

# Agenda Item 3-B.1 (Supplemental)

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

**1. You are invited to share any observations that you believe might be relevant to the IAASB prior to finalizing the narrow scope amendments to the ISQMs and ISAs.**

### **Q1 Concur with the IAASB's Position and Rationale**

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

##### **Group of Latin American Accounting Standard Setters**

Concur with the IAASB's position and rationale for finalizing the narrow scope amendments (no further observations)

#### **05. Accounting Firms**

##### **Deloitte**

Concur with the IAASB's position and rationale for finalizing the narrow scope amendments (no further observations)

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

Concur with the IAASB's position and rationale for finalizing the narrow scope amendments (no further observations)

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

##### **Federation of Accounting Professions of Thailand**

Concur with the IAASB's position and rationale for finalizing the narrow scope amendments (no further observations)

##### **Institute of Singapore Chartered Accountants**

Concur with the IAASB's position and rationale for finalizing the narrow scope amendments (no further observations)

##### **Korean Institute of Certified Public Accountants**

Concur with the IAASB's position and rationale for finalizing the narrow scope amendments (no further observations)

##### **Malaysian Institute of Certified Public Accountants**

Concur with the IAASB's position and rationale for finalizing the narrow scope amendments (no further observations)

### **Q1 Concur With Comments**

#### **01. Monitoring Group Members**

##### **International Organization of Securities Commission**

##### **General Comments**

We have, for many years, advocated for close coordination and collaboration between the IAASB and the International Ethics Standards Board for Accountants ("IESBA") (collectively "the Boards") on matters of mutual interest, and, therefore, continue to support the objectives of the Listed Entity and Public Interest

Entity (“PIE”) (Track 2) project (the “Project”) to maintain interoperability between the IESBA’s International Code of Ethics for Professional Accountants (including International Independence Standards) (the “IESBA Code”), the ISAs, the ISREs, and the ISQMs, following the revisions to the definitions of listed entity and PIE in the IESBA Code. We appreciate the IAASB’s initiative to undertake the Project which includes the important objective of achieving, to the greatest extent possible, convergence between the definitions and key concepts underlying the definitions used in the IESBA PIE revisions and determining the extent to which to amend the applicability of existing differential requirements for certain entities in the ISQMs, ISREs, and ISAs. We continue to emphasize the importance of close coordination between the Boards throughout their respective standard-setting projects.

We appreciate the IAASB’s transparency with regards to the IAASB’s change in position which was necessitated by stakeholders’ identification of anticipated divergence between the IAASB’s original proposals that were presented in the PIE Track 2 Exposure Draft and the IESBA PIE clarifications in March 2024.

#### IAASB Final Position and Way Forward:

We believe the IAASB’s final position impacts an important public interest matter, which we have highlighted in prior comment letters to the Boards. In our April 2021 comment letter to the IESBA, we stated that “we do not support a broad approach that results in jurisdictions being provided with the option of excluding categories of entities from the definition established by the Code. We recognize that the ultimate responsibility for the designations of what entities are defined as a PIE, for the most part, rests with legislators, regulators, oversight bodies, and/or national standard setters, which is why a well-defined baseline in the Code could incentivize these bodies to adopt the definitions, and only add to the list, as needed.” Furthermore, in our April 2024 comment letter to the IAASB, we agreed with the original proposal regarding the definitions of PIE, since it would result in the establishment of a global baseline. We again reiterate these comments because we do not believe that the combination of IESBA’s clarifications and the IAASB’s final position support the establishment of a global baseline. We continue to believe that establishing a PIE definition that results in a global baseline, particularly for assurance over financial reporting, is important in the public interest.

We do not support the IAASB’s proposal to revisit the decision to adopt the definition of PIE at a later date “...when the global adoption and implementation of such definition has sufficiently matured.” While we encourage the IAASB to finalize certain aspects of this project, including the PTE definition and updates to the differential requirements, we believe the IAASB should also carve out a project to reconsider a PIE definition for use in the ISAs and ISQMs that is not constrained by an objective to converge with the broad PIE definition developed by the IESBA. In any event, we do not believe the IESBA revisions will support the establishment of a global baseline, since there remains the ability within the IESBA Code, as clarified, to revert to a local PIE definition (or lack thereof) set forth by local law, regulation, or professional standards, which may be less robust than the PIE definition set forth in the Code. Regardless of the IESBA clarifications, we believe it is in the public interest for the IAASB to establish the PIE definition for use in the ISAs and ISQMs, and for a project with revised objectives to be commenced immediately since it appears that much of the work has been done, including outreach, stakeholder feedback, and staff and IAASB level deliberations.

#### IESBA Clarifications:

Additionally, we observe that the IESBA’s clarifications in March 2024 appear to be the impetus for the IAASB’s change in position. The IESBA’s PIE clarifications, which were outside of the Code and not subject

to the same level of due process, were of such significance that it compelled the IAASB to alter the direction of its convergence project. We question whether the IESBA's clarifications, which were published long after the IESBA project closed, changes or adds to requirements in the Code and if so, whether such changes were subject to appropriate due process. In addition, we are concerned that users of the Code may not be aware of the clarifications when applying or considering the Code.

## **02. User of Financial Statements**

### **International Corporate Governance Network**

Concur and wish to share the following observations

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB) "Invitation to Comment Before the IAASB Finalizes the Narrow Scope Amendments to the ISQMs and ISAs as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code" ("Post-Exposure Consultation").

We welcome the IAASB's efforts to finalise its proposals for narrow scope amendments to the ISQMs and the ISAs arising from the Public Interest Entity (PIE) Track 2 Project. Robust audit standards are critical to ensure comparable and decision-useful information for investors and other stakeholders, instilling confidence in the quality and reliability of information.

We provide some comments below on the forward-looking matters.

