

Proposed ISQM 2¹: Issues and Recommendations

Objectives of the IAASB discussion

The objectives of this Agenda Item are to:

- (a) Provide an overview of respondents' feedback on the Exposure Draft (ED) of ISQM 2 (ED-ISQM 2) and question 11 of the Explanatory Memorandum (EM) to ED-ISQM 1.²
- (b) Obtain the Board's view about how the ISQM 2 Task Force (TF) proposes to address issues and concerns raised by respondents relating to:
 - (i) Engagements subject to an engagement quality (EQ) review in accordance with paragraph 37(e) of proposed ISQM 1 (i.e., scoping), and in particular, the concept of "significant public interest;" and
 - (ii) The objectivity of the EQ reviewer, including a cooling-off period for individuals moving into the role of EQ reviewer after having served as the engagement partner.

I. Introduction

1. At the September 2019 IAASB meeting, the TF Chair will present a high-level overview of respondents' feedback on ED-ISQM 2 and question 11 of the EM to ED-ISQM 1, and will discuss in greater detail the key issues, and corresponding proposals to address them, as outlined in **Section II (Analysis of Key Issues)**. Issues and concerns arising from the remaining areas / questions of the EM to ED-ISQM 2, and TF recommendations to address them, will be discussed at future IAASB meetings as described in **Appendix 4 (Questions and Topics to be Considered by the IAASB)**.

Overview of Responses

2. Ninety-nine (99) and ninety-one (91) comment letters from diverse stakeholder groups across different regions of the world were received³ in response to ED-ISQM 1 (question no. 11)⁴ and ED-ISQM 2, respectively. The TF found the positive response from a broad range of stakeholders across geographies to be an indicator of the high interest in, and relevance of, the proposals.
3. Comment letters were received from the following stakeholder groups:

Stakeholder Groups	ED-ISQM 1	ED-ISQM 2
Monitoring Group Members	4	4
Investors and Analysts	2	1
Regulators and Audit Oversight Authorities	5	5

¹ Proposed International Standard on Quality Management (ISQM) 2, *Engagement Quality Reviews*

² Proposed ISQM 1 (Previously International Standard on Quality Control 1) (Revised), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

³ This includes responses received through **August 6, 2019**, which are reflected in the analyses prepared using the NVivo qualitative data analysis tool. Appendix 2 provides a complete listing of those respondents.

⁴ The EM to ED-ISQM 1 discusses the IAASB's considerations regarding the scope of engagements that are required to be subject to an EQ review in accordance with paragraph 37(e) of ED-ISQM 1. In consideration of the significance and relevance of the scope of engagements subject to an EQ review to the overall ED-ISQM 2, comments in response to question 11 of the EM to ED-ISQM 1 were analyzed by the TF in this issues paper.

Stakeholder Groups	ED-ISQM 1	ED-ISQM 2
National Auditing Standard Setters	14	13
Accounting Firms	25	23
Public Sector Organizations	10	10
Member Bodies and Other Professional Organizations	36	33
Academics	1	0
Individuals and Others	2	2
Total	99	91

4. Comment letters were received from respondents in the following regions:

Region	ED-ISQM 1	ED-ISQM 2
Global	25	22
Asia Pacific	17	14
Europe	29	25
Middle East and Africa	8	9
North America	16	16
South America	4	5
Total	99	91

5. In general, there was support for establishing a system of quality management, including the new quality management approach (QMA), and strong support for EQ reviews as a response, among others, that is designed and implemented by the firm to address quality risks. Respondents agreed that while the performance of an EQ review is undertaken at the engagement level, it is a response that is implemented by the EQ reviewer on behalf of the firm.
6. The TF identified and discussed the key themes noted in reading the comment letters on ED-ISQM 2 and the responses to question 11 in the EM to ED-ISQM 1. Although a number of themes and specific topics were identified, two (2) main issues were identified based on the significance of the feedback received, and their relationship to other projects and to coordination activities. Those issues relate to:
- **Question 11 in the EM to ED-ISQM 1** – Engagements subject to an EQ review in accordance with paragraph 37(e) of proposed ISQM 1 (i.e., scoping), and in particular, the concept of “significant public interest;” and
 - **Questions 4(a) and 4(b) in the EM to ED-ISQM 2** – Requirements relating to the objectivity of the EQ reviewer in accordance with paragraph 16 of proposed ISQM 2, including a cooling-off period for individuals moving into the role of EQ reviewer after having served as the engagement partner.
7. Each of these key issues is discussed further in **Section II (Analysis of Key Issues)** of this issues paper, along with matters for which the TF is seeking clear direction from the Board. The TF has also analyzed the responses to the remaining questions in the EM to ED-ISQM 2 (questions 1, 2, 3, 4, 5, 6, 7 and 8), the remaining aspects of questions 4(a) and 4(b), and the overarching comments or themes from the comment letters. As noted above, the TF Chair will present an overview of the feedback received on these remaining questions at the September 2019 IAASB meeting. The issues and concerns arising from these remaining questions will be

discussed in future IAASB meetings as outlined in **Appendix 4 (Questions and Topics to be Considered by the IAASB)** of this issues paper.

Other Agenda Papers Accompanying this Issues Paper

8. **Agenda Item 7–A (which comprises Agenda Item 7–A.1 to Agenda Item 7–A.6)** consists of NVivo MS Excel Reports for question 11 in the EM to ED-ISQM 1 and questions 4(a) and 4(b) in the EM to ED-ISQM 2. These reports provide a summary of the responses by:
 - Category (agree, agree but with further comments, disagree, or unclear or no specific response or refer to another respondent's views) – Level 1 Analysis; and
 - Theme (that relates to a specific requirement, application material, or topic for further consideration) – Level 2 Analysis.
9. **Agenda Item 7–B (which comprises Agenda Item 7–B.1 to Agenda Item 7–B.12)** consists of the NVivo MS Word Reports for question 11 in the EM to ED-ISQM 1 and questions 4(a) and 4(b) in the EM to ED-ISQM 2. These reports are a compilation of relevant extracts of comment letters by category of response.

Overview of Approach to Analyzing Comments

10. **Appendix 3** provides an overview of how the responses were analyzed using the NVivo qualitative data analysis tool.

II. Analysis of Key Issues

Scope of Engagements Subject to an EQ Review

Overview of Responses to ED-ISQM 1 – Question 11

11. Paragraph 37(e) of proposed ISQM 1 requires the firm to establish policies or procedures addressing EQ reviews in accordance with proposed ISQM 2, and that require an EQ review for:
 - (i) Audits of financial statements of listed entities;
 - (ii) Audits of financial statements of entities that the firm determines are of significant public interest; and
 - (iii) Audits or other engagements for which:
 - a. An engagement quality review is required by law or regulation; or
 - b. The firm determines that an engagement quality review is an appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks.
12. As discussed in the EM to ED-ISQM 2, one of the IAASB's objectives was to strengthen the requirements for engagements that should be subject to an EQ review by extending the requirement for an EQ review to engagements other than audits of listed entities. The requirements in paragraph 37(e)(ii) and 37(e)(iii)(b) were intended to address that objective. Paragraph 37(e) was supported with application material in paragraphs A101-A107 of ED-ISQM 1. Paragraphs 58-62 of the EM to ED-ISQM 1 describe the IAASB discussion and views relating to EQ reviews.

13. Question 11 in the EM to ED-ISQM 1 asked respondents:

Do you agree with the proposals addressing the scope of engagements that should be subject to an engagement quality review? In your view, will the requirements result in the proper identification of engagements to be subject an engagement quality review?

14. Overall, 99 comment letters were received on ED-ISQM 1. Responses to question 11 by category were as follows: (see **Agenda Item 7–A.1**)

- 23 (23%) – agreed with the proposed scope of engagements subject to an EQ review;
- 55 (56%) – agreed with the proposed scope but had further comments;
- 7 (7%) – disagreed with the proposals; and
- 14 (14%) – responses were unclear or had no specific comments.

