

RESPONSE TEMPLATE FOR THE ED OF PROPOSED NARROW SCOPE AMENDMENTS TO ISQMs, ISAs AND ISRE 2400 (REVISED)

Guide for Respondents

Comments are requested by **April 8, 2024**.

This template is for providing comments on the Exposure Draft (ED) of proposed Narrow Scope Amendments to the International Standards on Quality Management (ISQMs), the International Standards on Auditing (ISAs) and the International Standard on Review Engagement (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code*, in response to the questions set out in the Explanatory Memorandum (EM) to the ED. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
 - Respond directly to the questions.
 - Provide the rationale for your answers. If you disagree with the proposals in the ED, please provide specific reasons for your disagreement and specific suggestions for changes that may be needed to the requirements, application material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
 - Identify the specific aspects of the ED that your response relates to, for example, by reference to sections, headings or specific paragraphs in the ED.
 - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment**" button on the ED [web page](#) to upload the completed template.

Responses to IAASB’s Request for Comments in the EM for the ED, Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and PIE in the IESBA Code

PART A: Respondent Details and Demographic information

Your organization’s name (or your name if you are making a submission in your personal capacity)	AICPA, Auditing Standards Board
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Brian Wilson
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Jennifer Burns, Sara Lord
E-mail address(es) of contact(s)	Brian.Wilson@aicpa-cima.com Jennifer.Burns@aicpa-cima.com Sara.Lord@rsmus.com
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	North America
	If “Other”, please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Jurisdictional/ National standard setter
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB’s preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to the ED).

Information, if any, not already included in responding to the questions in Parts B and C:

We appreciate the International Auditing and Assurance Standards Board's (IAASB) objective in developing the above-referenced Exposure Draft to serve the public interest and to promote consistency across audit engagements.

As invited to do so, we have shared the following overarching comments (some of which may not necessarily be reflected in our responses to the questions in Parts B and C).

Critical Concerns and Recommendations

The Exposure Draft May be Inoperable with the IESBA Code

We urge that before the Exposure Draft deliberations are complete, the IAASB and International Ethics Standards Board for Accountants (IESBA) jointly develop a long-term vision and strategy for public interest entities¹ (PIEs). We believe this is critically important because the IAASB's objective to establish through the Exposure Draft an overarching objective for firms and auditors to treat entities as PIEs may conflict with the views raised at a meeting of the IESBA in March 2024 and what the IESBA originally intended with their PIE revisions released in April 2022. The IESBA reaffirmed² in March 2024 its view that the responsible local bodies (not firms and auditors) are best placed to decide which entities or class of entities should be scoped in as PIEs, given their local knowledge, and understanding of the broader issues that affect public expectations. This foundational difference may cause the application of the Exposure Draft to be inoperable with the International Code of Ethics for Professional Accountants (IESBA Code).

We expand more on this critical concern elsewhere in this Part A response and in several questions in Parts B and C.

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.

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 proposal³ (PIE project) was approved as a "narrow scope maintenance project" with "targeted revisions".

¹ Our views are cognizant of the fact that IAASB and IESBA standard setting seeks to serve the public interest through mechanisms such as the Public Interest Framework, and more recently through their strategic goals and objectives expressed in their respective 2024-2027 Strategy and Work Plan programs. We also acknowledge the Explanatory Memorandum to the Exposure Draft offered some rationale for decisions reached in the Exposure Draft.

² Refer to the IESBA Agenda Item 8A "[PIE Rollout – Issues and Working Group Views](#)" and the [IESBA public discussion on March 20, 2024](#) (beginning at 3:01:20).

³ [IAASB's PIE project proposal](#).

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 revisions⁴ 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.

Overall Recommendation

We recommend the IAASB defer deliberations on the Exposure Draft until both standard setting boards can develop a joint strategy and comprehensive approach to PIEs. We believe the focus of a joint strategy should be to ensure (1) the standard setting boards have the same PIE goals, as applicable, (2) existing or proposed PIE-related requirements are in harmony with and appropriately determined under the respective purview of each board, (3) standard setting boards are fully informed about the status of the PEEC's PIE rollout⁵ and where jurisdictional variability arises to determine the impact on current and on-going PIE standard setting, and (4) that the boards are not misaligned concerning PIEs on extant high profile public interest projects (e.g. sustainability) and future projects.

