

Agenda Item B.3 For Reference

Please note: This is the IAASB listed entity and PIE Issues Paper that will be discussed by the Board at the March 2022 IAASB quarterly meeting (Agenda Item 3). This paper is provided to the IAASB CAG Representatives in March 2022 for reference purposes.

Listed Entity and Public Interest Entity (PIE) – Issues

Objective

The objectives of this Agenda Item are to:

- (a) Approve a project proposal for the narrow scope maintenance of standards project on listed entity and PIE (see **Part A** of this Agenda Item); and
- (b) Discuss the PIE Working Group (PIE WG) initial proposals related to enhanced transparency about independence in the auditor's report. The Board's views on these proposals will help inform the PIE WG in developing an Exposure Draft, which will be presented for discussion and approval at the June 2022 IAASB meeting (see **Part B** of this Agenda Item).

Introduction

1. At the last discussion with the IAASB in October 2021, the Board was provided with an update on the developments of the IESBA¹ project on listed entity and PIE, including the proposals of the IESBA PIE Task Force (IESBA PIE TF) discussed in September 2021 on key matters relevant to the IAASB. This included the following matters:
 - (a) The “publicly traded entity” definition;
 - (b) The overarching objective for establishing differential requirements;
 - (c) The PIE definition; and
 - (d) The requirement to publicly disclose the application of the independence requirements for PIEs.

The IAASB provided feedback to the IESBA on these key matters in view of supporting the IESBA in progressing their work and approving the final revisions to the IESBA Code (or “the Code”)² in December 2021.
2. At the October 2021 IAASB meeting, the IAASB was also presented with and requested to provide input on the following to assist with the development of a project proposal for a narrow scope maintenance of standards project on listed entity and PIE:
 - (a) The project scope summarizing the proposed possible actions;
 - (b) The public interest issues that will be addressed;
 - (c) The project objectives; and

¹ The International Ethics Standards Board for Accountants.

² The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

(d) The project timeline.

3. The IAASB:

- (a) Agreed with the various matters that need to be considered as part of the IAASB's project scope and supported that the project be a narrow scope amendments project, focused on targeted changes to the ISQMs³ and ISAs.⁴
- (b) Expressed broad support for the public interest issues to be addressed by the proposed project and the project objectives. Board members were also broadly supportive of the PIE WG's efforts to incorporate aspects of the Public Interest Framework (PIF)⁵ into the project proposal.
- (c) Supported keeping the project as a single package but bifurcating it into two tracks, i.e., a faster-moving track that addresses enhancing transparency about independence in the auditor's report with an effective date that aligns with IESBA (i.e., track 1), and a separate track to address the remaining public interest issues with a later effective date (i.e., track 2).

An extract of the approved October 2021 IAASB mid-quarter meeting minutes can be found in **Appendix 1**.

- 4. Since October 2021, IESBA and IAASB staff representatives provided updates on their listed entity and PIE projects at the joint IAASB-IESBA National Standards Setters (NSS) meeting. In addition, the PIE WG initiated a request for information from the NSS about the independence statement included in the auditor's report and whether local jurisdictions have additional disclosures regarding independence beyond the requirements of the ISAs.
- 5. This paper sets out the following:
 - (a) **Part A:** Includes matters relevant to the IAASB's draft project proposal on listed entity and PIE. **Agenda Item 3-A** sets out the draft project proposal, which will be the focus of the IAASB discussion at the March 2022 meeting.
 - (b) **Part B:** The PIE WG's initial proposals for disclosing in the auditor's report about when a firm has applied the independence requirements for PIEs.
 - (c) **Part C:** Way forward.

Structure of the IAASB Discussion

- 6. Prior to the March 2022 meeting, IAASB members are requested to provide any written comments to the PIE WG by March 9th, 2022, which will assist the PIE WG in processing changes in a timely manner in the Board week. However, all significant matters should still be raised and discussed in the Board plenary session to ensure that these are on the public record.
- 7. The table below outlines the order and structure of the IAASB Discussion in March 2022:

³ International Standards on Quality Management

⁴ International Standards on Auditing

⁵ Public Interest Framework (PIF) published by the Monitoring Group in July 2020 (as part of their report "[Strengthening the International Audit and Ethics Standard-Setting System](#)").

Date	Description	
Tuesday March 15, 2022	Part A: Questions 1 and 2 of this paper (in conjunction with Agenda Item 3-A)	IAASB's feedback on the IAASB's project proposal for the narrow scope maintenance of standards project on listed entity and PIE.
	Part B: Questions 4 and 5 of this paper	IAASB's feedback the PIE WG's proposals regarding the disclosure in the auditor's report about when a firm has applied the independence requirements for PIEs.
Monday March 21, 2022	The PIE WG will address the IAASB's feedback on the project proposal in Agenda Item 3-A and provide the IAASB with an updated project proposal.	
Wednesday March 23, 2022	Part A: Question 3 of this paper (in conjunction with an updated Agenda Item 3-A)	IAASB's final feedback on, and approval of, the project proposal.

Materials Presented—Appendices, Other Agenda Items and Supplements Accompanying This Paper

8. This Agenda Item includes the following appendices and supplements:

Appendix 1	Approved minutes from the IAASB October 2021 mid-quarter meeting.
Appendix 2	Summary of the developments on IESBA's project on listed entity and PIE since the last discussion with the IAASB in October 2021, focused on key issues relevant to the IAASB.
Appendix 3	PIE WG members and an update on activities since the October 2021 IAASB Meeting.
Agenda Item 3-A	The IAASB's project proposal for the narrow scope maintenance of standards project on listed entity and PIE.
Agenda Item 3-B (Supplemental)	Approved text of the revisions to the Code (mark-up from posted version) approved by the IESBA at their December 2021 meeting.

Part A: IAASB Project Proposal on Listed Entity and PIE

9. **Agenda Item 3-A** sets out the IAASB's draft project proposal on listed entity and PIE (draft project proposal), which is subject to discussion and approval at the March 2022 IAASB meeting. This part provides further information relevant to the development and structure of the draft project proposal. This part does not cover all elements of the draft project proposal, and merely highlights key factors considered by the PIE WG in developing the draft project proposal.
10. The PIE WG used the [Project Proposal for the Revision of ISA 240](#)⁶ (the Fraud Project Proposal)

⁶ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

approved by the IAASB in December 2021, as the basis for the structure and approach in developing the draft project proposal on listed entity and PIE.

11. Consistent with the approved Fraud Project Proposal, the draft project proposal on listed entity and PIE considered and incorporated elements, tailored as appropriate, of the Public Interest Framework (PIF).⁷ In incorporating the relevant elements of the PIF, the IAASB Staff have used this opportunity to refine the structure of an IAASB project proposal. Language in the Fraud Project Proposal that is intended to be standardized across all IAASB project proposals has been highlighted in grey text in **Agenda Item 3-A**.