## **03. Regulators and Audit or Assurance Oversight Authorities**

### **Botswana Accountancy Oversight Authority**

Concur and wish to share the following observations

### **Independent Regulatory Board for Auditors – South Africa**

Concur and wish to share the following observations

We support the IAASB's final position and rationale for the proposed narrow scope amendments to the ISQMs and ISAs. From a jurisdictional standpoint, we also wish to highlight the interaction of the IAASB's position relating to the definitions of listed and public interest entities in the ISQMs and ISAs with the IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities (EAR Rule) and the IRBA's Four Rules Arising from the International Standards on Quality Management that the IRBA prescribed in South Africa, as previously mentioned in our response to the initial IAASB Exposure Draft on 27 March 2024.

The interaction of the IAASB's final position with these IRBA Rules is as follows:

The EAR Rule extends the communication of Key Audit Matters to audits of Public Interest Entities (PIEs), as defined in the IRBA Code of Professional Conduct for Registered Auditors. This rule is effective for audits of financial statements for periods ending on or after 15 December 2024.

During the development of the IRBA's Four Rules Arising from the ISQMs, Proposed Rule 3, which the IRBA published for public comment, considered whether limiting engagement quality reviews to listed entities sufficiently serves the public interest, as required by paragraph 34(f)(i) of ISQM 1; or if it should be expanded to include PIEs. A decision was deferred, due to the pending finalisation of the IAASB's PIE Track 2 Project.

The EAR Rule is already effective; however, the IAASB's final position necessitates a reassessment of the IRBA's Proposed Rule 3. While this consideration remains open, we welcome the insertion of paragraph A2A in the Application and Other Explanatory Material of ISQM 1 as it gives firms the option to consider applying one or more of the requirements set out in an ISQM for audits of financial statements of publicly traded entities to the audits of entities other than publicly traded entities, if those entities reflect significant public interest in their financial condition.

#### **National Association of State Boards of Accountancy**

In furtherance of that objective, NASBA supports the IAASB in this initiative and offers the following comments to the specific questions on forward-looking matters included in the Invitation to Comment.

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

##### **American Institute of Certified Public Accountants**

Concur and wish to share the following observations

We concur it is appropriate under the circumstances noted above for the IAASB to defer adopting the IESBA PIE definition and defer extending the current listed entity differential ISA requirements to PIE audits. Furthermore, deferring the PIE-related decisions of Track 2 is also appropriate under the circumstances because the IAASB needs an understanding of the status of how the jurisdictional adoption of the IESBA Code PIE and publicly traded entity (PTE) revisions have borne out, which we believe is essential before pursuing further standard setting work. This is a recommendation that is explained in more detail in our ED-PIE Track 2 response.

##### **Compagnie Nationale des Commissaires aux Comptes**

Concur and wish to share the following observations

We agree with the definition of Publicly traded entity (Appendix 1, Pre-Final Narrow Scope Amendments to the ISQMs and ISAs as a Result of the Revisions to the Definitions of Listed Entity and PIE in the IESBA Code, paragraph 16 p(B), page 27) but believe that the second part could be clarified as proposed below:

(p)B 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.

For purposes of complying with the ISQMs, if law, regulation or professional requirements define more explicitly a publicly traded entity in a specific jurisdiction, the firm applies that more explicit definition. Law, regulation or professional requirements may for example define publicly traded entities for purposes of defining entities that are considered public interest entities, by making reference to specific public markets for trading securities, incorporating exemptions for specific types of entities, or setting size criteria, the firm applies that more explicit definition.

In addition, the wording of the fourth point of paragraph A2E (Application and Other Explanatory Material, page 30) is confusing and should be clarified by replacing the double negative: Whether the entity has been specified as not being a publicly traded entity by law, regulation or professional requirements.

It must be rare that a law specifies that an entity is not a publicly traded entity

Finally, the wording of paragraph A128 (Specified Responses, page 31) and A134 7th bullet in the square (page 34) should be harmonized with the IESBA Code paragraph 400.18.A2: "charities" should be replaced

by the definition included in paragraph A13D (Application and Other Explanatory Material, An Audit of Financial Statements page 40):

A13D. In addition, those responsible for setting law, regulation or professional requirements may also designate categories of “public interest entities”. Depending on the facts and circumstances in a specific jurisdiction, such categories may include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

There is no reason to focus only on “charities” in A128 and A134, while A13D refers to all categories mentioned in paragraph 400.18.A2 of IESBA Code. Additionally, “charities” is not used in paragraph 400.18.A2 of IESBA Code which is referring to “not for profit organizations or governmental entities”.

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

Concur and wish to share the following observations

In April 2024, the Institute responded to the exposure draft of the IAASB PIE Track 2 Project (ED-PIE Track 2), supporting the IAASB’s proposals to extend the existing differential requirements for listed entities in the ISQMs and ISAs to public interest entities (PIEs).

However, as the Institute developed the localized PIE definition in the HKICPA Code of Ethics for Professional Accountants (HKICPA Code), released in July 2024, we recognized the divergence issue discussed in the Post-Exposure Consultation. For instance, the HKICPA Code explicitly defines the mandatory PIE category for entities whose main function is to take deposits from the public, limiting it to licensed banks as defined under the Banking Ordinance in Hong Kong. This prevents the unintended inclusion of entities that do not process significant public interest in their financial condition. Nonetheless, the proposals in ED-PIE Track 2 could inadvertently impose the differential requirements on certain deposit-taking companies that the HKICPA Code intentionally excludes from the PIE definition at the jurisdictional level.

Implementing the proposed publicly traded entities (PTE) path as described in the Post-Exposure Consultation will effectively resolve the divergence issue. This approach also addresses concerns raised by Hong Kong stakeholders about the additional resources needed.

