

Agenda Item 7-A

Illustrative Drafting Relating to the Two Options Proposed in Part D of Agenda Item 7

This Agenda Item includes proposed drafting to illustrative how the IAASB proposals in the ED¹ could be updated to reflect the two options that have been developed by the Task Force (see **Agenda Item 7, Part D**). For the purpose of this illustration, only certain paragraphs from ISQM 1 and the ISAs have been included.

The illustrative drafting is presented in a table format so that Options 1 and 2 can be considered side-by-side. Where text in the ED has been relocated, this is explained in block brackets with yellow-highlighted text. Proposed changes to text are marked from the ED. For easy navigation, the illustrative drafting is presented under the following headings:

- Illustration of changes in ISQM 1 (which will be mirrored in ISA 200)
- Illustration of changes for selected differential requirements

Illustration of Changes in ISQM 1 (which will be mirrored in ISA 200)

The proposed adoption of the definitions of PIE and PTE, as well as the overarching objective and purpose for establishing differential requirements in the ISQMs and ISAs, including the framework to determine entities to be treated as PIEs, were incorporated as follows in the ED (the proposed revisions to ISA 200 match exactly the proposed changes to ISQM 1, except that in ISA 200 reference is made to “the ISAs” (not “the ISQMs”) and to “the auditor” (not “the firm”) – see **Agenda Item 7-B** for the relevant paragraphs from the ED for ISQM 1 and ISA 200):

Section of standard (as proposed in the ED)	Paragraphs in ISQM 1	Paragraphs in ISA 200
Definitions		
Public interest entity	16(p)A	13(l)A
Publicly traded entity	16(p)B	13(l)B
[<u>Note</u> : There is no application material to any of the definitions]		

¹ Exposure Draft (ED) for the [Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 \(Revised\)](#)

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Section of standard (as proposed in the ED)	Paragraphs in ISQM 1	Paragraphs in ISA 200
<p>Requirements</p> <p>To treat an entity as a public interest entity</p> <p>[Note: The requirement in ISA 200 includes an additional sentence addressing the firm's policies or procedures]</p>	18A	23A
<p>Application material</p> <p>To the requirements above</p>	A29A to A29G	A81A to A81G

The illustrative drafting relating to the two options that have been developed by the Task Force is only presented for ISQM 1, recognizing that any changes in ISQM 1 will be mirrored in ISA 200 as explained above.

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
Introduction	<p>ISQM 1.5A [Moved from ISQM 1.A29A]</p> <p>Some of the requirements set out in the ISQMs are applicable only to audits of financial statements of <u>publicly traded entities</u>public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. <u>(Ref: Para. A2A-A2B)</u></p>	<p>ISQM 1.5A [Moved from ISQM 1.A29A]</p> <p>Some of the requirements set out in the ISQMs are applicable only to audits of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. <u>(Ref: Para. A2A)</u></p>

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
Introduction	<p>ISQM 1.5B [Moved from ISQM 1.A29B]</p> <p>Stakeholders have heightened expectations regarding an audit engagement for a <u>publicly traded entity</u>public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements in the ISQMs that apply to audits of financial statements of <u>publicly traded entities</u>public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition. <u>(Ref: Para. A2B-A2E)</u></p>	<p>ISQM 1.5B [Moved from ISQM 1.A29B]</p> <p>Stakeholders have heightened expectations regarding an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements in the ISQMs that apply to audits of financial statements of public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition. <u>(Ref: Para. A2A-A2C)</u></p>
Definitions	<p>ISQM 1.16(p)A</p> <p>Public interest entity – An entity is a public interest entity when it falls within any of the following categories:</p> <ul style="list-style-type: none"> (i) A publicly traded entity; (ii) An entity one of whose main functions is to take deposits from the public; (iii) An entity one of whose main functions is to provide insurance to the public; or (iv) An entity specified as such by law, regulation or professional requirements related to the significance of the public interest in the financial condition of the entity. <p>Law, regulation or professional requirements may define more explicitly the categories of entities in (i)–(iii) above.</p>	<p>ISQM 1.16(p)A</p> <p>Public interest entity – An entity is a public interest entity when it falls within any of the following categories:</p> <ul style="list-style-type: none"> (i) A publicly traded entity; (ii) An entity one of whose main functions is to take deposits from the public; (iii) An entity one of whose main functions is to provide insurance to the public; or (iv) An entity specified as such by law, regulation or professional requirements related to the significance of the public interest in the financial condition of the entity. <p>Law, regulation or professional requirements may define more explicitly the categories of entities in (i)–(iii) above.</p>