The Draft Project Proposal: Introduction

12. As discussed and agreed by the IAASB in October 2021, this project is intended to be a narrow scope maintenance of standards project, contemplated by Component III of the [Framework for Activities](#).⁸ The PIE WG is of the view that this is a critical factor that needs to be appropriately emphasized in the project proposal, as it affects the scope of the project, and the limited nature of the actions to be taken. Accordingly, paragraph 13 of **Agenda Item 3-A** was added to emphasize this point.
13. Furthermore, given that the IESBA project on listed entity and PIE was the driving influence for this project, the PIE WG is of the view that it is important that the project proposal includes a brief history of the IESBA project and coordination between the IESBA and IAASB. Without such context, the PIE WG believes that it may not be clear why the project is being undertaken, and the basis for the specific matters for consideration by the IAASB as part of its project.

The Draft Project Proposal: Project Objectives that Support the Public Interest

14. In October 2021, the Board discussed the key public interest issues and project objectives, and was broadly supportive of the PIE WG's proposals. At the time, the style of the public interest issues and project objectives were formulated based on an initial outline of the Fraud Project Proposal, which was still in development.
15. In finalizing the Fraud Project Proposal, the public interest issues and project objectives were reformulated into "Project Objectives that Support the Public Interest." Accordingly, the PIE WG adjusted the public interest issues and project objectives presented in October 2021 to rearticulate them in the same manner as the approved Fraud Project Proposal (see paragraph 17 of **Agenda Item 3-A**).

⁷ The PIF provides a framework for the development and oversight of international audit-related standards that are responsive to the public interest and sets out considerations essential to the judgments needed by the IAASB when developing standards. The PIF, together with the IAASB's due process, articulates the public interest responsiveness of setting international audit-related standards.

⁸ Projects within Category III of the IAASB Framework for Activities include narrow scope maintenance of standards and are intended to achieve a limited number of targeted changes to either a single standard or across multiple standards. It further explains that narrow scope maintenance projects:

- Are not intended to amend the principles on which an International Standard is based.
- May be used for conforming and consequential amendments when they do not form part of an active IAASB project (for example, to make relevant changes to the IAASB's International Standards arising from changes made to the IESBA Code).
- May move quickly through the information gathering and research activities given the urgency and narrow scope.

The Draft Project Proposal: Key Issues Identified That Will be Addressed by a Project on Listed Entity and PIE

16. Given the primary purpose of this project is a consequence of the IESBA's project on listed entity and PIE and strongly related to the need for consistency across, and interoperability of, the IAASB Standards and the IESBA Code, the PIE WG noted that the key issues are very limited.⁹ In formulating the key issues, the PIE WG considered feedback from respondents to the IESBA's PIE ED,¹⁰ and what issues would arise if the actions set out in the draft project proposal were not undertaken.

The Draft Project Proposal: Scope of the Project on Listed Entity and PIE

17. In October 2021, the IAASB discussed and agreed with the various matters that need to be considered as part of the project's scope and supported that the project be limited to narrow scope amendments to the ISQMs and ISAs. In particular, it was noted that there are only minimal references to listed entities or the concepts underpinning PIE in the ISREs,¹¹ ISAEs¹² and ISRSs.¹³ This has been emphasized in paragraph 26 of **Agenda Item 3-A**. In addition, throughout the project proposal, reference has been made to the ISQMs and ISAs, rather than the IAASB Standards more broadly.
18. In October 2021, the IAASB suggested placing more emphasis on the development of an objective and guidelines for establishing differential requirements in the IAASB Standards, given these would be used as a basis for determining whether differential requirements are appropriate, including in future projects to revise the ISQMs and ISAs. Accordingly, within the scope of the draft project proposal are actions to develop an objective and guidelines.
19. The PIE WG noted the IAASB's suggestion in October 2021 to clarify the intention of the IAASB with respect to other IAASB Standards that deal with non-financial information. Paragraph 26 of **Agenda Item 3-A** explains why the other IAASB Standards have not been included in the scope of this project. Nevertheless, the PIE WG notes that the outcome of this project (i.e., the objective and guidelines, or the approach to dealing with listed entities, publicly traded entities and PIE) may be a useful consideration when developing or revising the ISREs, ISAEs and ISRSs. Such considerations would be undertaken as part of any future IAASB projects focused on these standards. This has been noted in paragraphs 25 and 26 of **Agenda Item 3-A**.

The Proposed Actions

20. The table in paragraph 28 of **Agenda Item 3-A** outlines the proposed actions to be undertaken as part of this project. In formulating these actions, the PIE WG responded to the Board comments at the October 2021 meeting, including being more decisive about the actions. The PIE WG agreed with the IAASB's suggestion to undertake further engagement with stakeholders regarding the implications of expanding the application of the existing differential requirements for listed entities to publicly traded entities or PIEs. Paragraph 30 of **Agenda Item 3-A** notes the PIE WG's intentions in this regard.

⁹ [IESBA's project proposal](#) contemplated achieving convergence between the concepts used in the IAASB Standards and the IESBA Code to the greatest extent possible.

¹⁰ IESBA's Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED)

¹¹ International Standards on Review Engagements

¹² International Standards on Assurance Engagements

¹³ International Standards on Related Services

21. The PIE WG recognizes that there is a strong linkage between the actions outlined in the table in paragraph 28 of **Agenda Item 3-A**. In particular, the outcome of one action will impact other actions. For example, the IAASB's decisions regarding the case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs (line 4 of the table) will be considered together with, and may also impact, whether the IAASB adopts the definitions of publicly traded entity and PIE (lines 1 and 2 of the table). Accordingly, the actions need to be viewed as interrelated.
22. As outlined in paragraph 24 below, there are two distinct tracks for this project, each with a different focus and outcome. When undertaking the actions, they will be addressed simultaneously as the work is progressed in each track. Paragraph 27 of **Agenda Item 3-A** emphasizes this intent.

How the Qualitative Characteristics Within the PIF Are Addressed in the Project Proposal

23. **Section VI** of the project proposal sets out the qualitative characteristics to assess the project's responsiveness to the public interest, which were adapted from the PIF. It is intended that these qualitative characteristics are explicitly considered as changes to the ISQMs and ISAs are proposed.

The Draft Project Proposal: Project Timeline, Project Priorities and Resources

24. In October 2021, the PIE WG presented a proposal to the IAASB to address the challenges with the project timeline. Specifically, to remain consistent with IESBA's revisions to the IESBA Code, which become effective for audits of financial statements for periods beginning on or after December 15, 2024, the PIE WG noted the urgency of finalizing the IAASB's proposals regarding enhanced transparency about the application of the independence requirements for PIEs in audits of financial statements. Accordingly, the PIE WG recommended keeping the project as a single package but bifurcating the project in two tracks, as follows:
 - (a) Track 1, which would be a faster-moving track that addresses enhancing transparency about the relevant ethical requirements for independence in the auditor's report with an effective date that aligns with IESBA's pronouncement;¹⁴ and
 - (b) Track 2, which would address the remaining public interest issues with a later effective date.¹⁵
25. The IAASB broadly supported this approach. Accordingly, **Section VII** of the draft project proposal has been formulated on this basis and provides project milestones and outputs for the project to completion, separately for track 1 and track 2.
26. In developing the timeline to completion for both tracks, due consideration was given to the available IAASB time for plenary sessions, Board priorities, and commitments to other IAASB initiatives.

