

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

### Guide for Respondents

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

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

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

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

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

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

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

**PART A: Respondent Details and Demographic information**

Your organization’s name (or your name if you are making a submission in your personal capacity)	KPMG International Limited
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Larry Bradley
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Sheri Anderson
E-mail address(es) of contact(s)	sranderson@kpmg.com
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	Global
	If “Other”, please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	Accounting Firm
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

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

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

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

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

### *Objective for Establishing Differential Requirements for PIEs*

1. Do you agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why?

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

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

**Detailed comments (if any):**

### **Overall recommendation to limit the scope of the project at the current time**

In responding to the proposals set out in the Exposure Draft (ED) regarding the definition and concept of a public interest entity (“PIE”), we highlight that paragraph 29 of the Explanatory Memorandum accompanying the proposals states that in the past *“the IAASB decided not to expand the differential requirements beyond listed entities in the ISQMs and ISAs in previous consultations, deliberations and discussions, mostly due to the lack of a global baseline for the definition of PIE that could be consistently applied across jurisdictions, and the unintended consequences of the requirements applying to similar entities that could be scoped into the definition of a PIE (e.g. due to regulations or legislation) and for which it may be impracticable or overly burdensome to apply the requirements in such cases.”*

Our major concern is that we do not believe a global baseline for the definition of a PIE will be established for the reasons we explain further below. As we believe this is fundamentally important to achieve consistency on a global basis, in particular, consistency in terms of the application of the differential requirements in respect of enhanced communication and transparency to the audits of such entities, we do not, at the current time, support adopting the definition of a PIE (please refer to Question 2), establishing the overarching objective and purpose for establishing differential requirements for PIEs, or extending the differential requirements beyond listed entities (please refer to Question 3). Instead, we recommend that the IAASB limit the scope of this project to address only the adoption of the proposed new definition for ‘publicly traded entity’ and the proposed amendments to ISRE 2400 (Revised). (Please refer to our responses to Questions 2 and 5, respectively, for further details). We also encourage the IAASB to coordinate with the IESBA to determine what actions can be taken to support the establishment of a global baseline for the definition of a PIE that could be consistently applied across jurisdictions. If a global baseline can be established, we would encourage the IAASB to consider exposing the other proposals in the ED that we do not currently support at that time.

### **Alignment of definitions and concepts between the IESBA Code and the IAASB standards**

Whilst we are supportive of both the definition and concept of a PIE as described within the IESBA Code itself, which the ED proposes to be introduced into the IAASB standards, we stress that a global baseline will not be established, even if the wording of definitions in the IAASB standards and the IESBA Code are substantially the same, as a result of the position taken by the IESBA Board at their recent Board meeting, that results in significant differences in how the definition/concept of a PIE will be interpreted and applied in practice.

We recognise the significant practical challenges for jurisdictions in implementing the revised PIE definition, and we understand that these have been under consideration by the IESBA to try to address or alleviate these difficulties, with steps taken as follows:

- Issuance of guidance<sup>1</sup> that states that jurisdictions may not adopt the global baseline as defined in the IESBA Code by the effective date, in which case the local extant requirements and definitions will continue to apply in that jurisdiction. Whilst this guidance appears to establish some “flexibility” in terms of the transition period, in stating that jurisdictions are expected to align their PIE definitions with the IESBA Code “as soon as practicable” after the effective date, the guidance does not include any expectations regarding a timeframe and it is not entirely clear whether a firm that applies a jurisdictional PIE definition that is not consistent with the definition in the IESBA Code after the effective date would or would not be considered to be in compliance with the IESBA Code.
- Further discussions at the IESBA Board meeting of 20 March 2024 in respect of the interpretation of the PIE definition, and clarification regarding the application of this. We understand that the outcome of these discussions is that the Board has concluded that if jurisdictions have a PIE definition established by local laws or regulations that is not consistent with the PIE definition as set out in the IESBA Code, a firm may apply the local PIE definition when applying the IESBA Code, rather than use the PIE definition in the IESBA Code itself, and that firm would still be considered to be compliant with the IESBA Code in these circumstances. It is unclear at present how this interpretation will be communicated. We understand that the IESBA may update the guidance already issued, by inclusion of an additional Q&A, however, we note that this is non-authoritative in status.

