the definition of PIE. Overall Deloitte Touche Tohmatsu Limited (DTTL) understands that the rationale for the IAASB’s project with respect to PIEs was (1) to enable the IAASB standards to remain aligned (to the extent appropriate) with changes made by the IESBA to its code in December 2021 and (2) premised on an understanding that the objective of the IESBA in making those changes was to establish a global baseline for definition of PIE to drive a level of greater consistency across jurisdictions.

We have become aware of recent IESBA discussions that clarify and further explain the intent and objective of the 2021 changes. We believe the outcome of these discussions significantly impacts the IAASB’s project on PIEs, including its proposed changes to incorporate the IESBA’s PIE definition into ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or other Assurance or Related Services Engagements, and ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing. Further, we understand that the IESBA plans to imminently issue Questions and Answers capturing the outcomes of these deliberations. As a result of these developments, we believe the IAASB should pause its PIE project, reconsider the revised objective as articulated in the IESBA’s pending guidance, coordinate with the IESBA, and evaluate whether the objective of the IAASB project is still appropriate. We also believe the IAASB should seek outreach from broader stakeholders in order to inform the way forward.

Overall, we believe it is essential that the two boards, and board staff, work in a collaborative and integrated manner, so that an understanding of project objectives, goals, and desired outcomes are well known prior to either board undertaking a project that has potential or likely implications for the other board’s standards. Throughout such projects both boards should remain apprised of, and in agreement with the “direction of travel”. Without such cohesion, we are concerned that there is a heightened risk of (1) misapplication of professional requirements by users of the standards and the code and (2) confusion by stakeholders who use audit and review reports, neither of which is in the public interest.

#### **Additional perspective**

In developing the revised PIE definition, we understand that the IESBA had an objective to establish broad categories that responsible local bodies could use as a consistent baseline which they may further refine. Q14 and Q15 of the March 2023 IESBA Staff Questions & Answers – Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (IESBA PIE Q&As), provide further clarity on the operability of the PIE definition, including an acknowledgment that local jurisdictions are best placed to decide the entities that should be scoped in as PIEs. Further, we understand that at its March 2024 meeting (and in related

meeting materials), the IESBA reaffirmed its acknowledgment of the role and authority of local bodies in establishing the definition of PIE for the purposes of independence requirements, given their local knowledge and understanding of the broader issues that impact public expectations in their jurisdictions.

In its proposal, the IAASB acknowledged the IESBA's difficulty in establishing a concise definition of PIE that could be universally adopted at the global level because of the variety of circumstances that exist across jurisdictions (paragraph 23 of the ED) as discussed above. However, the IAASB's response appears to put the role and authority for identifying PIEs in the hands of the individual accounting firm and/or partner (ISQM 1, paragraph 18A and ISA 200, proposed paragraph 23A) at an individual engagement level, versus the IESBA approach of recognizing local bodies making that determination at a jurisdiction level. This divergence between the IESBA and the IAASB creates what we believe to be unacceptable risks of inconsistent application of PIE -related requirements to similar entities in the same jurisdiction, which is not in the public interest.

As noted above, given our understanding of the recent discussions related to the IESBA's intent and objective related to its project, we strongly recommend that the IAASB table its proposal until such time as it can undertake further dialogue with the IESBA and together with the IESBA perform outreach to regulators, national standard setters and other relevant parties (e.g., local accounting bodies). This outreach would include understanding or clarifying which entities are, or will be, considered PIEs in which jurisdiction, and whether local bodies agree or have a basis for expecting that audits of PIEs should be subject to certain proposed differential requirements, such as "key audit matter" reporting, in those jurisdictions, or whether jurisdictions believe that leaving such requirements at the "listed entity" level is more appropriate.

While we recognize that the definition of PIE was exposed for public comment by the IESBA, this process did not contemplate or seek input as to the applicability of the differential requirements the IAASB now proposes imposing upon audits of PIEs (i.e., expanding the applicability of the extant standards where they apply to audits of listed entities). Disagree, with comments below

Specifically related to the definition of PIE and the resulting determination of differential requirements, we believe that the IAASB should take action similar to the IESBA, and specifically acknowledge that the local bodies in a jurisdiction that set auditing standards (such as regulators or oversight bodies, national standard setters, or professional accountancy bodies, hereafter referred to as "local bodies") determine PIEs for purposes of the ISAs. In addition, such bodies should be the ones to dictate which differential requirements in the ISAs should be applicable to the various categories of PIEs. This approach will allow for the appropriate flexibility in determining PIEs for ISAs, consistent with the approach the IESBA is taking, and the following:

The definition of PIE for ISAs to align to the definition of PIE for independence, when local bodies determine this is appropriate.

The ability of the local body to determine the applicability of differential requirements to PIEs, or to certain of the categories of PIEs.

In adopting this approach, we believe definitions of PIE will continue to vary greatly across jurisdictions around the world. Therefore, should the IAASB change the requirement from "listed entity" to PIE, significant inconsistency in practice across jurisdictions will ensue. We believe this will lead to confusion by audit and review report users and other stakeholders, particularly with respect to reporting on multinational entities.

In addition, we do not believe that the term "listed entity" should be replaced with publicly traded entity, until such time as the IAASB can address the broader issues related to the definition of PIEs (see our response

to Question 1). For example, we are not supportive of a “phased in” approach, whereby the IAASB first adopts the definition of publicly traded entity, and then subsequently addresses the remainder of the PIE definition. We believe such an approach would potentially result in local bodies reversing initial decisions around the definition of publicly traded entities (e.g., because a fulsome understanding hasn’t been obtained as to how the IESBA PIE definition impacts existing definitions of PIE used in auditing standards in a jurisdiction) and would be inefficient and confusing to stakeholders.

### **Ernst & Young Global Limited**

Staff guidance on the applicability of the requirements for listed entities in the ISAs when IESBA Code revisions become effective

We believe it is important for the IAASB to emphasize that the “listed entity” definition in the IAASB standards remains in effect until revisions to that definition from the ED-PIE are effective. Reiterating the requirements that continue to apply to audits of listed entities in the form of staff guidance would be useful for firms and auditors so that these are appropriately factored into their implementation of the IESBA Code revisions. This guidance would also be useful to educate stakeholders on the differences to expect during the transition period.

For example, for an entity that is not a PIE under the IESBA Code, but remains a listed entity under the ISAs, the auditor’s report will not include the statement required by ISA 700 paragraph 28 that the auditor is independent of the entity in accordance with the independence requirements applicable to audits of PIEs, but the auditor’s report will continue to be required to include KAMs, the name of the engagement partner and reporting on Other Information. Disagree, with comments below

Misalignment between IESBA and IAASB implementation approaches of the PIE definition

Paragraph 19 of the ED-PIE states that respondents to relevant IAASB matters addressed in the IESBA PIE Exposure Draft 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. This intended alignment was the basis for our initial support for this initiative, however, we are now concerned whether this alignment really can, or should be pursued further, due to the IESBA’s recent clarifications regarding the intended implementation of the IESBA definition of PIE.

At its 20 March 2024 plenary session, IESBA further discussed and confirmed the implementation of its Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (IESBA Code Revisions). IESBA confirmed agreement with both the conclusion in the IESBA staff issued Staff Questions and Answers; March 2023 – Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (IESBA FAQs) and Agenda Item 8-A PIE Rollout Issues and Working Group Views prepared for the March 2024 IESBA meeting (IESBA Agenda Item 8-A). This included confirming IESBA’s intent to depart from its normal practice of promulgating the precise definitional boundaries in the Code and instead allowing the relevant local bodies to, more precisely, define which entities should be included as PIEs.

