International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
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المنظمة الدولية لهيئات الأوراق المالية

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Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, NY 10017 U.S.A.

Our Ref: 2024/O/C1/IAASB/PM/115

Subject Line: ***Proposed Narrow Scope Amendments to International Standards on Quality Management, International Standards on Auditing, and International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code.***

Dear Willie:

The International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or we) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB or the Board) Exposure Draft: *Proposed Narrow Scope Amendments to the International Standards on Quality Management (ISQMs); International Standards on Auditing (ISAs); and International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statement as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code* (the "ED"). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high-quality accounting, auditing, assurance and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure, auditing and assurance concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

General

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

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

We appreciate the opportunity to comment on the ED and have outlined our views regarding certain topics in the responses to the Board's specific questions below.

Specific Questions

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?*

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

With that said, with the inclusion of paragraph R400.17A1 of the IESBA Code in paragraph A29D of ISQM 1, we believe it would be beneficial for the IAASB to provide application material where a significant public interest in an entity's financial condition does not exist, but the entity is still designated as a public interest entity (similar to the factors provided in paragraph A29G of ISQM 1 in situations when the firm is making its determination on whether it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs).

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?*

We agree with the proposal, notwithstanding our previous comments[1] on the IESBA's Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, we agree with adopting the definitions of PIE and "publicly traded entity" into ISQM 1 and ISA 200 to converge with the revised definitions in the IESBA Code.

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

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

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

Differential Requirements in the ISQMs and ISAs

3. *A - Do you agree with the IAASB's proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs?*

   B - 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?

   C- Do you agree with the IAASB's proposals for extending the extant differential requirements for communicating about auditor independence to apply to PIEs?

   D - Do you agree with the IAASB's proposals for extending the extant differential requirements

[1] IOSCO's comment letter, dated 30 April 2021, on IESBA's Exposure Draft for Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code

for communicating KAM to apply to PIEs?

E - 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?

We support the IAASB's proposal to align the differential requirements already established within the IAASB Standards for listed entities today with the definition of a PIE resulting from the IESBA project. We believe it is an important public interest matter that those entities that meet the definition of a PIE are subject to the same requirements within the IAASB Standards.

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"?*

We encourage the IAASB to seek input from other stakeholders, such as prudential regulators, regarding the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to "publicly traded entity" only.

With that said, in the IAASB's decision not to amend the differential requirements in paragraphs 21 – 22(b) of ISA 720 (Revised) to apply to PIEs, the IAASB cited findings from the Auditor Reporting Post-Implementation Review (PIR) that noted challenges and practical difficulties which arose in various jurisdictions with the implementation of ISA 720 (Revised), including practical issues that arise when the other information is not available at the time the auditor's report is signed. However, in addition to the feedback received through the Auditor Reporting PIR, we believe it is important for the IAASB to also consider the more recent feedback received on proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, specifically feedback received about 'Other Information' given the importance of connectivity between financial and sustainability reporting.

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?*

We support the new requirement and application material in ISRE 2400 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, or in any other framework for ethical and independence standards that might be applied.

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.*

Transparency related to differential requirements:

We acknowledge the IAASB's recently completed Narrow Scope Amendments to ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; and ISA 260 (Revised), Communication with Those Charged with Governance, to operationalize the IESBAs transparency requirement to publicly disclose when a firm has applied the independence requirements for PIEs. In addition to the requirement to enhance transparency about the relevant ethical requirements for independence applied for certain entities, and as it relates to the differential requirements for certain entities as determined by the IAASB in this ED, we believe the IAASB should consider adding a transparency requirement to also publicly disclose when a firm has applied the differential ISA requirements for PIE since there may be circumstances where PIE requirements may be applied by a practitioner for independence purposes but not assurance purposes. A lack of transparency on this matter may lead a user of the auditor's report to presume the differential requirements for PIE's were applied when that may not be the case.

Timing and coordination with other IAASB projects:

We support the IAASB's coordination with other IAASB Task Forces and consideration of the timing of other projects, including Fraud and Going Concern. We believe the IAASB should consult with stakeholders, including investors and other users of the auditor's report on the proposed effective dates of various projects that may be contemplated to occur at the same time. With this in mind, it may be useful for the Board to monitor, as part of its post-implementation review, any challenges or unintended consequences as a result of effective dates occurring at the same time for several related projects. In addition, we believe it is also important to consider the timing and coordination with the IAASB's Sustainability Task Force as proposed ISSA 5000 includes differential requirements for listed entities. As part of this project, the IAASB should also seek feedback from non-professional accountant sustainability assurance practitioners on the relevant components of the proposed narrow scope amendments contained within the ED to ISQM 1 as proposed ISSA 5000 requires sustainability assurance practitioners to comply with ISQM 1 (or other professional requirements, or requirements in law or regulation that are at least as demanding as ISQM 1) and therefore, this proposed ED could affect sustainability assurance providers. Overall, we believe it is critical to achieve convergence between the definitions and key concepts underlying the definitions in these ongoing projects and believe the differential requirements within these proposed standards should apply to public interest entities.

We further believe there may be a risk of inconsistent scoping of public interest entities as it relates to the recently completed ISA for Audits of Financial Statements of Less Complex Entities (the ISA for LCE) as the final pronouncement of the ISA for LCE includes a specific scoping prohibition for entities that are listed entities. We believe the IAASB should consider conforming amendments within the ISA for LCE to replace the term "listed entity" with "publicly traded entity", consistent with the proposed amendments throughout the ISAs, ISREs, and ISQMs. For example, an entity may meet the definition of a public interest entity and be subject to the differential requirements under the ISQMs and ISAs but may not be explicitly prohibited from being audited in accordance with the ISA for LCE.

Furthermore, we believe the IAASB should also contemplate the revised PIE definition as it progresses through its approved Strategy and Work Plan for 2024-2027. For example, we believe it is important for the IAASB to consider revisions to ISRE 2410 as part of its project planned to start in 2025.

PIE Definition

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

- We do not believe there is sufficient understanding or guidance on the term "publicly accessible market mechanism" in the ED. We acknowledge that paragraph 81 of IESBA's *Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest in the Code* provides additional guidance on whether this term captures trades in a secondary market, or securities issued by entities outside of a recognized exchange, however, we do not believe that parties applying the standards should be expected to refer to a Basis of Conclusions document issued by the IESBA to obtain an understanding of how this term should be applied for assurance purposes since such parties may not be subject to the IESBA Code. We believe the IAASB should incorporate this guidance into the application material within ISQM 1 and ISA 200 to support consistent application across jurisdictions and consistent application with the IESBA Code.

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

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

Translations

7. *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.*

We have no comments to raise on potential translation issues.

Effective Date

8. *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.*

See response on "Timing and coordination with other IAASB projects" above.

Thank you for the opportunity to comment on the ED. If you have any questions or would like to discuss these matters further, please contact Nigel James at phone number: +1 (202) 551- 5394 or email address: JamesN@sec.gov or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,

Paul Munter

Paul Munter
Chair, Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions