

### Listed Entity and Public Interest Entity (PIE) – Issues

**Objective:**

The objective of the IAASB discussion in December 2022 is to obtain the Board’s input on the PIE Task Force’s (PIE TF) proposals for addressing the project objectives relevant to Track 2 of the narrow scope maintenance of standards project on listed entity and PIE as outlined in this Agenda Item.

*Approach to the Board Discussion:*

The PIE TF Chair will go through the questions in the order they are set out in this Agenda Item and where applicable, will refer to the drafting paragraphs presented in **Agenda Item 6-A**.

### Introduction

1. This paper sets out the PIE TF initial views and recommendations related to Track 2 of the narrow scope maintenance of standards project on listed entity and PIE that are relevant for addressing the project objectives outlined in paragraph 17(a)-(c) of the [project proposal](#) to:
  - (a) Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code<sup>1</sup> and the ISQMs<sup>2</sup> and ISAs<sup>3</sup> to maintain their interoperability.
  - (b) Establish an objective and guidelines to support the IAASB’s judgments regarding specific matters for which differential requirements for certain entities are appropriate.
  - (c) Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.
2. The following sections are included in this Agenda Item:

Section	Description
I	<i>Objective and Guidelines for Establishing Differential Requirements for Certain Entities in the ISQMs and ISAs</i>
II	<i>Case-by-Case Analysis of Extant Differential Requirements for Listed Entities in the ISQMs and ISAs</i>
III	<i>Factors and Examples in Evaluating the Extent of Public Interest of an Entity</i>

<sup>1</sup> The International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)*

<sup>2</sup> International Standards on Quality Management

<sup>3</sup> International Standards on Auditing

Section	Description
IV	<i>Adopting the IESBA Definition of PIE and “Publicly Traded Entity” into the ISQMs, ISAs and the Glossary of Terms</i>
V	<i>Aligning the Introductory and Application Material in the ISQMs and ISAs</i>
VI	<i>Way Forward</i>

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

3. This Agenda Item includes the following appendices, other agenda items and supplements:

<b>Appendix 1</b>	PIE TF members and update on activities since the June 2022 IAASB meeting
<b>Appendix 2</b>	Feedback from the deep dive session on listed entity and PIE with Forum of Firms Representatives
<b>Agenda Item 6-A</b>	Proposed Amendments to the ISQMs and ISAs for Track 2 of the narrow scope maintenance project on listed entity and PIE
<b>Agenda Item 6-B</b>	Background information relevant for the issues discussed in this Agenda Item
<b>Agenda Item 6-C</b>	High-level comparison of the factors and examples of entities that may be PIEs in the IESBA Code and the application material in the ISQMs and ISAs that relate to the differential requirements
<b>Agenda Item 6-D (Supplemental)</b>	Relevant paragraphs from the revisions to the definitions of listed entity and PIE in the IESBA Code discussed in this Agenda Item (for reference)
<b>Agenda Item 6-E (Supplemental)</b>	Mapping of the actions included in the project proposal with the PIE TF proposals to date discussed in this Agenda Item, and the relevant drafting paragraphs for Track 2 presented in <b>Agenda Item 6-A</b> (for reference)

*Outreach and Monitoring Jurisdictional Developments*

4. On November 1, 2022, the PIE TF Chair and IAASB Staff engaged in a deep dive session with Forum of Firms Representatives to receive feedback on certain proposals being considered by the PIE TF in relation to:
- Whether the differential requirements in the ISQMs and ISAs that apply to listed entities should apply to PIEs and adopting IESBA’s definition of PIE in the ISQMs and ISAs.
  - Replacing the definition of “listed entity” in the ISQMs and ISAs with the new definition of “publicly traded entity” in the IESBA Code.

A summary of the key takeaways from the feedback is provided in **Appendix 2**.

5. Engagement is also planned with Jurisdictional / National Standard Setters at their next meeting. The

intent is to gain relevant insights about the implications of expanding the application of the existing differential requirements for listed entities to the revised definitions of “publicly traded entities” or PIEs in the IESBA Code and other selected proposals being considered by the PIE TF as discussed in this Agenda Item. As part of this engagement, the PIE TF plans to enquire and obtain feedback about whether jurisdictions have already expanded the applicability of the requirements in the ISQMs and ISAs that apply to listed entities to other entities.<sup>4</sup>

#### *Coordination Activities*

6. In September 2022, the PIE TF sought inputs and views from IESBA Staff and the IESBA PIE Rolling Out Working Group regarding specific matters discussed further in this Agenda Item (see paragraphs 34 and 38).
7. In August and October 2022, an overview of the PIE TF proposals was provided to the Chair and IAASB Staff of the Audits of Less Complex Entities (LCE) project.

#### *Addressing the Actions Included in the Project Proposal*

8. There are strong interdependencies and linkages between the proposed actions for Track 2 of the narrow scope maintenance project on listed entity and PIE and the outcome of certain actions affects other actions. For example, the proposals regarding the case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs impacts the proposals whether the IAASB adopts the definition of PIE and “publicly traded entity.” The PIE TF considered these interdependencies when presenting the sequence of the issues discussed in this Agenda Item.
9. **Agenda Item 6-E** provides a table that compares the actions included in the project proposal with the PIE TF proposals to date discussed in this Agenda Item, and the relevant drafting paragraphs for Track 2 presented in **Agenda Item 6-A**.

## **Section I – Objective and Guidelines for Establishing Differential Requirements for Certain Entities in the ISQMs and ISAs**

*Relevant Paragraphs in Agenda Item 6-A:*<sup>5</sup>

**Paras. A29A–A29B of ISQM 1; A76A–A76B of ISA 200**

#### **Listed Entity and PIE Project Proposal – Proposed Actions**

10. The project proposal included actions related to the objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs (see paragraph 30, action B.3, of the [project proposal](#)).

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<sup>4</sup> For example, the PIE TF is aware that national auditing requirements have expanded the applicability of the differential requirements for listed entities in the UK to apply to PIEs and in New Zealand to apply to FMC reporting entities considered to have a higher level of public accountability. In addition, in July 2022, the South African Independent Regulatory Board for Auditors (IRBA) exposed for public comment a [Proposed Rule on Enhanced Auditor Reporting for the Audit of Financial Statements](#). The rule includes proposals for additional disclosures in the independent auditor’s report for PIEs, such as the communication of Key Audit Matters (KAM) as required by ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.