### **Instituto de Auditoria Independente do Brasil**

Concur and wish to share the following observations

Paragraph A29A of ISA 260: as the term ‘public interest entities’ is not being adopted by the IAASB standards yet, we suggest that when making such reference to the term, additional language is included (i.e. ‘public interest entities as defined by the IESBA Code’).

### **Nordic Federation of Public Accountants**

As the title of this consultation states, this project is about Narrow Scope Amendments as a result of the revisions to the definitions of listed entity and public traded entity in the IESBA Code. Regarding the specific proposed amendments, our concerns still remain regarding paragraph 18 in ISA 260. By deleting the

reference to listed entities in the introduction of this paragraph the requirement to provide a written statement to those charge with government has now been broadened to be applied in all audit engagements. We do not support this change. We believe this amendment goes outside the scope of this project and also, we question the need to provide this statement in all audits, including in SME audits.

## 05. Accounting Firms

### BDO International

Concur and wish to share the following observations

Clarifying meaning of public interest entity

Reference is made to 'public interest entity' in the following paragraphs of the proposed amendments included in the consultation paper, yet the International Standards on Auditing (ISA) and International Standards on Quality Management (ISQM) do not explicitly define public interest entity, nor are they clear in indicating which definition should be applied:

ISQM 1.A2C and A2E

ISA 200.A13E

ISA 260.A29A

ISA 265.A15

We recommend the IAASB provides clarity as to which definition should be applied when considering these items of application material shown above. This will help to avoid confusion and inconsistent application in practice (i.e., the definition included in the IESBA Code or the local definition).

ISQM1.A2A/ISA 200.A13A

In our view, the term '...apply one or more requirements...' included in the proposed paragraphs, ISQM 1.A2A and ISA 200.A13A does not promote consistency for audits of entities other than publicly traded entities. Providing firms/auditors with the choice to apply 'one or more' requirements within the ISQM and/or ISA requirements for these audits allows auditors to 'cherry pick' requirements. This has the potential ultimately to encourage inconsistency when applying the ISQMs and ISAs.

We recommend that the wording of these paragraphs be amended by removing 'one or more' thereby only referring to 'the requirements'.

ISA 200.A71

We believe that the qualitative characteristics noted in ISA 200.A71 for a 'smaller entity' are similar to the qualitative characteristics of a less complex entity in the ISA for LCE Authority (A3) and therefore question the use of the term 'smaller entity'. We recommend considering whether the term 'less complex entity' should be used to align to the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities.

Implementation guidance to clarify IAASB and IESBA divergence

We note that The IESBA Staff Questions & Answers on the Revisions to the Definition of Listed Entity and Publicly Traded Entity in the Code do not apply to the ISAs. We further note that paragraph 29 of the consultation paper clarifies that there will be divergence between the IESBA Code and the ISAs. We recommend that this divergence to be clarified in the implementation guidance to ensure consistent application of the requirements in practice.

Feedback on drafting

ISA 260.A29

We noted that the cross reference in footnote (33) to ISA 200.A13A is incorrect, we recommend it should be ISA 200.A13C.

### **Ernst & Young Global**

Concur and wish to share the following observations

We strongly support the direction of the IAASB in taking the PTE path, as described in paragraph 28 of the Post-Exposure Consultation, for the reasons described in sections III and IV of that same document. We also support the finalization of the narrow scope amendments to the ISQMs and ISAs as presented in Appendix 1 to the Post-Exposure Consultation.

Because we agree that it is not in the public interest for the IAASB to issue standards that could lead to a different outcome compared to the IESBA PIE revisions (i.e., the same entity being treated differently for audit and ethics purposes), or that result in a lack of a global baseline for PIEs that could be consistently applied across jurisdictions, we do not believe either the ED path or the Conditional path (as described in paragraphs 24-27 of the Post-Exposure Consultation) are viable options.

### **Forvis Mazars**

Concur and wish to share the following observations

We support the approach adopted by the IAASB. We agree with the decision to apply the differential requirements in the ISAs to Publicly Traded Entities only, rather than adopt the full scope of the IESBA PIE Definition, given the concerns identified in responses to the initial proposals around the wider PIE definition.

### **KPMG International**

Concur and wish to share the following observations

We highlight that the proposed conforming amendment at paragraph A29A of ISA 260 (Revised) includes the term “public interest entities”, when discussing communications to those charged with governance that are required by the applicable ethical requirements or laws and regulations. As this term is introduced in providing an example of such communication requirements, i.e., those that are required by the IESBA Code, which includes this definition, and as such term is not being adopted into the IAASB standards or defined therein at the current time, we recommend that the IAASB add additional language of “...for audit clients that are public interest entities as defined by the IESBA Code”, to avoid any potential confusion.

### **PriceWaterhouseCoopers**

Concur and wish to share the following observations

We support the IAASB’s position and rationale in finalising its proposals for the narrow scope amendments to the ISQMs, ISAs and ISRE 2400 (Revised) arising from the PIE Track 2 project, in particular the decision not to adopt, at this time, the revised IESBA definition of public interest entity.

Notwithstanding, we continue to emphasise the importance of alignment between the IAASB standards and the IESBA Code and the necessity of proactive collaboration between the IAASB and the IESBA on projects that have consequential impacts for both Boards’ pronouncements. We therefore support the IAASB’s commitment to revisit the decision regarding the adoption of a global PIE definition when global circumstances are such that there is a sufficiently clear basis to support adoption of such a definition.



However, this should be a joint exercise with the IESBA, including outreach and coordination with relevant jurisdictional bodies, to also consider, as appropriate, any necessary revisions to the PIE definition and relevant provisions of the IESBA Code, and related IESBA non-authoritative material, to appropriately recognise the purpose and intent of a global baseline definition (see also question 2).

