

**Meeting:** IAASB Consultative Advisory Group (CAG)

**Meeting Location:** Virtual Zoom Meeting

**Meeting Date:** June 7, 2022

## Agenda Item B

### Listed Entity and Public Interest Entity (PIE) – Cover and Report Back

#### Objectives of Agenda Item

1. The objectives of this Agenda Item are to:
  - (a) Obtain the Representatives' views on the Exposure Draft (ED), proposed *Narrow Scope Amendments to ISA 700 (Revised)*<sup>1</sup> and *ISA 260 (Revised)*<sup>2</sup> as a Result of the Revisions to the IESBA Code<sup>3</sup> that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities (PIEs).
  - (b) Report back on Representatives' comments made at the March 2022 IAASB CAG meeting.

#### Update on Activities Since the March 2022 IAASB CAG Meeting

2. In March 2022, the IAASB approved a [project proposal](#) to undertake a narrow scope maintenance of standards project on listed entity and PIE, which sets out the IAASB's actions to respond to the recent revisions to the IESBA Code in relation to listed entity and PIE.<sup>4</sup>
3. In order to remain consistent with IESBA's revisions to the IESBA Code, which will become effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, the IAASB's project proposal noted the urgency of finalizing the IAASB's proposals that would provide a mechanism for the firm to publicly disclose whether it has applied the relevant ethical requirements for independence for certain entities, such as PIEs in the IESBA Code. Accordingly, the project is being undertaken in two tracks, i.e.:
  - (a) Track 1: A faster-moving track that deals with narrow-scope amendments to ISA 700 (Revised) and ISA 260 (Revised) to address transparency about the relevant ethical requirements for independence for certain entities, with an effective date that aligns with IESBA.
  - (b) Track 2: A separate track that deals with all other actions contemplated in the project proposal, with a later effective date.

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<sup>1</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>2</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>3</sup> The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*

<sup>4</sup> See the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code | IFAC \(ethicsboard.org\)](#)

4. Since the last update provided to the CAG at the March 2022 meeting, the IAASB PIE Task Force has continued to progress track 1 of the project on listed entity and PIE, with the intent of presenting to the IAASB in June 2022 the track 1 ED for approval. The IAASB PIE Task Force held two virtual meetings to develop the ED, which comprises proposed amendments for ISA 700 (Revised) and ISA 260 (Revised), to address circumstances when the auditor's report is used to disclose that relevant ethical requirements for independence for certain entities have been applied (such as for PIEs in the IESBA Code).
5. At the IAASB's upcoming June 2022 meeting, the IAASB will be asked to approve the ED, included in Agenda **Item B.2**.
6. The **Appendix** to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

#### IAASB-IESBA Coordination

7. Throughout the IAASB's and IESBA's projects, there has been extensive coordination through Staff coordination, the participation of IAASB and IESBA correspondent members in the respective Boards' PIE Task Forces, IAASB plenary discussions involving representatives of the IESBA, joint IESBA-IAASB CAG discussions and joint IESBA-IAASB National Standard Setter sessions.

#### IAASB CAG Discussion in June 2022

8. For purposes of the IAASB CAG discussion in June 2022, the IAASB PIE Task Force has prepared a presentation (see **Agenda Item B.1**) highlighting the key matters from the ED (see **Agenda Item B.2**).

#### Matter for IAASB CAG Consideration:

1. Representatives are asked for views on the draft ED presented in **Agenda Item B.2**.

#### Feedback

9. Extracts from the draft March 2022 IAASB CAG meeting minutes relevant to listed entity and PIE, as well as an indication of how the IAASB PIE Task Force or the IAASB has responded to the Representatives' comments, is included in the table below.

Report Back on the March 2022 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
<i>Draft Project Proposal on Listed Entity and PIE</i>	
Messrs. Pavas, Ishiwata and Ruthman, Mmes. Blomme, Manabat and Wei and Drs. Cela and Norberg expressed support for the draft project proposal.	Support noted.
Mr. Pavas noted the relevance of the project for the Latin America region. He explained that a study is presently being undertaken in Colombia as to what	Point noted.