As a result of the recent IESBA Board discussions as described above, it appears that guidance will be issued noting that it will be permissible for a firm to apply a local PIE definition that is not consistent with the PIE definition as defined in the IESBA Code and still be considered to be in compliance with the IESBA Code after the effective date. This position means that a global baseline for the identification of PIEs has not been established and, for this reason, we do not support adopting the definition of PIE in the absence of such a global baseline.

Furthermore, we highlight that this interpretation of the PIE definition by the IESBA Board will apply in respect of the IESBA Code but not the IAASB standards. Given the timing of the IESBA Board discussions, it is not currently clear how the IAASB will respond at this time, e.g., whether the IAASB plans to issue guidance that would achieve a similar outcome, given that the IAASB’s stated intention is to align the definitions and concepts between the IESBA Code and the IAASB standards. As a result, if the proposals in the ED were to be adopted, the PIE definition used by a firm for the purposes of applying the incremental independence requirements of the IESBA Code could differ significantly to the PIE definition used by a firm for the purposes of applying the differential requirements in the IAASB standards in the same jurisdiction. We believe this could cause significant confusion and inconsistency in practice, which may be further exacerbated by the fact that the expected Q&A would, in line with the guidance issued by the IESBA to date, be described as non-authoritative, and therefore may be subject to differing views in respect of national standard-setters, regulators and other oversight bodies and audit firms as to its applicability. We believe such inconsistency would undermine the objectives of the IAASB in respect of this project. Additionally, we note that there may be different local bodies responsible for the application of the

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<sup>1</sup> Staff Questions and Answers | March 2023 | Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (see Q14 and Q15) (the “guidance”)

requirements of the IESBA Code and the IAASB standards in certain jurisdictions, which may take different approaches.

### **Lack of clarity regarding role of auditors in considering whether entities should be classified as PIEs when a jurisdiction has not aligned their PIE definition or does not have a PIE definition**

Furthermore, if a jurisdictional definition is not aligned with the PIE definition adopted in the IESBA Code and proposed for the IAASB Standards, or a local jurisdiction has not established a PIE definition, the role of the auditor's firm appears to differ depending on whether the IESBA Code or the IAASB standards are being applied. We understand that the IESBA Board considers that, in such a situation, the auditor's firm would not be required to apply the PIE definition in the IESBA Code and would instead apply the jurisdictional definition. We understand that the IESBA Board's view is that responsibility for determining which entities or classes of entities should be categorised as PIEs rests with legislators or other relevant local bodies, and that firms should not be required to determine if other entities should be treated as PIEs as a consequence of actions (or inactions) by local bodies that results in a jurisdictional PIE definition that is not aligned with the definition in the IESBA Code (or no jurisdictional definition at all).

However, whilst we would not disagree with the above view, we highlight that the proposed narrow scope amendments in ISQM 1.18A suggest that the auditor's firm has significantly more responsibility in these circumstances, stating that *"the firm shall treat an entity as a public interest entity in accordance with the definition in paragraph 16(p)A, as well as consider more explicit definition established by law, regulation or professional requirements for the categories set out in paragraph 16(p)A(i)-(iii)."* We interpret this to mean that, if the jurisdictional PIE definition is not aligned with the definition in the IAASB standards, the auditor's firm is still required to treat an entity as a public interest entity when it falls within the definition in the IAASB standards, and thus would be responsible for identifying any PIEs outside the jurisdictional PIE definition that fall within the PIE definition in the IAASB standards.