### **RSM International**

Concur and wish to share the following observations

ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, proposed paragraph A2A: The proposed paragraph currently includes,

ISQM 1, para. A2A. The firm may determine that there are entities other than publicly traded entities where stakeholders have heightened expectations regarding the audit engagement, reflecting significant public interest in the financial condition of those entities. Therefore, the firm may also apply one or more requirements set out in an ISQM for audits of financial statements of publicly traded entities to the audits of such other entity(ies). (emphasis added)

Although the word ‘may’ indicates optionality, it is unclear whether that optionality applies when the firm has determined that there are entities other than PTEs where stakeholders have heightened expectations regarding the audit engagement, reflecting significant public interest in the financial condition of those entities, or whether it is only optional when the firm has not determined such entities. Accordingly, we suggest clarifying the optionality with the following revision,

ISQM 1, para. A2A. ...the firm may or may not decide to also apply one or more requirements set out in an ISQM for audits of financial statements of publicly traded entities to the audits of such other entity(ies).

We recommend that the same revision be made on ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing, proposed paragraph A13A.

ISQM 1, proposed paragraph A2E: The proposed paragraph currently begins,

ISQM 1, para. A2E. The firm may also consider the following factors in determining whether it may be appropriate to apply one or more requirements in an ISQM for audits of publicly traded entities to the audit of another entity(ies)... (emphasis added)

We believe using the word ‘appropriate’ may be interpreted as to suggest there is an expectation for the firm to justify why it may or may not have applied one or more requirements set out in the ISQMs/ISAs for audits of financial statements of PTEs during an audit of an entity other than a PTE. Accordingly, we recommend the following wording:

ISQM 1, para. A2E. The firm may also consider the following factors in determining whether it may be appropriate to or may not apply one or more requirements in an ISQM for audits of publicly traded entities to the audit of another entity(ies)...

We recommend ISA 200, proposed paragraph A13E use the same wording used in ISQM 1, proposed paragraph A2E, as revised above.

ISQM 1, proposed paragraph A128: We recommend that this paragraph be revised for a similar reason as proposed paragraph A2E of ISQM 1. Accordingly, we recommend the following revisions to the paragraph:



‘In some circumstances, it the auditor may be appropriate decide to communicate with those charged with governance of entities other than publicly traded entities...’.

ISA 260 (Revised), Communication with Those Charged with Governance, proposed paragraph A32: We recommend that this paragraph be revised for a similar reason as proposed paragraph A2E of ISQM 1:

ISA 260 (Revised), para. A32. The communication requirements relating to auditor independence that apply in the case of publicly traded entities may also be appropriate applied in the case of entities other than publicly traded entities ...

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

### **ASEAN Federation of Accountants**

Concur and wish to share the following observations

We strongly recommend aligning the IAASB standards with the IESBA Code and believe that proactive collaboration between the IAASB and the IESBA is essential on projects that have consequential impacts on both Boards' pronouncements. Hence, we support the IAASB's commitment to revisit the decision regarding the adoption of IESBA's definition of PIE into ISQMs and ISAs when there is a sufficiently clear basis to support adoption.

We propose for the joint collaboration to include outreach and coordination with relevant bodies to consider, as appropriate, any necessary revisions to the PIE definition and relevant provisions of the IESBA Code, and related IESBA non-authoritative materials.

### **Association of Chartered Certified Accountants and Chartered Accountants Australia and New Zealand**

Concur and wish to share the following observations

We appreciate the IAASB responding to the feedback received from us and many other stakeholders on the preceding exposure draft (ED-PIE Track 2) and changing its position accordingly. In our joint submission on ED-PIE Track 2 we questioned the appropriateness of extending the differential requirements in the IAASB Standards that currently only apply to audits of listed entities, to public interest entities (PIEs). We are much more comfortable with the IAASB's new position of extending the differential requirements in the IAASB Standards that currently only apply to audits of listed entities, to publicly traded entities (PTEs). We also support adopting the definition of PTE for the IAASB Standards which is fully aligned with the definition in the IESBA Code.

However, we do note an inconsistency in how the standards of the two boards address provisions of local laws and regulations. The IESBA Code acknowledges that professional accountants must comply with local laws or regulations but are not prohibited from claiming compliance with the Code. Whereas IAASB standards generally consider adherence to local laws or regulations, instead of IAASB requirements, as non-compliance unless the wording in the standards explicitly states that requirements apply 'unless prohibited by law or regulation'. This inconsistency should be addressed.

### **Chartered Accountants Ireland**

Concur and wish to share the following observations

We support the proposed changes regarding the Publicly Traded Entity (PTE) path outlined in paragraph 28. Convergence between the definitions and key concepts in the IESBA Code, and the ISQMs and ISAs, is achieved by adopting the definition of PTE, from the IESBA Code, as a replacement term for "listed

entity/entities” in the ISQMs and ISAs and amending the applicability of the current differential requirements in the ISQMs and ISAs that apply to listed entities, to apply to PTEs.

#### **CPA Australia**

Concur and wish to share the following observations

We believe that the IAASB’s proposal to replace 'listed entities' with 'publicly traded entities' (PTE) in the ISQMs and ISAs is a sensible step at this stage.

Providing the opportunity to revisit the alignment of PIE definitions in ISQMs and ISAs in the future is a logical approach to enhancing audit quality and consistency.

However, any future refinements to the definitions of PTE and PIE and their application should follow a more unified approach between the IAASB and IESBA. A coordinated effort would help ensure consistency across standards, reducing the risk of fragmentation and misalignment as we are seeing now. The current approach creates challenges in implementation and interpretation, potentially leading to inconsistencies in regulatory adoption and practice. A unified framework would enhance clarity, comparability, and global applicability.

