

**Track 2: Listed Entity and Public Interest Entity (PIE) – Question 1**

**1. Do you agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why?**

**A01 Agree****2. Regulators and Audit Oversight Authorities****National Association of State Boards of Accountancy (NASBA)**

In furtherance of that objective, NASBA supports the IAASB in this initiative.

**3. Jurisdictional and National Auditing Standard Setters****Australian Auditing and Assurance Standards Board (AUASB)**

Agree (with no further comments)

**Canadian Auditing and Assurance Standards Board**

Agree (with no further comments)

**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)

**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)

**The Malta Institute of Accountants**

Agree (with no further comments)

## Virginia Society of CPAs

Agree (with no further comments)

### Q01 Agree With Comments

#### 1. Monitoring Group

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

We welcome 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 especially welcome the increased and continuing co-ordination between the IAASB and the IESBA to support the greatest possible convergence on key concepts. Such convergence facilitates the interoperability of pronouncements made by each board and represent further steps forward in enhancing confidence and public trust in audit and assurance.

Objective for Establishing Differential Requirements for PIEs

We agree with the proposal to widen the scope of entities covered by some differential requirements in the ISQMs and ISAs.

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

We agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED.

We believe that the proposed revisions to the ISQMs, ISREs, and ISAs promote interoperability and meet the heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing investors and other users' confidence in audit reports, and, thereby, in financial reporting.

#### 2. Regulators and Audit Oversight Authorities

##### Botswana Accountancy Oversight Authority (BAOA)

7Agree, with comments below

We agree with the proposal as it aligns the requirements in the ISQMs and ISAs with the IESBA Code. Furthermore, this will meet the expectations of stakeholders regarding the audit engagement and enhance stakeholder confidence in the Financial Statements.

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

Agree, with comments below

The CEAOB agrees that the differential requirements for certain entities in the ISQMs and ISAs include more than one rationale and address broader matters than auditor independence. In particular, the CEAOB agrees that heightened expectations of stakeholders regarding the audit engagement for a PIE could be met by requiring engagement quality reviews, providing transparency to intended users of the audit report and increasing communication to those charged with governance.

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by requiring engagement quality reviews, providing transparency to intended users of the audit report and increasing communication to those charged with governance.

#### **Financial Reporting Council – UK (FRC)**

Agree, with comments below

We agree with the setting out the overarching objective and purpose for establishing differential requirements for PIEs, and it is appropriate to build the underlying principles into ISQM 1 and ISA 200 with minimal adaptation.

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

Agree, with comments below

We agree with the use of a common objective as an overarching principle for establishing differential requirements for PIEs across the IAASB Standards and the IESBA Code. This approach will reduce confusion, enhance ease of implementation, and will contribute to the overall professionalism of the auditing and accounting profession.

The IRBA adopted the IESBA Code, published in 2018, together with South African enhancements. Since then, the IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023) (IRBA Code) tracks changes in the IESBA Code and is updated for those developments, following a local due process and adoption by the IRBA Board. Local adaptations of the IESBA Code are reflected in the IRBA Code as underlined and in italics. Additionally, in accordance with the provisions of section 10(1)(a) of the Auditing Profession Act, 2005 (Act No. 26 of 2005), as amended, the IRBA Code includes local amendments to the definition of public interest entity. The are indicated in the snippets below.

### **3. Jurisdictional and National Auditing Standard Setters**

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

Agree, with comments below

The term “stakeholders” is used. This should read “intended users of the financial statements” in line with paragraph 3 of ISA 200 (Revised).

The presumption that stakeholders’ expectations will be met (by adherence to the requirements in ISQMs and ISAs, respectively) can lead to increase the gap expectation. It would be preferable to use “addressed” in place of “met” in both instances.

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

In addition, we agree with the overarching objective and purpose for differential requirements for PIEs in the ISQMs and ISAs as proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED.

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 establishing the overarching objective and purpose for differential requirements for PIEs in the ISQMs and ISAs. The overall objective and purpose of establishing the differential requirements for PIEs in ISQMs and ISAs would be unclear unless they are articulated in ISQM 1 and ISA 200. Therefore, we believe that establishing the overarching objective and purpose in the ISQMs and ISAs is necessary.

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

We agree with the proposed application material in paragraphs A29A-A29B of ISQM 1 and paragraphs A81A-A81B of ISA 200. In our view this application directly supports the definition of public interest entity included in proposed paragraphs 16(p)A of ISQM 1 and 13(l)A of ISA 200, and should be linked thereto as it includes useful context for the application of the term when it is referred to in the differential requirements explored in each question below.

Agree, with comments below

We support the overarching objective and purpose for establishing differential requirements for PIEs as proposed in the ED. We agree that it is in the public interest to expand the differential requirements to public interest entities. .

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

Agree, with comments below

We do agree with the overarching objective to establish differential requirements for PIEs.

We also support the ambition to use a common objective as an overarching principle for establishing differential requirements for certain entities across both the IAASB standards and the IESBA Code.

Similar to para 400.8 in the IESBA Code, the proposed wording in both ISQM 1 and ISA 200 refers to PIEs “reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders”.

One of the key issues in the IESBA's project “Revisions of the Definitions of Listed Entity and Public Interest Entity in the Code” was the reference to “financial condition” and whether, and if so how, the term differed from “financial statements”.