### **A consistent global baseline for the definition of a PIE will not be established**

In summary, given the apparent direction of the IESBA's interpretations and the related consequences, we believe that a consistent global baseline for the definition of a PIE will not be established within the IESBA Code. Furthermore, following the discussions at the IESBA Board meeting, the interpretation and application of the PIE definition and concept appears to have diverged, at least in substance if not in the form of words used, between the IESBA Code and the IAASB standards. We consider that this significantly undermines both the premise underpinning the IAASB's project, as well as their stated intention of aligning, as far as possible, with the IESBA Code. Therefore, at the current time, we do not consider that the definitions and concepts are sufficiently aligned between the IESBA Code and the proposed changes to the IAASB standards to enable consistency in their interpretation and application in practice.

### **Recommendation not to extend the differential requirements to PIEs**

As a result of the IESBA view that the definition and concept of a PIE as set out in the IESBA Code is not required to be adopted and further refined at a jurisdictional level, as appropriate, we believe it is more likely that relevant local bodies may no longer fulfil their intended critical role in determining both the size and nature of entities that would be within scope of the baseline definition. As a result, this definition/concept, if adopted into the IAASB Standards, may be applied to an unnecessarily broad population of entities where there is not significant public interest in their financial condition and for which it would therefore be overly burdensome from a cost-benefit perspective to apply the differential requirements set out in the IAASB standards for PIEs. Accordingly, we also do not support extending the differential requirements of the IAASB standards to PIEs, in particular, those requirements in respect of engagement quality reviews and communication of KAMs.

### *Definitions of PIE and “Publicly Traded Entity”*

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

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

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

#### **Detailed comments (if any):**

We do not agree with adopting the definition and concept of a PIE at this time, for the reasons we set out in our response to Question 1.

We support the adoption of the definition and concept of a ‘publicly traded entity’ into ISQM 1 and ISA 200. We consider that this definition is clear and aligned with the IESBA Code, to enable these standards, and the IESBA Code, to operate in concert.

However, we note that proposed paragraph A29E of ISQM 1 and proposed paragraph A81E of proposed ISA 200 make reference to the fact that all the PIE categories described in paragraph 16(p)A(i)-(iii)/ paragraph 13(l)A(i)-(iii), respectively, are “broadly defined and law, regulation or professional requirements [of the particular jurisdiction] may more explicitly define these categories, by, for example, making reference to specific public markets for trading securities...” Therefore, whilst we believe that the role of jurisdictional bodies in more explicitly defining “publicly traded entity” as appropriate to the circumstances of their particular jurisdiction is significantly less in scope than that envisaged in respect of further refining other categories of PIE entities, nevertheless, we highlight that such a role is envisaged. Accordingly, whilst we would not support including the broader material in respect of PIE entities for the reasons we note in our response to Question 1, we recommend that the relevant material at paragraph A29E of ISQM 1 and A81E of ISA 200, be retained within the proposed standard,

#### **Entities which become listed/publicly traded after the reporting date**

We highlight that there is potential, both in terms of the current definition of listed entity, as well as the proposed definition of publicly traded entity, for confusion and inconsistency in practice with respect to entities that are not listed/publicly traded entities at the reporting date, but which become so before the date the financial statements are authorised for issue. In such situations we believe that, subject to the laws and regulations of particular jurisdictions, it may be appropriate to recognise such entities as publicly traded entities for purposes of the audit, and to apply the differential requirements of the ISQMs and ISAs to such entities. We recommend that the IAASB provides further clarity within the standards in order to drive consistency in practice. We recommend that application material address factors to consider in determining whether an entity is likely to be listed/publicly traded in the near future, e.g. how advanced plans to become a publicly traded entity are at the reporting date, whether this is likely to take place during the subsequent events period, and expectations of users, including whether the financial statements and the auditor’s report thereon are expected to be included in a listing prospectus.

Similarly, we recommend that the IAASB address the reverse scenario in the application material, i.e. where an entity is expected to no longer meet the definition of a listed entity/publicly traded entity in the near term.

*Differential Requirements in the ISQMs and ISAs*

3A. Do you agree with the IAASB's proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED)?

*(See EM Section 1-D, paragraphs 27-40 and Appendix 1)*

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

**Detailed comments (if any):**

We do not consider it would be appropriate to extend the differential requirements for engagement quality reviews to apply to PIEs, as we describe in our response to Question 1.