Other Important Concerns

Below are several other important concerns, together with certain observations and recommendations for the IAASB's consideration as part of its post-Exposure Draft deliberations.

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

⁴ Refer to the IESBA April 2022 [Final Pronouncement](#): Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code.

⁵ Refer to the [IESBA's PIE Rollout and IAASB Coordination project page](#).

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.

Defer Some Exposure Draft Decisions Pending Further Global Stakeholder Understanding

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

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

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

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

As we shared in our response⁶ to Track 1 of the PIE project, we do not believe the IAASB's PIE-related aims will meet "heightened expectations" if the distribution of the auditor's report is limited or not readily available to the stakeholders which the expanded PIE reporting aims to serve. For the reasons noted

⁶ Refer to our Track 1 [response](#).

below, we believe it is an imperative that the IESBA and the IAASB collaborate to provide authoritative guidance regarding a firm's compliance with the IESBA PIE transparency requirement if the IESBA does not provide an authoritative interpretation of its March 2024 decision (immediately described below). Or, if authoritative guidance is not provided for in the IESBA Code or IAASB standards then a mechanism for firms to demonstrate compliance will be necessary.

Specifically, we note that the IESBA in March 2024⁷ stated that the auditor is *deemed* in compliance with paragraph R400.20 of the IESBA Code if the auditor's report is used to publicly disclose when the relevant ethical requirements for independence have been applied for certain entities, such as those for PIEs in the IESBA Code. The IESBA believes that is still the case even if the auditor's report has limited distribution, since those who do not have access to the auditor's report would not be relying on the added independence requirements associated with the entity being treated as a PIE. Other IESBA members added that the "relevant" public interest stakeholder such as the regulator of the audited PIE would still receive the auditor's report in a limited distribution situation, so those IESBA members believe the "relevant" public interest is nevertheless being served. Other IESBA members raised their support to re-evaluate this matter when the IESBA conducts a post-implementation review of its PIE revisions project during its 2024-2027 strategy and work plan period.

In recognition of these views, the IESBA agreed it was necessary to update Q19 of the IESBA staff nonauthoritative PIE Q&As⁸ to reflect the IAASB's decision that the auditor's report is the appropriate disclosure mechanism to be deemed in compliance with paragraph R400.20 of the IESBA Code.

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

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

⁷ Refer to the IESBA Agenda Item 8A "[PIE Rollout – Issues and Working Group Views](#)" and the [IESBA public discussion on March 20, 2024](#) (beginning at 3:01:20).

⁸ Refer to the [IESBA Staff Q&As](#): Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code.

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

Evaluate the Cumulative Effect of Recent/Proposed Changes to the Auditor's Report

We reiterate feedback previously shared⁹ that the IAASB should act now to demonstrate how the cumulative and combined effects of changes to the auditor's report - regarding going concern, fraud, the recently approved PIE Track 1 reporting changes, and the proposed reporting changes in Exposure Draft - enhance the communicative value and relevance of the auditor's report. To achieve this, we continue to urge the IAASB to develop *pro forma* illustrations of the auditor's report reflecting the continuing revisions to the auditor's report from all active projects. The value of "standing back" to see the collective effect of all proposed changes —before the various active projects are finalized or become effective — is that stakeholders will be able to comprehend the full scope of the changes in requirements of auditor reporting and have a more informed view of the auditor's report of the future. It would also help identify any potential inconsistencies in the changes being contemplated.

Due Process for the Standard Setting Boards

The discussion in paragraph 21 of the Explanatory Memorandum states, "The definitions of PIE and 'publicly traded entity' were exposed for public comment by IESBA in their project on the definitions of listed entity and PIE. Therefore, these changes have undergone proper due process for the Standard Setting Boards (SSBs) under the International Foundation for Ethics and Audit" (IFEA). It is unclear whether such delegation of due process for foundational content to be included in IAASB standards has occurred before¹⁰. Is it allowed under the oversight of the Public Interest Oversight Board and/or governing and operating structure of the IFEA that such delegated standard setting occurs when the SSBs are addressing crossover topics?