Paragraphs 28 and 29 in IESBA's Basis for Conclusion related to that project state the following:

“The IESBA agreed to add the explanatory phrase “due to the potential impact of their financial well-being on stakeholders” in paragraph 400.8 to clarify the meaning of “financial condition.” The IESBA reiterated its view that the public interest focus from the perspective of the IIS is on the general financial health of an entity, i.e., its “financial condition,” and should not be limited to the entity's financial statements. When assessing the level of public interest in an entity from the perspective of the IIS, the focus is on how the entity's financial success or failure may impact the public. Such a concept is therefore broader than an entity's financial statements. The IESBA did not consider it necessary to replace or define “financial condition” in the Code.

Nevertheless, to bridge the concepts of financial condition and financial statements, the IESBA agreed to clarify in paragraph 400.10 that the financial statements of an entity can be used when assessing the entity's financial condition. This addresses the concern raised about a potential expectation gap over the role of auditors by indicating that the assurance given by auditors over an entity's financial statements is not assurance over the entity's entire financial health."

Given the different contexts, we are not convinced that referring to "financial condition" instead of to "financial statements" is appropriate. Even though the IAASB would disagree and decide not to change its proposal we at least believe that the reference to the very broad and undefined term "financial well-being on stakeholders" should be replaced by "financial well-being on intended users of the financial statements".

Paragraphs 400.8 and 400.10 are placed in the introductory section in the IESBA Code while the equivalent paragraphs in both ISQM 1 (A29A-A29B) and ISA 200 (A81A-A81B) are placed in the application material. Since the content in these paragraphs includes objective and purpose we suggest moving them to the introductory sections. By doing so the structure would be better aligned with the IESBA Code.

Also, we notice that both the IESBA Code and the proposed changes to ISQM1 and ISA 200 refer to "meeting" stakeholders' expectations. Keeping the word "meet" rather than replacing it with, for example, "address" is another reason for why it is more appropriate to include these paragraphs in the introductory sections than having them in the application material.

Moving these paragraphs might also have an impact on the wording of 16 (p)A (iv) in ISQM 1 and paragraph 13 (I)A (iv) in ISA 200.

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

Agree, with comments below

We wonder whether the proposed paragraphs A29A-A29F of ISQM1 and A81A-A81F of ISA200 are necessary materials for auditors when applying the Standards. Much of that language explains the rationale of designating PIEs and the properties of PIEs as such. Firstly, this should already be clear from the Code of Ethics, where this stems from, and secondly, it does not explain or guide auditor's procedures. We suggest to either leave these paragraphs out or to rewrite these paragraphs as to guide the auditor's procedures.

#### **Wirtschaftsprüferkammer (WPK)**

Agree, with comments below

#### **4. Accounting Firms**

##### **BDO International Limited**

Agree, with comments below

We agree with the overarching objective and the purpose of establishing differential requirements as proposed, we do however have the following comments regarding aligning the wording of the International Ethics Standards Board for Accountants (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code) with the wording of the applicable International Standards on Auditing (ISA) paragraphs.

##### **Crowe LLP**

We appreciate the Board's efforts to update these standards with the objective of converging and enabling interoperability between the concepts of Public Interest Entity (PIE) and "Publicly Traded Entity" in IESBA

and IAASB standards, with the overarching objective of meeting the heightened expectations of stakeholders when performing an audit engagement for a PIE given the significance of the public interest in the financial condition of such entities.

#### **Mazars**

Agree, with comments below

We support the overarching objective and purpose for establishing differential requirements for PIEs, subject to our concerns about the meaning of certain terms, including the consequences of relevant guidance, as noted in our response to question 2.

#### **RSM International Limited**

In addition, we note that potentially having three levels of differentiating requirements (i.e., all entities, PIEs and publicly traded entities (PTEs)) may cause additional confusion or complexity in determining which requirements are applicable to a particular engagement. Accordingly, we recommend the IAASB consider this matter in determining which, if any, extant differentiation requirements should be extended to all PIEs.

### **5. Member Bodies and Other Professional Organizations**

#### **Accountancy Europe**

Agree, with comments below

Yes, we broadly agree with the overarching objective. However, these paragraphs would fit better in the introduction sections of the standards, as they explain what the standard aims at, rather than how an auditor applies the requirements.

In addition, the term “stakeholders” is overly broad, and we suggest replacing it with “intended users of the financial statements” in line with paragraph 3 of ISA 200 (Revised).

The presumption that stakeholders’ expectations will be met (by adherence to the requirements in ISQMs and ISAs, respectively) is also problematic, and it would be more appropriate to state that these expectations will be “addressed”.

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

Yes, we agree.

It is a long-overdue issue to use single definitions among standard setters, in particular assurance, ethics and independence, which would substantially improve the quality of information to users of independent public accountants' reports, and if possible to achieve the same with IFRS and Sustainability would be of enormous help. The common objective addressed in paragraphs 13 to 18 of Section 1-B of the Explanatory Memorandum is explicit about this desire.