Matters for the IAASB Consideration:

1. The Board is asked for its views on the draft project proposal presented in **Agenda Item 3-A**. For the purposes of this discussion, the PIE WG Chair will walk through each section of the project proposal as follows:
 - (i) Sections I–II
 - (ii) Sections III–IV

¹⁴ See proposed actions for project objective C in paragraph 28 of **Agenda Item 3-A**

¹⁵ See proposed actions for project objectives A and B in paragraph 28 of **Agenda Item 3-A**.

(iii) Sections V-VI

(iv) Sections VII-VIII

In providing feedback, the IAASB is asked specifically for their views on the following:

- (a) The proposed project objectives that support the public interest;
- (b) Whether the key issues identified are complete and appropriately reflect the issues to be addressed by this project;
- (c) Whether the proposed actions to address the key issues identified appropriately address the identified issues and challenges to achieve the project objectives; and
- (d) The project timeline.

- 2. The Board is asked whether there are any other matters within the draft project proposal that the PIE WG should consider as it finalizes the project proposal, including any matters not already specifically addressed.
- 3. The Board is asked to approve the project proposal for the narrow scope maintenance of standards project on listed entity and PIE.

Part B: Disclosure in the Auditor's Report About When a Firm has Applied the Independence Requirements for PIEs

- 27. As part of IESBA's project on listed entity and PIE, a requirement was introduced for a firm to publicly disclose when a firm has applied the independence requirements for PIEs (see paragraph R400.20 of **Agenda Item 3-B**). The IESBA Code does not specify the mechanism for such disclosure, however it notes that the disclosure should be "*in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.*"
- 28. As outlined in the draft project proposal on listed entity and PIE (see **Agenda Item 3-A**), and presuming the IAASB supports the project proposal, the PIE WG intends to develop proposals for enhanced transparency about the relevant ethical requirements for independence in the auditor's report on a faster-moving track (i.e., track 1). In particular, the PIE WG intends on presenting an Exposure Draft (ED) for track 1 to the IAASB for approval at the June 2022 IAASB meeting.
- 29. It is intended that the ED will provide alternatives for how ISA 700 (Revised)¹⁶ could be enhanced and clarified to address circumstances when the auditor's report is used to disclose that relevant ethical requirements for independence for certain types of entities have been applied in the audit of the financial statements, such as the independence requirements for PIEs in the IESBA Code. The ED would include, for each alternative, the drafting for ISA 700 (Revised), and an illustration of how the disclosure would be made in the auditor's report. The questions for respondents will seek views on whether the auditor's report is a suitable location for the disclosure, and if so, the preferred option for how ISA 700 (Revised) may address such disclosure. If, in considering respondents' feedback, the IAASB determines that the auditor's report is not a suitable location for the disclosure, then a plan forward will be sought in coordination with IESBA (which may include making conforming changes to the IESBA Code, or the IESBA issuing guidance).
- 30. To facilitate the successful progression of track 1, the PIE WG is seeking the IAASB's views in March

¹⁶ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

2022 on how the ISAs may deal with the disclosure in the auditor's report, which is further explored below.

Information Gathering Since October 2021

31. In November 2021, the PIE WG initiated a request for information from the NSS about the independence statement included in the auditor's report and whether local jurisdictions have additional disclosures in this regard beyond the requirements of the ISAs. The request for information also sought responses on whether there are any modifications to the requirement in paragraph 28(c) of ISA 700 (Revised) that affect the disclosures regarding the independence requirements applied in performing the audit engagement.
32. The key responses received from the NSS included the following:
 - (a) In the United Kingdom, the Financial Reporting Council (FRC) modified paragraph 28(c) of ISA 700 (Revised) in their national equivalent standard to specify that the statement in the auditor's report should indicate that the relevant ethical requirements include the FRC's Ethical Standard, applied as required for the types of entity determined to be appropriate in the circumstances. Accordingly, the statement in the auditor's report is as follows: *"We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements."*
 - (b) In Germany, the Institute der Wirtschaftsprüfer provided information that there is a modification to paragraph 28(c) of ISA 700 (Revised) in that, in addition to referring to German legal requirements (which, depending upon whether the entity is a PIE or not, may or may not include additional requirements for PIEs), the auditor's report also refers to the additional requirements in the European Union (EU) statutory audit regulation, which applies only to PIEs. While reference to such regulation implicitly means that the entity is a PIE, there is no explicit reference in the report to these independence requirements being applied because the entity is a PIE.
 - (c) In the United States of America, the American Institute of Certified Public Accountants (AICPA) explained that for non-issuers there are modifications to the requirement in paragraph 28(c) of ISA 700 (Revised) as it does not require the identification of the jurisdiction of origin of the relevant ethical requirements. However, there is application material that gives flexibility to the auditor to include such information in the auditor's independence statement.

PIE WG Initial Proposals

33. At the September 2021 IESBA meeting,¹⁷ the IESBA PIE TF observed that when differential requirements for certain entities are embedded in the relevant ethical requirements and the description in the auditor's report of the applicable relevant ethical requirements only refers to the whole set of relevant ethical requirements (e.g., the IESBA Code), some element of transparency is lost. Although the IESBA included a requirement for a firm to publicly disclose when a firm has applied the independence requirements for PIEs, the IESBA PIE TF noted that it should be left to the IAASB

¹⁷ See paragraphs 41-51 of [Agenda Item 1](#) of the IAASB October 2021 meeting.

to explore whether the auditor's report is a suitable location for disclosing when a firm has applied the independence requirements for PIE and, if so, how this may be accomplished.

34. The PIE WG notes that paragraph 28(c) of ISA 700 (Revised) only requires the auditor to identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code and does not require the auditor to further specify which specific independence requirements in the relevant ethical requirements were applied, such as the independence requirements for PIEs in the IESBA Code.
35. The PIE WG discussed how ISA 700 (Revised) might be amended to address circumstances when the auditor's report is used to disclose information about the specific independence requirements for certain entities that have been applied. This included whether ISA 700 (Revised) could include a requirement or application material, and whether additional information and illustrations are necessary to explain and demonstrate how such disclosure would be made. In its deliberations, the PIE WG noted the need to remain neutral regarding:
 - (a) The relevant ethical requirements applicable in the circumstances, given that the IAASB Standards are written to be framework neutral. Generally, explicit references to the IESBA Code are included in the application material as examples throughout the IAASB Standards.
 - (b) The use of the term "PIE" given that the ISAs currently do not use the term "PIE" as defined in the IESBA Code. The PIE WG noted that the further consideration of whether the IESBA definition of PIE should be adopted in the ISQMs and ISAs is yet to be addressed as part of track 2 of the project.
36. The PIE WG identified 3 options for how ISA 700 (Revised) could be clarified. Paragraphs 37-48 below provide a description of the options, the proposed drafting for each option, and their key features.