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
	<p>ISQM 1.16(p)B</p> <p>Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.</p> <p><u>For purposes of the ISQMs, law, regulation or professional requirements can more explicitly define publicly traded entities in a jurisdiction by, for example, making reference to specific public markets for trading securities, incorporating exemptions for entities or setting size criteria.</u></p>	<p>ISQM 1.16(p)B</p> <p>Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.</p>
Requirement	<p>ISQM 1.18A</p> <p>The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider more explicit definitions established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)–(iii). (Ref: Para. A29A–A29G)</p>	<p>ISQM 1.18A</p> <p>The firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, <u>provided that the categories set out in paragraph 16(p)A(i)–(iii) apply to the extent that law, regulation or professional requirements have as well as consider more explicitly defined entities which are included in one or all of these categories in a jurisdiction established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)–(iii). (Ref: Para. A29EA–A29GFa)</u></p>

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
Application Material	<p>[Below is the proposed application material to paragraphs 5A and 5B in the Introduction section of ISQM 1 – see paragraphs A2A-A2E]</p> <p><u>ISQM 1.A2A</u></p> <p><u>Some entities other than publicly traded entities may exhibit similar characteristics as described for publicly traded entities in paragraphs 5A and 5B. Therefore, the firm may determine to also apply requirements set out in the ISQMs for audits of financial statements of publicly traded entities to the audits of such other entities. Paragraphs A2B–A2E may be relevant in this regard.</u></p>	<p>[Below is the proposed application material to paragraphs 5A and 5B in the Introduction section of ISQM 1 – see paragraphs A2A to A2C]</p> <p>[No equivalent for Option 2]</p>

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
Application Material	<p>ISQM 1.A2B [Moved from ISQM 1.A29C]</p> <p>The extent of public interest in the financial condition of an entity may, for example, be affected by:</p> <ul style="list-style-type: none"> • The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business. • Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. • Size of the entity. • The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure. • Number and nature of stakeholders including investors, customers, creditors and employees. • The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity. 	<p>ISQM 1.A2A [Moved from ISQM 1.A29C]</p> <p>The extent of public interest in the financial condition of an entity may, for example, be affected by:</p> <ul style="list-style-type: none"> • The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business. • Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. • Size of the entity. • The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure. • Number and nature of stakeholders including investors, customers, creditors and employees. • The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
	<p>ISQM 1.A2C [Adapted from ISQM 1.16(p)A and A29D]</p> <p><u>Law, regulation or professional requirements may define or designate an entity(ies) as a “public interest entity” or may use terms other than “public interest entity” to describe entities in which there is a significant public interest in the financial condition. Relevant ethical requirements also may require that a firm treat an entity(ies) as a “public interest entity”. For example, the IESBA Code requires that a firm treat an entity as a public interest entity when it falls within any of certain categories (taking into account more explicit definitions established by law, regulation or professional requirements for those categories), including a publicly traded entity, an entity one of whose main functions is to take deposits from the public, or an entity one of whose main functions is to provide insurance to the public.</u></p>	<p>ISQM 1.A2B [Moved from ISQM 1.A29D]</p> <p>Law, regulation or professional requirements may use terms other than “public interest entity” to describe entities in which there is a significant public interest in the financial condition (see paragraph A29B). The requirements in the ISQMs that are relevant to public interest entities also apply to such entities. However, if law, regulation or professional requirements designate entities as “public interest entities” for reasons unrelated to the significant public interest in the financial condition of the entities, the requirements for audits of financial statements of public interest entities in the ISQMs may not necessarily apply to such entities.</p>

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
	<p>ISQM 1.A2D [Moved from ISQM 1.A29F]</p> <p>Paragraph 16(p)A(iv) anticipates that tThose responsible for setting law, regulation or professional requirements <u>also</u> may <u>identify other</u>add categories of “public interest entities”, <u>for example, by to meet the purpose described in paragraph A29B</u> and may considering the matters in paragraph <u>A2BA29C</u> in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:</p> <ul style="list-style-type: none"> • Pension funds. • Collective investment vehicles. • Private entities with large numbers of stakeholders (other than investors). • Not-for-profit organizations or governmental entities. • Public utilities. 	<p>[For Option 2, paragraph A29F remains as application material to the requirement in paragraph 18A]</p>