#### **Institute of Certified Public Accountants of Uganda**

Concur and wish to share the following observations

We agree with the proposals, especially the adoption of the Publicly Traded Entity (PTE) approach. We agree that this approach aligns with the IESBA Public Interest Entity (PIE) principles, without directly adopting the IESBA PIE definition in the ISAs. We appreciate this as the definition of PIEs has been adopted and/or further refined to cater for clarity in the PIE definition on a local jurisdictional level for example by recognizing determination of PIE by setting size criteria among others.

Therefore, we agree that the principles-based PTE approach will allow the ISAs to cater to the jurisdictional differences in PIE categories which was allowed by the IESBA PIE revisions to the Code. It is uncontested that despite the zeal to ensure harmony in application of standards, jurisdictions still face great disparities that would call for further refining of the standards depending on the jurisdiction if meaningful application of the standards is to be attained.

Nevertheless, the IAASB should consider to continue monitoring the impact of the PTE and PIE definitions across jurisdictions to avoid any unintended disharmony in the application of the terminologies.

#### **Institute of Chartered Accountants of Ghana**

Concur and wish to share the following observations

1. For the benefit of global consistency in PIE definition, comparability of PIE financial statements globally, increased transparency and promoting public interest, The Board could consider;

phased adoption

Detailed guidance in the interim, (before December, 2026), for a more coordinated global compliance. (for Firms operating globally where PIE definitions are not well spelt out).

In comparison with Other Regulatory Bodies, the European Union has already implemented PIE related audit requirements, which ensures;

Strict auditor independence rules for PIES

Mandatory firm rotation, and

Audit reporting requirements (KAM etc.)

In conclusion, IAASB should consider aligning such standards with that of EU to ensure more global consistency.

### **International Federation of Accountants**

Concur and wish to share the following observations

We are strongly supportive of the proposed change since the ED, whereby differentiating requirements will apply for Publicly Traded Entities (PTEs) as opposed to Public Interest Entities (PIEs). Application of differential requirements for PIEs would be highly problematic considering the issues we raised in our original response as well as the recent challenges created by interpretation and clarification of the IESBA definition. We also note that within the consultation for the IESBA Code changes for sustainability, there was a question on the suitability of use of the financial statement audit PIE definition for sustainability assurance. This raises a question as to whether future changes are anticipated in the IESBA Code definition of PIEs in relation to sustainability. Consequently, it would be best for the IAASB to suspend further consideration until all these matters can be resolved at the same time to reduce uncertainty and complexity for all involved within the reporting and assurance ecosystem.

The IAASB should actively continue to monitor the impact of the PTE and PIE definitions and remain open to refinement to ensure these are practicable.

We are also aware that there is a diversity of views within the profession about the PTE definition allowing for local adjustment. The PTE definition within the ISAs and ISQMs identifies that where law, regulation or professional requirements define more explicitly a PTE in that jurisdiction, the more explicit local definition should be applied. Many would agree this to be appropriate, but there are some concerns this fails to encourage global harmonization and consistency as this allows jurisdictional requirements to supersede what is in the IAASB standards.

### **Malaysian Institute of Accountants - Auditing and Assurance Standards Board**

Concur and wish to share the following observations

We continue to emphasise the importance of alignment between the IAASB standards and the IESBA Code and the necessity of proactive collaboration between the IAASB and the IESBA on projects that have consequential impacts for both Boards' pronouncements. We therefore support the IAASB's commitment to revisit the decision regarding the adoption of IESBA's definition of PIE into ISQMs and ISAs when there is a sufficiently clear basis to support adoption. However, this should be a joint exercise with the IESBA, including outreach and coordination with relevant jurisdictional bodies, to also consider, as appropriate, any necessary revisions to the PIE definition and relevant provisions of the IESBA Code, and related IESBA non-authoritative materials.

### **Q1 Do Not Concur**

### **03. Regulators and Audit or Assurance Oversight Authorities**

#### **Committee of European Auditing Oversight Bodies**

Do not concur - see observations below

The CEAOB sees no reason for immediate urgency to adopt the new definition of Publicly Traded Entity (hereafter “PTE”) without addressing the further issues regarding the PIE definition.

It is the CEAOB preference that the IAASB should consider both aspects of this project together (PIE and PTE) and propose modifications at a later stage, as the drawbacks of the proposed partial change outweighs the benefits.

Indeed, the CEAOB expectation was that the differential requirements would be applicable to the audit of all PIEs for the reasons set out in the previous section of this questionnaire. At present, the proposed changes are limited to “PTE” replacing “listed entities”, and the CEAOB sees no real added value of making multiple amendments of the ISQMs and ISAs solely for this limited update.

The CEAOB also draws your attention to the comments raised by the CEAOB in its initial comment letter to the IAASB, in particular in its paragraphs 9 and 10. Indeed, some national standard setters in the European Union are currently using the IAASB’s definition of listed entities alongside the EU PIE definition, meaning that the entities listed on a market other than a regulated market are still subject to the differential requirements. The CEAOB appreciate the consideration of the concern for alignment of the definition of PTE by proposing to add a new paragraph to deal with potential variations in the legal definitions used in some jurisdictions, like for instance in Europe. However, for the reasons explained above, this need for alignment was flagged, in the CEAOB initial comment letter for IAASB, as highly important for adopting the PIE definition but is less relevant when only the PTE definition is considered. Finally, the CEAOB notes that the added paragraph of the PTE definition does not solve various issues faced. Considering that differential local requirements apply for listed entities, those countries limiting the scope of differential requirements to “regulated markets” will have to clarify this in their local standard, and the countries using “all markets” will have to clearly state and clarify that the definition of PTE is not influenced by the EU PIE definition and may need to delete the added paragraph of the PTE definition.

The CEAOB continues to support extending differential requirements to apply to audits of PIEs, but believes this extension should be done as one step as a single output of IAASB project, instead of the introduction of the PTE definition.

The CEAOB is of the view that all pieces of the project (i.e. both PTE and PIE) should be treated together at a later stage.

The CEAOB reiterates its call for:

coordination with the IESBA to achieve convergence in the concept of Public Interest Entity (hereafter “PIE”) and Publicly Traded Entity (hereafter “PTE”). As the IESBA Code of Ethics (hereafter “Code”) is used in several European jurisdictions, and as various audit firms and networks have voluntarily committed to complying with the Code, the CEAOB clearly sees an interest in enhancing such convergence; and

the inclusion of a PIE definition in the ISQMs and ISAs, whose audit would be subject to the differential requirements, as we believe 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 is of the view that heightened expectations of stakeholders regarding the audit engagement for a PIE should be met by requiring engagement quality reviews, providing transparency to intended users of the audit report and increasing communication to those charged with governance.

#### 04. Jurisdictional and National Auditing Standard Setters

##### Institut der Wirtschaftsprüfer in Deutschland

Do not concur - see observations below

The question being asked based upon the drop-down response above for concurrence is whether we concur with the IAASB's position and rationale for finalizing the narrow scope amendments, which implies that the question being asked includes whether we concur with the rationale for those amendments set forth in the ITC. Unfortunately, the drop-down menu did not permit a neutral response (neither concur nor do not concur) if we agree the direction of the position (even if we disagree with how it was implemented from a technical point of view), but do not agree with the rationale, which reduces our response in the drop-down response to "do not concur".

Issues with the rationale, and concurrence with position

The reasons given in paragraph 24 of the ITC as to why the definition of PIE was not adopted by the IAASB are:

"(a) The application of the IAASB PIE proposals would go beyond the independence standards of the IESBA Code.

(b) The application of the IAASB PIE proposals could lead to a different outcome compared to the IESBA PIE revisions read together with the IESBA clarification".

(c) The lack of a global baseline for PIEs that could be consistently applied across jurisdictions."

Furthermore, it was noted in paragraph 27 of the ITC that the differential requirements in the ISQMs and ISAs would be subject to jurisdictional interpretation and variation in the PIE definition and that the requirements in the ISAs would be contingent upon local adoption.

While we agree with this rationale for not having adopted the definition of PIE, we note that this rationale applies equally to not adopting the definition of PTE. In particular, refinements to the definition of PTE at a local level through the essential explanatory in the definition may result in:

The application of the IAASB PTE proposals going beyond the independence standards of the Code for PTEs (e.g., if the local body has not adopted the definition of PTE, including not having a mandatory category PTE, the IESBA Code would not require entities to be treated as PTEs, but this would not be in compliance with the ISQMs or the ISAs).

The application of the IAASB PTE proposals potentially leading to a different outcome compare to the IESBA PIE revisions read together with the IESBA clarification (same example as for (a)).

The lack of a global baseline for PTEs that could be consistently applied across jurisdictions (the fact that the definition of PTE proposed by the IAASB includes essential explanatory material permitting a local jurisdiction to refine the definition of PTE using certain criteria such as size, which leads to jurisdictional differences and therefore inconsistent application globally).

Certainly, as noted in the ITC, adopting the definition of PTE would achieve convergence with the IESBA Code on that definition, which retaining "listed entity" would not have achieved, and would not impact interoperability with the IESBA Code on the definition of PTE. However, it would lead to different results between the IESBA Code and IAASB standards. When national jurisdictions have no definition of PTE, under the IESBA Code and the further clarification provided by IESBA, the firms in those jurisdictions need not apply the category PTE and still be in compliance with the IESBA Code. In contrast, in such jurisdictions,

not applying the definition of PTE (even if refined) when using ISQM 1 and the ISAs would lead to the firms not being in compliance with ISQM 1 and the ISAs.

Of particular concern is item (c) above, where the essential explanatory material within the definition results in inconsistency among jurisdictions and therefore undermines the very purpose of international standards setting, which is to promote consistency in practice. We note that therefore this ability to refine the definition of PTE at a jurisdictional level is a retrograde step from an international standard setting point of view, since the definition of listed entity is not subject to this kind of international inconsistency.

On this basis, we do not concur with the rationale stated in the ITC for not adopting the definition of PIE but yet adopting the definition of PTE.

It appears to us that the underlying rationale is legitimately political – that is, the IAASB is seeking convergence with IESBA by adopting the definition of PTE rather than PIE because retaining the definition of listed entity would increase the divergence between IAASB standards and the IESBA Code, and the extent of differences among jurisdictions through the application of the definition of PTE would be less than the for the application of the definition of PIE. The remaining inconsistencies arising from the adoption of the definition of PTE (which result from the ability to define more explicitly a PTE) are viewed as being politically more palatable than the impact of the extent of inconsistencies for the other categories of PIE. On this basis, we concur with the IAASB's position to adopt the definition of PTE but not the definition of PIE.

Issues with the technical implementation of the adoption of the definition of PTE

The IESBA Code addressed the application of the definition of PIE and therefore of PTE in its requirement in paragraph R400.22, which repeats the definition of PIE from the authoritative Glossary. In essential explanatory material within the definition, the definition in the Glossary addresses the ability set forth in the (requirements and) application material to more explicitly define or add to the categories. The ability to explicitly define the categories is set forth in the requirement in paragraph R400.23 of the Code, which is further explained in the application material in paragraphs 400.23 A1 of the Code. This requirement and its application material to more explicitly define the categories therefore also applies to the definition of PTE in the authoritative Glossary.

This means that the ability to more explicitly define the category PTE is grounded in a requirement within the IESBA Code.