<sup>5</sup> Also refer to **Agenda Item 6-D** that sets out the relevant paragraphs of the revisions to the definitions of listed entity and PIE in the IESBA Code discussed in this Agenda Item.

## PIE TF Initial Views and Recommendations

### *Adopting the Overarching Objective Established by IESBA in Paragraph 400.8 of the IESBA Code*

11. The IAASB agreed to adopt the objective in paragraph 400.8 of the IESBA Code into the ISQMs and ISAs as set out in the actions of the project proposal.
12. The PIE TF is proposing including the objective in ISQM 1<sup>6</sup> and ISA 200,<sup>7</sup> given these standards prescribe the authority for all ISQMs and ISAs respectively (see paragraph A29A of ISQM 1 and paragraph A76A of ISA 200 in **Agenda Item 6-A**). Some minimal tailoring of the wording has been made to ensure the objective is appropriate in the context of the ISQMs and ISAs (i.e., providing a reference to the ISQMs and ISAs in place of the relevant Part of the IESBA Code and removing the reference to “application material” given the paragraph already forms part of the application material).

### *Developing a Tailored Objective, Based Upon the Overarching Objective, Taking into Consideration Paragraph 400.10 of the IESBA Code*

13. The objective in paragraph 400.10 of the IESBA Code refers to the “heightened expectations regarding the independence of a firm performing an audit engagement” because of the significance of the public interest in the financial condition of certain entities. The objective needs to be tailored for the IAASB’s purposes. The PIE TF proposes that for the ISQMs and ISAs, the purpose of the differential requirements is to meet “the heightened expectations of stakeholders regarding **the audit engagement**” (see paragraph A29B in ISQM 1 and paragraph A76B in ISA 200 in **Agenda Item 6-A**).
14. ISQM 1 applies to all engagements performed under the IAASB standards, including reviews of financial statements in accordance with ISREs,<sup>8</sup> and other assurance or related services engagements in accordance with ISAEs<sup>9</sup> and ISRSs.<sup>10</sup> The PIE TF agreed that the focus of the objective is on audit engagements because:
  - (a) The ISREs, ISAEs and ISRSs standards do not presently include differential requirements and, as outlined in paragraph 25 of the project proposal, the need to establish differential requirements in these standards may be addressed as part of future IAASB projects focused on these standards. As such, the focus on the audit engagement in ISQM 1 would not at this time be inconsistent with the overall body of standards.
  - (b) Although the objective and guidelines are developed specifically for the ISQMs and ISAs, they may be useful in identifying specific matters for which differential requirements for certain entities are appropriate when developing or revising the ISREs, ISAEs and ISRSs as part of future IAASB projects focused on these standards.
15. The PIE TF agreed that the focus on the “independence of a firm” as stated in the objective in paragraph 400.10 of the IESBA Code would not be appropriate for the ISQMs and ISAs, given that

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<sup>6</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

<sup>7</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>8</sup> International Standards on Review Engagements

<sup>9</sup> International Standards on Assurance Engagements

<sup>10</sup> International Standards on Related Services

the differential requirements in the IAASB’s standards address matters that are broader than auditor independence, including:

- (a) Establishing policies or procedures by the firm that address engagement quality reviews.
- (b) Providing transparency to intended users about aspects of the audit (e.g., auditor independence, communicating key audit matters (KAM), the name of the engagement partner and providing transparency about other information).
- (c) Communicating to those charged with governance (TCWG) to assist them in fulfilling their responsibility to oversee the financial reporting process (e.g., communicating about the system of quality management and auditor independence).

16. The PIE TF therefore deliberated how the reference to “independence of a firm” should be amended to be suitable for the ISQMs and ISAs. This included whether the objective should be specific about the nature of the differential requirements described in paragraph 15(a)-(c), or whether a more overarching objective is appropriate. The PIE TF also considered the qualitative standard-setting characteristics set out in paragraph 31 of the project proposal and those included in the Public Interest Framework (PIF)<sup>11</sup> as criteria to validate whether its proposals appropriately respond to the public interest. The PIE TF is of the view that specificity about the nature of the differential requirements in the objective should not be pursued because of:

- (a) The desire for “*consistency*” and “*coherence*” across the ISQMs and ISAs. Providing more specificity would necessitate different explanations in the ISQMs and the ISAs as the nature of the differential requirements across those standards are different. This could lead to an inconsistent approach across the overall body of standards and may inadvertently create complexity across the differential requirements in the IAASB Standards.
- (b) The need for “*relevance*” through recognizing and responding to emerging public interest issues and evolving user needs over time. Providing more specificity could inadvertently predetermine the scope of matters for which differential requirements are appropriate and restrict flexibility for circumstances when differential requirements are necessary in the ISQMs and ISAs as part of future standard-setting.

#### *Drafting Guidelines*

- 17. The project proposal also included developing guidelines that would be useful for future IAASB projects to assist the IAASB in identifying when differential requirements for certain entities may be appropriate, and if so, how such requirements should be established in the ISQMs and ISAs.
- 18. The CUSP Drafting Principles and Guidelines<sup>12</sup> already provide principles to address proportionality in the ISAs and include certain guidelines for when it is appropriate to consider the public interest by, for example, limiting the application of a requirement based on the nature and circumstances of the entity. The PIE TF proposes supplementing the guidelines to provide specific examples of when it may be appropriate to consider differentiating a requirement in the ISAs, based on the proposed objective discussed in paragraphs 11-16 above to enhance stakeholder’s confidence in the audit

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<sup>11</sup> See the Monitoring Group report [Strengthening the International Audit and Ethics Standard-Setting System](#).

<sup>12</sup> See Section 3 “*Scalability and Proportionality in the Requirements*” of the Complexity, Understandability, Scalability and Proportionality [CUSP Drafting Principles and Guidelines](#).

engagement. These examples include the following circumstances:

- (a) Providing transparency to intended users about aspects of the audit.
- (b) Assisting TCWG in fulfilling their responsibility to oversee the financial reporting process and to enhance their confidence in the audit.
- (c) Reporting certain matters in the public interest to external parties outside of the entity.
- (d) Ensuring more rigorous quality management for higher risk engagements, including engagements where there is significant public interest in the financial condition of an entity.