Option 1 – A requirement for the auditor to disclose if specific independence requirements for audits of financial statements of certain entities, as set out in the relevant ethical requirements, were applied

37. This option would impose a requirement to provide a statement in the auditor's report that specific independence requirements were applied in the audit when:
 - (a) The relevant ethical requirements include specific independence requirements for audits of financial statements of certain entities; or
 - (b) The relevant ethical requirements include specific independence requirements for audits of financial statements of certain entities and the auditor has determined it appropriate to apply these requirements for an audit of financial statements of another type of entity (i.e., the entity is not within the scope of entities contemplated by the relevant ethical requirements, but the auditor determined it appropriate to apply the specific independence requirements).
38. Supporting application material could:
 - (a) Refer to the IESBA Code as an example of relevant ethical requirements with specific independence requirements for certain entities;
 - (b) Explain what is meant by "certain entities" (i.e., those specified by the relevant ethical requirements, such as PIEs);

- (c) Emphasize the confidentiality provisions in the relevant ethical requirements that may prohibit the auditor from providing such disclosure, and draw attention to paragraph R400.21 of the IESBA Code (see **Agenda Item 3-B**), which contains an explicit prohibition on disclosure in circumstances when doing so will result in disclosing confidential future plans of the entity; and
 - (d) Provide an illustration of the disclosure, based on the IESBA Code.
39. The following illustrative drafting reflects Option 1, although only certain of the application material suggestions outlined above have been included. Paragraph references are from ISA 700 (Revised):

Requirements

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

...

- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code). In circumstances when the relevant ethical requirements include specific independence requirements for audits of financial statements of certain entities or the auditor has determined it appropriate to apply the specific independence requirements in the circumstances, the auditor's statement shall indicate that the specific independence requirements were applied; and (Ref: Para. A34–A39)

...

Application Material

Relevant ethical requirements (Ref: Para. 28(c))

- A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

A35a. Relevant ethical requirements may require the auditor to publicly disclose that specific independence requirements for audits of financial statements of certain entities were applied. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of

an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.¹⁸

Appendices

The following illustrates the disclosure in the basis for opinion section of the auditor's report:

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards applicable to public interest entities)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

40. The PIE WG noted the following if Option 1 were pursued by the IAASB:

- Requiring the disclosure in the auditor's report would create a clear mechanism for where the disclosure about the specific independence requirements, as required by the IESBA Code, should be located. It would also promote consistency in the auditor's reports in circumstances when such relevant ethical requirements were applied.
- The auditor would be required to indicate whether specific independence requirements were applied for certain entities, regardless of whether or not the relevant ethical requirements have a requirement for the auditor to publicly disclose such information.
- The IAASB would be extending the transparency requirement to all circumstances when relevant ethical requirements establish specific independence requirements for certain entities (i.e. including beyond PIEs). This may cause a more onerous obligation for jurisdictions who, in setting their relevant ethical requirements, have not imposed a requirement for the auditor to publicly disclose such information.

Option 2 – A requirement that when the relevant ethical requirements require transparency about the specific independence requirements applied, the auditor shall disclose this fact in the auditor's report

41. This option would require the auditor to provide a statement in the auditor's report regarding the specific independence requirements applied for certain entities, only if the relevant ethical requirements require such disclosure (i.e., it is conditional upon the relevant ethical requirements requiring this disclosure).
42. Supporting application material could:
- (a) Refer to the IESBA Code as an example of relevant ethical requirements with specific independence requirements for certain entities;
 - (b) Explain what is meant by "certain entities" (i.e., those as specified by the relevant ethical requirements, such as PIEs);
 - (c) Emphasize the confidentiality provisions in the relevant ethical requirements that may prohibit the auditor from providing such disclosure, and draw attention to paragraph R400.21 of the IESBA Code (see **Agenda Item 3-B**), which contains an explicit prohibition on disclosure in circumstances when doing so will result in disclosing confidential future plans of the entity; and

¹⁸ IESBA Code, paragraphs R400.20-R400.21.

(d) Provide an illustration of the disclosure, based on the IESBA Code.

43. The following illustrative drafting reflects Option 2 (with two alternatives for the requirement), although only certain of the application material suggestions outlined above have been included. Paragraph references are from ISA 700 (Revised):

Requirements

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

...

- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*. In circumstances when the relevant ethical requirements require the auditor to publicly disclose that independence requirements for audits of financial statements of certain entities were applied, the auditor's statement shall disclose that fact; and (Ref: Para. A34–A39)

...

OR

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

...

- (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall:
- (i) ~~Identify the jurisdiction of origin of the relevant ethical requirements and, if the relevant ethical requirements require the auditor to publicly disclose that independence requirements for audits of financial statements of certain entities were applied, state the specific independence requirements that were applied;~~
 - (ii) ~~Refer to the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), or International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards applicable to public interest~~

<p><u>entities</u>) (IESBA Code); and (Ref: Para. A34–A39)</p> <p>...</p>
<p>Application Material</p> <p>Relevant ethical requirements (Ref: Para. 28(c))</p> <p>A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).</p> <p><u>A35a. Relevant ethical requirements may require the auditor to publicly disclose that independence requirements for audits of financial statements of certain entities were applied. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.¹⁹</u></p>
<p>Appendices</p> <p><u>The following illustrates the disclosure in the basis for opinion section of the auditor's report:</u></p> <p>We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' <i>International Code of Ethics for Professional Accountants (including International Independence Standards applicable to public interest entities)</i> (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.</p>

44. The PIE WG noted the following if Option 2 were pursued by the IAASB:

- Requiring the disclosure in the auditor's report would create a clear mechanism for where the transparency about the specific independence requirements, as required by the relevant ethical requirements, should be located. It would also promote consistency in the auditor's reports in circumstances when the relevant ethical requirements have such transparency requirements.
- If relevant ethical requirements contain specific independence requirements for certain entities, but do not require public disclosure of that fact, the auditor would not be required by the IAASB's standards to disclose this. While this approach does not impose additional requirements to provide transparency beyond what is required by the relevant ethical requirements, there may not be as much consistency globally in auditor's reports when specific independence requirements were applied.

¹⁹ IESBA Code, paragraphs R400.20-R400.21.

Option 3 – Application material that explains how the auditor may disclose that specific independence requirements were applied when the relevant ethical requirements require transparency about specific independence requirements applied

45. Application material would explain that relevant ethical requirements may have a requirement(s) for the auditor to publicly disclose when the auditor has applied additional independence requirements for audits of financial statements of certain entities. The application material would suggest how this may be achieved—through disclosing this fact in the auditor's report.
46. Similar to Options 1 and 2, the application material would:
- (a) Refer to the IESBA Code as an example of relevant ethical requirements with specific independence requirements for certain entities;
 - (b) Explain what is meant by “certain entities” (i.e., those as specified by the relevant ethical requirements, such as PIEs);
 - (c) Emphasize the confidentiality provisions in the relevant ethical requirements that may prohibit the auditor from providing such disclosure, and draw attention to paragraph R400.21 of the IESBA Code (see **Agenda Item 3-B**), which contains an explicit prohibition on disclosure in circumstances when doing so will result in disclosing confidential future plans of the entity; and
 - (d) Provide an illustration of the disclosure, based on the IESBA Code.
47. The following illustrative drafting reflects Option 3, although only certain of the application material suggestions outlined above have been included. The PIE WG discussed that the application material could be included as a new paragraph following paragraph A35 of ISA 700 (Revised), given it would be located in close proximity to the other application material about relevant ethical requirements.