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Representatives' Comments	IAASB PIE Task Force / IAASB Response
entities should constitute a PIE, given that the definition is vague and allows local bodies to refine it for entities specified by law or regulation that can be designated as PIEs and the divergent stakeholder views as to what entities should constitute a PIE. Mr. Pavas noted that the definition of PIE is especially important for developing countries where there are many smaller listed entities.	
Mr. Ishiwata commented that the timeline to completion for track 2 extends over a long timeframe and suggested that the IAASB consider more effective use of its limited resources to enable completion of the actions proposed under this track.	Point not accepted.  Paragraph 40 of the project proposal highlights the IAASB's considerations when determining the resources required for the project on listed entity and PIE relevant for both tracks 1 and 2 of the project. The timelines for this project have been established in the context of the capacity of the staff resources and availability of the Board time, taking into consideration all IAASB projects and relative priorities.
Mr. Pavas, Ms. Blomme and Dr. Cela emphasized the importance of aligning terminology across the IAASB and IESBA standards. Ms. Blomme cautioned that in aligning terminology, it should not inadvertently create additional requirements.	Point noted.  Paragraph 17(a) of the project proposal includes a project objective to: "Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability."
Dr. Cela expressed support for addressing the differential requirements in the ISQMs and ISAs noting this is important for clarifying expectations and enhancing confidence in audit engagements performed for certain entities. He added doing so may also enhance the scalability of the standards.	Support noted.
Ms. Wei and Dr. Norberg supported bifurcating the project into two tracks because this would enable addressing as a priority the disclosure relating to enhanced transparency about independence to align with IESBA's effective date.	Support noted.

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Mr. Ruthman commented that there may be a time lag from the effective date of the revisions to the IESBA Code and when jurisdictions are able to implement these revisions. He noted that this may result in a gap between jurisdictional ethical codes aligning with the ISAs.	Point noted.  Ms. Jackson noted that it is recognized that national jurisdictions will have their own effective dates given the need to undertake their national implementation and due process for both ISAs and Ethical Codes.
Mr. Ruthman inquired whether the overarching objective as included in paragraph 400.8 of the revised Code would be subject to further public consultation as part of IAASB's narrow scope maintenance project on listed entity and PIE.	Ms. Jackson responded that the overarching objective in paragraph 400.8 of the revised IESBA Code was exposed as part of IESBA's project on Definitions of Listed Entity and PIE. She explained that as part of IAASB's project, the IAASB would make reference to the overarching objective, as part of its public consultation, for context, but would not solicit views on 400.8 and only obtain input on a tailored objective and guidelines for establishing differential requirements in the ISQMs and ISAs.
<i>Enhanced Transparency About Independence in the Auditor's Report – Public Consultation About the Options</i>	
Messrs. Thompson, Yurdakul and Hansen, Ms. Yazar and Dr. Norberg noted their support for including all three options in the Exposure Draft and for obtaining stakeholder views on the three alternatives presented. Ms. Yazar commented that there is likely to be divergent views given that there is a tradeoff in the options proposed between more or less transparency and consistency. She suggested that the IAASB should consider mitigation measures in this regard.	Point noted.  In March 2022, the IAASB discussed the options to present in the ED and accompanying Explanatory Memorandum (EM). The IAASB agreed to the following: <ul style="list-style-type: none"> <li>Option 2 in the March 2022 CAG and IAASB materials: Present as the IAASB's preferred option in the ED.</li> <li>Option 1 in the March 2022 CAG and IAASB materials: Explain in the EM that it was considered by the IAASB as an alternative option.</li> <li>Option 3 in the March 2022 CAG and IAASB materials: Do not discuss or present this as an option or alternative in the EM or ED.</li> </ul> In reaching its decision, the IAASB considered its <a href="#">Due Process and Working Procedures</a> relevant to the development and public exposure, to which the