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

Overall response: Agree, with comments below

We support, in principle, establishing an overarching objective and purpose to support the IAASB's judgments regarding specific matters for which differential requirements for PIEs are appropriate. However, given that the IAASB is introducing an exception by proposing that the differential requirements in ISA 720 (Revised) apply to publicly traded entities, there are essentially two possible groups of entities for differential requirements. Therefore, we recommend these are distinguished to support the IAASB's judgments

regarding specific matters for which differential requirements are appropriate for PIEs and publicly traded entities respectively.

Proposed paragraphs A29A–A29B of ISQM 1 and A81A–A81B of ISA 200 refer to “stakeholders”. This is inconsistent with terminology used in the IAASB Standards which refers to “intended users of the financial statements”. We are concerned that there may be unintended consequences if an auditor is required to meet the “heightened expectations” of this potentially much broader group.

We welcome the opportunity to comment on the ED. While we understand the rationale for differential requirements in the IAASB Standards, and we support aligning key terms and definitions used in the IAASB Standards and the IESBA Code, we question the appropriateness of extending all the differential requirements in the IAASB Standards (except one), that currently only apply to listed entities, to all public interest entities (PIEs).

Furthermore, the PIE definition in the IESBA Code was developed for the purpose of addressing independence considerations. While we agree that users of PIE financial statements may have heightened expectations for auditor independence, it does not necessarily follow that these heightened expectations apply equally to all PIEs in the context of the specific differential requirements in the IAASB Standards.

We encourage the IAASB to better communicate why it is in the public interest for each of the differential requirements to apply to this broader set of entities. In doing so, we also recommend the IAASB undertakes a cost benefit analysis to rationalise extending the differential requirements to all PIEs. It is important that a balanced approach is taken to avoid creating complexity and confusion through introducing too many differential requirements in the IAASB Standards.

Our responses to the specific questions for comment raised in the ED follow in Appendix A. Should you have any queries about the matters in this submission, or wish to discuss them in further detail, please contact the signatories.

#### **Chartered Accountants Ireland**

Agree, with comments below

We are supportive of the changes proposed. Many of the extant differential requirements set out in paragraph 38 already apply in Ireland to public interest entities and we believe they contribute to the overall high quality of auditing and reporting here.

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

Agree, with comments below

While we agree with the overarching objective and purpose, there may be challenges extending such differential requirements to all entities defined as PIEs under the Ethics Codes of individual jurisdictions, as described under the response to Question 2.

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

Agree, with comments below

Yes. We support the Board’s decision to establish an overarching objective and purpose for defining the differential requirements in ISQM 1 and ISA 200 to achieve alignment between the IESBA Code and the IAASB standards in relation to these key concepts.



## **Q01 Neither Agree Nor Disagree**

### **3. Jurisdictional and National Auditing Standard Setters**

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

The Exposure Draft is a Paradigm Shift

We believe that the Exposure Draft will have a more pervasive and consequential effect than originally expected when the IAASB Listed Entity (LE) and Public Interest Entity (PIE) project proposal (PIE project) was approved as a “narrow scope maintenance project” with “targeted revisions”.

We believe the Exposure Draft is a significant paradigm shift that has consequences to all stakeholders in the audited financial statement and information eco-system because of the significant amount of non-listed entities that will likely be scoped into PIE audit treatment through the combination of the recent IESBA PIE revisions to the IESBA Code, the treatment of PIEs by national jurisdictions, and the proposals associated with the Exposure Draft. While the IAASB has not currently developed any new differential requirements, the Exposure Draft proposes to extend almost all the extant listed entity differential requirements to what a broader population of PIEs will be, including potentially PIEs not often associated with being a threat to capital market stability, such as not-for-profit organizations or donor-funded projects. This is a significant change.

Further, we see that the Exposure Draft will fundamentally restructure the application of the International Standards on Quality Management (ISQMs) and International Standards on Auditing (ISAs) from the extant categories of non-listed entities, listed entities, and public sector entities into the categories of PIEs and non-PIEs.

We do not understand these implications to have been the original intent of the PIE project when it was approved.

Perception Risk: “Two-Tiers” of Audit Quality

We understand a primary driver of the IAASB’s PIE project was to raise confidence in the audit of those entities that pose threats to financial stability or where there is a significant public interest in the entity’s financial condition in the event of financial failure of the entity. While we recognize the value in raising confidence in the audits of these types of entities, we are concerned that as exposed, the Exposure Draft could inadvertently create a perception of unequal audit quality between entities treated as PIEs and those that are not, especially in many jurisdictions where the PIE concept is not already established under law or regulation.

Users of an entity’s financial statements and the auditor’s report (especially in jurisdictions where the PIE concept is not used) may question whether a financial statement audit of non-PIEs receives the same quality and rigor as a financial statement audit of PIEs. This creates a knowledge and expectation gap between firms and auditors and those their work is intended to serve, such as financial statement users, those with public interest concerns (e.g., regulators), those charged with governance, and management.

For example, entities within the same industry or sector (e.g., financial services or insurance) may have structures that are economically similar, may be subject to the same regulatory oversight, and may be audited by the same audit firm; nevertheless, their status as a public interest entity may vary. Therefore, in situations where the same firm performs substantially the same audit work to achieve reasonable assurance for similarly situated entities, the text of the auditor’s report to public interest stakeholders could vary significantly because of the treatment of some entities as PIEs and decisions reached under the Exposure



Draft. We expect that public interest stakeholders may infer differences in audit quality for those entities not treated as PIEs.