In addition, IESBA Agenda Item 8-A clearly states in paragraph 27 “that, for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are committed to complying with the Code, such as a member firm of the Forum of Firms) means first and foremost compliance with local laws and regulations, whatever they may be at the time of the audit report” (emphasis added). Paragraph 32 of that same paper clearly states that this conclusion applies even when the local body is still undergoing or has not yet initiated the process of adoption and implementation of the IESBA

Code Revisions. It is our understating that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

This recent clarification (and impending FAQ) that firms should apply the local definition of PIE, regardless of whether it contains all the categories of PIEs within the IESBA definition, to comply with the IESBA Code appears to be a more significant departure from normal practice than the IAASB understood during its development of the ED-PIE. This departure raises concerns as it may result in differences in the application and implementation of the IESBA Code Revisions and the ED-PIE because the IAASB has not expressed the same intent to significantly depart from its normal practice of establishing a baseline definition.

Instead, the proposed requirement in ISQM 1 paragraph 18A implies that the firm shall treat an entity as a PIE in accordance with the definition in paragraph 16(p)A as well as more explicit definitions established by law, regulation and professional requirements. The construction of the requirement using “as well as” in the ISQM 1 definition seems to be implying that, first and foremost, the firm is required to treat anything that falls in the categories of the PIE definition as a PIE (which is the opposite of the IESBA conclusion in IESBA Agenda Item 8-A that compliance with the IESBA Code by firms means first and foremost compliance with local laws and regulations).

Based on the way the definition is drafted in the ED-PIE, we do not believe it was the intent of the IAASB for the definition of PIE in the jurisdiction to fully take precedence over the baseline definition in the IAASB standards. We read the IAASB’s ED-PIE as having the intention that the PIE definition as proposed would be the baseline expected to be enforced by auditors, even when local bodies have not adopted the PIE definitions into local law or regulation, which is inconsistent with the implementation of the definition in the IESBA Code Revisions.

We believe the IAASB did intend that when a jurisdiction has refined the categories in the PIE definition, the auditor would be able to apply the refinements. However, it is not clear what the IAASB’s intentions are when a jurisdiction decides to not include one of the categories in its definition. We have the understanding that the IAASB intended for the auditor to also apply the differential requirements in its standards to entities in the missing category, which is also inconsistent with the implementation of the definition in the IESBA Code Revisions.

Unsupportive of the adoption of the definition of PIE at this time

The recent clarification of the implementation approach adopted by IESBA highlights the challenges that exist in setting a global definition of PIE that is dependent upon jurisdictions to adopt and/or refine a definition. We strongly agree that the jurisdictions are best placed to determine the PIE definition; however, many jurisdictions have not taken action or actions being taken will not be effective by the IESBA revisions effective date of 15 December 2024. We, therefore, question the viability of the IAASB aligning with IESBA’s clarified implementation approach that the auditor apply the definition of PIE that is in effect at the jurisdiction level. This would be a significant departure from the IAASB’s normal practice of setting global baselines and we believe this approach needs to be further evaluated by the IAASB to determine the consequences for its standards.

On balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the IESBA implementation approach, conduct its own outreach to jurisdictions to understand the consequences of applying local PIE definitions in the context of the IAASB standards and determine the appropriate approach for the IAASB standards (refer to our suggestions for potential path forward below).

We believe that either approach to implementing the PIE definition (i.e., either as a global baseline or by following the definition of the jurisdiction) has potential unintended consequences. The following are specific consequences that we believe the IAASB should specifically include in its further evaluation:

The consequences of inaction by jurisdictions: It is our understanding that the IAASB is purposely seeking consistency with IESBA. IESBA's approach is premised on jurisdictions adopting and/or refining IESBA's PIE definition. However, IESBA indicated, as shown on Slide 3 presented as part of the 20 March 2024 IESBA plenary session discussing the PIE Rollout, that responses to the IESBA Adoption and Implementation Questionnaire were such that 36% of IFAC member organizations responding (professional accountancy organizations) did not report any adoption progress, 48% reported that adoption was under discussion, while only 16% of respondents reported that revisions to the local definition of PIE will be adopted. The IAASB should evaluate the effects on its approach of actions taken or not taken by the jurisdictions.

Unintended consequences – scope in too many entities: We believe that the extension of the requirements to PIEs as proposed in the ED-PIE as a global baseline would be beneficial only if the individual jurisdictions consider the facts and circumstances in their jurisdiction and appropriately refine the definition of PIEs with specific consideration to those entities for which the differential requirements in the IAASB standards should apply. If jurisdictions do not refine this definition in the context of the effects of the increased requirements in the IAASB standards, there may be unintended consequences due to firms and auditors being required to apply the extended requirements (e.g., performing EQRs and reporting KAMs) to entities for which the increased audit cost may outweigh the benefits of the incremental procedures.

Our concerns relate to categories (ii) and (iii) in the PIE definition for banks and insurance companies as the nature of these entities is such that, when not refined by the jurisdiction, could have the effect of being wide-reaching in some jurisdictions, resulting in auditors being put in a position of treating many of these entities as PIEs (when they may not in fact have "significant public interest"). There are also circumstances when the definition of public interest entity in local law or regulation includes other entities below the threshold of those "in which there is significant public interest".

We suggest that the IAASB engage with national standard setters, through evaluating their responses to this ED-PIE and by engaging in follow-up outreach, to understand the extent to which local PIE definitions are appropriate to meet the IAASB's objective of the proposed differential requirements.

Unintended consequences – current IAASB "listed entity" requirements do not apply to any entities in a jurisdiction: If the IESBA implementation approach is followed, and jurisdictions have no definition of PIE in law or regulation, there is the unintended consequence that any requirements in the IAASB standards that only apply to PIEs would not be applied in the jurisdiction. This means that auditors would no longer be required to apply the current "listed entity" requirements in the IAASB standards to any entities in the jurisdiction, even those that are publicly traded entities, which is definitely not in the public interest. We acknowledge that ISQM 1 paragraph A29G and ISA 200 paragraph A81G of the ED-PIE allow the firm or the auditor to determine whether it is appropriate to treat other entities as public interest entities; however, we don't believe reliance on this application material is enough to compensate for omissions in the jurisdiction's definition of PIE. We believe the current requirements in the IAASB standards for "listed entities" should continue to be applied to audits of publicly traded entities (at a minimum).

Consequences to the inter-operability of the IESBA Code and the IAASB standards: If the IAASB takes a different approach to implementation of the PIE definition than IESBA, there will be inconsistent treatment of many entities as PIEs for independence versus audit purposes. For firms, it will be very challenging to



operationalize what is intended to be the same definition for both IESBA and IAASB standards using different requirements and implementation models. We also believe that the result of two different implementation approaches will create inconsistencies and possible confusion for stakeholders, including those charged with governance and other users of the auditor's report. If the PIE-ED is issued as exposed (i.e., with the PIE definition as a global baseline), issues such as the following will arise from the lack of inter-operability between the IESBA Code and the IAASB standards:

If an entity is determined to be a PIE for only audit purposes, independence communications to those charged with governance in accordance with ISA 260 would not be converged with communications required by the IESBA Code. As a result, the required statement in the auditor's report that the auditor communicates "all relationships and other matters that may reasonably thought to bear on the auditor's independence" may be misleading because the auditor may not fulfill the communication requirements in the IESBA Code that apply to PIEs (refer to our response to Q3B).