19. These examples:

- (a) Relate to PIEs. They do not address circumstances when it may be appropriate to establish differential requirements for other types of entities (e.g., for “publicly traded entities”). Although stakeholders have previously suggested (and the IAASB agreed) minimizing the proliferation of differential requirements across the IAASB standards to reduce complexity, differential requirements applicable to various entities may be needed in the future.
- (b) Address current types of differential requirements. While the PIE TF recognizes that differential requirements for other matters may be needed in the future, it is not possible to predict circumstances when differential requirements may be needed and any decisions or guidance in this regard at this time could affect how the IAASB generally approaches scalability and proportionality in its standards which is beyond the scope of this project. The PIE TF considered that, given the CUSP Drafting Principles and Guidelines are a “living document”, they could be updated in the future to include additional examples of when differential requirements for other types of matters or types of entities are appropriate.

**Matters for IAASB Consideration:**

- 1. Does the IAASB agree with the PIE TF’s proposals for the tailored objective and guidelines, i.e.:
  - (a) The proposed objectives in paragraphs A29A–A29B of ISQM 1 and paragraphs A76A–A76B of ISA 200 in **Agenda Item 6-A**; and
  - (b) The examples in paragraph 18 that will be added to the CUSP Drafting Principles and Guidelines.

**Section II – Case-by-Case Analysis of Extant Differential Requirements for Listed Entities in the ISQMs and ISAs**

<i>Relevant Paragraphs in <b>Agenda Item 6-A</b>:</i> <sup>13</sup>	<i><b>Paras. 34(e–f) of ISQM 1; 1, 17, 17A, A29A of ISA 260 (Revised); 30–31, 40(b–c), 46, 50(I) of ISA 700 (Revised); 5 of ISA 701; and 21, 22(b) of ISA 720 (Revised)</b></i>
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<sup>13</sup> Also refer to **Agenda Item 6-D** that sets out the relevant paragraphs of the revisions to the definitions of listed entity and PIE in the IESBA Code discussed in this Agenda Item.

### Listed Entity and PIE Project Proposal – Proposed Actions

20. The project proposal included actions related to undertaking a case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs (see paragraph 30, action C.4, of the [project proposal](#)), and in doing so to consider:
- (a) The objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs (see **Section I**).
  - (b) The impact of amending the extant differential requirements for listed entities to apply to other entities.
  - (c) Other information available.<sup>14</sup>

### PIE TF Initial Views and Recommendations

*Whether the extant differential requirements for listed entities should be amended to apply to all categories of PIEs*

21. To validate whether there was an indication of support for extending the differential requirements for listed entities to PIEs, the PIE TF reviewed previous IAASB public consultations, deliberations and decisions at the time when differential requirements were established. It was noted that the IAASB previously explored, through various of its standard-setting projects, extending the applicability of its differential requirements for listed entities in the ISQMs and ISAs to apply more broadly to other entities that exhibit public interest or public accountability characteristics.<sup>15</sup> This was largely being driven by:
- (a) An increased emphasis by intended users on the broader group of entities.
  - (b) Stakeholder demands for the requirements to be consistently applied to certain types of entities that may not be listed, but for which the requirements would be appropriate (e.g., for financial institutions including banks, insurance companies and pension funds).
  - (c) Ongoing legislative proposals in certain jurisdictions to extend the applicability of the requirements to PIEs.
22. In summary, the IAASB has not previously expanded the differential requirements beyond listed entities, mostly due to:
- (a) The lack of a global baseline for the definition of PIE that could be consistently applied across jurisdictions (i.e., the lack of a common baseline that could be applied).
  - (b) The unintended consequences of the requirements applying to smaller or less complex 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.

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<sup>14</sup> For example, the post-implementation review of the Auditor Reporting Standards, respondents' feedback from the Exposure Draft on Proposed ISQM 1 regarding the scope of entities that should be subject to an engagement quality review, the Board's deliberations and decisions at the time when certain differential requirements were established, and, where appropriate, how national standard setters have addressed this issue at jurisdictional levels.

<sup>15</sup> **Agenda Item 6-B** (Sections A and B) provides the history of previous IAASB public consultations, deliberations, and decisions at the time when certain differential requirements for listed entities were established and other relevant IAASB information gathering.

23. Instead, to respond to feedback from stakeholders regarding the interest and importance of extending the applicability of differential requirements to other entities that exhibit public interest or public accountability characteristics, the IAASB included:
- (a) Application material in the ISQMs and ISAs explaining that certain entities other than listed entities could have characteristics that give rise to similar public interest issues as listed entities, and that it may be appropriate to apply a differential requirement that was designed for an audit of financial statements of a listed entity to those broader range of entities.
  - (b) Requirements to emphasize that law or regulation may require the application of the differential requirements to audits of entities other than listed entities (e.g., for PIEs), or application material in this regard.

#### Revisions to the Definition of PIE in the IESBA Code

24. The [revisions to Part 4A of the IESBA Code and its glossary](#) relating to listed entity and PIE included a revised definition of PIE that includes a list of mandatory categories of entities that firms should treat as PIEs (see paragraph R400.17 of the IESBA Code).
25. In developing the definition, the IESBA acknowledged the challenge described in paragraph 22(b) of inadvertently scoping in entities whose financial condition in the public interest is not significant. In response, the IESBA has:
- (a) Provided for law, regulation, or professional standards to more explicitly define the mandatory categories of PIEs (see paragraph 400.18 A1 of the IESBA Code) by, for example, referring to specific public markets for trading securities, referring to law or regulation containing definitions of entities, making exemptions or setting size criteria.
  - (b) Set a requirement for firms to apply these more explicit definitions established by law, regulation, or professional standards (see paragraph R400.18 of the IESBA Code).

Accordingly, the revised approach to PIEs in the IESBA Code places a significant focus on the entities that should be treated as PIEs in the context of the facts and circumstances in a specific jurisdiction. In addition, as noted in the Basis for Conclusions, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#), establishing an overarching objective and expanding the PIE categories in the IESBA Code should bring some level of global consistency to the types of entities that should be treated as PIEs (i.e., a global baseline). Refer to **Agenda Item 6-B** (Section C) for an overview of IESBA's approach to the PIE definition.