We recommend the IAASB clarify in its PIE strategy that the primary purpose in establishing an overarching differential requirement objective is to enhance the confidence of users in the audits of PIEs where there may be significant public interest in the entity's financial condition in the event of financial failure of the entity. The IAASB could further clarify that differential requirements should not be understood to imply a different level of audit quality; rather, the IAASB could emphasize there are differential requirements for audits of PIEs (now and in the future), which are intended to address stakeholders' heightened expectations associated with potential threats to economic performance and financial stability.

Additionally, in the IESBA's recently issued Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (IESSA 5000) the IESBA proposed that entities considered PIEs for financial statement audits should also adhere to PIE differential requirements for sustainability assurance engagements, where applicable. However, applicability and treatment for PIEs are still unaddressed under the IAASB's Proposed International Standard on Sustainability Assurance 5000, General Requirements for Sustainability Assurance Engagements (ISSA 5000). For the reasons cited in our overall recommendation below, we believe the IAASB and IESBA should both defer taking action to include PIEs in the final requirements of ISSA 5000 and IESSA 5000.

Neither agree/disagree, but see comments below

We believe that paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the Exposure Draft lack a clear articulation of “why” the IAASB is establishing the overarching objective and purpose for establishing differential requirements for PIEs. As noted in our Part A response above, this cornerstone of the Exposure Draft should be addressed in an overarching PIE strategy.

Our ability to support the premise to provide firms and auditors guidance in treating entities as PIEs when not otherwise required will be predicated upon a clearer statement of why differential requirements are needed for the audit of a PIE. Moreover, as we shared above, we believe a clearer articulation is important because the IAASB's view for establishing an overarching objective may be at odds with the discussion at the IESBA in March 2024.

As we observed, in March 2024 the IESBA reaffirmed 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. The IAASB's premise to empower firms and auditors to treat entities as PIEs, when not otherwise required to, seems to be in fundamental conflict with the IESBA discussion in March 2024, which indicated that for purposes of applying the PIE requirements in the IESBA code, compliance with IESBA Code by any firm (including members of the Forum of Firms) means first and foremost compliance with local laws and regulations.

We acknowledge the discussion in paragraphs 15 and 16 of the Explanatory Memorandum, which note that the purpose for establishing differential requirements in the IAASB standards may include a different rationale than that in paragraph 400.10 of the IESBA PIE Revisions concerning the independence of a firm, and that the IAASB is of the view that differential requirements for IAASB stakeholders have “heightened expectations regarding the audit engagement” with a focus on quality, transparency and communication. However, in determining the firm and auditor treatment of an entity as a PIE, we believe the rationale of heightened expectations of stakeholders regarding the audit engagement for PIEs is not self-explanatory and thus is too vague to apply. Moreover, we observe that in paragraph A29B of ISQM 1 and paragraph

A81B of ISA 200 in the Exposure Draft, the language does not focus on the performance of the audit. Instead, the language refers to heightened expectations associated with enhancing stakeholders' confidence in the entity's financial condition (which we believe is more akin to the IESBA's rationale).

Additionally, without a clearer articulation as to why the IAASB is establishing the overarching objective and purpose for differential requirements for PIEs, we are concerned that firms and auditors may not always be in the position to fully form a public interest stakeholder perspective when assessing the potential systemic effect on financial markets in the event of financial failure of the entity, or the importance of the entity to the sector in which it operates. Governments, regulators and/or jurisdictional oversight bodies are likely better situated to evaluate an entity's interconnectedness and potential ripple effects on other sectors and the macro-economy. From what we noted during the IESBA March 2024 discussion, the IESBA seemed to support this view in that it is ultimately the role of local bodies to refine these categories so that the right entities are scoped in as PIEs. The IESBA noted that that firms should not be required to determine if other entities should be treated as PIEs.

We also question why, in the Exposure Draft, such an important and prominent objective of the PIE project is relegated to application material. Moreover, we observe an apparent contradiction in establishing an overarching objective and purpose for establishing differential requirements within nonauthoritative application material. As noted above, we believe a more cogent explanation of "why" the IAASB is establishing the overarching objective and purpose for establishing differential requirements for PIEs is needed, and that any description, rather than being in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200, should be located elsewhere.

Lastly, we do not object to the IAASB's decision to include guidelines and examples in the CUSP Drafting Principles and Guidelines to inform future IAASB projects in identifying when differential requirements for PIEs may be appropriate and if so, how such requirements should be established in the ISQMs and ISAs. However, we view the establishment of future differential requirements for PIEs in the ISQMs and ISAs as more significant than the mechanics of style and grammar, which is primarily what the CUSP Drafting Principles and Guidelines are as a nonauthoritative resource to the IAASB. We view future PIE differential guidelines and examples as more appropriate for inclusion within either the Due Process and Work Procedures policy manual or the IAASB Terms of Reference, or through a new drafting structural framework policy. Furthermore, because of their significance, we do not believe setting future differential requirements for the ISQMs, and the ISAs is compatible with a "narrow scope maintenance project" under the IAASB's Framework for Activities.