Inconsistencies in the auditor's report between the independence statement required for PIEs under the IESBA Code and other disclosures in the auditor's report that are required for PIEs under the ISAs (e.g., Key Audit Matters).

Under the IAASB standards, engagement quality reviews would be required for audits of PIEs as defined by the IAASB standards, but under the IESBA Code, the requirements related to rotation of engagement quality reviewers would only apply to audits of PIEs as defined by the IESBA Code (refer to our response to Q3A).

Consequences for future differential requirements in the IAASB standards: Our view is also forward-looking, meaning that we are not just thinking about the requirements that the IAASB is proposing to elevate in the ED-PIE to PIEs, but we expect that the differential requirements in the IAASB standards that apply to PIEs will grow over time. It is important that this ED-PIE sets the appropriate baseline that the IAASB uses in its future standard-setting efforts (e.g., Proposed ISA 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements, already proposes expanding the proposed reporting requirements to PIEs).

Unsupportive of the adoption of the definition of "publicly traded entity" at this timeWe do support the concept of converging with the IESBA Code's definition of "publicly traded entity", replacing the existing definition of "listed entity", as we believe the proposed definition of "publicly traded entity" is capable of consistent implementation by auditors and can result in consistent implementation across jurisdictions (regardless of the actions in the jurisdiction). We believe it continues to be in the public interest to have differential requirements in the IAASB standards for audits of listed (or publicly traded entities) at a minimum. However, because the definition of publicly traded entities is integral to the definition of PIE, we believe that any decisions to adopt the definition should not be made until the IAASB determines its direction for the PIE definition based on the challenges we outline above. We do not believe it would be appropriate for the IAASB to take a staged approach to revising the applicability of its differential requirements (e.g., by proceeding with implementation of changing applicability of the requirements from "listed entities" to "publicly traded entities" in the near term and then implementing a further change to "PIEs" after further outreach and evaluation).

Suggestions for potential path forward for the IAASB

Although we believe alignment is important between the IESBA Code and IAASB standards, we do not believe that the IESBA implementation approach is necessarily the right one for the ED-PIE for the reasons explained above. As an immediate next step, it is important for the IAASB to publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its point of view about the recent

clarification of the IESBA implementation approach on the implementation approach for ED-PIE (refer to our response to Q6).

To move this project forward, we believe the IAASB needs to revisit the overarching objective of setting differential requirements in its standards for entities of significant public interest and further evaluate the criteria under which such differential requirements would be expected to apply, which we expect would include publicly traded entities at a minimum. Consistent with the view of IESBA, we continue to believe it is the jurisdictions and the national standard setters that are best placed to define PIEs. However, there may be cases when entities that may meet the strict definition of PIE in the jurisdiction do not meet the objectives of the differential requirements in the IAASB standards, in which case further clarifications may be needed by national standard setters.

Overall, it may not be feasible for the IAASB to determine, and for auditors to apply, a global baseline definition of PIE. A different approach or framework may need to be taken to provide a basis for setting differential requirements to meet “the heightened expectations of stakeholders regarding the audit engagement” for entities in which there is “significant public interest”.

We believe the IAASB should more formally engage with national standard setters to discuss their views about locally extending the applicability of the existing differential IAASB requirements to entities for which the national standard setter believes have significant public interest in the context of their jurisdiction. We believe that having the national standard setters leading these decisions is consistent with IESBA's and IAASB's belief 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 overarching objective.

Whatever path forward is taken, it remains very important for the IAASB standards and the IESBA Code to be inter-operable by firms – and in a practical manner. In addition, the effects on the auditor's report of any differences between the treatment of entities for audit versus independence purposes should be specifically considered to avoid any expectation gap about the audit or the independence requirements applied. Communication of the effects of the IESBA implementation approach on the ED-PIE

As explained in our response to Q2, the IESBA confirmed that compliance with the IESBA Code by firms means first and foremost compliance with local laws and regulations, whatever they may be at the time of the audit report. It is also our understanding that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

We strongly suggest that the IAASB publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its views on the effects of the confirmed IESBA implementation approach on the ED-PIE and the IAASB's intended next steps. It would be helpful for the IAASB to explain to its stakeholders, and the respondents to the ED-PIE, the differences between the implementation of the IESBA and IAASB standards and the implications for entities and their auditors, as well as for users of the auditor's report. Unsupportive of the adoption of the definition of PIE at this time

The recent clarification of the implementation approach adopted by IESBA highlights the challenges that exist in setting a global definition of PIE that is dependent upon jurisdictions to adopt and/or refine a definition. We strongly agree that the jurisdictions are best placed to determine the PIE definition; however, many jurisdictions have not taken action or actions being taken will not be effective by the IESBA revisions effective date of 15 December 2024. We, therefore, question the viability of the IAASB aligning with IESBA's clarified implementation approach that the auditor apply the definition of PIE that is in effect at the jurisdiction level. This would be a significant departure from the IAASB's normal practice of setting global

baselines and we believe this approach needs to be further evaluated by the IAASB to determine the consequences for its standards (refer to our response to Q2 for our views on likely unintended consequences).

On balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the IESBA implementation approach, conduct its own outreach to jurisdictions to understand the consequences of applying local PIE definitions in the context of the IAASB standards and determine the appropriate approach for the IAASB standards (refer to our suggestions for potential path forward in our response to Q2).

Unsupportive of the adoption of the definition of “publicly traded entity” at this time

We do support the concept of converging with the IESBA Code's definition of “publicly traded entity”, replacing the existing definition of “listed entity”, as we believe the proposed definition of “publicly traded entity” is capable of consistent implementation by auditors and can result in consistent implementation across jurisdictions (regardless of the actions in the jurisdiction). However, because the definition of publicly traded entities is integral to the definition of PIE, we believe that any decisions to adopt the definition should not be made until the IAASB determines its direction for the PIE definition based on the challenges we outline above and in our response to Q2. As stated in our response to Q2, on balance, we do not believe the IAASB should proceed at this time with the definition of PIE as currently proposed in the ED-PIE and instead should further reflect on the recent clarification of the IESBA implementation approach, including the challenges it presents to the ED-PIE, to determine the appropriate approach for the IAASB standards. As explained in our response to Q6, we strongly suggest that the IAASB publicly communicate (concurrently with the IESBA's issuance of its new FAQ, if possible) its views on the effects of the confirmed IESBA implementation approach on the ED-PIE and the IAASB's intended next steps. It would be helpful for the IAASB to explain to its stakeholders, and the respondents to the ED-PIE, the differences between the implementation of the IESBA and IAASB standards and the implications for entities and their auditors, as well as for users of the auditor's report. Auditing and Assurance Standard Board (IAASB).

Paragraph 19 of the ED-PIE states that respondents to relevant IAASB matters addressed in the International Ethics Standards Board for Accountants (IESBA) PIE Exposure Draft 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. This intended alignment was the basis for our initial support for this initiative; however, we are now concerned whether this alignment really can, or should be pursued further, due to the IESBA's recent clarifications regarding the intended implementation of the IESBA definition of PIE.