26. The PIE TF believes that the revised approach to scoping PIEs in the IESBA Code addresses previous concerns raised in the IAASB deliberations about extending requirements in the ISQMs and ISAs to PIEs, i.e., a lack of a common global baseline for the definition of PIE and concerns about inadvertently scoping in smaller or less complex entities.

#### Case-by-Case Analysis

27. The PIE TF undertook an analysis of extant differential requirements in the ISQMs and ISAs, which included consideration of:
- (a) The purpose of the extant differential requirements to validate that the public interest factors which drive those requirements is consistent with the objective and guidelines described in **Section I**.

- (b) The related application material in order to identify any unintended consequences, such as matters around jurisdictional considerations or practicality and operability for audits of financial statements of entities other than listed entities.
- (c) Whether there was indication of support for extending the applicability of the differential requirements more broadly, as summarized in paragraph 21.

28. The table below summarizes this analysis:

ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Previous Support for Extending Applicability More Broadly (see Agenda Item 6-B)
<b>Communicating Auditor Independence</b>			
ISA 260 (Revised), <sup>16</sup> paragraphs 1, 17	Assisting TCWG in fulfilling their responsibility to oversee the financial reporting process and to <b>enhance their confidence</b> in the audit of the entity's financial statements.	<i>ISA 260 (Revised), paragraph A32: May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.</i>	<b>Yes</b>  Support to be applied more broadly to all entities (including for PIEs).
ISA 700 (Revised), <sup>17</sup> paragraph 40(b)	Providing transparency to intended users about auditor independence so as to <b>enhance their confidence</b> in the audit of the entity's financial statements.	<i>ISA 260 (Revised), paragraph A32: May not be relevant for situations when all of TCWG are informed through their management activities of relevant facts or where the entity is owner-managed and the auditor's firm has little involvement with the entity beyond the financial statement audit.</i>	
<b>Communicating KAM</b>			
ISA 700 (Revised), paragraphs 30–31, 40(c) ISA 701, <sup>18</sup>	Enhance the communicative value of the auditor's report by providing <b>greater transparency</b> about the audit that was performed.	<i>ISA 700 (Revised), paragraphs A40–A41: Law or regulation may require communication of KAM for other entities, e.g., PIEs.  May also be appropriate to apply the</i>	<b>Yes</b>  Strong majority preference for mandatory communication of KAM for PIEs.

<sup>16</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>17</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>18</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Previous Support for Extending Applicability More Broadly (see Agenda Item 6-B)
Paragraph 5	<b>Increase intended user confidence</b> in the audit and the audited financial statements.	<i>requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.</i>	Trends noted in jurisdictions to extend applicability of KAM to PIEs.  Limited support to extend to all entities.
<b>Naming the Engagement Partner</b>			
ISA 700 (Revised), paragraphs 46, 50(l)	Providing <b>transparency to intended users</b> about the engagement partner who is responsible for the audit to <b>enhance their confidence</b> in the audit that has been performed.	<i>ISA 700 (Revised), paragraph A62: Law, regulation, or national auditing standards may require that the auditor’s report include the name of the engagement partner responsible for audits other than those of financial statements of listed entities.</i>  <i>Law, regulation, or national auditing standards may require including additional information beyond the engagement partner’s name in the auditor’s report to further identify the engagement partner (e.g., professional license number that is relevant to the jurisdiction where the auditor practices).</i>	<b>Yes</b>  Support from users, regulators and those jurisdictions in which the name of the engagement partner is required to be included in the auditor’s report by law or regulation.
<b>Transparency About the Other Information</b>			
ISA 720 (Revised), <sup>19</sup> paragraphs 21–22(b)	Providing <b>transparency to intended users</b> about the other information and auditor’s work effort in relation to such information, including whether there is a material misstatement that may undermine the credibility of the financial statements	<i>ISA 720 (Revised), paragraph A52: May also be appropriate to consider identification in the auditor’s report other information that the auditor expects to obtain after the date of the auditor’s report for an entity other than listed entity. This may be the case when management is able to represent to the auditor that such other information will</i>	<b>No</b>  Views expressed in previous discussions indicated that the practical difficulties encountered with identifying and considering the other information received

<sup>19</sup> ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

ISA Ref.	Public Interest Factors	Application Material that Provides Guidance on Applicability	Previous Support for Extending Applicability More Broadly (see Agenda Item 6-B)
	and the auditor's report thereon or inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.	<i>be issued after the date of the auditor's report.</i>	after the date of the auditor's report outweighed the public interest benefits of doing so.
<b>Communication with TCWG About the System of Quality Management</b>			
ISQM 1, paragraph 34(e)	Providing TCWG with <b>greater transparency and confidence</b> about how the firm's system of quality management supports quality audit engagements to assist them in fulfilling their responsibility to oversee the financial reporting process.	<i>ISQM 1, paragraph A128: May also be appropriate to apply the requirement to entities of significant public interest, for example to financial institutions (banks, insurance companies and pension funds) and charities.</i>	<b>Yes</b>  Broad support for enhanced communication and transparency with stakeholders about how the system of quality management supports quality engagements.
<b>Engagements Subject to an Engagement Quality Review</b>			
ISQM 1, paragraph 34(f)	Providing <b>greater confidence</b> to the public in the consistent performance of quality engagements.	<i>ISQM 1, paragraph A134: A firm may determine that an engagement quality review is an appropriate response based on the reasons for the assessments given to the quality risks. This could include entities that have public accountability characteristics (e.g., banks, insurance companies, pension funds), entities with high public profile or whose management/owners have high public profile and entities with large number and wide range of stakeholders.</i>	<b>Yes</b>  Support for PIEs and in the public interest to mandate for audit firms to carry out engagement quality reviews on internationally active banks and insurers.

29. The PIE TF key observations regarding the case-by-case analysis performed include the following:

- (a) The public interest factors which drive the extant differential requirements in the ISQMs and

- ISAs support enhancing stakeholders' confidence in the audit and the audited financial statements. This is aligned with the purpose stated in the objective discussed in **Section I**. Consequently, it would be consistent with the objective if they were extended to apply to PIEs.
- (b) The feedback from other IAASB information gathering indicated broad support from stakeholders for the applicability of the differential requirements in the ISQMs and ISAs to apply to PIEs. The exception included the reporting requirements in paragraphs 21–22(b) of ISA 720 (Revised) where respondents found the practical difficulties associated with identifying and considering the other information received after the date of the auditor's report to outweigh the public interest benefits of doing so.
  - (c) For the requirement in paragraph 17 of ISA 260 (Revised), the PIE TF acknowledge that there was also feedback indicating support for the requirement to communicate auditor independence to TCWG to apply to all entities.