Application Material

Relevant ethical requirements (Ref: Para. 28(c))

A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

A35a. Relevant ethical requirements may require the auditor to publicly disclose that independence requirements for audits of financial statements of certain entities were applied. Such disclosure may be included in the basis for opinion section. For example, the IESBA Code requires that when a firm has applied the independence requirements for public interest entities in performing an audit of the financial statements of an entity, the firm publicly disclose that fact, unless making such disclosure would result in disclosing confidential future plans of the entity.²⁰

²⁰ IESBA Code, paragraphs R400.20-R400.21.

Appendices

The following illustrates the disclosure in the basis for opinion section of the auditor's report:

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards applicable to public interest entities)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

48. The PIE WG noted that although Option 3 would clarify how the auditor may provide transparency in the auditor's report regarding the additional independence requirements applied for certain entities, it may create inconsistencies in practice as it does not require that the auditor's report is the mechanism for such disclosure. Accordingly, auditors may still choose to provide this disclosure elsewhere if the relevant ethical requirements do not specify the location of the disclosure. However, not specifying a mechanism could be perceived by some stakeholders as not sufficiently supporting the need for, and value of, providing transparency, which was an important objective for IESBA in revising the IESBA Code.

The PIE WG's Views Regarding the Three Options

49. In considering the options outlined above, the initial view of the PIE WG is that Option 1 may probably be least preferred since it would expand the transparency to circumstances when the relevant ethical requirements do not require the auditor to publicly disclose that specific independence requirements were applied.
50. Nevertheless, the three options represent a range of possibilities in terms of requirements and application material in the ISAs to operationalize IESBA's requirement for firms to publicly disclose the application of the independence requirements for PIEs. The PIE WG is of the view that the ED could present the three options and request stakeholder feedback on which option is preferred.

Matters for the IAASB Consideration:

4. The IAASB is asked for their views on Options 1-3 discussed in paragraphs 37-48, which deal with how ISA 700 (Revised) might be amended to address circumstances when the auditor's report is used to disclose that specific independence requirements for certain entities have been applied. In particular, the IAASB is asked for their views on:
- (a) The proposed drafting for each option outlined.
 - (b) Whether there are any other options that should be considered.
 - (c) Whether multiple options should be presented in the ED to solicit stakeholder feedback on the various options, and if so, whether all three options be presented.

Revising ISA 260 (Revised)²¹ and ISA 700 (Revised) Regarding Communication with Those Charged with Governance about Independence

51. The PIE WG is of the view that, alongside the proposals for amending ISA 700 (Revised) for the auditor to disclose in the auditor's report that specific independence requirements for certain entities

²¹ ISA 260 (Revised), *Communication with Those Charged with Governance*

have been applied, it would be necessary to clarify ISA 260 (Revised) to explain how the auditor may communicate with those charged with governance (TCWG) in such circumstances. The PIE WG notes that in October 2021, the Board noted its preference for the PIE WG to consider the auditor's communication with TCWG in paragraph 17 of ISA 260 (Revised), and the related requirement in paragraph 40(b) of ISA 700 (Revised), as part of track 1.

52. The PIE WG discussed that while paragraph 17 of ISA 260 (Revised), and the communication related thereto in paragraph 40(b) of ISA 700 (Revised), deal with providing TCWG with a statement that the auditor has complied with the relevant ethical requirements regarding independence, paragraph 16(d) of ISA 260 (Revised) deals with the auditor's responsibility to communicate with TCWG circumstances that affect the form and content of the auditor's report.
53. The PIE WG notes that paragraph 16(d) of ISA 260 (Revised) already has application material that provides examples of circumstances when the auditor may communicate with TCWG as they relate to matters that affect the form and content of the auditor's report. Accordingly, the PIE WG is of the view that paragraph 16(d) of ISA 260 (Revised), and its related application material, may be a more appropriate location for emphasizing the auditor's disclosure in the auditor's report that specific independence requirements for certain entities were applied.
54. The table below reflects the PIE WG proposals for new application material, which would follow paragraph A25 of ISA 260 (Revised). The drafting below is based on Option 2 discussed in paragraphs 41-44 above. The PIE WG notes that the proposed drafting would need to be revised if the IAASB chose a different option in revising ISA 700 (Revised).

Application Material

Circumstances that Affect the Form and Content of the Auditor's Report (Ref: Para 16(d))

A25a. In circumstances when the relevant ethical requirements require the auditor to publicly disclose that independence requirements for audits of financial statements of certain entities were applied, paragraph 28(c) of ISA 700 (Revised) requires the auditor to disclose this fact in the auditor's report. In these circumstances, the auditor may communicate with those charged with governance that they intend to provide such disclosure, and indicate the specific independence requirements applied.

Matter for the IAASB Consideration:

5. The IAASB is asked for their views on the PIE WG proposals to revise ISA 260 (Revised) as discussed in paragraphs 51-54 above.

Part C: Way Forward

55. Subject to the approval of the project proposal, the PIE WG will be reconstituted as the PIE Task Force.
56. As explained in this paper, in June 2022, it is intended that the IAASB will be presented with an ED for approval, related to the enhanced transparency about the relevant ethical requirements for independence in the auditor's report (track 1).

Appendix 1

Extract from the Approved October 2021 Mid-Quarter IAASB Meeting Minutes

Ms. Jackson and Mr. Ashley provided an overview of the developments on IESBA's project on listed entity and PIE. Ms. Jackson also presented the proposals of the IAASB PIE Working Group regarding aspects that would be addressed in a project proposal for the IAASB to undertake a narrow scope maintenance of standards project related to listed entity and PIE (the IAASB's project).

"PUBLICLY TRADED ENTITY" DEFINITION

The Board supported the matters outlined by the IAASB PIE Working Group in paragraph 26 of **Agenda Item 1** that need to be considered as part of the IAASB's project in determining whether to replace "listed entity" with "publicly traded entity."

The Board emphasized the importance of aligning terms with the IESBA Code.²² The Board noted the risk of adding complexity to the IAASB Standards if too many terms are used to describe different types of entities, or if differential requirements in the IAASB Standards apply to varying types of entities.