For the reasons cited below, if the SSBs are embarking on a new model of standard setting, we ask the IAASB to provide more transparency on this change in due process, including seeking public comment, and to update its applicable due process and other applicable operating policies to reflect this change. We raise this observation because, while there are certainly some standard-setting efficiencies and synergies that can be gained by this approach, we note several instances of issues and challenges with such an approach. For example, as noted in the Explanatory Memorandum, both boards performed their work with the "heightened expectations of stakeholders" in mind, but the two boards describe those expectations differently. This is likely because the purviews of each standard setter are different and, despite some overlap, they also have different constituents served by their respective work. So, in the case of setting the definitions for Publicly Traded Entities (PTE) and PIEs, the IESBA may not have benefited from the totality of stakeholders that would normally follow and respond to the IAASB had the

⁹ Refer to our [response](#) to the IAASB's proposed 2024-2027 strategy and work plan in April 2023.

¹⁰ We acknowledge that in the [IAASB's Terms of Reference](#) that the IAASB, without prejudicing its independence, seeks to engage in strategic and technical coordination with the IESBA to enable each board to work closely on key projects that affect their respective mandates. We further acknowledge that throughout the history of the IESBA's LE/PIE definitions project through the release of the Exposure Draft, there has been intentional coordination between the standard setting boards, such as staging request for feedback in the IESBA PIE exposure draft on matters applicable to the IAASB and correspondent membership and technical coordination on each standard setting board's respective PIE related task forces. However, in our review of the [IAASB's Due Process and Working Procedures](#), the [IFEA's By-Laws](#) and the [Public Interest Framework](#), we were unable to find a basis for this kind of due process.

IAASB independently conducted information and other outreach prior to the adoption of its LE/PIE project proposal. Additionally, to the extent the IESBA leads in the gathering of information or issues a proposal for exposure that includes standard setting matters under the purview of the IAASB (as in the case of PIEs), that increases the likelihood that the IESBA could inadvertently exceed its standard setting purview and set performance requirements that should be under the IAASB's purview.

PART B: Responses to Specific Questions in the EM for the ED

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Objective for Establishing Differential Requirements for PIEs

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?
(See EM Section 1-B, paragraphs 13-18)

Overall response: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

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 Firms¹¹) means first and foremost compliance with local laws and regulations¹².

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

¹¹ The Forum of Firms is an independent association of international networks of firms that perform transnational audits. Forum members must demonstrate their commitment to adhere to and promote the consistent application of high-quality audit practices worldwide, as detailed in the Forum’s Constitution, operating procedures, and governance arrangements. Among various membership obligations, Forum members commit to having policies and methodologies that conform to the [IESBA Code and national codes of ethics](#). They also commit to having policies and methodologies for the conduct of transnational audits that are based, to the extent practicable, on the ISAs issued by the IAASB.

¹² Refer to the March 2024 Agenda Item 8 IESBA Working Group [PowerPoint presentation](#).

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 rationale¹³).

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 PIEs¹⁴.

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 Guidelines¹⁵ 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:

1. 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

¹³ While the IESBA and IAASB each have cited the "heightened expectations of stakeholders", the standard setting boards seem to describe this driver differently. Whereas the IAASB is focused on performance of audit engagements for PIEs, the IESBA in paragraph 37 of the IESBA PIE Basis of Conclusions notes that "the IESBA agreed that the focus of the independence requirements for PIEs should be on meeting stakeholders' heightened expectations regarding a firm's independence when the audit client is a PIE. These heightened expectations arise due to the public interest in the financial condition of PIEs and the impact on the public in the event of their financial failure."

¹⁴ Refer to paragraphs 25 and 26 in the March 2024 IESBA Agenda Item 8A "[PIE Rollout – Issues and Working Group Views](#)".