*Proposal to Extend the Differential Requirements to PIEs*

30. The PIE TF believes there is a sufficient basis to propose extending the differential requirements for listed entities in the ISQMs and ISAs to apply to PIEs. In particular, as explained in paragraphs 25–26, previous concerns related to the definition of PIE have been addressed in the IESBA Code. Furthermore, extending the differential requirements in the ISQMs and ISAs to PIEs would:
- (a) Be responsive to stakeholder feedback from previous IAASB information gathering, including capturing certain financial institutions such as banks and insurance companies for which stakeholders have indicated it would be appropriate to apply the differential requirements for listed entities in the ISQMs and ISAs.
  - (b) Promote more consistency among jurisdictions globally when applying the ISQMs and ISAs, given that some jurisdictions have already extended (or are considering extending) the applicability of the differential requirements to apply to PIEs in their national equivalent auditing standards.
  - (c) Result in alignment of key concepts and definitions across the IAASB and IESBA standards and less complexity related to the types of entities to which the differential requirements in the respective standards apply.
31. The PIE TF notes that in amending the differential requirements to apply to PIEs, it would be essential to incorporate in the ISQMs and ISAs the entire approach to scoping PIE, as contemplated in the IESBA Code (i.e., it is not only the definition in paragraph R400.17 of the IESBA Code that would be included in the IAASB Standards). This is because all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction. For example, it is essential that the ISQMs and ISAs provide for law, regulation, or professional requirements to more explicitly define the mandatory categories of PIEs, as is the case in paragraph R400.18 of the IESBA Code (see **Section IV** for the PIE TF proposals to adopt the IESBA definitions of PIE and “publicly traded entity” in the ISQMs, ISAs and the Glossary of Terms).

ISA 720 (Revised)

32. The PIE TF considered whether ISA 720 (Revised) should be an exception, given feedback from respondents to the Auditor Reporting post-implementation review. However, it was noted that the IAASB had previously emphasized the need to minimize complexity and possible confusion if the

differential requirements in the ISQMs and ISAs inconsistently apply to certain entities (e.g., some apply to PIEs and other to publicly traded entities). Accordingly, the PIE TF formed the view that the requirement in ISA 720 (Revised) should also be extended to apply to PIEs. Furthermore, it is proposed that respondents are specifically asked about this approach in the exposure draft for Track 2 of the narrow scope project on listed entity and PIE.

#### ISA 260 (Revised) Paragraph 17

33. With respect to the requirement in paragraph 17 of ISA 260 (Revised), the PIE TF proposes bifurcating this requirement into two parts as follows:
- (a) A requirement that would apply in all instances (i.e., for all entities) to communicate with TCWG a statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence (see paragraph 17 in ISA 260 (Revised) of **Agenda Item 6-A**). The PIE TF notes that:
    - (i) Paragraph 28(c) of ISA 700 (Revised) requires communication about compliance with independence requirements in the auditor’s report for all audit engagements. It is therefore illogical and inconsistent that the auditor would communicate with TCWG about compliance with independence requirements only if the entity is a PIE.
    - (ii) Consistent with the IAASB proposals for Track 1 of the narrow scope project on listed entity, the statement should include specificity about the differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements (e.g., such as the independence requirements that apply to audits of financial statements of public interest entities in the IESBA Code).
  - (b) A requirement that would apply only to PIEs to communicate with TCWG a statement that would address the matters set out in subparagraphs 17(i)–(ii) of ISA 260 (Revised) (see paragraph 17A in ISA 260 (Revised) of **Agenda Item 6-A**).
34. In coordinating with IESBA, it was noted that the extant requirement in paragraph 17(a) of ISA 260 (Revised) is not consistent with the requirements to communicate with TCWG in the IESBA Code.<sup>20</sup> The PIE TF considered whether ISA 260 (Revised) should be updated to better align with the IESBA Code, however believes that doing so is duplicative, and creates complexities and confusion if the requirements in the IAASB standards do not fully address all requirements in the IESBA Code dealing with communication with TCWG. As such, the PIE TF proposes removing the explicit requirement to communicate fee-related matters in paragraph 17(a) of ISA 260 (Revised), and instead refer to the IESBA Code in the application material to draw attention to the fact that the IESBA Code also contains requirements regarding communication with TCWG (see paragraph A29A in ISA 260 (Revised) of **Agenda Item 6-A**). This approach would be:

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<sup>20</sup> For example, ISA 260 (Revised) requires communication of “all relationships and other matters between the firm, network firms, and the entity.” This would not include all direct financial interests or material indirect financial interests in the audit client as required by paragraph R510.4 of the IESBA Code. Similarly, IESBA has introduced new requirements to communicate with TCWG in recent projects such as the [Revisions to the Non-Assurance Service Provisions of the Code](#) and the [Revisions to the Fee-related Provisions of the Code](#).

- (a) Consistent with the objective to achieve to the greatest extent possible convergence between the key concepts in the IESBA Code and the IAASB standards so as to maintain their interoperability.
- (b) Appropriate, as the IESBA Code would more robustly address any need to communicate matters to TCWG regarding ethics and independence (note that the ISAs would not be weakened because the auditor is already required to comply with relevant ethical requirements in accordance with paragraph 14 of ISA 200). Furthermore, revising the ISAs to replicate requirements in the IESBA Code does not promote a framework-neutral approach.
- (c) Practical, as it will reduce the need to maintain the ISAs when there are changes to the relevant requirements in the IESBA Code.