The Board broadly noted their support for replacing "listed entity" with "publicly traded entity" in the IAASB Standards. The Board provided specific comments on IESBA's proposed definition of "publicly traded entity", including:

- Whether the reference to "listed entity" as an example within the definition is necessary and appropriate, because it could cause confusion and, in some cases, the financial instruments of listed entities are non-transferrable. It was also noted that replacing the term "example" with "category" may create further complexity, in particular as it may raise questions about what other "categories" exist.
- Replacing the term "stock exchange" with the term "an exchange," to avoid implying that it only includes exchanges that are associated with stocks.
- Clarifying the intended meaning of a "public market mechanism," given that in certain jurisdictions trading on second-tier markets or over-the-counter trading platforms may be limited to a small group.
- Providing guidance on the meaning of "financial instrument" in a first time implementation guide.

OVERARCHING OBJECTIVE FOR ESTABLISHING DIFFERENTIAL REQUIREMENTS

The Board continued to support using paragraph 400.8 of IESBA's proposed revisions to the Code as a common overarching objective for use by both the IAASB and IESBA in establishing differential requirements in the Boards' standards. The Board also recognized that tailoring may be required in the context of IAASB's Standards in respect of proposed paragraphs 400.9 and 400.10 in the IESBA Code (i.e., factors relevant in evaluating the extent of public interest and the purpose of differential requirements).

The Board acknowledged that IESBA has undertaken its own due process in this regard and therefore broadly supported IESBA's direction. However, the Board noted in relation to proposed paragraph 400.8 that factors other than the entity's financial condition may drive the public interest of stakeholders, such as matters related to climate change.

Further specific suggestions from the Board included:

²² The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

- Adding a title (i.e., a heading) in the IESBA Code to clarify the purpose of paragraph 400.8; and
- Considering whether the additional words intended to clarify the meaning of financial condition are helpful (i.e., the reference to “due to the potential impact of their financial well-being on stakeholders”).

PIE DEFINITION

In noting the due process of IESBA, the Board provided the following input as considerations for IESBA in finalizing the PIE definition:

- The Board broadly supported removing categories (d)²³ and (e)²⁴ from the PIE definition, however suggested including application material to support local bodies in determining whether entities in categories (d) and (e) should be added to the definition of PIE at the local level.
- The inclusion of category (d)²⁵ (i.e., category (f) in the PIE ED) may not be appropriate, given that the PIE definition should be self-contained and not refer to definitions elsewhere.
- Some application material supporting the PIE definition in the proposed revisions to the IESBA Code appears to create implicit requirements.

REQUIREMENT TO PUBLICLY DISCLOSE THE APPLICATION OF THE INDEPENDENCE REQUIREMENTS FOR PIEs

The Board broadly continued its support for exploring transparency in the auditor’s report and emphasized the need for the IAASB to follow its own due process in this regard (i.e., for the IAASB to determine whether the auditor’s report is a suitable location for such disclosure and, if so, how this may be accomplished).

The Board provided the following observations on the requirement to publicly disclose the application of the independence requirements for PIEs in proposed paragraph R400.18 of IESBA’s proposed revisions to the IESBA Code:

- It was noted that the manner in which paragraph R400.18 of the IESBA Code is worded is vague, and could be subject to interpretation that firms may provide a general statement publicly about which entities the firm applies the independence requirements for PIEs to.
- The Board noted that there are circumstances when the auditor’s report may not be public, particularly if jurisdictions add additional categories of PIEs, which may give rise to practical challenges and risk of confidentiality breaches. The Board suggested that the proposed disclosure rather be linked to the financial statements of PIE entities being made public in order to achieve the transparency objective of the requirement in paragraph R400.18 of the IESBA Code.

PROJECT SCOPE, KEY PUBLIC INTEREST ISSUES, PROJECT OBJECTIVES AND PROJECT TIMELINE

The Board provided feedback on certain aspects that will be addressed in the IAASB’s project proposal to undertake a narrow scope maintenance of standards project related to listed entity and PIE that will be discussed at the March 2022 IAASB meeting. The Board was broadly supportive of the IAASB PIE Working

²³ Category (d) in the PIE ED included: “An entity whose function is to provide post-employment benefits.”

²⁴ Category (e) in the PIE ED included: “An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public.”

²⁵ Category (d) includes: “An entity specified as such by law, regulation or professional standards to meet the purpose set out in paragraph 400.10.”

Group's efforts to incorporate elements of the Public Interest Framework for the Development of the International Audit-Related Standards (PIF)²⁶ into the project proposal.

Project Scope

The Board agreed with the various matters that need to be considered as part of the IAASB's project scope and supported that the project be limited to narrow scope amendments to ISQMs and ISAs. The Board also:

- Emphasized the need for the project to be narrow in scope in terms of proposed revisions to ISQMs and ISAs.
- Suggested placing more emphasis on the development of an objective and guidelines for establishing differential requirements in the IAASB Standards, given these would be used as a basis for determining whether differential requirements are appropriate, including in future IAASB projects.
- Highlighted the importance of alignment with the IESBA Code, and upholding the original intent of the initiative to achieve convergence with IESBA to the greatest extent possible.
- Suggested undertaking outreach with stakeholders regarding expanding the application of the existing differential requirements for listed entities to PIEs, to understand the consequences of doing so, given varying definitions of PIEs across jurisdictions.
- Suggested clarifying the intention of the IAASB with respect to other Standards that deal with non-financial information.
- Recommended clarifying how the issue of publicly disclosing when the auditor has applied the independence requirements for PIEs will be resolved in the event that the Board concludes that the auditor's report is not a suitable location for such disclosure (see proposed paragraph R400.18 of the IESBA Code).

Key Public Interest Issues and Project Objectives

The Board was broadly supportive of the key public interest issues and project objectives and provided the following suggestions:

- Being more decisive about the outcomes the Board intends to achieve, in particular avoiding the use of the word "explore," which suggests a less specific objective and vague outcome.
- Replacing the word "supporting" in the project objective in paragraph 84(d) with a more actionable description.

The IAASB PIE Working Group was also encouraged to consider how the stakeholder interest from the PIF to "reinforce the professional accountant's role and mindset and the auditor's professional skepticism needed in gathering evidence, challenging assumptions, and developing conclusions" could be relevant to the key public interest issues identified.

Project Timeline

The Board discussed the IAASB PIE Working Group proposals regarding the approach and timing of the project, to achieve alignment with the effective date of the revisions to the IESBA Code. A majority of the Board members supported keeping the project as a single package, and bifurcating the project in two tracks,

²⁶ Published by the Monitoring Group in July 2020 as part of their report "[Strengthening the International Audit and Ethics Standard-Setting System](#)"

i.e., a faster moving track that prioritizes enhancing transparency about independence in the auditor's report with an effective date that aligns with IESBA, and a slower moving track to address the remaining public interest issues with a later effective date. Notwithstanding the support for this approach and timing, there also was a view that it may be better if IESBA defers finalizing the requirement to publicly disclose the application of the independence requirements for PIEs until such time as the IAASB has completed its work to determine whether the auditor's report is a suitable location for such disclosure.

The Board noted its preference to address the auditor's statement in the auditor's report in accordance with paragraph 28(c) of ISA 700 (Revised),²⁷ together with the requirement in paragraph 17 of ISA 260 (Revised)²⁸ and the communication related thereto in paragraph 40(b) of ISA 700 (Revised).