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	<p>IAASB must adhere to in developing its International Standards.</p> <p><b>Agenda Item B.2</b> reflects the IAASB's direction.</p>
<p>Ms. Manabat suggested that only Options 1 and 2 should be presented in the Exposure Draft.</p>	<p>Point accepted.</p> <p>Please see the explanation above regarding the IAASB's conclusion in March 2022 regarding the options that would be presented in the ED and accompanying EM. <b>Agenda Item B.2</b> reflects the IAASB's direction.</p>
<i>Enhanced Transparency About Independence in the Auditor's Report – Option 1</i>	
<p>Messrs. Munter, Yoshii, Pavas and Hansen and Mmes. Wei and Manabat noted their preference for Option 1. Messrs. Munter and Hansen noted their strong preference for more transparency in the auditor's report about independence and noted that Option 1 would achieve that. Mr. Yoshii commented that although Option 1 imposes a more onerous obligation to disclose and extends the transparency requirement to all circumstances when the relevant ethical requirements establish specific independence requirements for certain entities, it presents an approach that is reflective of the public interest for providing more transparency about independence. Mr. Pavas noted that Option 1 promotes consistency and allows for greater compatibility globally in auditor's reports for certain entities. Ms. Wei commented that Option 1 makes the requirement clear and demonstrates the intent of the IAASB to promote increased transparency in the auditor's report about independence.</p>	<p>Point noted.</p> <p>Please see the explanation above regarding the IAASB's conclusion in March 2022 regarding the options that would be presented in the ED and accompanying EM. <b>Agenda Item B.2</b> reflects the IAASB's direction.</p>
<p>Ms. Blomme and Dr. Norberg noted their hesitation for supporting Option 1 because it is not aligned with the principle of the narrow scope project not to create additional or more onerous requirements beyond those proposed with the revisions to the Code.</p>	<p>Point noted.</p> <p>Please see the explanation above regarding the IAASB's conclusion in March 2022 regarding the options that would be presented in the ED and accompanying EM. <b>Agenda Item B.2</b> reflects the IAASB's direction.</p>

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<i>Enhanced Transparency About Independence in the Auditor's Report – Option 2</i>	
Dr. Norberg noted his support for Option 2.	Point accepted.  Please see the explanation above regarding the IAASB's conclusion in March 2022 regarding the options that would be presented in the ED and accompanying EM. <b>Agenda Item B.2</b> reflects the IAASB's direction.
Mr. Munter and Ms. Wei noted that from the remaining options presented, the order of their preference is for Option 2 over Option 3.	Point accepted.  Please see the explanation above regarding the IAASB's conclusion in March 2022 regarding the options that would be presented in the ED and accompanying EM. <b>Agenda Item B.2</b> reflects the IAASB's direction.
Ms. Blomme and Mr. Thomson expressed hesitation over whether Option 2 or Option 3 is preferred. Ms. Blomme noted that Option 2, although aligned with the requirements in Europe which apply to PIEs, would result in an additional requirement forming part of ISA 700 (Revised). She noted that ISA 701 <sup>5</sup> may be a more appropriate location because it deals with differential requirements for the auditor's report for certain entities. Mr. Thompson noted his concern about the impact of the additional transparency requirement on small and medium-sized practitioners and audits of entities that are not PIEs, and emphasized that it is important to consider a scalable solution for auditors of non-PIEs.	Point not accepted.  In March 2022, the IAASB supported the location of the requirement in ISA 700 (Revised), given that ISA 701 deals solely with communication of key audit matters. The IAASB PIE Task Force noted that the proposed new requirement is inherently scalable, given that it only applies if there are differential independence requirements for the entity.
<i>Enhanced Transparency About Independence in the Auditor's Report – Option 3</i>	
Mr. Yurdakul noted his preference for Option 3 and commented that paragraph 28(c) of ISA 700 (Revised) already requires inclusion of a statement in the auditor's report that the auditor is	Point noted.  As noted above, in March 2022 the IAASB agreed not to present Option 3 in the ED.