¹⁵ Refer to the Complexity, Understandability, Scalability and Proportionality ([CUSP](#)) [Drafting Principles and Guidelines](#).

matters that will be raised from a broad stakeholder consultation process (including targeted outreach as may be appropriate).

2. 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.
3. 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.

Definitions of PIE and “Publicly Traded Entity”

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

(See EM Section 1-C, paragraphs 19-26)

Overall response: [Neither agree/disagree, but see comments below](#)

Detailed comments (if any):

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

We note the IAASB’s approach described in paragraph 24 of the Explanatory Memorandum to “incorporate in the ISQMs and ISAs the entire approach to scoping PIEs as contemplated in the IESBA Code” creates a strong possibility for irreconcilability with the PIE treatment set by national independence standard setters. We note the rationale of the IESBA in paragraph 17 of the IESBA PIE Basis of Conclusion was to develop an overall framework with a “top-down list of mandatory high-level PIE categories subject to local refinement and a bottom-up list of PIE categories that could be added by the relevant local bodies to the local PIE definitions”.

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

- In the U.S., certain insurance operating entities are subject to the National Association of Insurance Commissioners (NAIC) Model Audit Rule (MAR). Section 7 of the NAIC MAR outlines the independence standards that are applicable to the auditor and these standards are similar to the IESBA's PIE requirements. Section 12: *Accountant's Letter of Qualifications* of the NAIC MAR requires a letter be included with the filing of the annual audited financial report that represents that the accountant is following the requirements of Section 7 of the NAIC MAR as well as conforms with the standards in the Code of Professional Conduct of the AICPA and the appropriate state board of accountancy, and other compliance matters. If a firm, such as a member of the Forum of Firms, includes a statement in either this letter or in its audit report that they also complied with IESBA's PIE requirements, their engagements could be viewed by the regulator (e.g., NAIC) as being different from the engagements performed by other firms who do not include such statement.
- In the U.S., Section 36 of the Federal Deposit Insurance Act (FDI Act) and Part 363 of the Federal Deposit Insurance Corporation's ("FDIC") regulations impose annual audit and reporting requirements on insured depository institutions with \$500 million or more in total assets. Section 363.3(f): *Independence* of the FDI Act outlines the independence standards that are applicable to the auditor and these standards are similar to the IESBA's PIE requirements. Section 363.4 *Filing and notice requirements* requires each insured depository institution to file with each of the FDIC, the appropriate Federal banking agency, and any appropriate State bank supervisor, two copies of its Part 363 Annual Report. A Part 363 Annual Report must contain audited comparative annual financial statements, the independent public accountant's report thereon, a management report, and, if applicable, the independent public accountant's attestation report on management's assessment concerning the institution's internal control structure and procedures for financial reporting. If a firm, such as a member of the Forum of Firms, includes a statement in either this management letter or in its audit report that they also complied with IESBA's PIE requirements, their engagements could be viewed by the regulator (e.g., FDIC) as being different from the engagements performed by other firms who do not include such statement.

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

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

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

2024 views of the IESBA where the IESBA expressed that firms should first and foremost comply with local laws and regulations.

Conforming and Consequential Amendments

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

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

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

Differential Requirements in the ISQMs and ISAs
3A. Do you agree with the IAASB’s proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED)?
(See EM Section 1-D, paragraphs 27-40 and Appendix 1)

Overall response: [Disagree, with comments below](#)
Detailed comments (if any):
As the IAASB noted in paragraph 39 in the Explanatory Memorandum, entities with a significant public interest in their financial condition would likely already be covered in the scope of entities subject to engagement quality reviews given the risk-based approach in ISQM 1 to determining engagements subject to an engagement quality review. That is, firms design criteria to classify the risk profile of their audit clients and apply more independence and quality rules to those clients which are considered high risk.
Additionally, we note in the ISQM 2 Basis for Conclusions that “The IAASB also further considered requiring engagement quality reviews to be performed on certain engagements based on various criteria relating to the nature and circumstances of the engagement or the entity, which may be for reasons other than addressing one or more quality risk(s). However, the IAASB was generally of the view that requiring an engagement quality review in response to reasons that are not risk-based is inconsistent with, and may be viewed as undermining, the principle of a risk-based approach in ISQM 1.”
Our belief is that the risk-based approach outlined in ISQM 1 for identifying engagements eligible for an engagement quality review is appropriate. Introducing distinct requirements for PIEs would deviate

from the risk-based framework described in ISQM 1 paragraph 34(f), as well as the scalability objectives in the Public Interest Framework Scalability and the concept of scalability in CUSP.