We also have the following additional recommendations:

We encourage the IAASB to engage with regulators and various national standard setters to understand whether jurisdictional regulators and oversight authorities of PIEs support the direction of the IESBA/IAASB changes for entities that they believe have a higher level of public interest accountability. Such interactions could give the IAASB comfort that the proposals in the Exposure Draft are not "second guessing" or would be seen as questioning the capability of the regulators. This would be consistent with paragraph 40 of the IAASB's PIE project proposal, which notes that the IAASB will allocate sufficient Board plenary time to deliberate significant matters that will be raised from a broad stakeholder consultation process (including targeted outreach as may be appropriate).

We encourage the IAASB to consider additional changes to requirements in paragraph 30 in ISQM 1 (or related application materials) and paragraphs 22-24 of ISA 220 (or related application materials) regarding whether acceptance and continuance of client relationships and specific engagements may be necessary

because firms and auditors may not be qualified to make public interest judgments if they do not have a public interest stakeholder perspective. Such changes could include requirements or guidance that unless a firm and auditor have the competency to perform a PIE engagement, including the ability to determine the importance of the entity to the sector in which it operates and potential systemic effect on other sectors and the economy, the firm would either need to educate itself or not perform the engagement.

We also urge the IAASB to clarify documentation expectations for auditors should the IAASB move forward with paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the Exposure Draft.

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

##### Application material

It seems to us that the application material in paragraphs A29A-A29B in ISQM 1 and in paragraphs A81A-A81B of ISA 200 does not relate to the related requirements, but rather relates to an explanation of as to why differential requirements are set forth for the defined entities in those standards. For this reason, we believe that these paragraphs ought to be placed into the respective introductory section of each of those standards, which we gather is how they are placed in the IESBA Code.

We also note the reference to “stakeholders” in a number of places in each of these paragraphs. In the context of IAASB standards, it is not “stakeholders” that are the “reference group” for practitioner decisions, but the intended users of the practitioner’s report, and in the context of the ISAs, the intended users of the financial statements and the related auditor’s report. Referring to stakeholders, rather than intended users, muddles the objective of practitioner reports in an IAASB context. We suggest that “stakeholders” be replaced with “intended users of practitioners’ reports” in the case of ISQM 1 and with “intended users of the financial statements and related auditors’ reports” in the case of the ISAs.

We also believe that the statement in A29B of ISQM 1 and A81B of ISA 200 that “the purpose of the requirements... is to meet these expectations” suggests that stakeholder or user expectations are met through these requirements, which we believe to be a rather daring assertion. Instead, we suggest that reference be made to “seek to address these expectations”.

Neither agree/disagree, but see comments below

While we agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs, we disagree with the proposed placement and some of the detail in paragraphs A29A-A29B of ISQM 1 and paragraphs A81A-A81B of ISA 200. Furthermore, we note that these application material paragraphs are referenced to, and therefore support, the requirements in paragraph 18A of ISQM 1 and 23A of ISA 200, with which we disagree as drafted and to which no specific question was directed in the Explanatory Memorandum. Given the importance of this matter and how it impacts the application material paragraphs referred to in this question, we address the noted requirements first before addressing their “attached” application material.

##### Requirements

##### 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.

#### 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.

#### Application material

It seems to us that the application material in paragraphs A29A-A29B in ISQM 1 and in paragraphs A81A-A81B of ISA 200 does not relate to the related requirements, but rather relates to an explanation of as to why differential requirements are set forth for the defined entities in those standards. For this reason, we believe that these paragraphs ought to be placed into the respective introductory section of each of those standards, which we gather is how they are placed in the IESBA Code.

We also note the reference to “stakeholders” in a number of places in each of these paragraphs. In the context of IAASB standards, it is not “stakeholders” that are the “reference group” for practitioner decisions, but the intended users of the practitioner’s report, and in the context of the ISAs, the intended users of the financial statements and the related auditor’s report. Referring to stakeholders, rather than intended users, muddles the objective of practitioner reports in an IAASB context. We suggest that “stakeholders” be replaced with “intended users of practitioners’ reports” in the case of ISQM 1 and with “intended users of the financial statements and related auditors’ reports” in the case of the ISAs.

We also believe that the statement in A29B of ISQM 1 and A81B of ISA 200 that “the purpose of the requirements... is to meet these expectations” suggests that stakeholder or user expectations are met through these requirements, which we believe to be a rather daring assertion. Instead, we suggest that reference be made to “seek to address these expectations”.

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

Neither agree/disagree, but see comments below

In principle, SOCPA supports the proposed amendments since they increase the alignment between the IESBA’s Code and the IAASB’s standards, given that SOCPA has fully adopted the IESBA’s Code, including its recent project on the PIEs definition. Additionally, SOCPA believes that requiring differential requirements for the audit of PIEs can correlate with the heightened expectations of PIE’s stakeholders. Differentiating certain requirements based on the definition of PIEs and publicly traded entities can help serving the public

interest at large since such extension should result in meeting the expectations of more audit stakeholder groups. Therefore, extending certain requirements to entities other than listed entities may serve narrowing the audit expectation gap (in specific knowledge gap) since the expectations of more groups of the public is being served, including the perception that auditors' of PIEs should be subject to more stringent requirements. It is expected that stakeholder of audit services would start realizing that more stringent audit requirements are for the audit of PIEs which may eventually result in unintended understanding; "higher audit quality". It is important to highlight here that satisfying the purpose of such proposed amendments is substantially dependent on the jurisdictional definition of PIEs where this may ultimately result in different expectations of audit from stakeholders of the same entities in different jurisdictions.