What We Heard in Responses to ED-ISQM 1 – Question 11

15. **Agenda Item 7–A.2** provides a summary of the responses to question 11 by theme on the scope of engagements subject to an EQ review.

16. Comments from respondents that supported the proposals included the following points:

- There was strong support from a Monitoring Group member to strengthen the EQ review standard, identifying the expanded scope of engagements for which EQ reviews were required as an area where substantive improvements have been made to the extant standards.
- These respondents agreed with extending the scope to audits of financial statements that the firm determines are of significant public interest (SPI), and agreed with the supporting application material.
- A respondent noted that, although there is no clear definition of SPI in ED-ISQM 1, the application material in paragraph A102 is helpful because it provides factors to take into account in determining whether an entity is of SPI but is not prescriptive, thereby allowing professional judgment to be applied. Another respondent agreed with the approach of allowing flexibility for firms to identify engagements of SPI within their jurisdiction, and hence, be consistent with local legal and regulatory requirements that may not be applicable globally.

17. Respondents that generally agreed with the proposals but had specific questions, concerns or comments noted the following, with many of the points relating to the concept of SPI:

- EQ reviews should be mandated for audits of certain banks or insurance entities.
 - A Monitoring Group member expressed the view that “internationally active banks” should be subject to a mandatory EQ review and noted that the application guidance should be strengthened by requiring consideration of economic importance, complexity, and activity in relation to whether other banks should be subject to an EQ review.
 - Another Monitoring Group member thought that it would be in the public interest for audit firms to carry out EQ reviews on insurers – particularly those with “significant scale.”
- Consider changing the order of the requirements in paragraph 37(e) to better reflect those engagements for which an EQ review is required (i.e., listed entities, or by law or regulation) versus those for which the firm has to exercise professional judgment to establish the

criteria for determining whether to perform an EQ review (i.e., audits of entities that the firm determines are of SPI, or engagements for which the firm determines an EQ review is an appropriate response to an assessed quality risk).

- Consider removing the requirement in paragraph 37(e)(ii) relating to entities of SPI and instead, allow firms to determine the engagements beyond audits of listed entities that are subject to an EQ review.
- The concept of SPI cannot be consistently interpreted, and therefore may be confusing or may result in inconsistent application of the requirements.
 - Respondents noted that the guidance provided in paragraph A102 is very subjective and may result in a wide range of outcomes. This subjectivity could lead to inconsistency in the selection of engagements subject to an EQ review, and furthermore be open to challenge and differences of interpretation by regulators.
 - Respondents also noted that the guidance in paragraph A102 is unclear as to whether the concept includes all or only certain types of banks, insurance companies and pension funds.
 - A respondent asked whether the “public interest” is always the larger public (i.e., national or global), or whether it can be specific to the “public” that the practitioner (small- and medium practitioners (SMP) or sole practitioner) serves (i.e., the local community). For example, a smaller firm performing an audit of a local charity, religious institution or municipality may have difficulty determining if the entity is of SPI.
 - Another respondent noted that they are aware of the practical challenges that arise in relation to trying to define a public interest entity (PIE), for which the meaning is vastly different across international jurisdictions. The respondent therefore supported the approach that the IAASB has taken by including the requirement in broad terms and leaving the specific application up to the local regulatory bodies.
- The SPI concept should be further clarified by:
 - Conveying in the application material that the determination of whether an entity is of SPI is a matter of professional judgment.
 - Providing additional guidance on distinguishing factors for the types of entities that would be considered SPIs versus PIEs. For example, include entities that provide important public services or services that, should the company fail, would likely have an adverse impact on a large cross-section of the population (e.g., travel companies). Any such list would not be exhaustive and can present illustrative considerations only.
- Additional guidance about how SPI relates to PIE in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) should be provided. Respondents encouraged the IAASB to work closely with the IESBA to align a common definition of SPI / PIE where appropriate, or clarify differences in terminology as needed.
- Consider jurisdictional requirements (e.g., certain jurisdictions require an EQ review for PIEs as defined).

- Respondents indicated that there may be implications in jurisdictions that utilize the concept of a PIE, and where an entity is identified as an entity of SPI for purposes of ED-ISQM 1 but not identified as a PIE for purposes of applying the IESBA Code.
 - Other respondents were of a view that the use of the term “entities that the firm determines are of SPI” in paragraph 37(e)(ii) of ED-ISQM 1, may lead to confusion with other similar terms (such as PIEs) that are commonly used by firms or may already be defined by regulators and other public oversight bodies in certain jurisdictions.
 - The proposals present implementation challenges for the public sector:
 - A respondent indicated that the guidance in paragraph A102 lacks sufficient specificity to promote consistent application and may have the unintended consequence of scoping in all public sector engagements, since these entities arguably will always have a large number and wide range of stakeholders, but may otherwise not be of SPI.
 - Another respondent was of a view that more guidance is needed on how to determine when a public sector entity may or may not be of SPI. For example, public sector auditors may consider such factors as financial magnitude and public sensitivity.
18. Respondents that disagreed with the proposals noted the following, with respondents citing concerns about SPI similar to those in paragraph 17 above:
- Respondents noted that ED-ISQM 1 already requires a risk-based approach to determining engagements subject to an EQ review. In this regard, one respondent indicated that engagements of SPI would likely already be covered by other parts of the requirement in paragraph 37(e), i.e., listed entities, engagements for which an EQ review is required by law or regulation (which in some jurisdictions includes PIEs as defined), and engagements for which the firm determines that an EQ review is an appropriate response to assessed quality risks.
 - A respondent was of a view that EQ reviews should be mandatory only for engagements of listed entities and when prescribed by law or regulation.
 - Respondents noted that the proposals will not result in a proper identification of engagements subject to EQ reviews in the public sector.
 - Respondents, in some cases interpreted the term as meaning PIE or could be translated as such in some jurisdictions.

Task Force Discussion and Recommendations

19. In the course of its deliberations, the TF considered the need for an appropriate balance between the following key considerations:
- The objective, in the public interest, of extending the requirement for an EQ review to engagements in addition to audits of financial statements of listed entities.
 - The clear direction from respondents indicating that the concept of SPI is difficult to define (including with respect to how it relates to the concept of PIE in the IESBA Code) and therefore may be confusing or may result in inconsistent application of the requirements.

20. While recognizing the support expressed by respondents to expanding the scope of engagements subject to an EQ review, the TF considered whether it would be practicable to provide guidance for determining engagements that are of SPI that would be clear and capable of consistent application across all engagements and jurisdictions, including for public sector engagements.
21. The TF further considered whether it would be possible to define an SPI and determined that the global jurisdictional implications or barriers would be difficult to overcome because of the disparity of the factors or characteristics ascribed to SPIs in different jurisdictions or regions.
22. The TF also explored whether the requirement for audits of financial statements of entities that the firm determines are of SPI could be subsumed into the broader category of audits or engagements for which the firm determines that an EQ review is an appropriate response to assessed quality risks. However, the TF concluded that engagements that the firm determines are of SPI, based on the guidance in paragraph A102 of ED-ISQM 1, may be for reasons other than a response to an assessed quality risk (i.e., such engagements may not exhibit the factors provided as examples in paragraph A104). Therefore, the TF determined that the scope of engagements intended to be covered in paragraph 37(e)(ii) are those engagements for which a firm determines that an EQ review is appropriate due to the nature of the entity.
23. Based on the discussions and views as described above, the TF proposes to:
 - Remove the requirement in paragraph 37(e)(ii) for an EQ review for audits of financial statements of entities that the firm determines are of SPI.
 - Add a requirement for audits or other engagements for which the firm determines that an EQ review is appropriate due to the nature of the entity (i.e., not in response to an assessed quality risk).
 - Change the order of the requirements in paragraph 37(e) to better reflect those engagements for which an EQ review is required (i.e., listed entities or by law or regulation) versus those for which the firm determines that an EQ review is appropriate (i.e., in response to an assessed quality risk, or due to the nature of the engagement).
24. The TF also has proposed revisions to the related application material based on the proposed revised requirements. These proposals are presented in the indicative drafting below for IAASB discussion.
25. The TF also explored ways to link to the PIE concept in the IESBA Code, which is defined in its Glossary as:
 - (a) "A listed entity; or
 - (b) An entity:
 - i. Defined by regulation or legislation as a public interest entity; or
 - ii. For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.”⁵

⁵ In the IESBA Code’s Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the IESBA Code or for additional explanations of defined terms. References are also provided to terms described in the IESBA Code.