PIOB OBSERVER REMARKS

Ms. Stothers emphasized the importance of the PIE project from a public interest perspective. She noted the PIOB's concerns with respect to the PIE definition and that the matter would be further discussed with the IESBA as the proposals are finalized. Ms. Stothers indicated the PIOB's preference for completing all aspects of the project simultaneously on the same timeline (i.e., Option 1 of **Agenda Item 1**), however recognized the need for a practical approach.

WAY FORWARD

The IAASB PIE Working Group will present a project proposal for discussion and approval at the March 2022 IAASB meeting. The IESBA intends approving its revisions to the IESBA Code to address listed entities and PIE in December 2021.

²⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

²⁸ ISA 260 (Revised), *Communication with Those Charged with Governance*

Appendix 2

Developments on IESBA's Project Related to Listed Entity and PIE

1. At its December 2021 meeting, the IESBA unanimously approved the final revisions to the IESBA Code related to its project on listed entity and PIE, with an effective date for the revised provisions for audits of financial statements for periods beginning on or after December 15, 2024. The sections below provide a summary of the final proposals of the IESBA PIE TF, the IESBA decisions in December 2021 and the approved revisions to the paragraphs in the IESBA Code relevant to the IAASB (see **Agenda Item 3-B**).

Overarching Objective for Establishing Differential Requirements²⁹

2. In October 2021, the IAASB continued to support using paragraph 400.8 as a common overarching objective for use by both the IAASB and IESBA in establishing differential requirements in their standards. The IAASB also provided observations and suggestions on the reference to “the entity’s financial condition” in the objective, including expanding beyond financial condition to include non-financial information (see **Appendix 1** for the approved minutes of the October 2021 mid-quarter meeting).
3. In December 2021, the IESBA reaffirmed its support for the overarching objective set out in paragraphs 400.8 to 400.10 of the revisions to the IESBA Code. The IESBA PIE TF had indicated in its explanation to IESBA that there may be significant public interest in other non-financial aspects of an entity, such as the quality of the services it provides or the nature of the data it holds. However, since the differential requirements being addressed by IESBA as part of its project on listed entity and PIE relate to additional independence requirements for auditors when performing audits or reviews of financial statements, the interests described in the overarching objective should remain focused on financial condition. The IESBA PIE TF had also noted the strong support from respondents to the PIE ED for the proposed overarching objective, and the support from the joint IESBA-IAASB CAGs at its September 2021 meeting.
4. Nevertheless, recognizing the need for additional clarity on the meaning of the term “financial condition,” the IESBA concurred that further clarification should be provided in the Basis for Conclusions.

“Publicly Traded Entity” Definition³⁰

5. In October 2021, the IAASB broadly noted support for replacing “listed entity” with “publicly traded entity” in the IAASB Standards as part of a narrow-scope maintenance of standards project. The IAASB provided specific feedback on IESBA’s proposed definition of “publicly traded entity”, including:
 - (a) The reference to “listed entity” as an example within the definition could cause confusion and, in some cases, the financial instruments of listed entities are non-transferrable. It was also noted that replacing the term “example” with “category” may create further complexity, in

²⁹ See paragraphs 16-21 of [Agenda Item 2-A](#), presented to the IESBA at its December 2021 meeting.

³⁰ See paragraphs 22-27 of [Agenda Item 2-A](#), presented to the IESBA at its December 2021 meeting.

- particular as it may raise questions about what other “categories” exist.³¹
- (b) Replacing the term “a stock exchange” with “an exchange” to avoid implying that it only includes exchanges that are associated with stocks.
 - (c) Clarifying the intended meaning of a “public market mechanism,” given that in certain jurisdictions trading on second-tier markets or over-the-counter trading platforms may be limited to a small group.
 - (d) Providing guidance on the meaning of “financial instrument” in a first-time implementation guide.
6. In December 2021, the IESBA reaffirmed its support for the definition of “publicly traded entity”. The IESBA PIE TF had included in its explanation to IESBA that:
- (a) Consistent with the IAASB’s view, replacing the term “example” with “category” in referring to a listed entity might give rise to questions about what other categories exist.
 - (b) The reference to “a listing on a stock exchange” was added in response to the Monitoring Group respondents’ views about incorporating the concept of listed entity into the definition of “publicly traded entity.” Accordingly, replacing “a stock exchange” with “an exchange” may be inappropriate given the former term is used in the extant definition of “listed entity.”
 - (c) The phrase “*traded through a publicly accessible market mechanism, including through listing on a stock exchange*” makes it clear that the trading needs to be through a facilitated public trading platform, such as a stock exchange, and that it is not intended to capture entities for which the only way to trade their financial instruments is through privately negotiated agreements. The IESBA PIE TF also noted that further refinement to the definition should be undertaken by the relevant local bodies, as appropriate (for example, by referring to specific regulated or other exchanges in the jurisdiction).
 - (d) There was general support from the joint IESBA-IAASB CAGs in September 2021 for the definition, including support for not defining the term “financial instruments” in the IESBA Code. The IESBA PIE TF suggested that additional guidance on the term outside the IESBA Code would be helpful.

*PIE Definition*³²

7. The final approved definition of PIE by IESBA in December 2021 excluded post-employment benefits³³ and collective investment vehicles³⁴ (which were originally included in the exposure draft) from the PIE definition.
8. In October 2021, the IAASB broadly supported removing post-employment benefits and collective investment vehicles from the PIE definition, however suggested including application material to

³¹ The IESBA PIE TF was considering replacing the term “example” with the term “category” in describing listed entity in the description of “publicly traded entity” in order to clarify that listed entities, as defined by relevant securities law or regulation, should be treated as a group of publicly traded entities and are therefore PIEs.

³² See paragraphs 28-51 of [Agenda Item 2-A](#), presented to the IESBA at its December 2021 meeting.

³³ Paragraph R400.14(d) in the PIE ED which included: “An entity whose function is to provide post-employment benefits.”

³⁴ Paragraph R400.14(e) in the PIE ED which included: “An entity whose function is to act as a collective investment vehicle and which issues redeemable financial instruments to the public.”

support local bodies in determining whether post-employment benefits and collective investment vehicles should be added to the definition of PIE at the local level.