We also anticipate this requirement would bring unintended consequences to small and medium size firms that don't currently serve PIEs already subject to differential requirements, such as those related to PTEs. Those firms may lack existing resources and incur greater costs to comply with the requirement as proposed without a clear benefit to stakeholders.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Detailed comments (if any):

We recommend two options: (1) retain the extant requirement for publicly traded entities only, or (2) allow the firm to judge which additional independence and quality requirements are better suited to respond to the risks for PIEs that are not otherwise publicly traded entities.

3B. Do you agree with the IAASB's proposals for extending the extant differential requirements for communication with TCWG about the firm's system of quality management to apply to PIEs (ISQM 1, paragraph 34(e) in the ED)?

(See EM Section 1-D, paragraphs 27-38 and Appendix 1)

Overall response: Neither agree/disagree, but see comments below

Detailed comments (if any):

The IAASB noted in the Explanatory Memorandum, paragraph 28, and footnote 17, that global variability exists among jurisdictions that have or are considering the applicability of the differential requirements for listed entities in their national equivalent ISQMs and ISAs to apply to PIEs. We anticipate, therefore, those charged with governance (TCWG) in jurisdictions less developed in their PIE rules and regulations will lack adequate awareness of the IAASB's proposal's relevance.

By extension, in those same jurisdictions, it's unclear to us how greater transparency about how a firm's system of quality management supports quality audit engagements for PIEs will assist TCWG in fulfilling their responsibility to oversee the financial reporting process when those charged with governance may not understand "why" they are considered a PIE.

Also, in certain jurisdictions like the U.S., for certain entities like PTEs now regarded as PIEs, it's unclear what the difference in communication with TCWG will be now that the PTE is also a PIE, particularly if the auditor is expected to describe threats to independence and safeguards to mitigate that risk.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Detailed comments (if any):

We believe the IAASB should defer action on this proposal until global stakeholders, particularly TCWG, are more informed on the stakes of being evaluated as a PIE. Engaging with such stakeholders to assess their views on the IAASB proposal and its value (or lack thereof) to them seems prudent given TCWG continue to be stretched for time in their agendas.

Should the IAASB move forward with this differential requirement for PIEs, we believe it is also important to amend other communication channels with the entity, management and TCWG to provide an understanding of what it means to be audited as a PIE. For example, related amendments are likely needed for ISA 210, *Agreeing the Terms of Audit Engagements*, and ISA 580, *Management Representations* given these are important “two-way” communication instruments in the audit.

3C. Do you agree with the IAASB’s proposals for extending the extant differential requirements for communicating about auditor independence to apply to PIEs (ISA 260 (Revised), paragraphs 17 and 17A, and ISA 700 (Revised), paragraph 40(b) in the ED)?

(See EM Section 1-D, paragraphs 27-38 and 41-45 and Appendix 1)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

As noted earlier, we have concerns about the risk of perception of two tiers of audit quality between PIEs and non-PIEs. This proposed requirement may cause stakeholders to believe that there are different levels of independence and that auditors of non-PIE entities are somehow less independent than auditors of PIE entities. As a result, this could have an adverse effect on the confidence in non-PIE audits, which would not be in the public interest and could exacerbate the audit expectation gap.

Moreover, for the communication to be meaningful, more information may be necessary, such as why an entity is a PIE and what the implications are of being audited as one. Disclosure, limited to the treatment of the entity as a PIE, in the auditor’s report, without proper context and explanation, would be of limited value to the users of the financial statements and unlikely to increase the level of confidence in the audit of the financial statements or help in the assessment of the independence of the audit firm.