26. Paragraph 400.8 of the IESBA Code states that “firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number or wide range of stakeholders. Factors to be considered include:
- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
 - Size.
 - Number of employees.”
27. Given the above, the TF proposed new application material in support of the new proposed requirement for engagements for which the firm determines that an EQ review is appropriate due to the nature of the entity. This application material (see paragraph A105A in the indicative drafting) incorporates factors previously included in paragraph A102 of ED-ISQM 1, and also refers to the similar factors in the IESBA Code as described in paragraph 26 above.
28. The TF concluded that the proposed revisions described above, including the proposed revised application material, would be responsive to concerns raised by respondents. In addition, the TF believes that these proposed revisions also will help to address concerns raised about implementation challenges in the public sector in identifying engagements of SPI. Accordingly, the TF has proposed that paragraph A106 of ED-ISQM 1 be deleted.
29. The TF notes the following additional points for the IAASB's review of the indicative drafting below:
- Paragraph A101 of ED-ISQM 1 has been deleted as it was seen as confusing by respondents.
 - Paragraph A102 of ED-ISQM 1 has been deleted because there is no longer a requirement for an EQ review for entities the firm determines are of SPI. The key factors in the guidance in paragraph A102 have been incorporated into the new application material in paragraph A105A. The second bullet in paragraph A105A refers to the IESBA Code by example, and mirrors the factors in paragraph 400.8 of the IESBA Code (see paragraph 26 above). The TF previously concluded that the number of employees was not particularly useful or relevant in making the determination of entities of SPI, but has been included in paragraph A105A for consistency with the IESBA Code.
 - The TF will further consider whether paragraph A105 of ED-ISQM 1 should be expanded to further clarify that an EQ review is only one means of responding to assessed quality risks.

Indicative Drafting

Requirements

37. In designing and implementing responses to address the quality risks identified and assessed by the firm relating to the engagement performance quality objectives, the firm shall include the following responses:

...

- (e) Establishing policies or procedures addressing engagement quality reviews in accordance with ISQM 2, and that require an engagement quality review for: ~~(Ref: Para. A101–A107)~~
- (i) Audits of financial statements of listed entities;
 - (ii) Audits or other engagements for which an engagement quality review is required by law or regulation; and (Ref: Para. A103)
 - ~~(iii) Audits of financial statements of entities that the firm determines are of significant public interest; and~~
 - (iii) Audits or other engagements for which:
 - ~~a. An engagement quality review is required by law or regulation; or~~
 - ~~b. The firm determines that an engagement quality review is:~~
 - a. An appropriate response to assessed quality risks, based on the reasons for the assessments given to those risks; or (Ref: A104–A105)
 - b. Appropriate due to the nature of the entity. (Ref: Para. A105A)

Application and Other Explanatory Material

Engagements Subject to an Engagement Quality Review (Ref: Para. 37(e))

~~A101. The categories of engagements for which an engagement quality review is required are not mutually exclusive. For example, many listed entities may be considered to be of significant public interest based on the characteristics described in paragraph A102. In addition, law or regulation may require engagement quality reviews to be performed for certain types of entities (e.g., entities with public accountability as defined in certain jurisdictions), or may include different criteria or characteristics that firms may use in determining whether an entity is of significant public interest.~~

~~A102. In determining whether an entity is of significant public interest, the firm may take into account, for example, whether the entity has a large number and wide range of stakeholders, and the nature and size of the business. The firm also may consider the relative significance of factors such as these in the context of the jurisdiction or region in which the entity operates. Entities that the firm determines to be of significant public interest may include entities such as financial institutions (e.g. certain banks, insurance companies, and pension funds), and other entities such as certain not-for-profit organizations.~~

A103. Law or regulation may require an engagement quality review to be performed, for example, for audit engagements for entities that:

- Are characterized as public interest entities as defined in a particular jurisdiction;
- Operate in the public sector or which are recipients of government funding, or entities with public accountability;

- Operate in certain industries (e.g., financial institutions such as banks, insurance companies and pension funds);
- Meet a specified asset threshold; or
- Are under the management of a court or judicial process (e.g., liquidation).

A104. Audits or other engagements for which the firm may determine that an engagement quality review is an appropriate response to assessed quality risks may include, for example, engagements:

- That involve a high level of complexity or judgment, such as:
 - An audit of financial statements for an entity operating in an industry that typically has accounting estimates with a high degree of estimation uncertainty (e.g., certain large financial institutions or mining entities), or for which uncertainties exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
 - An assurance engagement that requires specialized skills and knowledge in measuring or evaluating the underlying subject matter against the applicable criteria (e.g., a greenhouse gas statement in which there are significant uncertainties associated with the quantities reported therein).
- Where issues have been encountered on the engagement, ~~for example, such as~~ audit engagements with recurring internal or external inspection findings, unremediated deficiencies in internal control, or a material restatement of comparative information in the financial statements.
- For entities in emerging industries or that involve emerging technologies, or for which the firm has no previous experience.
- For which unusual circumstances are identified during the firm's acceptance and continuance of client relationships and specific engagements (e.g., a new client that had a disagreement with its previous auditor or assurance practitioner).
- That involve reporting on financial or non-financial information that is expected to be included in a regulatory filing, or that may involve a higher degree of judgment, such as pro forma financial information to be included in a prospectus.
- For entities for which concerns were expressed in communications from securities or prudential regulators.

A105. In some cases, there may be no engagements for which an engagement quality review is required to be performed (e.g., when a firm does not perform audits of listed entities ~~or entities of significant public interest~~ and other responses to assessed quality risks are determined by the firm to be appropriate).

Other Entities for Which the Firm Determines an Engagement Quality Review is Appropriate

A105A. The firm may develop criteria for determining the types of engagements for which an engagement quality review is appropriate due to the nature of the entity. Factors that the firm may consider in developing such criteria include, for example:

- Entities that are characterized as a public interest entity in a particular jurisdiction, and for which an engagement quality review is not otherwise required by law or regulation.
- Whether relevant ethical requirements for the engagement provide related guidance. For example, the IESBA Code provides a definition of "public interest entity" for purposes of

requirements and guidance that relate specifically to such entities, but indicates that firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number, and a wide range, of stakeholders. Paragraph 400.8 of the IESBA Code further indicates that the factors to be considered include:

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples include financial institutions, such as banks and insurance companies, and pension funds.
- Size.
- Number of employees.

Considerations Specific to Public Sector Audit Organizations

~~A106. Public sector entities may be of significant public interest due to their size and complexity, the range of their stakeholders and the nature of the services they provide. Factors to consider in determining whether a public sector entity is of significant public interest may include whether the entity is a national, regional or local government, or whether an opinion is being expressed on the entire entity or only certain units. Other factors to consider may include whether the entity is a corporation that is state owned or in which the state has a controlling stake or a stake with significant influence. Larger public sector entities may be determined to be of significant public interest due to their social or economic influence on the community or region in which the entity operates.~~

A107. The firm may determine that an engagement quality review is an appropriate response to a quality risk for engagements in the public sector for which law or regulation establishes additional reporting requirements (e.g., a separate report on instances of non-compliance with law or regulation to the legislature or other governing body or communicating such instances in the auditor's report on the financial statements).

Matters for IAASB Consideration

1. The IAASB is asked for its views on:
 - a. The proposed changes to the requirements relating to the scope of engagements subject to an EQ review as described in paragraph 23 above; and
 - b. The indicative drafting for the proposed requirements and application material as presented above, including whether the proposed application material in paragraph A105A will be helpful in explaining what is meant by 'appropriate due to the nature of the entity.'

Objectivity and Cooling-Off Period

Overview of Responses to ED-ISQM 2 – Questions 4(a) and 4(b)

30. The discussion in this section of the issues paper addresses respondent comments relating to the objectivity of the EQ reviewer insofar as the need for a specific cooling-off period for an individual being appointed as an EQ reviewer after having served as the engagement partner. It does not address broader comments on question 4 in the EM to ED-ISQM 2 regarding the eligibility to be appointed as an EQ reviewer or an assistant to the EQ reviewer (e.g., does not include comments on the authority of the reviewer). Comments on the broader eligibility requirements will be discussed in future IAASB meetings as outlined in **Appendix 4 (Questions and Topics to be Considered by the IAASB)** of this issues paper.
31. Paragraphs 23-28 of the EM to ED-ISQM 2 describe the IAASB discussion and views relating to the eligibility of an individual to be appointed as the EQ reviewer immediately after serving as the engagement partner (i.e., to step into the EQ reviewer role).
32. Questions 4(a) and 4(b) in the EM to ED-ISQM 2 asked respondents:⁶
- (a) *What are your views on the need for the guidance in proposed ISQM 2 regarding a “cooling-off” period for that individual before being able to act as the engagement quality reviewer?*
- (b) *If you support such guidance, do you agree that it should be located in proposed ISQM 2 as opposed to the IESBA Code?*
33. Overall, respondents agreed that objectivity of the EQ reviewer is critical to the effectiveness of the EQ review (i.e., to an objective assessment of the significant judgments made by the engagement team).
34. Responses to question 4(a) by category were as follows: (see **Agenda Item 7–A.3**)
- 16 (18%) – agreed on the need for guidance on a cooling-off period;
 - 54 (59%) – agree but had further comments (e.g., cooling-off period as requirement; flexibility of cooling-off period depending on nature and circumstances of the engagement, among others);
 - 12 (13%) – disagreed with the guidance or did not support a cooling-off period; and
 - 9 (10%) – responses were unclear or did not include specific comments.
35. Responses to question 4(b) by category were as follows: (see **Agenda Item 7–A.5**)
- 16 (18%) – agreed that the guidance should be located in ISQM 2;
 - 35 (38%) – agreed but had further comments that the guidance (or requirement) should be located in ISQM 2, in both ISQM 2 and the IESBA Code, or align with, or include reference to the IESBA Code;
 - 26 (29%) – disagreed with the proposal to include the guidance in ISQM 2; and
 - 14 (15%) – responses were unclear or did not include specific comments.

What We Heard in Responses to ED-ISQM 2 – Questions 4(a) and 4(b)

Need for a Cooling-Off Period and Related Guidance Thereon

36. **Agenda Item 7–A.4** provides a summary of the responses to question 4(a) by theme.

⁶ Questions 4(a) and 4(b) in the EM to ED-ISQM 2 were developed in close coordination and discussion with the IESBA Staff and the IESBA Board member liaison.

37. Of the 16 respondents that supported the need for guidance, there were no specific comments to note other than their acknowledgment of the need for such guidance.
38. The 54 respondents that agreed with the need for guidance on a cooling-off period but with concerns or comments had varying views about the requirement in paragraph 16 of ED-ISQM 2, and in particular about the lack of clarity and potential for inconsistent application of the related application material in paragraph A5 of ED-ISQM 2. See the separate section below for comments relating to the location of a cooling-off requirement or guidance.
39. About 17% (16 of 91) of respondents (including two Monitoring Group members) commented that:
- There should be a requirement for a specific cooling-off period for an individual stepping into the role of EQ reviewer after serving as engagement partner, with views varying as to whether such a requirement should be in ISQM 2 or in the IESBA Code; or
 - ISQM 2 should be more specific in requiring the firm to establish policies or procedures that include a cooling-off period (as opposed to only being an example of the required 'limitations' in paragraph A5 of ED-ISQM 2).
40. 4 of the 16 respondents noted in paragraph 39 above indicated a preference for a requirement to be included in the IESBA Code, but that the cooling-off should be addressed in ISQM 2 in the absence of such a requirement in the IESBA Code. One of these respondents indicated that, while the Conceptual Framework in the IESBA Code applies to considerations of threats to objectivity and independence, it is not sufficiently robust in addressing the risks in circumstances when an engagement partner transitions to an EQ reviewer role.
41. Other comments on the requirement in paragraph 16 of ED-ISQM 2 included the following:
- Regarding the firm establishing a cooling-off period, the standard should provide flexibility in determining an appropriate period based on the nature and circumstances of the engagement. In particular, respondents noted that a cooling-off period is appropriate for listed entities (and perhaps also for PIEs), but may not be necessary or appropriate for non-listed entities. In this regard, an inconsistency was noted between paragraph A5 of ED-ISQM 2, which implied through the example that a cooling-off period may be appropriate for all engagements subject to an EQ review, while paragraph 28 of the EM to ED-ISQM 2 indicates that the firm may determine that no cooling-off period is necessary for certain types of engagements. The flexibility implied in paragraph 28 of the EM to ED-ISQM 2 was noted as an important aspect of scalability for ISQM 2.
42. With respect to the guidance in paragraph A5 of ED-ISQM 2, respondents noted the following:
- The reference to "is not likely to be able to perform the role ... immediately after ceasing to be the engagement partner" sounds like a requirement. That, coupled with the fairly strongly worded example of a two-year cooling-off period, led respondents to believe that this would become a de facto requirement (or that regulators would interpret it as such).
 - That it was difficult to envision a situation where threats to objectivity of an EQ reviewer could be reduced to an acceptable level when an individual stepped into the EQ reviewer role immediately after serving as the engagement partner.
 - More guidance is needed to drive consistent implementation, given that firms will be determining the appropriate cooling-off period.
 - Whatever guidance is provided needs to be consistent with the provisions of the IESBA Code. Respondents noted that the long association provisions of the IESBA Code address cooling-off periods, but only in the context of independence and for PIEs, and do not

specifically address a cooling-off period for an individual stepping into the EQ reviewer role after serving as engagement partner.

- Suggestions that the guidance (or a requirement) should also address other key audit partners or other individuals stepping into the EQ reviewer role.
 - That the length of a cooling-off period should be a matter of firm policy, or that supported a minimum two-year or three-year cooling-off period.
43. Of the 12 respondents that did not agree with the need for a cooling-off period, or related guidance thereon, comments included the following:
- One respondent, although agreeing that the requirement should address the objectivity of the EQ reviewer and guidance should address the need for safeguards such as cooling-off periods and assessing competency of EQ reviewers, was not convinced that the EQ review would be less effective because the EQ reviewer previously served on the engagement. It was noted that this is a potential issue for smaller firms with limited resources, and therefore is an important scalability point for ISQM 2.
 - Other respondents had similar comments about the need for continuity of knowledge, noting that this can contribute to the quality of the engagement; conversely, requiring a cooling-off period in all cases may be detrimental to audit quality for certain types of engagements. One respondent mentioned that competence gained as an engagement partner may uniquely qualify an individual to serve as an EQ reviewer, and that the IAASB appears to be overemphasizing objectivity over competence.
 - Respondents referred to the long association and partner rotation provisions in the IESBA Code, noting that:
 - The provisions in the IESBA Code already sufficiently deal with cooling-off periods. Respondents pointed out that the IESBA Code does not require a specific cooling-off period for individuals moving into an EQ reviewer role after serving as the engagement partner, while others seemed to believe that the IESBA Code provisions did specifically address this situation or were sufficient to provide the necessary safeguards.
 - The ED-ISQM 2 requirement in paragraph 16 and guidance in paragraph A5 are inconsistent with, or go beyond, the provisions in the IESBA Code, or will result in confusion or inconsistent application when firms are establishing the related policies or procedures. One respondent noted that the provisions in the IESBA Code apply to PIEs while the guidance in paragraph A5 relates to listed entities. Having different requirements in ISQM 2 could lead to confusion and complexity for firms by applying multiple rules from multiple sources.