At its 20 March 2024 plenary session, IESBA further discussed and confirmed the implementation of its Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (IESBA Code Revisions). IESBA confirmed agreement with both the conclusion in the IESBA staff issued Staff Questions and Answers; March 2023 – Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (IESBA FAQs)) and Agenda Item 8-A PIE Rollout Issues and Working Group Views prepared for the March 2024 IESBA meeting (IESBA Agenda Item 8-A). This included confirming IESBA's intent to depart from its normal practice of promulgating the precise definitional boundaries in the Code and instead allowing the relevant local bodies to more precisely define which entities should be included as PIEs.

In addition, IESBA Agenda Item 8-A clearly states in paragraph 27, “that, for this specific project, compliance with the IESBA Code by firms (any firm, including those in an association of firms that are committed to complying with the Code, such as a member firm of the Forum of Firms) means first and foremost

compliance with local laws and regulations, whatever they may be at the time of the audit report” (emphasis added). Paragraph 32 of that same paper clearly states that this conclusion applies even when the local body is still undergoing or has not yet initiated the process of adoption and implementation of the IESBA Code Revisions. It is our understating that as a result of the 20 March plenary session, IESBA intends to further communicate this by issuing a new FAQ.

This recent clarification (and impending FAQ) that firms should apply the local definition of PIE, regardless of whether it contains all the categories of PIEs within the IESBA definition, to comply with the IESBA Code appears to be a more significant departure from normal practice than the IAASB understood during its development of the ED-PIE. This departure raises concerns as it may result in differences in the application and implementation of the IESBA Code Revisions and the ED-PIE because the IAASB has not expressed the same intent to significantly depart from its normal practice of establishing a baseline definition.

Instead, the proposed requirement in ISQM 1 paragraph 18A implies that the firm shall treat an entity as a PIE in accordance with the definition in paragraph 16(p)A as well as more explicit definitions established by law, regulation and professional requirements.

Based on the way the definition is drafted in the ED-PIE, we do not believe it was the intent of the IAASB for the definition of PIE in the jurisdiction to fully take precedence over the baseline definition in the IAASB standards. We read the IAASB’s ED-PIE as having the intention that the PIE definition as proposed would be the baseline expected to be enforced by auditors, even when local bodies have not adopted the PIE definitions into local law or regulation, which is inconsistent with the implementation of the definition in the IESBA Code Revisions.

#### **Grand Thornton International Limited**

Comments related to due process:

We do not believe the IAASB’s Listed Entity and PIE Track 2 project has achieved the project objectives described in paragraph 6 of the Exposure Memorandum. The proposed definition of PIE does not consider guidance issued by IESBA that there will be jurisdictional differences in the adoption of the IESBA code, including jurisdictions that do not have the notion of PIEs or have different definitions of PIEs. We believe that the IAASB is responsible for establishing framework neutral, principles-based auditing, quality management, and other assurance and related services standards and that it is not in the IAASB’s jurisdiction to create a global baseline to define PIE. Further, a cost-benefit analysis is necessary to evaluate the impact in those jurisdictions that do not have the notion of PIEs in their relevant ethical requirements or have a different definition of PIEs in their relevant ethical and independence standards. Finally, the IAASB has not provided sufficient evidence to demonstrate a causal relationship between disclosing the name of the engagement partner and enhancing stakeholders’ confidence regarding the financial statement audit of the PIE.

We do not believe coordination with IESBA during exposure draft development was sufficiently robust, as the issues discussed at IESBA’s March 2024 meeting related to PIEs should have been resolved at the board level and appropriate revisions made to the proposed definitions prior to the IAASB board approving the Listed Entity and PIE Track 2 project for exposure.

As of the date of this response, which is the final day of the comment period, IESBA has not issued clarified guidance related to group audit engagements that will impact firms performing global audits (that is, firms that are members of the forum of firms). As such, we believe that the public should be permitted to submit further responses to the IAASB’s Listed Entity and PIE Track 2 project. We suggest re-opening the comment

period for a three-week period after IESBA's clarified guidance is published, as there may be additional matters the IAASB might need to consider in finalizing the proposal.

We believe the IAASB will receive comment letters at both ends of the spectrum expressing strong support for, or strong disagreement with, proposed narrow scope amendments. The jurisdictional differences noted in our letter and issues identified by others need to be fully understood to determine if the proposed amendments are able to be operationalized and implemented consistently. We believe it will be important to the public interest for the IAASB to grasp the feedback from different stakeholders and carefully consider those perspectives as part of the due process in deliberating revisions to the narrow scope amendments proposed in the ED versus focusing on the number of stakeholders that agree versus disagree with the proposed narrow scope amendments.

As noted in Question 2, we believe the definitions of PIE and “publicly traded entity” would need to be adopted at the same time for practitioners to adopt extended differential requirements. However, we do not agree with the IAASB's current proposal to adopt IESBA's revised definition of PIE into ISQM 1 and ISA 200. We believe that this project requires further deliberation and reflection by the Board, particularly with respect to considering broader jurisdictional differences in relevant ethical requirements as well as the need for a cost-benefit analysis. Refer to the remaining questions for more specific comments and suggested revisions. Disagree, with comments below

We believe the ISQMs and ISAs should adopt three separate definitions related to entities with a heightened public interest:

Listed entity – We believe it is appropriate to retain the extant definition of listed entity, as listed entities have clear requirements related to annual reports. Refer to our response to Questions 3D, 4, and 6.

Publicly traded entity – We believe it is appropriate to adopt the definition of publicly traded entity as proposed in the Listed Entity and PIE Track 2 ED. Refer to our response to Question 3A.

Public interest entity – We believe the definition of PIE as proposed in the Listed Entity and PIE Track 2 ED is not appropriate or operational. We believe the definition of PIE should be based solely on the definition in relevant ethical requirements, including those related to independence, that apply to the audit or other assurance engagement, as further described below. Refer to our response to Question 6.

While we agree with the definition of “publicly traded entity,” we believe that the definitions of “publicly traded entity” and PIE need to be adopted at the same time in order for practitioners to adopt extended differential requirements in a consistent manner and to avoid potential confusion by the wide range of users and other stakeholders.

Concerns with the definition of PIE as proposed in the Listed Entity and PIE Track 2 ED

First, it is unrealistic that the IAASB's Listed Entity and PIE Track 2 project as exposed for comment will meet its objective to achieve, to the greatest extent possible, convergence between definitions and key concepts in the IESBA Code and the ISQMs and ISAs to maintain interoperability. Adopting the IESBA Code's definition of PIE into ISQM 1 and ISA 200 to achieve maximum convergence contradicts the IAASB's overall directive to draft framework neutral, principles-based auditing, quality management, and other assurance and related services standards and incorrectly assumes that all jurisdictions have or will adopt the IESBA Code with no modifications. In jurisdictions that either do not adopt the IESBA Code or adopt the IESBA Code with modifications, the IAASB's proposal will inevitably cause confusion about whether an entity is a PIE and a significant education effort will be required to explain to entities why there are inconsistencies between the treatment of the entity as a PIE under the relevant ethical and independence

requirements and the underlying auditing or other assurance standards with which the engagement is being performed. The proposed changes will require the auditor to do more audit work to support the report for a PIE as defined by ISQM 1 and ISA 200 even though the independence standards do not recognize the entity as a PIE.