In contrast, in the proposed narrow scope amendments of the IAASB, the ability to more explicitly define the PTE definition is set forth in essential explanatory material (which includes normal application material in the form of examples) directly attached to the definition of PTE in both ISQM 1 and ISA 220. This violates the rule (under the Clarity Project and CUSP) that essential explanatory material (and any application material therein) cannot override a definition or requirement.

For this reason, the ability to define more explicitly a PTE should be placed within a requirement in both ISQM 1 and ISA 220 and the related application material ought to be placed in application material to those requirements. This would also be aligned with the approach used in the IESBA Code.

At the outset, we would like to emphasize that we have concluded that the IAASB's position on adoption of the definition of publicly traded entity (PTE) is appropriate. However, we have issues with the rationale and how it was technically implemented. Furthermore, we continue to have concerns at a strategic level about coordination between the IAASB and IESBA.

We are asked in the ITC not to repeat our comments to the exposure draft on PIE Track 2. Nevertheless, we believe that the IAASB's need to consult on PIE Track 2 through the ITC reinforces the strategic issues that

we had identified in our response to the exposure draft and the validity of the overall comments we had provided on the exposure draft. We believe that therefore these comments bear repeating as follows:

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

However, such alignment does not take into account that the IESBA Code and IAASB standards treat departures, due to law or regulation, from requirements differently. In particular, R100.7 of the Code sets forth that law or regulation prevail when law or regulation preclude the professional accountant from complying with certain parts of the Code and 100.7 A1 clarifies that professional accountants must comply with the more stringent provisions of the Code unless prohibited by law or regulation. In other words, professional accountants can claim compliance with the Code even when law or regulation precludes the professional accountant from complying with the Code. In contrast, paragraph 18 in connection with paragraph A60 of ISA 200 and paragraph 21 in connection with paragraph A38 of ISA 210 clarify an auditor shall not represent compliance with the ISAs unless the auditor has complied with all of the ISAs relevant to the audit – regardless of the provisions in law or regulation. This is why, unlike the Code, requirements in the ISAs occasionally include the phrase “unless prohibited by law or regulation”, which then permits auditors to claim compliance with the ISAs even when law or regulation departs from the rest of that requirement.

For these reasons, we do not believe that the IAASB should emulate a construct of definitions and requirements in its standards that does not work technically for IAASB standards and that is not in line with its own drafting conventions. The fact that these definitions and requirements were subject to due process through IESBA does not mean that they “pass the test” of due process for IAASB purposes, since the stakeholder groups may be different and the demands on the construction and use of definitions and requirements for quality management and audits may differ from those for ethical standards. While coordination between IESBA and the IAASB has improved greatly compared to the past, we are under the impression that there has been insufficient input by the IAASB into the development of the definitions and requirements in the IESBA Code in this respect given the expectation that the IAASB ought to “adopt” the definitions and requirements from the IESBA Code with as little change as possible.

Given the nature and extent of substantive and technical issues that we have identified in this comment letter with the definitions and related requirements, we believe that projects at IESBA that have a direct impact on the terms and concepts, and their definitions, in IAASB standards ought to be done concurrently with a combined due process rather than separately with time lags and that both Boards need to be satisfied with the results before moving forward. We hope that the IAASB and IESBA reconsider their future cooperation in this sense at a strategic and operational level.”

We would like to add that in some circumstances, such a joint project may lead to the conclusion that the IESBA Code and IAASB standards need different terms and concepts, rather than the same ones (e.g., the joint project on professional skepticism led to the concept of “inquiring mind” for the IESBA Code rather than the use of the term “professional skepticism”, which is limited to assurance engagements in IAASB standards).

The fact that the IAASB has chosen not to adopt the IESBA definition of PIE exemplifies the issues we have identified above. In our view, the general principle for IAASB definitions is that they should stand-alone without allowing for local adjustment (in order to encourage harmonization of practice internationally). A



particular issue in the proposal is that the proposed PTE definition allows for a narrower locally adjusted definition "...incorporating exemptions for specific types of entities, or setting size criteria...". If a definition requires local adjustment in many jurisdictions, it means that either the definition was not appropriately designed or that a definition at an international level is not desirable.

That being said, we recognize the political realities of the situation and therefore support the IAASB position to adopt the definition of PTE with the ability to allow for a narrower locally adjusted definition. We believe this position to be politically appropriate because the IAASB seeking convergence with IESBA by adopting the definition of PTE rather than PIE is better than retaining the definition of listed entity, which would increase the divergence between IAASB standards and the IESBA Code. The IAASB's position would also lead to the extent of differences among jurisdictions through the application of the definition of PTE to being less than for the application of the definition of PIE.

However, as described in greater detail in our response to Question 1 below, we do not agree with the rationale set forth in the ITC, because the definition of PTE is subject to the same issues as the definition of PIE. In addition, as we describe in our response to Question 1, we do not agree with how the ability to allow for a narrower locally adjusted definition was implemented in the proposed narrow scope amendments because it violates the Clarity Conventions and CUSP. We propose how this ability should be implemented in line with those conventions and CUSP.

#### **Royal Netherlands Institute of Chartered Accountants**

Do not concur - see observations below

We are of the view that full alignment between the IESBA Code and IAASB Standards on when differential requirements are necessary, is of paramount importance. In our view, it is fully appropriate that for audits of PIEs differential requirements have been established, in particular in terms of independence (in the Code) and in terms of communication and reporting (in ISAs 260 and 700).

Against this backdrop, we strongly urge IAASB and IESBA to jointly agree on the definition and necessary guidance for PIEs. In our view, such key terms should in principle always be jointly proposed, agreed and implemented, as to ensure consistency.

In our view the definition of PIE as included in the Code is appropriate, and the rationale to include financial institutions is solid and justified. We strongly oppose the additional staff guidance issued by IESBA, as this essentially makes the PIE definition per the Code void.