Location of the Guidance (or Requirement)

44. Responses to question 4(b) by theme were as follows: (see **Agenda Item 7–A.6**)

Responses by theme	Addressed in proposed ISQM 2	Addressed in both proposed ISQM 2 and the IESBA Code	Addressed in the IESBA Code	Unclear
Agree				
Agree that the guidance should be addressed in proposed ISQM 2	16			
Agree but with further comments				
Agree but with further comments that the guidance (or requirement) should be addressed in proposed ISQM 2	9			
Agree but with further comments that the guidance (or requirement) should be addressed in both proposed ISQM 2 and the IESBA Code, or align with, or include reference to the IESBA Code		26		
Disagree				
Disagree that the guidance (or requirement) should be addressed in proposed ISQM 2 (i.e., should be addressed in the IESBA Code)			26	
Unclear or no specific response				14
Total	25	26	26	14

45. Respondents that commented on the location of any guidance (or requirement) for a cooling-off period for an individual moving into an EQ reviewer role were about evenly split between a preference for ISQM 2 or the IESBA Code. There were respondents that had strong views about the preferred or, in their view, most appropriate location. Other respondents suggested that the guidance could reside in either location as long as appropriate cross-references were provided while others noted that there was no harm in having the guidance in both places.

46. Other comments on location of the guidance (or requirement) included the following:

- One respondent indicated that any cooling-off requirement should be in the IESBA Code, but IAASB should address what is appropriate for non-listed entities as there is a need for more flexibility in such cases.
- Another respondent noted that clarity of guidance is more important than location.

Task Force Discussion and Recommendations

47. The TF discussed the various comments received, and noted the strong directional support to address the matters related to cooling-off, and the diversity of views on some of the specifics, including whether:
- A requirement is needed for a specified cooling-off period for an individual stepping into the EQ reviewer role after serving as the engagement partner, and whether such a requirement should be in the IESBA Code or ISQM 2.
 - Firm policies or procedures be required to address threats to objectivity created when an individual steps into an EQ reviewer role after serving as the engagement partner.
 - A requirement or guidance should apply to audits of listed entities, PIEs, or all audits, or even more broadly to all assurance engagements, for which an EQ review is required or for which the firm determines an EQ review is an appropriate response to assessed quality risks.
 - A requirement or guidance should apply only when an engagement partner steps into an EQ reviewer role, or whether it also should apply when another key audit partner or engagement team member steps into that role.
48. The TF also considered respondent comments indicating that any requirement or guidance in ISQM 2 should be consistent with, or not contradictory to, the provisions of the IESBA Code. This points to the need for continued close coordination and discussion with the IESBA Staff and IESBA Board member liaison.
49. In light of the responses to ED-ISQM 2, the view of the TF is that threats to the objectivity of an engagement partner stepping into an EQ reviewer role is an important issue that needs to be addressed in the IESBA Code, or in ISQM 2 if not addressed in the IESBA Code. The TF also reaffirmed its strongly held view that threats to objectivity of the EQ reviewer in this circumstance are unique, and that it is unlikely (or certainly less likely) that an EQ reviewer would be able to objectively evaluate significant judgments with which he or she had recently been involved as the engagement partner. A specific “time out” after serving as an engagement partner may indeed be necessary so that the evaluation of significant judgments is objective (in fact and in appearance) and therefore an appropriate response to assessed quality risks. Accordingly, in the absence of a cooling-off period in the IESBA Code, the TF proposes that a new requirement be added to ISQM 2 to address it.
50. Regarding respondents’ views about the need for flexibility and scalability, the TF noted that it is important to highlight in ISQM 2 (and also in ISQM 1) that an EQ review is only one of a number of possible responses to assessed quality risks. Except for audits of listed entities, and when required by law or regulation, the engagements for which an EQ review is performed is a firm determination based on assessed quality risks. If the nature of the engagement is such that the firm determines that an EQ review is the most appropriate response (versus other types of engagement review), then all of the requirements of ISQM 2 would apply, including any specific requirement to address threats to objectivity, such as a cooling-off period.

51. Based on the discussions and views as described above, the TF has identified two possible alternatives to the requirements as currently presented in paragraph 16 of ED-ISQM 2 – one assuming that threats to objectivity of an engagement partner stepping into an EQ reviewer role (including a possible required cooling-off period) are addressed in the IESBA Code, and a second alternative assuming that this is not addressed in the IESBA Code. These alternatives were prepared mindful of the positive and supportive comments received from the IESBA representatives during their call with the TF on August 5, 2019, and in response to the request from those representatives that the TF share the results of its detailed analysis, and any initial thoughts about options to address the comments, including indicative drafting. These alternatives are presented below for Board discussion.

Indicative Drafting

Alternative 1: If addressed in the IESBA Code

Note: The TF accepts that if IESBA's decision is to address this matter in the IESBA Code, IESBA will also have to deliberate regarding what needs to be addressed and how that ought to be incorporated into the IESBA Code. Without assuming to get involved with, or pre-empting any discussions or decisions of the IESBA in this regard, different options are presented under Alternative 1 to reflect the extent to which the TF believes that ISQM 2 should provide specificity around the firm establishing policies or procedures with respect to a cooling-off period. Application material and related paragraph references have not been revised, but will need to be updated after a course of action is determined.

Option 1.1: The IESBA Code addresses the threats to objectivity and possible safeguards, but **does not include a specific cooling-off period limitation**

16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4–A5)

- (a) Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A6–A12)
- (b) Comply with relevant ethical requirements, including ~~that in relation to~~ threats to objectivity of the engagement quality reviewer ~~related to the engagement or the engagement team are eliminated or reduced to an acceptable level~~; and (Ref: Para. A13–A16)
- (c) Comply with requirements of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A17)

16A. For [audits of financial statements of listed entities], the firm's policies or procedures established in accordance with paragraph 16(b) shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of engagement quality reviewer.

Note: The TF discussed, but did not conclude, on whether the firm's policies or procedures for a cooling-off period should apply to audits of listed entities, PIEs, or all audit engagements, or whether it should apply more broadly to all assurance engagements for which an EQ review is performed.

Option 1.2: The IESBA Code addresses the threats to objectivity and possible safeguards, including a specific cooling-off period limitation

16. The firm shall establish policies or procedures that set forth the criteria for eligibility to be appointed as an engagement quality reviewer and that include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner. Those policies or procedures shall require that the engagement quality reviewer not be a member of the engagement team, and: (Ref: Para. A4–A5)
- (a) Have the competence and capabilities, including sufficient time, and the appropriate authority to perform the engagement quality review; (Ref: Para. A6–A12)
 - (b) Comply with relevant ethical requirements, including ~~that in relation to threats to objectivity of the engagement quality reviewer related to the engagement or the engagement team are eliminated or reduced to an acceptable level;~~ and (Ref: Para. A13–A16)
 - (c) Comply with requirements of law and regulation, if any, that are relevant to the eligibility of the engagement quality reviewer. (Ref: Para. A17)

Alternative 2 – If not addressed in the IESBA Code

Paragraph 16 would be the same as shown above.

16A. The firm's policies or procedures established in accordance with paragraph 16(b) also shall address threats to objectivity created by an individual being appointed as an engagement quality reviewer after previously serving as the engagement partner. For [audits of financial statements of listed entities], such policies and procedures shall specify a cooling-off period of two years, or a longer period if required by relevant ethical requirements, before an engagement partner can assume the role of engagement quality reviewer.