For example, the proposed definition of PIE will be an issue in Canada, which adopted the ISAs with relatively minor localization but has not adopted the IESBA Code; instead, each province has adopted its own independence and ethical standards. The Canadian provincial ethical and independence standards currently do not contain a definition of PIE, and the definition of reporting issuers or listed entities (which are defined as public companies) explicitly excludes entities traded on certain exchanges that are deemed to not have a significant public interest. Even if each province separately determines it is in the public interest to adopt the IESBA definition of PIE with refinement as necessary, it is not realistic that the provinces will be able to complete their due process to adopt the notion of PIE before the differential requirements in ISQM and the ISAs become effective. Issues could arise in Canada and other jurisdictions for practitioners performing audits of non-listed entities that meet one of the IAASB's mandatory PIE categories as proposed in the ED, because conducting an audit under the jurisdiction's professional standards may lead to non-compliance with the ISAs.

The IESBA Board meeting on March 20, 2024 addressed this matter, and their public meeting papers reaffirm their view that “the responsible local bodies are best placed to decide which entities or class of entities should be scoped in as PIEs given their local knowledge and understanding of the broader issues that impact public expectations [and] recognized that it is ultimately the role of local bodies to refine these categories so that the right entities are scoped in as PIEs” (Agenda Item 8A – PIE Issues and WG Views, March 18-20, 2024 Meeting).

Second, in March 2024, IESBA issued public meeting papers for the March 20, 2024 Board meeting reaffirming their view that “the responsibility for determining which entities or class of entities should be categorized as PIEs rests with legislators or other relevant local bodies [and] therefore agreed that firms should not be required to determine if other entities should be treated as PIEs” (from Agenda Item 8A – PIE Issues and WG Views, March 18-20, 2024 Meeting). As such, we believe the proposed requirements within ISQM 1 and ISA 200 for the firm to identify PIEs is not appropriate and should be deleted.

Third, we did not see discussion of a cost-benefit analysis in this exposure draft. As the IAASB's Listed Entity and PIE Track 2 project goes beyond operationalizing the IESBA changes (which do not drive audit or assurance related requirements), a cost-benefit analysis is necessary to evaluate the impact in those jurisdictions that do not have the notion of PIEs in their relevant ethical requirements or have a different definition of PIEs in their relevant ethical standards. The IAASB has not demonstrated that the benefits of extending the proposed requirements to PIEs within its standards outweigh the costs.

Fourth, certain concepts from the IESBA Code were moved to application material in the Listed Entity and PIE Track 2 ED. We believe this is likely to result in an unintended consequence that regulators will infer that the IAASB is setting a definition of PIE and further expect that all examples listed in the ISQM and ISA application material (e.g., those categories listed in ISQM 1, paragraph A29F) are PIEs simply because they are listed in the application material. This unintended consequence could be applied to other paragraphs in the application material. Further, we observed that many PIE examples in the application material relate to pensions. If the IAASB moves forward with including the definition of PIE in the auditing standards as proposed in the ED, which we ultimately do not support, we suggest that the IAASB review the PIE examples used in the application material and revise certain examples to reflect a broader range of PIEs to

avoid setting the expectation that pensions are always PIEs as that is not consistent across local jurisdictions' ethical requirements.

Suggested revisions to the proposed definitions of PIE:

In the suggested text below, language to delete is shown in strikethrough and new language to add is shown in bold and italic.

ISQM 16(p)A and ISA 200 13(l)A

Public interest entity – An entity is a public interest entity as defined in the relevant ethical requirements. when it falls within any of the following categories

A publicly traded entity;

An entity one of whose main functions is to take deposits from the public;

An entity one of whose main functions is to provide insurance to the public; or

An entity specified as such by law, regulation, or professional requirements related to the significance of the public interest in the financial condition of the entity.

Law, regulation or professional requirements may define more explicitly the categories of entities in (i) – (iii) above.

ISQM paragraphs 18A, A29G and ISA 200 paragraphs 23A, A81G

These paragraphs should be deleted to achieve the greatest convergence with the IESBA Code, as the IESBA Board is of the view that firms should not be required to determine if other entities should be treated as PIEs.

Conforming edits

Various paragraphs in ISQM 1 and the ISAs require revision to conform to the revised definitions of PIE suggested above. We also suggest adding new application material in ISQM 1 and ISA 200 to indicate that law, regulation, or relevant ethical requirements may use terms other than “publicly traded entity” to describe entities in which there is a significant public interest in the financial condition and that the requirements in the ISQMs and ISAs that are relevant to “publicly traded entity” also apply to such entities. We noticed other references to “listed entity” in the Handbook of International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements that were not addressed in this ED. We believe these references should be evaluated and revised, as appropriate, to drive consistency across the IAASB’s suite of standards:

ISA 600 (Revised)

ISA for LCE

ISRS 4410

A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality.

**KPMG International Limited**

Overall recommendation to limit the scope of the project at the current time

In responding to the proposals set out in the Exposure Draft (ED) regarding the definition and concept of a public interest entity (“PIE”), we highlight that paragraph 29 of the Explanatory Memorandum accompanying

the proposals states that in the past “the IAASB decided not to expand the differential requirements beyond listed entities in the ISQMs and ISAs in previous 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, and the unintended consequences of the requirements applying to similar entities 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.”

Our major concern is that we do not believe a global baseline for the definition of a PIE will be established for the reasons we explain further below. As we believe this is fundamentally important to achieve consistency on a global basis, in particular, consistency in terms of the application of the differential requirements in respect of enhanced communication and transparency to the audits of such entities, we do not, at the current time, support adopting the definition of a PIE (please refer to Question 2), establishing the overarching objective and purpose for establishing differential requirements for PIEs, or extending the differential requirements beyond listed entities (please refer to Question 3). Instead, we recommend that the IAASB limit the scope of this project to address only the adoption of the proposed new definition for ‘publicly traded entity’ and the proposed amendments to ISRE 2400 (Revised). (Please refer to our responses to Questions 2 and 5, respectively, for further details). We also encourage the IAASB to coordinate with the IESBA to determine what actions can be taken to support the establishment of a global baseline for the definition of a PIE that could be consistently applied across jurisdictions. If a global baseline can be established, we would encourage the IAASB to consider exposing the other proposals in the ED that we do not currently support at that time.

#### Alignment of definitions and concepts between the IESBA Code and the IAASB standards

Whilst we are supportive of both the definition and concept of a PIE as described within the IESBA Code itself, which the ED proposes to be introduced into the IAASB standards, we stress that a global baseline will not be established, even if the wording of definitions in the IAASB standards and the IESBA Code are substantially the same, as a result of the position taken by the IESBA Board at their recent Board meeting, that results in significant differences in how the definition/concept of a PIE will be interpreted and applied in practice.

We recognise the significant practical challenges for jurisdictions in implementing the revised PIE definition, and we understand that these have been under consideration by the IESBA to try to address or alleviate these difficulties, with steps taken as follows:

Issuance of guidance that states that jurisdictions may not adopt the global baseline as defined in the IESBA Code by the effective date, in which case the local extant requirements and definitions will continue to apply in that jurisdiction. Whilst this guidance appears to establish some “flexibility” in terms of the transition period, in stating that jurisdictions are expected to align their PIE definitions with the IESBA Code “as soon as practicable” after the effective date, the guidance does not include any expectations regarding a timeframe and it is not entirely clear whether a firm that applies a jurisdictional PIE definition that is not consistent with the definition in the IESBA Code after the effective date would or would not be considered to be in compliance with the IESBA Code.