#### ISA 700 (Revised) Paragraph 40(b)

35. As a consequence of its proposals discussed in paragraph 33 above to bifurcate the requirement in paragraph 17 of ISA 260 (Revised) into two parts, i.e., a requirement that would apply in all instances (i.e., for all audits) and a requirement that would apply only to PIEs, the PIE TF is of the view that it is necessary to align the requirement in paragraph 40(b) of ISA 700 (Revised) (see paragraph 40(b) in ISA 700 (Revised) of **Agenda Item 6-A**). In addition, alignment changes have been proposed to the illustrative auditor's reports that are affected.<sup>21</sup>

#### **Matters for IAASB Consideration:**

- 2. The Board is asked for its views on the PIE TF proposals to extend the differential requirements to PIEs, including relating to:
  - (a) ISA 720 (Revised) discussed in paragraph 32;
  - (b) Bifurcating paragraph 17 of ISA 260 (Revised) into two requirements as discussed in paragraphs 33–34; and
  - (c) Aligning the requirement in paragraph 40(b) of ISA 700 (Revised) with the revisions proposed to paragraph 17 of ISA 260 (Revised).

### **Section III – Factors and Examples in Evaluating the Extent of Public Interest of an Entity**

Relevant Paragraphs in **Agenda Item 6-A**:<sup>22</sup>

**Paras. A29C, A29G, A128, A130, A133–A134 of ISQM 1; A76C, A76G of ISA 200; A32 of ISA 260 (Revised); and A40–A41, A43 of ISA 700 (Revised)**

<sup>21</sup> This included adding to the auditor's responsibilities the sentence: "We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence" in illustration 4 of ISA 700 (Revised), illustrations 1-2 of ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared In Accordance with Special Purpose Frameworks* and illustrations 1-2 of ISA 805 (Revised), *Special Considerations—Audits Of Single Financial Statements And Specific Elements, Accounts Or Items Of A Financial Statement*.

<sup>22</sup> Also refer to **Agenda Item 6-D** that sets out the relevant paragraphs of the revisions to the definitions of listed entity and PIE in the IESBA Code discussed in this Agenda Item.

## PIE TF Initial Views and Recommendations

36. The IESBA Code includes:
- (a) In paragraph 400.9, a list of factors to consider in evaluating the extent of public interest in the financial condition of an entity. The project proposal included consideration of how the list of non-exhaustive factors used in evaluating the extent of public interest in the financial condition of an entity in paragraph 400.9 of the IESBA Code may be incorporated in the objective and guidelines discussed in **Section I** (see paragraph 30, action B.3).
  - (b) In paragraph 400.18 A2, examples of categories of entities that local bodies may consider when adding to the categories of entities included in the definition of PIE. This paragraph also emphasizes the need to take into account factors such as those set out in paragraph 400.9 and the facts and circumstances in a specific jurisdiction when adding categories of PIEs.
  - (c) In paragraph 400.19 A1, additional factors for a firm to consider in determining whether to treat other entities as PIEs.
37. The application material to the current differential requirements applicable to listed entities in the ISQMs and ISAs includes various examples that illustrate (also see paragraph 23):
- (a) The types of entities that may exhibit public interest or public accountability characteristics for which it may be appropriate to apply a certain differential requirement.
  - (b) Circumstances when law or regulation may require the application of a differential requirement to entities other than listed entities.
38. In order to drive consistency across the IAASB standards, and reduce the duplicative nature of this application material across the ISQMs and ISAs, the PIE TF is proposing a central list of factors that supports consideration of whether there are other types of entities for which it may be appropriate to apply the differential requirements in the ISQMs and ISAs. The following summarizes the key considerations and decisions of the PIE TF in this regard:
- (a) The factors included in the IESBA Code were exposed for public comment by IESBA in their project on the definitions of listed entity and PIE and have therefore undergone a proper due process. Accordingly, it is appropriate to include these factors in the IAASB standards, since the overarching objective of the IAASB and IESBA regarding the public interest and differential requirements is aligned.
  - (b) The central list of factors will be incorporated in ISQM 1 and ISA 200 (i.e., with the overall objective and the requirement regarding which entities are PIEs).
  - (c) Application material in the ISQMs and ISAs related to the differential requirements refers to the central list of factors, as appropriate, and explains how these factors apply in the context of considering whether the differential requirements should apply to other entities.
  - (d) The PIE TF considered the commonality between the factors in the IESBA Code and the existing application material in the ISQMs and ISAs that describes other entities to which the differential requirements may be relevant. **Agenda Item 6-C** provides further details in this regard. In summary, the PIE TF noted that:
    - (i) In principle, there is consistency between the factors listed in paragraphs 400.9 and 400.18 A2 of the IESBA Code with the examples referred to in the ISQMs and ISAs as

they relate to the:

- Nature of the entity's business, including entities operating in certain industries.
- Designated regulatory supervision.
- Size of entity, including size of the entity's business.
- Number and nature of stakeholders.
- Non-for-profit organizations and governmental entities.

(ii) The factor “entities with a high public profile, or whose management or owners have a high public profile” is included in paragraphs A128 and A134 of ISQM 1 and is not addressed in the factors in the IESBA Code or the ISAs. The PIE TF considered whether to add this factor to the central list of factors, in which case it would be a consideration for each differential requirement in the ISQMs and ISAs. However, the PIE TF noted that the factor implies that there may be public interest in the entity, but not necessarily in the financial condition of the entity, and therefore it does not align to the overall objective underpinning the differential requirements. Accordingly, this factor has been retained but is now only referred to in paragraphs A130 and A134 of ISQM 1.

(iii) Two additional factors are provided in paragraph 400.9 of the IESBA Code that are not considered in the ISQMs and ISAs. These relate to:

- The importance of the entity to the sector in which it operates, including how easily replaceable it is in the event of financial failure.
- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

Both of these factors have been included in the central list of factors in ISQM 1 and ISA 200.

(iv) The list of factors is not exhaustive, which is consistent with the thinking of IESBA. Law, regulation, or relevant local bodies may identify additional entities that are PIEs, or a firm may identify additional entities to which the firm applies the requirement for PIEs.

39. As part of its outreach with the Forum of Firms, the PIE TF also explored whether there are other factors that could be considered in the central list of factors in ISQM 1 and ISA 200 (e.g., any factors that are presently being used in the firms' methodologies or guidance for evaluating the extent of public interest in an entity) and in general, there was support for consistency among the factors used by IESBA and the IAASB (see **Appendix 2**).

**Matters for IAASB Consideration:**

3. The Board is asked for its views on:

- (a) The factors included in paragraphs A29C, A29G of ISQM 1 and A76C, A76G of ISA 200 in **Agenda Item 6-A**; and
- (b) How the application material in the ISQMs and ISAs refers to the central list of factors (see paragraphs A128, A130, A133–A134 of ISQM 1, A32 of ISA 260 (Revised) and A40–A41, A43 of ISA 700 (Revised) in **Agenda Item 6-A**).