Matters for IAASB Consideration

2. Does the IAASB agree with the proposed changes as shown in the indicative drafting presented above? In particular, does the IAASB support the TF's recommendation that:
 - a. The cooling-off period be addressed in ISQM 2 if not specifically addressed in the IESBA Code?
 - b. If addressed in ISQM 2, firm policies or procedures be required to include an explicit cooling-off period to address threats to objectivity created when an individual steps into an EQ reviewer role after serving as the engagement partner?
3. Should a requirement or guidance regarding a cooling-off period apply to:
 - a. Audits of listed entities only, or all PIEs, or all audits?
 - b. Assurance engagements more broadly, i.e., for any engagement for which an EQ review is required or for which the firm determines that an EQ review is an appropriate response to assessed quality risks or is appropriate based on the nature of the entity?

Appendix 1

ISQM 2 TF Activities Including Outreach and Coordination with Other IAASB Task Forces and Working Groups

1. The following sets out the activities of the TF including outreach with others and coordination with other IAASB Task Forces and Working Groups relating to the EQ reviews.

Task Force Activities in the Second Quarter of 2019

2. In Q2, the TF Chair presented, jointly with the ISA 220 TF Chair, a [webcast](#) providing an overview of quality management for audit engagements and EQ reviews.

Task Force Activities in the Third Quarter of 2019

3. In Q3, the TF held one teleconference and met once in person to identify and discuss in depth the key issues and other concerns arising from the comment letters and develop the TF's initial thoughts and recommendations for the IAASB's consideration.

Coordination with Other IAASB Task Forces and Working Groups and Other Standard Setting Boards

IAASB Task Forces – ISQM 1 TF, ISA 220 TF and ISA 600 TF

4. In light of the interaction between ISA 600 and the three quality management projects, the ISA 600 TF Chair has joined the QM Chairs coordination group.
5. In Q3, the Chairs of the four TFs and Staff held two teleconferences. Further coordination has also been facilitated through Staff liaison on specific matters.
6. The four TF Chairs will also meet during the September 2019 IAASB meeting.

IESBA

7. **Scope of Engagements Subject to EQ Review** – Respondents' feedback (NVivo MS Excel Reports and NVivo MS Word Reports) was shared with IESBA Staff. In addition, in light of the significance of this issue in progressing the ISQM 2 project, the TF and Staff also shared its initial thoughts and recommendations to address the issues relating to the scope of engagements subject to EQ review, and in particular, issues and concerns relating to the concept of SPI, with IESBA representatives. Further coordination on these matters is planned to be undertaken in Q4 of 2019, as needed.
8. **Objectivity and Cooling-Off Period** – Respondents' feedback (analyzed through the NVivo MS Excel Reports and NVivo MS Word Reports) was shared with IESBA Staff. In addition, in light of the significance of this issue in progressing the ISQM 2 project, the TF and Staff held a teleconference with Sylvie Soulier (IESBA Member) and the IESBA Staff to discuss the key issues relating to objectivity and cooling-off period, share the TF's initial thoughts and recommendations, and obtain the IESBA representatives' initial feedback. No joint decisions on a way forward to address the issues relating to objectivity and cooling-off period were made at that meeting. Proposals to address the issues relating to objectivity and cooling-off period as reflected in this issues paper solely reflect the TF's initial thoughts and recommendations. Further coordination on these matters is planned to be undertaken in Q4 of 2019, as needed.

Appendix 2.1

List of Respondents to ED-ISQM 1 – Question 11

No.	Acronym	Respondent	Region
Monitoring Group			Total: 4
1.	BCBS	Basel Committee on Banking Supervision	Global
2.	IAIS	International Association of Insurance Supervisors	Global
3.	IFIAR	International Forum of Independent Audit Regulators	Global
4.	IOSCO	International Organization of Securities Commissions	Global
Investors and Analysts			Total: 2
5.	CRUF	Corporate Reporting Users' Forum	Global
6.	ICGN	International Corporate Governance Network	Global
Regulators and Audit Oversight Authorities			Total: 5
7.	CPAB	Canadian Public Accountability Board	North America
8.	FRC	Financial Reporting Council (United Kingdom)	Europe
9.	IRBA	Independent Regulatory Board for Auditors (South Africa)	Middle East and Africa
10.	IAASA	Irish Auditing and Accounting Supervisory Authority	Europe
89.	NASBA	National Association of State Boards of Accountancy	North America
National Auditing Standard Setters			Total: 14
11.	AICPA	American Institute of Certified Public Accountants	North America
12.	AUASB	Australian Auditing and Assurance Standards Board	Asia Pacific
13.	CAASB	Canadian Auditing and Assurance Standards Board	North America
14.	CICPA	Chinese Institute of Certified Public Accountants	Asia Pacific
15.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)	Europe
16.	CFC	Conselho Federal de Contabilidade - Federal Accounting Council	South America
17.	HKICPA	Hong Kong Institute of Certified Public Accountants	Asia Pacific
18.	IDW	Institut Der Wirtschaftsprüfer	Europe
19.	JICPA	Japanese Institute of CPAs	Asia Pacific
20.	KSW	Kammer der Steuerberater und Wirtschaftsprüfer	Europe
21.	MAASB	Malaysian Institute of Accountants - Auditing and Assurance Standards Board	Asia Pacific
22.	NZAASB	New Zealand Auditing and Assurance Standards Board	Asia Pacific
23.	NBA	Royal Nederlandse Beroepsorganisatie van Accountants	Europe
24.	SOCPA	Saudi Organization for CPAs	Middle East and Africa

No.	Acronym	Respondent	Region
Accounting Firms			Total: 25
25.	BTI	Baker Tilly International	Global
26.	BTVK	Baker Tilly Virchow Krause LLP	North America
27.	BDO	BDO International	Global
28.	CASI	CAS International	Asia Pacific
29.	CHI	Crowe Global	Global
30.	DTTL	Deloitte Touche Tohmatsu Limited	Global
31.	DTL	Duncan and Toplis	Europe
32.	ETY	ETY Global	Middle East and Africa
33.	EYG	EY Global Limited	Global
34.	GTIL	Grant Thornton International Limited	Global
35.	HM	Haysmacintyre LLP	Europe
36.	KPMG	KPMG IFRG Limited	Global
37.	KI	Kreston International	Global
38.	MZRS	Mazars	Global
39.	MZRSUS	Mazars USA LLP	North America
40.	MGI	MGI Worldwide	Global
41.	MNP	MNP LLP	North America
42.	MSI	Moore Stephens International	Global
43.	NI	Nexia International	Global
44.	NSW	Nexia Smith & Williamson	Europe
45.	PKFI	PKF International Limited	Global
46.	PKFSA	PKF South Africa	Middle East and Africa
47.	PwC	PriceWaterhouseCoopers	Global
48.	RSMI	RSM International	Global
49.	SRA	SRA	Europe
Public Sector Organizations			Total: 10
50.	AGSA	Auditor General South Africa	Middle East and Africa
51.	ACAG	Australasian Council of Auditors General	Asia Pacific
52.	INTOSAI	International Organization of Supreme Audit Institutions	Global
53.	NAOM	National Audit Office of Malta	Europe
54.	OAGNZ	Office of the Auditor General New Zealand	Asia Pacific
55.	OAGA	Office of the Auditor General of Alberta	North America
56.	OAGC	Office of the Auditor General of Canada	North America
57.	PAS	Provincial Auditor Saskatchewan	North America
58.	SNAO	Swedish National Audit Office	Europe