Other potential issues include situations where entities might seek out auditors who are perceived as “more independent” or might auditor-shop based on firms’ differing interpretations of whether to treat the entity as a PIE. It may also not be appropriate for the auditor to communicate or report regarding independence with the entity when management does not also have a reciprocal obligation given, they too, can undermine confidence in the audit of financial statements if they are not acting to maintain independence.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Detailed comments (if any):

We recommend two options: (1) the IAASB should retain the extant requirement for publicly traded entities only, or (2) the IAASB should defer action on this proposed change until more analysis can be performed.

3D. Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating KAM to apply to PIEs (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED)?

(See EM Section 1-D, paragraphs 27-38 and 46 and Appendix 1)

Overall response: Disagree, with comments below

Detailed comments (if any):

While we appreciate the IAASB's endeavors to improve transparency, we question whether the requirement to communicate KAMs would uniformly benefit all entities categorized as PIEs (particularly non-listed entities considered to be PIEs). The value derived from KAMs may differ significantly based on an entity's specific circumstances and the resulting reasons for it being treated as a PIE. For example, KAM reporting may not be particularly useful for owner-managed businesses, where stakeholders already have regular interactions with auditors. Additionally, smaller firms, often engaged in auditing not-for-profit organizations and donor-funded projects, would need to overhaul their audit policies, procedures, methodologies, tools, and guidance related to KAMs. The potential benefits of KAMs for not-for-profit entities may not justify the associated costs. Paragraph 29 of the Explanatory Memorandum acknowledges several of these concerns and we note these concerns have not abated in the years since the release of ISA 701.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Detailed comments (if any):

Due to the reasons listed above, KAM reporting in the auditor's reports for entities other than listed entities should be a jurisdictional decision at the discretion of regulators or national standard setters. We believe our view is supported by paragraph A41 of ISA 700 (Revised) which states: "The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities."

To further illustrate our view: in the U.S., an investment company registered under the Investment Company Act of 1940 would be a public interest entity under the recently revised AICPA code of ethical and independence requirements. However, that revised definition of a PIE defers to the relevant U.S. regulator for purposes of the specific independence requirements that are applicable for the auditor. For investment companies in the U.S., the communication of "critical audit matters" (a KAM equivalent) is not required under paragraph 5 in PCAOB Auditing Standard 3101: The Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion.

We also believe the IAASB (as part of our recommendation to develop an overarching strategy for PIEs) needs to conduct outreach with national standard setters and regulators to address those situations when an auditor reports under two sets of standards. We are concerned that this proposal in the Exposure Draft could jeopardize dual reporting if the proposed requirement is not limited to listed entities only.

3E. Do you agree with the IAASB's proposals for extending the extant differential requirements for the name of the engagement partner to apply to PIEs (ISA 700 (Revised), paragraphs 46 and 50(I))?

(See EM Section 1-D, paragraphs 27-38 and Appendix 1)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

We do not agree with the proposal to extend the LE differential requirement to include the name of the engagement partner for PIEs.

Historically, we observed that the IAASB settled on naming the engagement partner for only listed entities because some jurisdictions already required it under law/regulation and the demand for such transparency had come primarily from institutional investors, regulators, and audit oversight authorities. Additionally, for many non-listed entities, the engagement partner's name would already be available or known to the users of the financial statements through other means, even if informal, in many circumstances.

As has been discussed before, when this type of proposal has been debated by national jurisdictions and regulators, we believe critical information about the contributions of other key personnel involved in the audit process is omitted when focusing on only naming the engagement partner. This includes the identities of auxiliary partners, key engagement team members, the engagement quality review partner, technical consultation partners and staff, and specialists, and the engagement partner's experience. Naming the only engagement partner, therefore, would be misleading and confusing. We do not believe that naming of the engagement partner in audit reports for non-listed entities considered to be PIEs enhances transparency (as it already exists) and or improves audit quality.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

Detailed comments (if any):

For the reasons listed above, we believe such a requirement should be a jurisdictional decision at the discretion of regulators or national standard setters. Give that there are jurisdictions that already require naming the engagement partner for either listed entities or PIEs, the IAASB may want to further inform its views on this proposed requirement by performing a research synthesis of academic literature to determine how such a requirement has affected quality in those jurisdictions.