Although current proposed amendments focus on certain requirements related to very limited areas (e.g. audit independence, communication with Those Charged with Governance (TCWG)...etc.) and extend these requirements to groups of entities beyond listed entities, this principle, after some time, may lead the public to an unintended understanding that "higher audit quality" should be expected only when the audit client is a PIE. After a while, this misunderstanding may be unconsciously embraced by auditors too as they may feel more pressured to satisfy higher requirements when auditing a PIE. Therefore, there is always this risk of perceiving the audit practice in auditing non-PIEs as being of low audit quality since the standards' different requirements are signaling that. This risk is heightened with the presence of the auditing standard for Less Complex Entities (LCE). These proposed amendments and the approval of the recent auditing standard for LCE have heightened the risk of increased complexity and expanded expectation gap (in specific performance expectation gap). For instance, in Saudi Arabia, listed entities can be audited only by certain auditors who meet the requirements of the regulatory body overseeing the stock market because stakeholders of listed entities possess heightened expectations of audit and these entities are expected to have major effects on the market, economy and society. Therefore, adding more types of entities may lead to having other regulatory bodies applying additional requirements from auditors to audit certain entities falling under the PIE definition. This could create unintended complexity, increasing the burdensome on auditors (accounting firms) in order to make sure that they comply with such different legal and professional requirements. Regulatory bodies are expected to reason their initiatives to request additional requirements from auditors by the principle suggested by this project that audit requirements extend to more types of entities in order to meet heightened expectations of the stakeholders of PIEs. Accordingly, SOCPA believes that certain considerations should be taken into account while further emphasizing on differentiating audit requirements based on types of entities because, after some time, the audit profession may become stratified into different categories where there are auditors who can only audit non-PIEs and the concept of audit quality is murkier.

Although this increased complexity may respond to the objective of making the standards proportionate, it does not seem to go hand in hand with the IAASB's project to simplify and make the standards more understandable. Therefore, we think since professional standards are commonly comprehended as dictating the minimum requirement for best practice, lowering the bar for the audit of certain entities (namely; non-PIE (including LCE)) may unintentionally create a new minimum limit for expectation of audit quality. This is really concerning taking into consideration the increased criticism about audit quality. It is understandable that these proposed amendments have only expanded already differentiated requirements to entities beyond listed entities, however, SOCPA believes that the concerns highlighted above may advise the board to become more skeptical about any further complications associated with more differentiated requirements proposed based on types of entities. SOCPA's interest in this project comes from its continuous efforts to provide sufficient technical support to accounting professional individuals, institutions, and users of their professional services, specifically that SOCPA has fully adopted IESBA's code of ethics. Thus, SOCPA is

supportive of the IAASB's initiative to improve the auditing standards to reflect the IESBA's amendments to define Public Interest Entities (PIEs) and publicly traded entities, and to differentiate its requirements accordingly. As such, SOCPA supports the IAASB's initiative in its Track 2 project to enhance the consistency of its standard requirements with the IESBA's Code in order to meet the heightened expectations of the stakeholders of these entities (PIEs). However, SOCPA highlights, at the same time, certain concerns in relation to the proposed revisions, which are further explained in its responses to the questions in the appendix.

SOCPA believes that increasing the consistency between the two sets of standards (auditing and ethical standards) serves the purpose of enhancing the quality of professional services and meeting the expectations of the stakeholders.

#### **4. Accounting Firms**

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

Neither agree/disagree, but see comments below

We agree with the overarching objective and purpose to establish differential requirements across the IAASB standards to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities. 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.

#### **5. Member Bodies and Other Professional Organizations**

##### **CPA Australia**

Neither agree/disagree, but see comments below

CPA Australia neither wholly agrees nor disagrees with the proposal in paragraphs A29A–A29B of ISQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements (ISQM 1) and paragraphs A81A–A81B of ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (ISA 200) in the ED.

While we acknowledge the importance of establishing a common objective as a guiding principle for differentiating requirements across the IAASB standards and the International Ethics Standards Board for Accountants (IESBA) Code, we have identified certain concerns regarding the terms' usage within the context of audit objectives.

In principle, we agree with the necessity of developing a common objective to underpin the establishment of differential requirements for entities across IAASB standards and the IESBA Code. However, we found adopting the objective in paragraph R400.8 of the IESBA PIE Revisions into ISQM 1 and ISA 200 to be problematic.

Our concern stems from the fact that section 400 of the IESBA Code pertains to independence for audit and review engagements, whereas ISQM 1 and ISA 200 (in the context of auditor's general responsibilities applicable to all audits) address audits holistically, which may include the audits of other historical financial information, other assurance or related services engagements. Therefore, aligning the proposed wording



with these IAASB standards would have broader implications beyond just the independence for audit and review engagements.

Furthermore, the inclusion of the term ‘stakeholder’ in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 within the audit context appears contradictory to the fundamental purpose of auditing. The primary objective of an audit is to enhance the degree of confidence of intended users in the financial report, not that of a potentially wider range of stakeholders. While stakeholders are vital in the broader context of corporate governance and accountability, the primary focus of an audit should be on providing assurance to the specific users of financial statements, such as shareholders, creditors, and regulators.