No.	Acronym	Respondent	Region
59.	GAO	US Government Accountability Office	North America
Member Bodies and Other Professional Organizations			Total: 36
60.	AE	Accountancy Europe	Europe
61.	APESB	Australian Accounting Professional and Ethics Standards Board	Asia Pacific
62.	IBR-IRE	Belgian Institute of Registered Auditors	Europe
63.	CAI	CA Ireland	Europe
64.	CalCPA	California Society of CPAs	North America
65.	CAQ	Center for Audit Quality	North America
66.	CAANZ-ACCA	Chartered Accountants Australian and New Zealand and ACCA	Global
67.	CICC-AIC	Comision Interamericana de Control de Calidad de la AIC	South America
68.	CCC-ICPARD	Comite Control de Calidad del ICPARD	South America
69.	CNDCEC	Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili	Europe
70.	CPAA	CPA Australia	Asia Pacific
71.	EFAA	European Federation of Accountants and Auditors for SMEs	Europe
72.	EXPERT	EXPERTsuisse	Europe
73.	FAR	FAR (Institute for Accounting Profession in Sweden)	Europe
74.	FSR	FSR - Danish Auditors	Europe
75.	SMPC	IFAC Small and Medium Practices Committee	Global
76.	ICPAS	Illinois CPA Society	North America
77.	IEC-IAB	Institut des Experts-Comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten	Europe
78.	ICAEW	Institute of Chartered Accountants in England and Wales	Europe
79.	ICAP	Institute of Chartered Accountants of Pakistan	Asia Pacific
80.	ICAS	Institute of Chartered Accountants of Scotland	Europe
81.	ICASL	Institute of Chartered Accountants of Sri Lanka	Asia Pacific
82.	ICPAU	Institute of CPAs of Uganda	Middle East and Africa
83.	IBRACON	Institute of Independent Auditors of Brazil	South America
84.	ISCA	Institute of Singapore Chartered Accountants	Asia Pacific
85.	ICJCE	Instituto de Censores Jurados de Cuentas de España	Europe
86.	IMCP	Instituto Mexicano de Contadores Públicos	North America
87.	KICPA	Korean Institute of CPAs	Asia Pacific

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No.	Acronym	Respondent	Region
88.	MICPA	Malaysian Institute of CPAs	Asia Pacific
89.	<i>Moved to "Regulators and Audit Oversight Authorities."</i>		
90.	NYSSCPA	New York State Society of Certified Public Accountants	North America
91.	NRF	Nordic Federation of Public Accountants	Europe
92.	RICS	Royal Institute of Chartered Surveyors	Global
93.	SRO-AAS	Self-Regulatory Organization of Auditors Association	Europe
94.	SAICA	South African Institute of Chartered Accountants	Middle East and Africa
95.	FAAPA	The Finnish Association of Authorised Public Accountants	Europe
96.	WPK	Wirtschaftsprüferkammer	Europe
Academics			Total: 1
97.	UNSW	UNSW Audit Research Network	Asia Pacific
Individuals and Others			Total: 2
98.	TAS-CAA	Training and Advisory Services and Chartered Accountants Academy	Middle East and Africa
99.	VM	Vera Massarygina	Europe

Appendix 2.2

List of Respondents to ED-ISQM 2

No.	Acronym	Respondent	Region
Monitoring Group			Total: 4
1.	BCBS	Basel Committee on Banking Supervision	Global
2.	IAIS	International Association of Insurance Supervisors	Global
3.	IFIAR	International Forum of Independent Audit Regulators	Global
4.	IOSCO	International Organization of Securities Commissions	Global
Investors and Analysts			Total: 1
5.	ICGN	International Corporate Governance Network	Global
Regulators and Audit Oversight Authorities			Total: 5
6.	CPAB	Canadian Public Accountability Board	North America
7.	FRC	Financial Reporting Council (United Kingdom)	Europe
8.	IRBA	Independent Regulatory Board for Auditors (South Africa)	Middle East and Africa
9.	IAASA	Irish Auditing and Accounting Supervisory Authority	Europe
84.	NASBA	National Association of State Boards of Accountancy	North America
National Auditing Standard Setters			Total: 13
10.	AICPA	American Institute of Certified Public Accountants	North America
11.	AUASB	Australian Auditing and Assurance Standards Board	Asia Pacific
12.	CAASB	Canadian Auditing and Assurance Standards Board	North America
13.	CICPA	Chinese Institute of Certified Public Accountants	Asia Pacific
14.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC)	Europe
15.	CFC	Conselho Federal de Contabilidade - Federal Accounting Council	South America
16.	HKICPA	Hong Kong Institute of Certified Public Accountants	Asia Pacific
17.	IDW	Institut Der Wirtschaftsprüfer	Europe
18.	JICPA	Japanese Institute of CPAs	Asia Pacific
19.	KSW	Kammer der Steuerberater und Wirtschaftsprüfer	Europe
20.	MAASB	Malaysian Institute of Accountants - Auditing and Assurance Standards Board	Asia Pacific
21.	NZAASB	New Zealand Auditing and Assurance Standards Board	Asia Pacific
22.	NBA	Royal Nederlandse Beroepsorganisatie van Accountants	Europe
Accounting Firms			Total: 23
23.	BTI	Baker Tilly International	Global

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No.	Acronym	Respondent	Region
24.	BTVK	Baker Tilly Virchow Krause LLP	North America
25.	BDO	BDO International	Global
26.	CASI	CAS International	Asia Pacific
27.	CHI	Crowe Global	Global
28.	DTTL	Deloitte Touche Tohmatsu Limited	Global
29.	DTL	Duncan and Toplis	Europe
30.	ETY	ETY Global	Middle East and Africa
31.	EYG	EY Global Limited	Global
32.	GTIL	Grant Thornton International Limited	Global
33.	HM	Haysmacintyre LLP	Europe
34.	KPMG	KPMG IFRG Limited	Global
35.	KI	Kreston International	Global
36.	MZRS	Mazars	Global
37.	MZRSUS	Mazars USA LLP	North America
38.	MNP	MNP LLP	North America
39.	MSI	Moore Stephens International	Global
40.	NI	Nexia International	Global
41.	NSW	Nexia Smith & Williamson	Europe
42.	PKFI	PKF International Limited	Global
43.	PKFSA	PKF South Africa	Middle East and Africa
44.	PwC	PriceWaterhouseCoopers	Global
45.	RSMI	RSM International	Global
Public Sector Organizations			Total: 10
46.	AGSA	Auditor General South Africa	Middle East and Africa
47.	ACAG	Australasian Council of Auditors General	Asia Pacific
48.	INTOSAI	International Organization of Supreme Audit Institutions	Global
49.	NAOM	National Audit Office of Malta	Europe
50.	OAGNZ	Office of the Auditor General New Zealand	Asia Pacific
51.	OAGA	Office of the Auditor General of Alberta	North America
52.	OAGC	Office of the Auditor General of Canada	North America
53.	PAS	Provincial Auditor Saskatchewan	North America
54.	SNAO	Swedish National Audit Office	Europe
55.	GAO	US Government Accountability Office	North America
Member Bodies and Other Professional Organizations			Total: 33
56.	AE	Accountancy Europe	Europe

No.	Acronym	Respondent	Region
57.	APESB	Australian Accounting Professional and Ethics Standards Board	Asia Pacific
58.	IBR-IRE	Belgian Institute of Registered Auditors	Europe
59.	BICA	Botswana Institute of Chartered Accountants	Middle East and Africa
60.	CAI	CA Ireland	Europe
61.	CalCPA	California Society of CPAs	North America
62.	CAQ	Center for Audit Quality	North America
63.	CAANZ-ACCA	Chartered Accountants Australian and New Zealand and ACCA	Global
64.	CICC-AIC	Comision Interamericana de Control de Calidad de la AIC	South America
65.	CCC-ICPARD	Comite Control de Calidad del ICPARD	South America
66.	CPAA	CPA Australia	Asia Pacific
67.	EXPERT	EXPERTsuisse	Europe
68.	FAR	FAR (Institute for Accounting Profession in Sweden)	Europe
69.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas	South America
70.	FSR	FSR - Danish Auditors	Europe
71.	SMPC	IFAC Small and Medium Practices Committee	Global
72.	ICPAS	Illinois CPA Society	North America
73.	IEC-IAB	Institut des Experts-Comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten	Europe
74.	ICAEW	Institute of Chartered Accountants in England and Wales	Europe
75.	ICAP	Institute of Chartered Accountants of Pakistan	Middle East and Africa
76.	ICAS	Institute of Chartered Accountants of Scotland	Europe
77.	ICPAU	Institute of CPAs of Uganda	Middle East and Africa
78.	IBRACON	Institute of Independent Auditors of Brazil	South America
79.	ISCA	Institute of Singapore Chartered Accountants	Asia Pacific
80.	ICJCE	Instituto de Censores Jurados de Cuentas de España	Europe
81.	IMCP	Instituto Mexicano de Contadores Públicos	North America
82.	KICPA	Korean Institute of CPAs	Asia Pacific
83.	MICPA	Malaysian Institute of CPAs	Asia Pacific
84.	<i>Moved to “Regulators and Audit Oversight Authorities.”</i>		
85.	NYSSCPA	New York State Society of Certified Public Accountants	North America
86.	NRF	Nordic Federation of Public Accountants	Europe