Further discussions at the IESBA Board meeting of 20 March 2024 in respect of the interpretation of the PIE definition, and clarification regarding the application of this. We understand that the outcome of these discussions is that the Board has concluded that if jurisdictions have a PIE definition established by local laws or regulations that is not consistent with the PIE definition as set out in the IESBA Code, a firm may apply the local PIE definition when applying the IESBA Code, rather than use the PIE definition in the IESBA



Code itself, and that firm would still be considered to be compliant with the IESBA Code in these circumstances. It is unclear at present how this interpretation will be communicated. We understand that the IESBA may update the guidance already issued, by inclusion of an additional Q&A, however, we note that this is non-authoritative in status.

As a result of the recent IESBA Board discussions as described above, it appears that guidance will be issued noting that it will be permissible for a firm to apply a local PIE definition that is not consistent with the PIE definition as defined in the IESBA Code and still be considered to be in compliance with the IESBA Code after the effective date. This position means that a global baseline for the identification of PIEs has not been established and, for this reason, we do not support adopting the definition of PIE in the absence of such a global baseline.

Furthermore, we highlight that this interpretation of the PIE definition by the IESBA Board will apply in respect of the IESBA Code but not the IAASB standards. Given the timing of the IESBA Board discussions, it is not currently clear how the IAASB will respond at this time, e.g., whether the IAASB plans to issue guidance that would achieve a similar outcome, given that the IAASB's stated intention is to align the definitions and concepts between the IESBA Code and the IAASB standards. As a result, if the proposals in the ED were to be adopted, the PIE definition used by a firm for the purposes of applying the incremental independence requirements of the IESBA Code could differ significantly to the PIE definition used by a firm for the purposes of applying the differential requirements in the IAASB standards in the same jurisdiction. We believe this could cause significant confusion and inconsistency in practice, which may be further exacerbated by the fact that the expected Q&A would, in line with the guidance issued by the IESBA to date, be described as non-authoritative, and therefore may be subject to differing views in respect of national standard-setters, regulators and other oversight bodies and audit firms as to its applicability. We believe such inconsistency would undermine the objectives of the IAASB in respect of this project. Additionally, we note that there may be different local bodies responsible for the application of the requirements of the IESBA Code and the IAASB standards in certain jurisdictions, which may take different approaches.

Lack of clarity regarding role of auditors in considering whether entities should be classified as PIEs when a jurisdiction has not aligned their PIE definition or does not have a PIE definition

Furthermore, if a jurisdictional definition is not aligned with the PIE definition adopted in the IESBA Code and proposed for the IAASB Standards, or a local jurisdiction has not established a PIE definition, the role of the auditor's firm appears to differ depending on whether the IESBA Code or the IAASB standards are being applied. We understand that the IESBA Board considers that, in such a situation, the auditor's firm would not be required to apply the PIE definition in the IESBA Code and would instead apply the jurisdictional definition. We understand that the IESBA Board's view is that responsibility for determining which entities or classes of entities should be categorised as PIEs rests with legislators or other relevant local bodies, and that firms should not be required to determine if other entities should be treated as PIEs as a consequence of actions (or inactions) by local bodies that results in a jurisdictional PIE definition that is not aligned with the definition in the IESBA Code (or no jurisdictional definition at all).

However, whilst we would not disagree with the above view, we highlight that the proposed narrow scope amendments in ISQM 1.18A suggest that the auditor's firm has significantly more responsibility in these circumstances, stating that "the firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider more explicit definition established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)-(iii)." We interpret this to mean that, if the jurisdictional PIE definition is not aligned with the definition in the IAASB standards, the auditor's firm is still required to treat an entity as a public interest entity when it falls within the definition in the IAASB

standards, and thus would be responsible for identifying any PIEs outside the jurisdictional PIE definition that fall within the PIE definition in the IAASB standards.

A consistent global baseline for the definition of a PIE will not be established

In summary, given the apparent direction of the IESBA's interpretations and the related consequences, we believe that a consistent global baseline for the definition of a PIE will not be established within the IESBA Code. Furthermore, following the discussions at the IESBA Board meeting, the interpretation and application of the PIE definition and concept appears to have diverged, at least in substance if not in the form of words used, between the IESBA Code and the IAASB standards. We consider that this significantly undermines both the premise underpinning the IAASB's project, as well as their stated intention of aligning, as far as possible, with the IESBA Code. Therefore, at the current time, we do not consider that the definitions and concepts are sufficiently aligned between the IESBA Code and the proposed changes to the IAASB standards to enable consistency in their interpretation and application in practice.

Recommendation not to extend the differential requirements to PIEs

As a result of the IESBA view that the definition and concept of a PIE as set out in the IESBA Code is not required to be adopted and further refined at a jurisdictional level, as appropriate, we believe it is more likely that relevant local bodies may no longer fulfil their intended critical role in determining both the size and nature of entities that would be within scope of the baseline definition. As a result, this definition/concept, if adopted into the IAASB Standards, may be applied to an unnecessarily broad population of entities where there is not significant public interest in their financial condition and for which it would therefore be overly burdensome from a cost-benefit perspective to apply the differential requirements set out in the IAASB standards for PIEs. Accordingly, we also do not support extending the differential requirements of the IAASB standards to PIEs, in particular, those requirements in respect of engagement quality reviews and communication of KAMs. Disagree, with comments below

We do not agree with adopting the definition and concept of a PIE at this time, for the reasons we set out in our response to Question 1.

We support the adoption of the definition and concept of a 'publicly traded entity' into ISQM 1 and ISA 200. We consider that this definition is clear and aligned with the IESBA Code, to enable these standards, and the IESBA Code, to operate in concert.

However, we note that proposed paragraph A29E of ISQM 1 and proposed paragraph A81E of proposed ISA 200 make reference to the fact that all the PIE categories described in paragraph 16(p)A(i)-(iii)/ paragraph 13(l)A(i)-(iii), respectively, are "broadly defined and law, regulation or professional requirements [of the particular jurisdiction] may more explicitly define these categories, by, for example, making reference to specific public markets for trading securities..." Therefore, whilst we believe that the role of jurisdictional bodies in more explicitly defining "publicly traded entity" as appropriate to the circumstances of their particular jurisdiction is significantly less in scope than that envisaged in respect of further refining other categories of PIE entities, nevertheless, we highlight that such a role is envisaged. Accordingly, whilst we would not support including the broader material in respect of PIE entities for the reasons we note in our response to Question 1, we recommend that the relevant material at paragraph A29E of ISQM 1 and A81E of ISA 200, be retained within the proposed standard,

Entities which become listed/publicly traded after the reporting date

We highlight that there is potential, both in terms of the current definition of listed entity, as well as the proposed definition of publicly traded entity, for confusion and inconsistency in practice with respect to

entities that are not listed/publicly traded entities at the reporting date, but which become so before the date the financial statements are authorised for issue. In such situations we believe that, subject to the laws and regulations of particular jurisdictions, it may be appropriate to recognise such entities as publicly traded entities for purposes of the audit, and to apply the differential requirements of the ISQMs and ISAs to such entities. We recommend that the IAASB provides further clarity within the standards in order to drive consistency in practice. We recommend that application material address factors to consider in determining whether an entity is likely to be listed/publicly traded in the near future, e.g. how advanced plans to become a publicly traded entity are at the reporting date, whether this is likely to take place during the subsequent events period, and expectations of users, including whether the financial statements and the auditor's report thereon are expected to be included in a listing prospectus.