We believe that, in the absence of a consistent global baseline definition, not all jurisdictions may adopt/implement the PIE definitions/concepts in line with the IAASB's intentions. In such circumstances, the costs of applying certain of the differential requirements for PIEs, such as the engagement quality review requirement, when performing an audit of such entities may be disproportionate and significantly outweigh the benefits.

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

**Detailed comments (if any):** Please refer to our response to Question 1.

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

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

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

**Detailed comments (if any):** Please refer to our response to Question 1.

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

**Detailed comments (if any):** Please refer to our response to Question 1.

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

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

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

**Detailed comments (if any):** Please refer to our response to Question 1.

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

**Detailed comments (if any):** Please refer to our response to Question 1.

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

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

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

**Detailed comments (if any):**

We do not consider it would be appropriate to extend the differential requirements for communicating KAMs to apply to PIEs, as we describe in our response to Question 1.

We believe that, in the absence of a consistent global baseline definition, not all jurisdictions may adopt/implement the PIE definitions/concepts in line with the IAASB's intentions. In such circumstances, the costs of applying certain of the differential requirements for PIEs, such as communicating KAMs, when performing an audit of such entities may be disproportionate and significantly outweigh the benefits.

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

**Detailed comments (if any):** Please refer to our response to Question 1.

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



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

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

**Detailed comments (if any):** Please refer to our response to Question 1.

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

**Detailed comments (if any):** Please refer to our response to Question 1.

4. Do you agree with the IAASB's proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to "publicly traded entity"? If not, what do you propose and why?

(See EM Section 1-D, paragraphs 47-51)

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

**Detailed comments (if any):** We agree as we do not support extending any of the differential requirements to apply to PIEs for the reasons outlined in our response to Question 1.

*Proposed Revisions to ISRE 2400 (Revised)*

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

(See EM Section 1-E, paragraphs 52-57)

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

**Detailed comments (if any):**

We agree with the IAASB's proposal to include a new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner's review report about the ethical requirements for independence applied for certain entities. Whilst we consider that there would be very limited circumstances in which a practitioner would be requested to perform a review of the financial information of a PIE in accordance with ISRE 2400 (Revised), as it would be more likely that an audit of such information would be necessary to meet stakeholder needs, we nonetheless consider it important that ISRE 2400 (Revised) is updated to align with the IESBA Code such that the two standards are able to operate in concert.

We acknowledge the IAASB's proposed approach not to include conforming amendments to ISRE 2410 as part of this project, on the basis that ISRE 2410 is a pre-clarity standard and it may be misleading to make narrow-scope updates to that standard as part of this project alone. We understand that the IAASB may

consider a broader project to update the standard more comprehensively in the foreseeable future. In the meantime, we note that a review in accordance with ISRE 2410 is performed by the independent auditor of an entity, and therefore we believe that the objectives of enhanced communication and transparency of the applicable differential requirements in respect of ethics and independence will be met as part of the audit of such entities. In particular, any additional information in this regard will be disclosed in the auditor's report on the annual financial statements of the entity, and therefore such information will be in the public domain and we believe would satisfy the information needs of users of the review report. However, in the absence of an explicit statement by IESBA and IAASB to this effect, we recommend that IAASB co-ordinate with IESBA to provide clarification, e.g., within the Staff Q&A issued by IESBA, that the requirements of the IESBA Code in this regard are fulfilled by including such information in the auditor's report. We further suggest that, as part of their outreach and dialogue with relevant legal and regulatory bodies responsible for standard-setting across different jurisdictions, the IESBA and IAASB specifically clarify this matter.

*Other Matters*

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

**Overall response:** [No \(with no further comments\)](#)

**Detailed comments (if any):** Not applicable.

## Part C: Request for General Comments

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

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

**Overall response:** [No response](#)

**Detailed comments (if any):** Not applicable.

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

**Overall response:** [No response](#)

**Detailed comments (if any):** Not applicable.