In addition, we note key differences in how the two boards address conflicts between their standards and local laws or regulations. IESBA permits professional accountants to claim compliance with its Code, even when local regulations take precedence. In contrast, IAASB standards restrict such claims unless explicitly allowed by language such as "unless prohibited by law or regulation." We believe this inconsistency requires careful consideration to avoid confusion in practice.

We strongly regret that IAASB has now limited the scope of its changes to the ISAs to publicly traded entities. The effect of this change as compared to the current term listed entity, is marginal.

The NBA notes that following national and European law, the NBA will expand the scope of the proposed ISA changes to cover all PIEs (as defined in EU law) as well as entities whose financial instruments are listed on a recognized trading platform.

The NBA has consistently supported the efforts by you and the International Auditing and Assurance Standards Board (IAASB) as well as the International Ethics Standards Board for Auditors (IESBA) to

develop and maintain a high quality and coherent set of standards and requirements. In such standards it is fully appropriate that for audits of PIEs that differential requirements have been developed, covering ethical (primarily independence), quality management (engagement quality control) and communication and reporting requirements.

In the NBA's view, it is of paramount importance that between the two Boards and, as a result, within the two bodies of standards, there is full alignment on which entities should be considered as Public Interest Entities for which such differential requirements should apply. The NBA is highly worried about the diverging approaches between IAASB and IESBA. These diverging approaches are not only manifest in the Standards themselves (where IAASB uses Publicly Traded Entities whilst IESBA uses Public Interest Entities for the respective groups of entities for which differential requirements apply). The diverging approach also manifests itself in IESBA's decision to allow claiming compliance with their Code, even when it is overruled by local regulation, while IAASB only allows claiming compliance if requirements have been met (allowing for some divergence when indicated by wording such as 'unless prohibited by law or regulation').

The NBA urges IAASB and IESBA to avoid any such differences, and to ensure that decisions and guidance on key policies (which include key terms like PIE but also on key approaches such as when compliance with the standards can be claimed) are developed and agreed on a joint basis instead of unilaterally. We therefore urge IAASB to apply differential requirements in its Standards to PIEs instead of PTEs, and we urge both Boards to jointly agree the scope of entities to be considered PIEs, including the extent to which deviations from that global definition are acceptable.

### **Wirtschaftsprüferkammer**

Do not concur - see observations below

The WPK regrets that IAASB and IESBA did not succeed to achieve the original objective to harmonize the PIE definitions between their organizations. We strongly recommend continuing the efforts to find a common solution.

As far as the current amendment is concerned, we understand that the IAASB proposes that the increased requirements, which according to the first draft were to apply to all "public interest entities" (PIEs) instead of "listed entities" as in the extant standards, should now apply to "publicly traded entities". For this reason, the original definition of PIEs was removed. The definition of a "publicly traded entity" has remained unchanged. However, it was provided with an opening clause leaving the concrete interpretation of the term to the individual jurisdictions, whereas the first draft of Track 2 contained such an opening clause with regard to PIEs.

As a result, the differential requirements shall now only apply to "publicly traded entities", not to all PIEs. As the term "publicly traded entity" - as far as we are aware - is not defined in the European Union, the opening clause for national jurisdictions would, as we understand, come to nothing. This means that companies whose shares or debt instruments, etc. are traded on non-regulated markets or over the counter would also fall within the definition in future whereas they are not included in the definition of a PIE in the European Union and would not have been subject to the differential requirements under the first ED. Consequently, the proposed change could potentially lead to a de facto scope expansion in Germany and Europe to this extent although the IAASB's intent was to reduce the scope compared to the first draft.

We therefore propose to include a clarification that the differential requirements shall apply only to publicly traded entities that fall within the definition of a PIE in the respective jurisdiction.

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

### **Accountancy Europe**

Do not concur - see observations below

Accountancy Europe believes that the IESBA and the IAASB should align their terminologies to the extent possible. This is required to provide greater clarity and consistency for auditors, entities, and regulators, avoiding the confusion that arises from having two different approaches.

In addition, accountancy Europe has the following observations regarding the IAASB's narrow scope amendments to the ISQMs and ISAs:

#### **Public Interest Entities (PIE)**

We are concerned that the current approach may result in inconsistencies between IAASB and IESBA standards. Although the IAASB and IESBA staff have engaged in discussions, we believe a joint project would have been beneficial to ensure greater alignment and consistency between the two boards' definitions and requirements. Without such alignment, there is a risk of diverging interpretations in practice.

In addition, we note key differences in how the two boards address conflicts between their standards and local laws or regulations. IESBA permits professional accountants to claim compliance with its Code, even when local regulations take precedence. In contrast, IAASB standards restrict such claims unless explicitly allowed by language such as “unless prohibited by law or regulation.” We believe this inconsistency requires careful consideration to avoid confusion in practice.

Since the European Union has a clear definition for Public Interest entities (PIE) and this has a multitude of legal consequences, it must be made clear for the application of ISA and ISA-compliant reporting (ISA 700) that this definition takes precedence within the EU. It is essentially a legal concretisation of the principles of PIE understanding according to IESBA.

#### **Publicly Traded Entity (PTE)**

Moreover, IAASB's approach of allowing a narrower, locally adjusted Publicly Traded Entities (PTE) definition is inconsistent with the principle that IAASB definitions should be standalone to promote global harmonisation. We believe this flexibility should be reconsidered to maintain the integrity of international standards.

Overall, we agree with the revised definition and scope of requirements for PTEs including the added sentence that accepts alignment with local definitions as the best compromise solution. We encourage IAASB to provide additional guidance, and to promote consistency in the treatment of non-regulated markets.

### **Q1 No Response**

## **07. Academics**

### **Hunter College-Auditing Class**