Similarly, we recommend that the IAASB address the reverse scenario in the application material, i.e. where an entity is expected to no longer meet the definition of a listed entity/publicly traded entity in the near term.

#### **PricewaterhouseCoopers International Limited**

In responding to the questions in Part B, we have, in the majority of cases, responded “Disagree, with comments below”, due to the overarching concern described in our response to question 1. We understand the intent of the Board in pursuing this project and are open to further discussing the extension of requirements applicable to listed entities to a broader population of entities. However, due to the significant confusion and uncertainty as to whether the IESBA and the IAASB intentions for the application of the PIE definition are aligned, we are not able to support any extension of requirements until that confusion is resolved and there is a clear understanding of the basis against which such extension can be evaluated. Disagree, with comments below

See our response to question 1 with respect to the definition of PIE.

While we support the proposed definition of “publicly traded entity”, which resolves some of the challenges associated with the extant definition of “listed entity”, we do not agree with adopting the definition into ISQM 1 and ISA 200 (and the Glossary of Terms) at this time, due to the interrelationship between this definition and the PIE definition. Publicly traded entities are one category of the proposed PIE definition, and until the challenges described in our response to question 1 have been fully resolved, we do not believe it is appropriate to adopt the definition and apply it within the requirements of the ISQMs and ISAs, as this may necessitate further revisions once clarity has been achieved on the intended application of the PIE definition. Piecemeal changes to standards that introduce potential uncertainty and inconsistency are not in the public interest.

Further to our comments with respect to the PIE definition, we also question both the need for proposed paragraphs 18A of ISQM 1 and 23A of ISA 200 and the clarity of the wording adopted in drafting these paragraphs, which state (text below is taken from paragraph 18A of ISQM 1):

“The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)–(iii).”

While the Code has a similar requirement, this is due to the fact that the definition of PIE, i.e., the categories of entities that comprise the definition, forms part of the requirement itself. For purposes of the IAASB's standards this requirement is redundant - the definition itself achieves that purpose. We note that neither ISQM 1 nor ISA 200 currently include a requirement that the auditor shall treat an entity as a listed entity when it met the definition of a listed entity, as set out in those standards.

Furthermore, the language stating: “...as well as consider more explicit definitions established by law, regulation or professional requirements...” is unclear and open to interpretation.

As noted in paragraph 24 of the IAASB’s explanatory memorandum, the IAASB’s intent is to mirror the entire approach to scoping PIEs as contemplated in the Code, to achieve convergence. As described in our response to question 1, we believe there may not be alignment with respect to the application of the mandatory categories of entities to be treated as PIEs, and therefore this will not achieve convergence based on the current ED proposals.

The Code states (in paragraph R400.18) that: “In complying with the requirement in paragraph R400.17, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c).”

We understand the IESBA’s intent is that more explicit jurisdictional tailoring of the categories of entities to be treated as PIEs is both to be expected and takes precedence over the broadly defined categories in the Code, as also explained in paragraph 23 of the IAASB’s explanatory memorandum: “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 Code’s overarching objective.”

The IAASB’s use, in its requirement, of “as well as” implies a two-part obligation: first, that the auditor must, in all circumstances, treat as a PIE all entities that meet the definition of PIE specified in the IAASB standards; and secondly, a consideration of local jurisdictional requirements. Notwithstanding the supporting application material, the approach could be viewed as undermining the IESBA’s process to specifically allow for tailoring of the mandatory categories and could be read as suggesting that auditors are required to apply the broad categories in all circumstances, together with any additional more prescriptive jurisdictional requirements that go beyond those categories.

In the event that the IAASB does not delete this redundant requirement as we suggest, we recommend more closely aligning this requirement with the language of the Code, as follows:

“The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider taking into account more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)–(iii).” PIE definition

We agree in principle with the objective of alignment between the IESBA Code (the “Code”) and the IAASB standards on matters of mutual relevance. This facilitates interoperable auditing/assurance and independence standards and consistency for intended users of financial statements. We also agree in principle with extending certain differential requirements to audits of Public Interest Entities (PIEs) when:

a jurisdiction has more explicitly defined, e.g., specified thresholds within, the categories of entity described within the PIE definition adopted by the IESBA and proposed for adoption by the IAASB; and

the requirements in the IESBA Code, ISA 200 and ISQM 1 have been clarified to make clear the expectations of firms in applying those globally defined categories (as further explained below).

The IESBA Code (para R400.17) states that “a firm shall treat an entity as a public interest entity when it falls within any of the following categories...”. R400.18 states that “a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c)”. R400.18.A1 then provides examples of how a jurisdiction may more explicitly define those categories. In our view, these requirements are quite explicit and establish an obligation on

firms to treat entities as PIEs when they fall within the categories outlined in the definition, after factoring in any specific exclusions or thresholds established by a jurisdiction within those categories.

The FAQs issued by the IESBA state that to fully adopt the IESBA's revised PIE definition, a relevant local body must not exclude any of the mandatory categories set out in paragraph R400.17(a)-(c) from its local definition. The FAQs also state that relevant local bodies have the responsibility, and are best placed, to assess more precisely which entities should be scoped in as PIEs in their jurisdictions. We agree with both statements. We also agree that where a jurisdictional PIE definition aligns with or goes beyond the global PIE definition then that jurisdictional definition continues to apply.

The Code does not, however, address the circumstances when a jurisdiction does exclude a category. In such circumstances, the interaction of R400.17 and R400.18 can only reasonably be interpreted as directing the firm to treat an entity that falls within a category omitted by the jurisdiction as a PIE. However, we also understand, based on Agenda Item 8A of the IESBA March Board meeting that (emphasis added):

the IESBA undertook its role to set out broad mandatory categories that responsible local bodies could further refine (consistent with our understanding set out above);

firms should not be required to determine if other entities should be treated as PIEs but are encouraged to determine whether to treat other entities as PIEs (which we logically assume refers to entities over and above those captured by the mandatory categories);

for this specific project, compliance with the IESBA Code by firms (including a member firm of the Forum of Firms) means first and foremost compliance with local laws and regulations, whatever they may be at the time of the audit report (which we understand includes circumstances when a jurisdictional PIE definition excludes one or more of the “mandatory” categories within the definition).

In our view, the interpretation adopted, as described in the last point above, can be viewed as conflicting with the requirements in R400.17 and R400.18. In particular, the statement with respect to transnational auditors (forum of firms members) is particularly challenging. We interpret this to also mean that if a jurisdiction does not have a PIE definition, the same interpretation would also apply i.e., a firm is not required to treat the categories specified within the definition as mandatory but may otherwise determine it appropriate to treat an entity as a PIE. We are concerned that some jurisdictions may also interpret this, and the forthcoming IESBA FAQ, as permission to circumvent a mandatory category, leading to potentially even greater jurisdictional inconsistencies than experienced today.

Our understanding of the IAASB's proposals is that the intent, consistent with the IESBA published FAQs, was to establish mandatory categories of PIE, which could be more explicitly defined by jurisdictions. The requirements proposed for ISQM 1 and ISA 200, like the requirements in the Code, set a clear expectation, in our view, that any entity falling within a category set out in the definition is to be treated as a PIE, subject to any more explicit thresholds or exemptions defined by a jurisdiction within those mandatory categories.