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No.	Acronym	Respondent	Region
87.	SRO-AAS	Self-Regulatory Organization of Auditors Association	Europe
88.	SAICA	South African Institute of Chartered Accountants	Middle East and Africa
89.	WPK	Wirtschaftsprüferkammer	Europe
Individuals and Others			Total: 2
90.	TAS-CAA	Training and Advisory Services and Chartered Accountants Academy	Middle East and Africa
91.	VM	Vera Massarygina	Europe

Appendix 3

Use of the NVivo Qualitative Data Analysis Tool

The following points are important in understanding how responses were analyzed using the NVivo qualitative data analysis tool:

1. The software tool, NVivo12, was used to automate the analysis and summarization of ED-ISQM 2 and ED-ISQM 1 (question 11) responses based on the TF and Staff's discussion and in depth analysis of responses received.

NVivo MS Excel Reports by Category – Level 1 Analysis

2. NVivo MS Excel Reports by Category provide a summary of responses for each question, which have been grouped into the following categories:
 - (a) **Agree** – responses from those who stated simple agreement, and from those who clearly agreed but provided further explanations of why they agreed.
 - (b) **Agree but with further comments** – responses from those who appeared to agree (i.e., agreement or disagreement was not explicitly stated, but the nature of the comments suggested agreement) but had additional suggestions or concerns with the proposals.
 - (c) **Disagree** – responses from those who stated simple disagreement, and from those who clearly disagreed, including those who provided further explanations of why they disagreed.
 - (d) **Unclear** – responses from those who expressed unclear comments, including those who had no specific response, or referred to another respondent's views.
3. Under each category, the responses have been further classified by function / stakeholder group (e.g., monitoring group, investors, regulators, national standard setters, accounting firms, etc.).

NVivo MS Word Reports by Category – Level 1 Analysis

4. NVivo MS Word Reports by Category provide relevant extracts of comment letters by category as noted above. Under each category, the responses have been further classified by function / stakeholder group (e.g., monitoring group, investors, regulators, national standard setters, accounting firms, etc.).

NVivo MS Excel Reports by Theme – Level 2 Analysis

5. NVivo MS Excel Reports by Theme provide a summary of responses categorized under “agree but with further comments” and “disagree,” which were further analyzed based on themes that relate to a specific requirement, application material, or topic for further consideration in finalizing the standard.
6. There were cases where the issues, concerns, or suggestions raised by respondents who “agree but with further comments” were similar to those who “disagree” (e.g., concern that the guidance on cooling-off period in para. A5 of ED-ISQM 2 would become a de facto requirement).
7. There were also cases where responses on a particular question were considered more relevant to another question or another aspect of ED-ISQM 2. Therefore, these responses were re-assigned to the more relevant question or aspect, so that these can be considered in the context of all other relevant responses.
8. Furthermore, there were also cases where general comments were assigned to the most relevant questions or aspects. There were also cases where a response may have been assigned to multiple areas given the relevance to multiple issues, concerns or suggestions.

9. It is important to note that the NVivo MS Excel Report by Theme provides a summary of key issues, concerns, or suggestions but do not reflect the nuances of the individual responses, which are best identified by reading the entire response to provide necessary context.
10. Isolated issues, concerns or suggestions have generally been categorized into “other comments,” which will still be considered by the TF as it progresses its work.
11. One (1) comment letter (Chinese Institute of Certified Public Accountants – CICPA) was submitted as a draft version, which was used in the NVivo analyses prepared for the August TF meeting. Staff received and reviewed the final version of the comment letter and determined that the changes to the final version, if any, were editorial in nature, and therefore did not amend the NVivo analyses in substance. For purposes of efficiency, the NVivo analysis was not updated to include the final version of the comment letter.
12. In order to facilitate the timely preparation of materials for the September 2019 IAASB meeting, Staff determined that letters received **after August 6, 2019**, if any, would not be included in the NVivo analyses in **Agenda Item 7–A** and **Agenda Item 7–B** series of agenda papers.

Appendix 4

Questions and Topics to be Considered by the IAASB – Supporting Analyses and Timing of IAASB Discussion

The following sets out:

- Question 11 in the EM to ED-ISQM 1, all questions in the EM to ED-ISQM 2, and additional topics identified in the comment letters.
- The agenda paper that relates to the summary of responses by category and by theme for each question or topic (NVivo MS Excel Reports – Levels 1 and 2 Analyses).
- The relevant agenda paper that relates to the extracts of comment letters by category (NVivo MS Word Report by Category – Level 1 Analysis).
- Timing when the TF plans to present each question or topic to the Board for consideration.

The TF Chair will provide an overview of responses relating to question 11 in the EM to ED-ISQM 1 and all questions in the EM to ED-ISQM 2 at the September 2019 IAASB meeting, but only key issues covered in the issues paper will be considered in detail at that meeting. The table below indicates those topics that will be addressed at the September and December 2019 meetings, as well as the agenda papers provided for the discussion.

Question or Topic	Agenda Paper – NVivo MS Excel Reports by Category and by Theme – Levels 1 and 2 Analyses	Agenda Paper – NVivo MS Word Reports by Category – Level 1 Analysis	Planned Timing of IAASB Discussion
ISQM 1 – Q11	Agenda Item 7–A.1 to Agenda Item 7–A.2	Agenda Item 7–B.1 to Agenda Item 7–B.4	September 2019
ISQM 2 – Q1	To be provided at planned meeting	To be provided at planned meeting	December 2019
ISQM 2 – Q2	To be provided at planned meeting	To be provided at planned meeting	December 2019
ISQM 2 – Q3	To be provided at planned meeting	To be provided at planned meeting	December 2019
ISQM 2 – Q4	To be provided at planned meeting	To be provided at planned meeting	December 2019
ISQM 2 – Q4(a)	Agenda Item 7–A.3 to Agenda Item 7–A.4	Agenda Item 7–B.5 to Agenda Item 7–B.8	September 2019
ISQM 2 – Q4(b)	Agenda Item 7–A.5 to Agenda Item 7–A.6	Agenda Item 7–B.9 to Agenda Item 7–B.12	September 2019
Remaining aspects of ISQM 2 – Q4(a) and Q4(b)	To be provided at planned meeting	To be provided at planned meeting	December 2019
ISQM 2 – Q5	To be provided at planned meeting	To be provided at planned meeting	December 2019
ISQM 2 – Q6	To be provided at planned meeting	To be provided at planned meeting	December 2019

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Question or Topic	Agenda Paper – NVivo MS Excel Reports by Category and by Theme – Levels 1 and 2 Analyses	Agenda Paper – NVivo MS Word Reports by Category – Level 1 Analysis	Planned Timing of IAASB Discussion
ISQM 2 – Q7	To be provided at planned meeting	To be provided at planned meeting	December 2019
ISQM 2 – Q8	To be provided at planned meeting	To be provided at planned meeting	December 2019
Topic 01 – Objective	To be provided at planned meeting	To be provided at planned meeting	December 2019
Topic 02 – Definitions	To be provided at planned meeting	To be provided at planned meeting	December 2019
Topic 03 – Comments not Tied to Specific Questions	To be provided at planned meeting	To be provided at planned meeting	December 2019
Topic 04 – Editorial Comments	To be provided at planned meeting	To be provided at planned meeting	December 2019