Additionally, the proposed language in ISQM 1 A29B and ISA 200 A81B mirroring paragraph 400.10 of the IESBA Code discusses stakeholders' heightened expectations regarding audits for PIE entities. It then states that the purpose of the requirements in ISQM 1 and ISA 200, is to ‘meet’ these expectations. However, the lack of clarity regarding the nature and reasonableness of these expectations may inadvertently endorse unrealistic perceptions of auditors' roles, exacerbating existing gaps in expectations.

Therefore, we urge the IAASB to reconsider its approach in adopting the objective directly from the IESBA Code and strongly recommend revising the language to replace ‘stakeholders’ with ‘intended users of financial reports’ and ‘meet’ with ‘address’ users’ expectations. This adjustment would better align with and reflect the intended context of the IAASB standards.

#### **Q01 Disagree**

#### **4. Accounting Firms**

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

Disagree, with comments below

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).

Additional outreach will allow the IAASB to develop a long-term vision and strategy for audits of PIEs, including a clear articulation of “why” changes are needed and “why” the IAASB needs to establish an overarching objective and purpose for establishing differential requirements for audits of PIEs. While we acknowledge that the ED (paragraphs 13-18) provided discussion on the intended objective and guidelines to support the IAASB's judgments regarding differential requirements, we do not believe the rationales provided are sufficiently clear or persuasive. Once a well-informed long-term vision and strategy for audits of

PIEs is developed, it can be applied to questions on extending differential requirements. In addition, as part of the vision and strategy for audits of PIEs, the IAASB should consider the need for extending differential requirements to entities other than listed entities. Many of the existing differential requirements were only recently debated by the IAASB (e.g., the differential requirements that are the subject of this ED), and we do not believe the IAASB has demonstrated why there are compelling reasons, or outreach support, to overturn decisions previously made by the IAASB.

In addition, see our response to Question 2 for additional recommendations on the definition of PIE.

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

Disagree, with comments below

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.

We do support, however, the guidance in paragraphs A29A–A29C of ISQM 1 and paragraphs A81A–A81C of ISA 200 in the ED-PIE and suggest that the IAASB revisit this guidance, along with obtaining further information about local definitions of PIEs, to determine whether there is a viable way to re-purpose this guidance into a framework for the identification of entities in which there is a significant public interest.

#### **KPMG International Limited**

Disagree, with comments below

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.

### **PricewaterhouseCoopers International Limited**

Disagree, with comments below

#### **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.

#### Overarching objective

While we agree with the inclusion of the overarching objective, we continue to have concerns that the terms “financial condition” and “financial well-being”, as used in paragraphs A29A-A29B of ISQM 1 and A81A-A81B of ISA 200, are ill-defined. There is a risk that stakeholders may interpret these terms differently, further contributing to the expectation gap regarding the role of the auditor in an audit of financial statements.

ISA 200 states that the purpose and overall objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. However, the auditor’s role does not extend to opining on the “financial condition” or “financial well-being” of an entity.

It is also unclear if these terms are intended to have the same meaning. Is financial condition intended to be synonymous with the fair presentation of the statement of financial position (balance sheet)? “Financial well-being” may be viewed as a proxy for resilience or viability, which, excluding a few jurisdictions, is not a function of the audit.

We recognise that the IAASB has limited scope to amend this overarching objective in light of the desire to align ISQM 1 and ISA 200 with the Code. However, we encourage the Board to consider whether some further tailoring of the objective is appropriate to reflect the IAASB’s intention to establish a global baseline for audits of financial statements and ensure that stakeholders do not misinterpret this overarching objective as implying an extension of the overall objectives of an audit, thereby further exacerbating the expectation gap.

#### Coordination between the IESBA and the IAASB

In general, proposals from the IESBA can have significant consequences for the implementation of the IAASB’s standards (and vice versa). We emphasize the importance of the two Boards working in tandem to develop and assess the impact of respective projects and, ideally, exposing changes as a package. That is a more effective approach than one Board running ahead of the other, resulting in the implications for the other Board’s standards being addressed only after the first Board has finalised its changes, thereby potentially constraining the actions of the second Board and creating a risk of sub-optimal outcomes. That is not in the interests of stakeholders.

### 5. Member Bodies and Other Professional Organizations

#### International Federation of Accountants (IFAC)

Disagree, with comments below

We agree with establishing the overarching objective and purpose for differential requirements for PIEs, but some elements of the proposed wording are problematic. ISQM 1 A29A- A29D and ISA 200 A81A- A81D refer to public interest in the ‘financial condition’ of entities and ISQM 1 A29A and ISA 200 A81A refers to the potential impact of the ‘financial well-being on stakeholders’ of PIEs. The considerations referred to here are broader than concern with the financial statements and their intended users, which is where emphasis is placed in other IAASB standards (see our comment and suggestion above). We understand that this may be a deliberate choice in wording, recognizing that for PIEs there may be wider concern around financial viability and ability to continue operating independent of what the financial statements show. However, under the ISAs, the purpose of an audit is to enhance the degree of confidence of intended users in the financial statements not that of a potentially wider range of stakeholders.