If our understanding described above is correct, we question whether the intentions of the IAASB and the IESBA are aligned and whether all affected stakeholders have a consistent understanding of the situation. Without clarity on the expectations being set by the requirements, and consistent application of the mandatory categories of PIEs by both Boards, we have significant concerns about the potential unintended consequences of proceeding with the proposals set out in the IAASB ED. It is clearly not in the public interest to have an outcome where an entity may be considered PIE for purposes of an audit but not PIE for purposes of the independence standards. This would give rise to inconsistent provision of information to users of financial statements across jurisdictions and likely contribute to a new expectation gap for users.

We support the creation of a definition of PIE that establishes a proportionate global baseline, built on a clear expectation that:

the categories of entities to be treated as PIE are mandatory; and

jurisdictional authorities set appropriate thresholds and/or exemptions for the entities within those categories that are to be treated as a PIE in that jurisdiction.

We acknowledge that in circumstances when a jurisdiction adopts the global PIE definition and does not more explicitly define the categories, or does not adopt the global definition and has a jurisdictional definition that excludes one or more categories set out in the global definition, applying the mandatory categories could result in a significant population of entities being identified as PIEs, which may not directly align with the proposed overarching objective of “significant public interest in their financial condition”. The role of jurisdictional bodies is therefore vital.

We recognise the IESBA and the IAASB may feel constrained in their ability to establish specific thresholds for categories of banks and insurers (as also communicated by the IESBA). However, we encourage the Board to look to the precedent set in the ISA for LCE and establish a stronger expectation for jurisdictions to establish appropriate thresholds for use in a jurisdiction, including illustrative examples drawn from known jurisdictional practices.

In more explicitly defining the mandatory categories, jurisdictional bodies should provide specificity and reference points (e.g., in law, regulation or other relevant materials) so that it is transparent which entities should be treated as PIEs, and which may, for example, result in excluding certain entities within a particular category by reference to size.

Furthermore, as noted above, in the interests of ensuring transparency with stakeholders, we believe the IESBA and the IAASB should jointly make clear the intended application of the global definition, including the mandatory nature of the categories and the implications when a jurisdiction does not adopt all of the categories or does not have any jurisdictional PIE definition.

For the reasons described above, and as explained in our responses to questions 3A – 3E, without a consistent approach to applying the requirements and definition in the Code and the IAASB standards, we do not believe the Board has a sufficient basis to extend the existing differential requirements applicable to audits of listed entities to all PIEs. We provide additional comments, in our response to question 2, with respect to the new requirements proposed in ISQM 1 and ISA 200 related to the PIE definition.

## 6. Individuals and Others

### Wayne Morgan and Phil Peters

We note several other conceptual and logical issues with the proposals, as follows:

Should IAASB continue with defining PIE, in our view government entities and public utilities may be considered for inclusion in the definition of PIEs, not left as possible PIEs in paragraph A29F.

Appendix 1 contains a reference to ISQM A128, which mentions charities. It's not clear where “charities” are in existing ISQM, nor why IAASB would remove charities as PIEs if they were already considered appropriate to apply PIE requirements to.

The criteria in A29C should also include the nature of the activities of the entity and the services it performs. If the entity's activities are relevant to safety and security and well-being of citizens i.e. the public, it would seemingly represent *prima facie* a public interest entity.

IAASB may want to consider whether the definition of PIE include parents and subsidiaries of the entities in the definition. Would a government that consolidates an entity that takes deposits (a PIE as proposed) also be a PIE? Without clarity around this point, we expect significant confusion among the entities about which we have experience.

The reference to “economy as a whole” in the PIE application material is unclear to us. The IAASB’s standards are global standards, so does this mean the global economy?

There are other uses of the term “public interest” in the standards and IAASB may wish to examine each use for continued appropriateness. For example, para A130 uses “the public interest benefits of external communication...” If PIE is adopted, would this mean “the benefits to public interest entities of external communication” or does it become a conditional requirement (only considered if a PIE is involved) or would it still apply to any entities, even non-PIEs? In our view, IAASB should not use the term public interest entity and instead use another term.

We suggest IAASB consider along with IESBA that the solution of PIEs, if they exist as suggested, is not differential assurance but instead differential accounting that recognizes the heightened expectations of users for more information on their financial condition. So in the case of a PIE, the auditor would need to view conservatism or prudence differently, or perhaps even the applicable financial reporting framework is insufficient and a more robust framework that communicates more relevant financial information, such as risks to the public interest and how they are managed, to users is needed. Disagree, with comments below

We suggest wording for PIE definitions be as follows:

A public interest engagement uses the “enhanced assurance” set of standards. A “public interest engagement” is one defined as such by law or regulation.

In our view, it is best for governments of a particular jurisdiction, not assurance standard setters, to define PIE. We don’t presume that we can define this for jurisdictions, or for all jurisdictions. The entities in the ED’s definition appear to be centered around private wealth entities, or private finance entities. Therefore the descriptor PIE raises questions for us, particularly from the perspective of serving in the public sector. A more accurate descriptor may be “Private wealth entities” (PWEs) or perhaps, recognizing the risk such entities pose to the public interest due to potential for their failure (a reason given by IAASB for the public interest in such entities), they could be described as Public Interest Risk Entities, or PIREs.

The concept of public interest involves other concepts such as common good or matters that impact the public at large. Nothing in the definition of public interest entity used in the ED seems to meet these more common understandings of “public interest.” All of the categories included in the proposed definition seem to be substantively based in private interests. Part of the risk for confusion we noted earlier is that, to describe these entities as public interest, may be misconstrued that these entities always act in the public interest, and also that entities that are not PIEs do not act in the public interest. The ED proposals do two things 1) entrench a new category of assurance (enhanced or heightened assurance) with the differential requirements and 2) determine which entities the heightened assurance applies to. We speak to each of these in our following comments.

The argument overall of IAASB is that these changes are necessary because they are matters of the public interest (hence the label “public interest entities”) and may include matters relevant to the economy as a whole (as per part of the determination of what is a public interest entity). Given such importance, the determination of what is a public interest entity strikes us to be a matter of public policy because of the

significant implications flowing from these changes to standards. These changes have implications for legal rights and obligations of entities and therefore appear to us broader than the mandate of the IAASB.

While standard setters have authority to operate within a particular narrow scope, it seems to us that public policy that affect broader economic and social considerations should be determined by governments at a national/state level, or representative bodies of governments at an international level who possess the democratic authority to affect citizens' legal rights and obligations. That is, decisions that determine inclusions and exclusions of which entities might be entitled to be considered those with heightened assurance and their stakeholders are public policy decisions. Those who have a desire or may reasonably expect to be included in the category for heightened assurance should be afforded a voice in this matter.

Accordingly, in our view, the determination of which entities are public interest entities are more appropriately made by, or in consultation with, governments at a national/state level, or organizations comprised of governments at the international level. It's not clear how IAASB has jurisdiction to determine which entities are public interest entities without the involvement of governments. The proposed changes could be viewed as ultra vires IESBA and IAASB's authority and therefore should not be made unless IESBA and IAASB are given clear authority to do so by governments, or organizations comprised of governments at the international level.

#### **Q02 No Specific Comment**

### **2. Regulators and Audit Oversight Authorities**

#### **National Association of State Boards of Accountancy (NASBA)**