## Section IV – Adopting the IESBA Definition of PIE and “Publicly Traded Entity” into the ISQMs, ISAs and the Glossary of Terms

Relevant Paragraphs in **Agenda Item 6-A**:<sup>23</sup>

**Paras. 16, 18A–18B, A29D–A29F of ISQM 1; 13, 23A–23B, A76D–A76F of ISA 200; Glossary of Terms**

### Listed Entity and PIE Project Proposal – Proposed Actions

40. The project proposal included actions related to adopting the IESBA definition of PIE and “publicly traded entity” (see paragraph 30, actions A.1–A.2, of the [project proposal](#)).

### PIE TF Initial Views and Recommendations

#### *Adopting the Definition of PIE*

41. As a consequence of the case-by-case analysis, and its proposals to extend the differential requirements for listed entities in the ISQMs and ISAs to apply to PIEs (see **Section II**), the PIE TF is of the view that the definition of PIE should be adopted in the ISQM 1 and ISA 200. In doing so, the PIE TF believes:
- (a) That it is essential to incorporate in the ISQMs and ISAs the entire approach to scoping PIE as contemplated in the IESBA Code because all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction (see paragraph 31). The PIE TF has therefore proposed to incorporate the definition as part of the requirements with supporting application material based on the approach in the IESBA Code (see paragraphs 18A–18B and A29D–A29F in ISQM 1 and paragraphs 23A–23B and A76D–A76F in ISA 200 of **Agenda Item 6-A**).
  - (b) It is unnecessary to include a definition of PIE in the Definitions sections of ISQM 1 and ISA 200 or in the Glossary of Terms, given it forms part of the requirements in the authority of ISQM 1 and ISA 200.
42. In incorporating the relevant paragraphs of the IESBA Code into the ISQMs and ISAs, some changes were applied which were necessary given the differences in the drafting conventions among the respective Boards’ standards. For example, the reference to the purpose stated in the objective was not cross-referenced from paragraph 18A(d) in ISQM 1 and paragraph 23A(d) in ISA 200 of **Agenda Item 6-A** and the term “professional standards” was replaced with “professional requirements” given that unlike the IESBA Code this is a defined term for the purpose of the ISQMs and ISAs.
43. In addition, the PIE TF considered whether the requirement in paragraph 18A of ISQM 1 and paragraph 23A in ISA 200 of **Agenda Item 6-A** should include a separate bullet that would refer that the firm or the auditor may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs and ISAs. However, the PIE TF formed the view that this would not be appropriate given it would add an obligation for the auditor that extends beyond the requirements in the IESBA Code and would more significantly modify the PIE definition.

<sup>23</sup> Also refer to **Agenda Item 6-D** that sets out the relevant paragraphs of the revisions to the definitions of listed entity and PIE in the IESBA Code discussed in this Agenda Item.

*Adopting the Definition of “Publicly Traded Entity” in Place of Listed Entity*

44. The revisions to Part 4A of the IESBA Code and its glossary included replacing the definition of “listed entity” with a newly defined term – “publicly traded entity.” “Publicly traded entity” is one of the mandatory categories of entities included in the PIE definition. The defined term “publicly traded entity” encapsulates the term listed entity as an example defined by relevant securities law or regulation (rather than a standalone definition). Below is a comparison of the two definitions:

Extant definition of listed entity	IESBA Code definition of publicly traded entity
An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.	An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.  <i>A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.</i>

45. Given that “listed entity” is no longer a defined term in the IESBA Code, the PIE TF considered how replacing the definition of “listed entity” with “publicly traded entity” would impact the ISQMs and ISAs, i.e., how the scope of entities to which the extant differential requirements in the ISQMs and ISAs would change:

Impact on Entities	Description	Example <sup>24</sup>
<b>The change would result in the entity being scoped in</b>	Entities issuing and trading financial instruments other than shares, stock or debt as currently specified in the extant definition of “listed entity.”	Entities issuing and trading other types of instruments such as warrants or hybrid securities.
	Entities trading financial instruments in less regulated markets.	Entities trading on second-tier markets or over-the-counter trading platforms.
<b>The change would result in the entity being scoped out</b>	Entities whose financial instruments might be listed but are not intended to be traded or are not freely transferable	Groups where the relevant instruments are held entirely intra-group.
	Entities trading through a market mechanism that is not publicly accessible or when there is no	Privately negotiated agreements (with or without the assistance of a broker).

<sup>24</sup> The examples have been sourced from IESBA’s Exposure Draft [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) and the Basis for Conclusions, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).

Impact on Entities	Description	Example <sup>24</sup>
	facilitated trading platform such as an auction-based exchange or electronic exchange.	

46. The definition of “publicly traded entity” from the IESBA Code was exposed for public comment by IESBA in their project on the definitions of listed entity and PIE and therefore the changes to the scope of entities described above has undergone a proper due process in the development of the new term “publicly traded entity”. In addition, “publicly traded entity” forms one of the mandatory categories of entities in the PIE definition and listed entity is still encapsulated as an example in the definition of “publicly traded entity.”
47. Given the above, and noting the objective to achieve, to the greatest extent possible, convergence between the key concepts underlying the definitions in the IESBA Code, the PIE TF believes it appropriate to adopt the definition of publicly traded entity as a replacement for the term listed entity, subject to the IAASB’s own due process (see paragraph 16 in ISQM 1, paragraph 18 in ISA 200 and the Glossary of Terms of **Agenda Item 6-A**).

<p><b>Matters for IAASB Consideration:</b></p> <p>4. The Board is asked for its views on the proposal to adopt the definition of PIE and “publicly traded entity” in the ISQMs and ISAs, including whether the Board agrees with:</p> <p>(a) The approach in the authority section of ISQM 1 and ISA 200 (see paragraphs 18A–18B, A29D–A29F of ISQM 1 and 23A–23B, A76D–A76F of ISA 200 in <b>Agenda Item 6-A</b>).</p> <p>(b) The inclusion of the definition of PIE and “publicly traded entity” in the definitions of ISQM 1 and ISA 200 respectively (see paragraphs 16 in ISQM 1 and 13 in ISA 200 in <b>Agenda Item 6-A</b>).</p>
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## Section V – Aligning the Introductory and Application Material in the ISQMs and ISAs

### Listed Entity and PIE Project Proposal – Proposed Actions

48. The project proposal included actions to align and update the introductory and application material in the ISQMs and ISAs as a consequence of undertaking the case-by-case analysis (see paragraph 30, action C.5, of the [project proposal](#)).