<sup>5</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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independent of the entity in accordance with the relevant ethical requirements relating to the audit.	
Dr. Norberg and Mr. Hansen commented that Option 3 does not present a viable alternative. Mr. Wei noted that Option 3 is not preferred. Mr. Hansen highlighted that it should be clear for users where this information is reported (i.e., not to require users to search for this information, for example, on a website, in a transparency report, or elsewhere).	Point accepted.  As noted above, in March 2022 the IAASB agreed not to present Option 3 in the ED.
<i>Other Matters</i>	
Mr. Munter commented that the IAASB is currently considering changes to ISA 700 (Revised) through several of its standard setting projects, including through its project on listed entity and PIE. He inquired of the IAASB's approach in this regard, noting that the collective impact of all changes to the auditor's report will need to be considered.	Ms. Jackson and Mr. Botha acknowledged the possible impact to the auditor's report given the work under various IAASB projects. The following was noted: <ul style="list-style-type: none"> <li>• There are three standard-setting projects in the IAASB work plan (i.e., the fraud, going concern and PIE projects) that are considering possible actions related to enhanced transparency that may also result in changes to the auditor's report.</li> <li>• The IAASB's approach is to consider separately for each project what revisions are necessary to address the key issues identified from the information gathering and research activities undertaken.</li> <li>• At a later time, when the proposals are developed, the collective impact to the auditor's report will be considered, including the market impact and effective date(s) of different changes to the auditor's report when these projects are completed in relatively short succession.</li> <li>• In the case of the listed entity and PIE project there is also a need to align with the effective date of IESBA.</li> <li>• In developing its narrow scope amendments, the PIE Task Force is engaged in ongoing co-</li> </ul>

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	ordination with the Auditor Reporting Consultation Group (ARCG).

## Material Presented – IAASB CAG Papers

Agenda Item B.1	Presentation
Agenda Item B.2	Draft ED, proposed <i>Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs</i>



## Appendix

### Project Details and History

#### Project: Listed Entity and PIE

Link to IAASB Project Page: [Listed Entity and PIE](#).

#### PIE Task Force Members

- Josephine Jackson, IAASB Member and Task Force Chair
- Chun Wee Chiew, IAASB Member
- Fernando Ruiz Monroy, IAASB Member
- Len Jui, IAASB Member
- Sung-Nam Kim, IESBA Member (correspondent PIE Task Force member)

#### Summary

	IAASB CAG Meeting	IAASB Meeting
Initial IAASB discussion on the IESBA's project on listed entity and PIE.	N/A	July 2020
Further IAASB discussion on the IESBA's project on listed entity and PIE to provide feedback to IESBA on the proposed revisions to the IESBA Code relating to their definitions of listed entity and PIE project (up to exposure draft).	N/A	November 2020
Overview of respondent's comments to the specific matters for IAASB consideration in the IESBA's <a href="#">Exposure Draft, Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (IESBA PIE ED)</a> and discussion on the initial views of the IAASB PIE WG on those matters.	N/A	July 2021
Overview of the developments related to IESBA's project on listed entity and PIE and discussion on various aspects to be addressed in the IAASB's project proposal to undertake a project on listed entity and PIE.	N/A	October 2021
Approval of a project proposal for a narrow scope maintenance of standards project on listed entity and PIE and discussion of the PIE Working Group's	March 2022	March 2022

	IAASB CAG Meeting	IAASB Meeting
initial proposals for the disclosure relating to enhanced transparency about independence in the auditor's report.		

**IAASB CAG Discussions: Detailed References**

Project Proposal	<u>March 2022</u> See <a href="#">IAASB CAG meeting material</a> (Agenda Item B).
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