9. There was general support from the joint IESBA-IAASB CAGs in September 2021 for the PIE definition, however the PIOB raised concern about removing post-employment benefits and collective investment vehicles from the PIE definition. The PIOB encouraged the IESBA to carry out an assessment and gather further data to help inform an assessment of the risks associated with excluding post-employment benefits and collective investment vehicles from the list of entities in the PIE definition, as well as to evaluate any mitigating safeguards and implementation challenges.
10. In response to the PIOB's concerns, the IESBA PIE TF undertook further targeted information gathering³⁵ and, in light of the information gathered:
 - (a) Reaffirmed its assessment that some jurisdictions will likely not amend their PIE definitions to include post-employment benefits and collective investment vehicles in their local definitions, even if the IESBA were to include them in the mandatory list of PIE categories. Based on the information gathered, it was clearer that deposit-taking institutions and insurance companies are widely accepted as PIEs, however, the same cannot be said for post-employment benefits and collective investment vehicles.
 - (b) Emphasized that key risks of including post-employment benefits and collective investment vehicles in the definition of PIE are that local bodies do not refine the definition at all (as encouraged by the IESBA Code), do not refine the definition in a timely manner, or remove these categories entirely from their local definitions, undermining the whole essence of a mandatory list. The IESBA PIE TF further noted that the model of setting up a role for local bodies to refine the definition, through building upon the IESBA's definition, is a novel approach for the IESBA Code and is yet to be tested.
 - (c) Observed that the proposed framework is an achievable way of expanding the global mandatory list of PIEs and has raised the bar much higher than the extant Code which has only one specific mandatory category.
11. To further address the PIOB's concerns, in December 2021 the IESBA PIE TF proposed a package of comprehensive actions to be pursued by the IESBA. These actions, among others, include making enhancements to the application material, providing guidance outside of the IESBA Code, undertaking a post-implementation review on the adoption and implementation of the PIE definition at the local level, pursuing a holistic review of post-employment benefits and collective investment vehicles as a strategic commitment, and engaging with IESBA-NSS to receive updates on adoption and implementation of the PIE definition. The IESBA PIE TF also proposed that, based on the outcome of the post-implementation review and the holistic review, the IESBA would consider if the IESBA Code requires further revision. In expressing the PIOB's support for the IESBA PIE TF's proposals and rationale, the PIOB observer noted the PIOB's support for the holistic review and urged the IESBA to consider commencing the review within the remaining period of the IESBA's current strategy and work plan.

³⁵ This included gathering information from professional accountancy organizations (PAOs) and NSS from over 45 jurisdictions, including the majority of G20 jurisdictions, regarding their local definitions of PIE.

*Requirement to Publicly Disclose the Application of Independence Requirements for PIEs*³⁶

12. In October 2021, the IAASB:

- (a) Continued to note its support for exploring transparency in the auditor's report as a mechanism to disclose that the firm had applied the independence requirements for PIEs; and
- (b) Supported bifurcating the narrow scope amendments project into two tracks, i.e., a faster track that prioritizes enhancing transparency about independence in the auditor's report with an effective date that aligns with IESBA's, and a slower track to address the remaining public interest issues with a later effective date.

13. The IAASB provided additional observations on IESBA's proposals at the time, including the following: (see **Appendix 1** for the approved minutes of the October 2021 mid-quarter meeting)

- (a) The IAASB continued to note that there are circumstances when the auditor's report may not be public, particularly if jurisdictions add additional categories of PIEs, which may give rise to practical challenges of meeting the "publicly disclose" requirement, and risk of confidentiality breaches.
- (b) The IAASB suggested that the proposed disclosure rather be linked to the financial statements of PIE entities being made public, to achieve the transparency objective of the proposed requirement in paragraph R400.20 of the IESBA Code.
- (c) Notwithstanding the IAASB's support for bifurcating the project into two tracks, there was also a view that it may be better if IESBA defers finalizing the requirement to publicly disclose the application of the independence requirements for PIEs until such time as the IAASB has completed its work to determine whether the auditor's report is a suitable location for such disclosure.

14. The transparency requirements as approved by the IESBA at its December 2021 meeting included the following key revisions and explanations to address the above concerns:

- (a) Publicly disclose – The IESBA PIE TF considered the option of limiting the disclosure requirement to only those stakeholders who have access to the auditor's report but noted that this may be seen to be concluding on the appropriate means of disclosure before the IAASB has considered the matter.

However, an additional reference was made to paragraph R400.20 that the disclosure should be made in "*a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.*" The additional reference is already used in paragraph 410.31 A3 of the IESBA Fees final pronouncement relating to public disclosure of fee-related information.

- (b) Confidentiality – It was noted that the extant Code already contains provisions that would in part address concerns about confidentiality. However, in response to the feedback from the IAASB and others, an exception was added in paragraph R400.21 that exempts the auditor from making the disclosure if it would result in disclosing confidential future plans of the entity.
- (c) Providing guidance regarding the appropriate disclosure mechanisms –The IESBA agreed that it would not be appropriate to include examples of other disclosure mechanisms (i.e., other than

³⁶ See paragraphs 55-63 of [Agenda Item 2-A](#), presented to the IESBA at its December 2021 meeting.

the auditor's report) in the IESBA Code at this time given that the IAASB is yet to consider the issue.

- (d) Timing issue – The IESBA PIE TF was of the view that there is reasonable time for firms to implement any additional requirement on disclosure in the auditor's report. In addition, the IESBA PIE TF acknowledged that the IAASB is yet to commence its narrow scope project and therefore emphasized that the IESBA should be sufficiently agile in allowing for:
 - (i) A possible review of the effective date for the transparency disclosure requirement if this aspect of the IAASB project is delayed; and
 - (ii) Potential conforming changes or issuing additional guidance as needed.

The timing issue will also be explained in the Basis for Conclusions, which will indicate that the IESBA will consider the need for any further action once the IAASB has finalized its work and deliberations on this matter.

Appendix 3

PIE WG Members and Update on Activities Since the October 2021 IAASB Mid-Quarter Meeting

PIE WG Members

1. The IAASB PIE WG consists of the following members:
 - Josephine Jackson, Chair;
 - Chun Wee Chiew;
 - Dan Montgomery; and
 - Denise Weber.
2. Information about the project can be found [here](#).

PIE WG Activities

3. The PIE WG held 3 virtual meetings since October 2021.
4. In October 2021, IESBA and IAASB staff representatives provided updates on their listed entity and PIE projects at the joint IAASB-IESBA NSS meeting. In addition, information was requested from the NSS about the independence statement included in the auditor's report and whether local jurisdictions have additional disclosures in this regard beyond the requirements of the ISAs.

Coordination with Other Task Forces, Consultation Groups and Standard Setting Boards

5. Josephine Jackson and Chun Wee Chiew were correspondent members of the IESBA PIE TF and attended all IESBA Task Force meetings. Staff of the IAASB and IESBA engage in ongoing coordination activities in relation to this topic.
6. Staff of the PIE WG and the Audits of Less Complex Entities (LCE) Task Force met in January 2021 to share the developments on IESBA's PIE project that are relevant to the LCE Task Force. Staff also discussed that there may be feedback from the Exposure Draft, *Proposed International Standard on Auditing of Financial Statements of Less Complex Entities*, that may be relevant to the project on listed entity and PIE, and therefore will continue to coordinate as respondents' feedback is analyzed.
7. The Chairs of the PIE WG and the Auditor Reporting Consultation Group (ARCG) and IAASB staff met in January 2021 to discuss the approach and timetable for receiving input and views of the ARCG on the initial proposals of the PIE WG for the disclosure in the auditor's report about when a firm has applied the independence requirements for PIEs.