Application Material	<p>ISQM 1.A2E [Moved from ISQM 1.A29G]</p> <p>The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the firm may consider the matters set out in paragraph A29C as well as the firm may also consider the following factors:</p> <ul style="list-style-type: none"> • Whether the entity is likely to become a “public interest entity” <u>as defined or designated by law, regulation or professional requirements</u> in the near future. • Whether in similar circumstances, the firm has applied the differential requirements for publicly <u>traded interest</u> entities to other entities. • Whether the entity has been specified as not being a “public interest entity” by law, regulation or professional requirements. • Whether the entity or other stakeholders requested the firm to apply the differential requirements for publicly <u>traded interest</u> entities to the entity and, if so, whether there are any reasons for not meeting this request. • The entity’s corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management. • Whether in similar circumstances, a predecessor firm has applied differential requirements for publicly <u>traded interest</u> entities to the entity. 	<p>ISQM 1.A2C [Moved from ISQM 1.A29G]</p> <p>The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence. In addition, the firm may consider the matters set out in paragraph A2A<u>A29C</u> as well as the following factors:</p> <ul style="list-style-type: none"> • Whether the entity is likely to become a public interest entity in the near future. • Whether in similar circumstances, the firm has applied the differential requirements for public interest entities to other entities. • Whether the entity has been specified as not being a public interest entity by law, regulation or professional requirements. • Whether the entity or other stakeholders requested the firm to apply the differential requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request. • The entity’s corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management. • Whether in similar circumstances, a predecessor firm has applied differential requirements for public interest entities to the entity. <p><u>The firm ordinarily treats the same entities as public interest entities for purposes of the ISQMs and relevant ethical requirements (including those related to independence).</u></p>
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	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
	[No equivalent for Option 1]	<p>[Below is the proposed application material to the requirement in paragraph 18A of ISQM 1 – see paragraphs A29E-A29Fa]</p> <p><u>ISQM 1.A29E</u></p> <p>The categories set out in paragraph 16(p)A(i)–(iii) are broadly defined, and <u>no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The ISQMs anticipate that law, regulation or professional requirements may have or will</u> more explicitly define these categories by, for example:</p> <ul style="list-style-type: none"> • Making reference to specific public markets for trading securities. • Making reference to the local law or regulation defining banks or insurance companies. • Incorporating exemptions for specific types of entities, such as an entity with mutual ownership. • Setting size criteria for certain types of entities. <p><u>However, the above does not exclude that law, regulation or professional requirements may determine that all entities as broadly described for one or all of these categories are public interest entities in a jurisdiction.</u></p>

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement included in para 18A
Application Material	[For Option 1, ISQM 1.A29F has been moved to ISQM 1.A2D and updated for the option]	<p><u>ISQM 1.A29F</u></p> <p>Paragraph 16(p)A(iv) anticipates that those responsible for setting law, regulation or professional requirements may add categories of public interest entities to meet the purpose described in paragraph 5BA29B and may consider the matters in paragraph A2AA29C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:</p> <ul style="list-style-type: none"> • Pension funds. • Collective investment vehicles. • Private entities with large numbers of stakeholders (other than investors). • Not-for-profit organizations or governmental entities. • Public utilities.
	[No equivalent for Option 1]	<p><u>ISQM 1.A29Fa</u></p> <p>Paragraphs 5A-5B address the overarching objective and purpose for establishing requirements in the ISQMs that are applicable only to audits of financial statements of public interest entities. In addition to law, regulation or professional requirements defining or designating an entity(ies) as a “public interest entity”, paragraph A2C explains that the firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs and provides guidance for making such determination.</p>

Illustration of Changes for Selected Differential Requirements

	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement
Differential Requirements and Related Application Material	<p>ISQM 1.34(e)</p> <p>The firm establishes policies or procedures that: (Ref: Para. A124–A126)</p> <ul style="list-style-type: none"> (i) Require communication with those charged with governance when performing an audit of financial statements of <u>publicly traded entities</u>public interest entities about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A129) (ii) Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and (Ref: Para. A130) (iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A131–A132) 	<p>ISQM 1.34(e)</p> <p>The firm establishes policies or procedures that: (Ref: Para. A124–A126)</p> <ul style="list-style-type: none"> (i) Require communication with those charged with governance when performing an audit of financial statements of public interest entities about how the system of quality management supports the consistent performance of quality audit engagements; (Ref: Para. A127–A129) (ii) Address when it is otherwise appropriate to communicate with external parties about the firm's system of quality management; and (Ref: Para. A130) (iii) Address the information to be provided when communicating externally in accordance with paragraphs 34(e)(i) and 34(e)(ii), including the nature, timing and extent and appropriate form of communication. (Ref: Para. A131–A132)
	<p>ISQM 1.A128</p> <p>ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate and the communication process. -In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than <u>publicly traded entities</u>public interest entities (or when performing other engagements).</p>	<p>ISQM 1.A128</p> <p>ISA 260 (Revised) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements and addresses the auditor's determination of the appropriate person(s) within the entity's governance structure with whom to communicate and the communication process. -In some circumstances, it may be appropriate to communicate with those charged with governance of entities other than public interest entities (or when performing other engagements).</p>

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	Option 1 – Adoption of PTE solely	Option 2 – Conditional Requirement
	<p>ISA 700.30</p> <p>Key Audit Matters</p> <p>30. For audits of complete sets of general purpose financial statements of <u>publicly traded entities</u>public interest entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.</p>	<p>ISA 700.30</p> <p>Key Audit Matters</p> <p>30. For audits of complete sets of general purpose financial statements of public interest entities <u>as determined in accordance with ISA 200, paragraph 23A</u>, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.</p> <p>[Note: For purposes of the ISAs, paragraph 23A of ISA 200 would mirror paragraph 18A of ISQM 1 as presented in the table above]</p>