Linked to the above, the proposed wording in ISQM 1 A29B and ISA 200 A81B refers to stakeholders having heightened expectations regarding an audit for a PIE entity, and then notes the purpose of the requirements in the ISQMs/ISA 200 that apply to audits is to meet these expectations. It is not clarified what these expectations are nor how reasonable they are. This fails to recognize that some stakeholder expectations may be unrealistic, and as such the requirements in the ISQMs/ISA 200 would and could not actually be designed to meet these. Ultimately, the wording as drafted has the potential to legitimize unrealistic expectations as to the role of auditors, and as such could contribute to worsening existing expectations gaps. Instead of referring to the requirements of ISQMs/ISA 200 being designed to ‘meet’ expectations, reference could be made to the requirements aiming to ‘address’ expectations. This would allow for consideration of the reasonableness of such expectations by the auditor within the bounds of the standards.

We note wording in the final pronouncement of the IESBA code for changes related to the Listed Entity and PIE definitions referred to heightened expectations regarding the independence of firms performing audit and review engagements (see IESBA Code 400.10) and the need for requirements to meet these. However, the proposed wording of the references within these IAASB standards will have a far broader implication. The reference to audits as a whole, rather than a particular element of considerations made (e.g., independence of firms in the IESBA example) makes this problematic.

We also note the overarching objective and purpose is presented within the Application and Other Explanatory Material sections of ISQM 1 (A29A and B) and ISA 200 (A81A and B). The placement of this information within application guidance is confusing. It would be more appropriate to include this material – appropriately modified – within the explanatory opening paragraphs of the relevant standards. IFAC appreciates the efforts of the IAASB in working together with the IESBA to harmonize definitions and terminology in this important area and we are broadly supportive of the proposed changes but have commented on this matter in more detail below in suggesting timelines are also coordinated such that changes by one SSB are not presented as a fait accompli to the other Board to address later. In this context, we also raise concerns within our response that the terminology used around standards being designed to meet heightened stakeholder expectations for PIEs could be problematic and could worsen existing expectation gaps. Specifically, we suggest the term “stakeholders” be changed to read: “intended users of the financial statements” in line with the terminology used in paragraph 3 of ISA 200 (Revised).

## **6. Individuals and Others**

**Wayne Morgan and Phil Peters**

Disagree, with comments below

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.

As noted, the ED is entrenching a new category of assurance (“heightened assurance”) via differential requirements. We are concerned that it may lead to market confusion or make decisions by regulators and market participants more complicated. Our concern is with IAASB simultaneously determining which entities the heightened assurance applies to (listed entities, banks, insurance companies). While we acknowledge it is within IAASB’s authority to create a new category of assurance, we question whether it is within IAASB’s authority to make the decisions for states/nations and their economies and societies which entities that heightened assurance must be applied to i.e. a public policy regulatory decision.

We appreciate IAASB’s due process. However, because IAASB does not appear to us to have the authority to determine which entities are public interest entities, IAASB’s due process itself is not apparently sufficient.

We may also observe that neither of the IAASB’s oversight bodies provide sufficient authority for IAASB for this matter. The PIOB is mainly concerned with due process, but IAASB’s due process is not sufficient in this case. The Monitoring Group goes so far in its charter to say that it is not a policy-making entity.

We note, coincidentally, that the entities that are considered PIEs align with those represented at the Monitoring Group level (listed entities, banks and insurance companies) and so some may raise concerns about the neutrality of IAASB (and IESBA) with respect to determining PIE. That is part of why the determination of what is a PIE should not be with IAASB but instead is a matter of public policy.

We encourage IAASB to clearly define the “heightened assurance” as a separate set of standards, perhaps enhanced ISAs or enhanced ISAE 3000 or enhanced ISSA 5000. As one suggestion, we might put forth the strategy that IAASB not proceed with these changes until it seeks and obtains input from the United Nations

Economic and Social Council regarding which entities are in the public interest to such an extent that a heightened level of assurance should apply. In our view, as an organization comprised of governments, the UN is the best equivalent of public policy makers at the international level. The views of the UN Economic and Social Council on what are appropriately public interest entities could then be incorporated into the IAASB's standards. (If IAASB already has such approval from the United Nations they should disclose this in the ED; we could find no reference to IAASB on the United Nations website).

At a national/state level, in our view the same applies. While national standard setters that adopt IAASB's standards may have authority to create a new category of "heightened assurance" they may not have the authority to determine public policy in general nor which entities that heightened assurance applies to in particular. We suggest for consideration that the entities to which "heightened assurance" applies may be a matter for governments to determine, via law or regulation. It would then rest with a specific jurisdiction's policy decision whether and how to adopt any UN's decision as noted above, or adopt their own independent of the UN.

Absent specific input or direction from governments (if they so choose to provide it), in law or regulation, regarding which entities or engagements "heightened assurance" applies to, there should be no requirements in the IAASB's quality management standards or underlying audit or assurance standards to apply the "heightened assurance" differential requirement to any entities or engagements.

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.

We use the term "engagement" rather than entity because in our view public interest matters may vary by engagement, and IAASB should consider whether the heightened assurance is appropriate across not only ISQMs and ISAs but also ISAE 3000 and ISSA 5000.