4. Do you agree with the IAASB’s proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to “publicly traded entity”? If not, what do you propose and why?
(See EM Section 1-D, paragraphs 47-51)

Overall response: [Agree, with comments below](#)

Detailed comments (if any):

We agree with the rationale in paragraph 50 in the Explanatory Memorandum in support of this proposal.

Proposed Revisions to ISRE 2400 (Revised)

5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner’s review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why?
(See EM Section 1-E, paragraphs 52-57)

Overall response: [Disagree, with comments below](#)

Detailed comments (if any):

We acknowledge the IESBA reaffirmed in February 2023 its prior decision to include review engagements in the scope of its PIE transparency requirement, despite an understanding gained by the IESBA that is unclear as to when the relevant ethical requirements for independence for a PIE would be applied in a review engagement, and that it is more likely that a financial statement audit would be performed due to regulatory requirements. The IESBA decided that global consistency across standards was the more important criterion to affirm its decision. We understand that because of the IESBA’s decision, the IAASB is required to evaluate whether the review report is an appropriate mechanism to operationalize the IESBA’s transparency decision.

Despite that understanding, we disagree with the IESBA’s decision and the IAASB’s proposal. We believe it is in the public interest that the review report be different from the auditor’s report to mitigate the risk of a user potentially misinterpreting the review report, especially given the lower level of assurance obtained in a review engagement. Additionally, in the U.S., the AICPA Professional Ethics Executive Committee (PEEC), which establishes the code of ethical and independence requirements for its members, decided in November 2023 to exclude review engagements from its PIE definition. In doing so, the PEEC explained that is not aware of any U.S. regulator identified with the PEEC PIE definition that requires a review engagement of any entity that would be considered a PIE.

Should the IAASB decided to proceed with the proposed new requirement and application material in ISRE 2400 (Revised), we believe the issues and challenges we identified above in Part A and in Part B, Question 1, regarding the potential conflict with the positions of the IESBA and IAASB need to be resolved before a final decision can be reached.

Other Matters

6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

Overall response: [Yes, with comments below](#)

Detailed comments (if any):

In addition to our overarching comments within Part A of this response, we urge IAASB to the develop concurrent stakeholder education, adoption, and implementation support materials or other nonauthoritative guidance with the approval of final changes to Exposure Draft. In addition to the specific requests for such materials as noted above, we continue to believe there is a need for such guidance following the recent issuance of the Track 1 amendments to ISA 700 (Revised) and ISA 260 (Revised). While the IAASB staff intended to address certain implementation and other nonauthoritative matters in the Basis for Conclusion document accompanying the issuance of the Track 1 amendments to ISA 700 (Revised) and ISA 260 (Revised), we believe the adoption and implementation issues we raised in our Track 1 response are unresolved.

Part C: Request for General Comments

The IAASB is also seeking comments on the matters set out below:

7. Translations—Recognizing that many respondents may intend to translate the final narrow scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.

Overall response: [No response](#)

Detailed comments (if any):

8. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after approval of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

Overall response: [See comments on effective date below](#)

Detailed comments (if any):

Notwithstanding our primary concerns expressed in Parts A and B above, our perspective extends beyond the alignment of effective dates among fraud, going concern, and ISSA 5000 (if such engagements will be determined to be subject to PIE requirements).

As articulated in our Track 1 comment letter and Part A of this letter, we emphasize the necessity to evaluate the cumulative effect of the proposed modifications to the auditor's report. A comprehensive assessment, such as a proforma auditor's report that illustrates all proposed changes regarding transparency, is imperative to ascertain whether the intended objectives of these disclosures will indeed be realized and hold communicative value. This analysis will then inform effective dates.