### PIE TF Initial Views and Recommendations

49. As contemplated in the actions set out in the project proposal, various alignment changes were necessary to the application and introductory material in the ISQMs and ISAs as a consequence of the proposals previously discussed in this Agenda Item (see relevant paragraphs in **Agenda Item 6-A**).
50. In addressing the necessary alignment changes, the PIE TF undertook the analysis on a case-by-case basis for the application material to each of the differential requirements in the ISQMs and ISAs and:

- (a) Considered the necessary changes in the application material to the entities to which the extant differential requirements apply as well as to align with the concepts underpinning the definition of PIE.
  - (b) When applicable, referred to the central list of factors (see **Section III**) to support consideration of whether there are other types of entities that it may be appropriate to apply the differential requirements in the ISQMs and ISAs.
51. In addition, many other instances were noted across the ISQMs and ISAs where alignment changes were needed that are straightforward, such as replacing the term “listed entity” (or “other than listed entity”) with “public interest entity” (or “a non-public interest entity”). This was particularly the case for the changes made to the illustrative auditor’s reports included in the Appendices of the 500, 700 and 800 series of ISAs.
52. A few instances included replacing the term “listed entity” with “publicly traded entity,” as this was appropriate for the context of the matters referred to, or examples provided, in the affected application material (i.e., in paragraph A65b of ISA 200 and paragraph A12 of ISA 720 (Revised)).

**Matter for IAASB Consideration:**

5. The Board is asked for its views on how the application material in the ISQMs and ISAs has been updated and aligned to reflect the adoption of the definition of PIE and publicly traded entity, as reflected in **Agenda Item 6-A**.

## **Section VI – Way Forward**

53. Following the December 2022 IAASB meeting, and based on the Board’s feedback, the PIE TF intends to continue to discuss the issues included in this Agenda Item as it progresses its work to develop the exposure draft for the matters relevant for Track 2 of its narrow scope maintenance of standards project on listed entity and PIE. Such matters will be subject to further deliberation by the IAASB at its June 2023 meeting.
54. In addition, in March 2023, the PIE TF intends to present to the Board respondents’ feedback from the public consultation for the proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) related to Track 1 of the project.
55. The PIE TF will liaise with other IAASB task forces, working groups and consultation groups as needed, and will continue to closely coordinate with the IESBA through Staff coordination and the participation of correspondent members in the PIE TF.

## **PIE TF Members and Update on Activities Since the June 2022 IAASB Meeting**

### **PIE TF Members**

1. The PIE TF consists of the following members:

- Josephine Jackson, Chair.
- Chun Wee Chiew.
- Fernando Ruiz Monroy.
- Len Jui.

*IESBA correspondent member:*

- Sung-Nam Kim.

2. Information about the project can be found [here](#).

### **PIE TF Activities**

3. The PIE TF held 2 virtual meetings since June 2022.

4. In November 2022, the PIE TF Chair and IAASB Staff engaged in a deep dive session with the Forum of Firms to obtain feedback on certain aspects of its proposals relevant for Track 2 of the narrow scope maintenance of standards project on listed entity and PIE.

### **Coordination with Other Consultation Groups and Standard-Setting Boards**

5. Sung-Nam Kim joined the PIE TF in March 2022 as a correspondent IESBA member and attends all IAASB PIE TF meetings. He is also an IESBA member and a member of the IESBA PIE Rolling Out Working Group. Staff of the IAASB and IESBA engage in ongoing coordination activities in relation to this topic.

6. In August and October 2022, an overview of the PIE TF proposals was provided to the Chair and IAASB Staff of the Audits of Less Complex Entities (LCE) project.

## Appendix 2

### Feedback from the Deep Dive Session on Listed Entity and PIE with Forum of Firms Representatives

1. The PIE TF Chair and IAASB Staff attended a session at the Forum of Firms meeting that took place on November 1, 2022, and provided an update on the proposals being considered by the PIE TF relevant for Track 2 of its narrow scope maintenance project on listed entity and PIE.
2. Following the brief update, Forum of Firms Representatives were asked to discuss the questions below in breakout groups:

#### Questions for Forum of Firms Representatives:

- A. Representatives are asked to share their views on the impact and practical implications of:
- (a) Amending the differential requirements that currently apply to listed entities to apply to PIEs (e.g., the scope of engagements subject to engagement quality review or communicating KAM in the auditor's report).
  - (b) Replacing the definition of "listed entity" with "publicly traded entity" in the ISQMs and ISAs.

As part of the feedback, the IAASB is interested in hearing whether, and if so the extent to which, firms apply the extant differential requirements to entities other than listed entities (e.g., are there firm policies or procedures that require engagement quality reviews for some of the categories of entities included in the definition of PIE).

- B. Representatives are asked to share their views on the factors outlined in paragraphs 16 of the Appendix<sup>25</sup> and whether there are any suggestions for additional factors that should be considered for the purpose of the ISQMs and ISAs (for example, any that are presently being used in the firms' methodologies, guidance or policies and procedures)?

3. A summary of the main points and key takeaways from these discussions is provided below.

#### *Extending the Differential Requirements in ISQMs and ISAs to apply to PIEs (Question A(a)):*

- Broad support, in particular there was support for not adding complexity to the ISQMs and ISAs. Views were shared that an approach whereby some differential requirements would apply to PIEs while others to "publicly traded entities" would add more complexity.
- Comments were shared that introducing an engagement quality review for all PIEs would increase the scope of entities for which an engagement quality review would be required and this could have a disproportionate effect on smaller audit firms. However, there was recognition that firms' policies and procedures already expand on entities subject to engagement quality reviews, however this does not necessarily apply to communicating KAM for such engagements. Views were shared that current practice is for KAM to be communicated only for those entities as presently required by ISA 701.
- Extending requirements to PIEs could also impact work effort and audit fees as those audits will now be subject to requirements that previously only applied to audits of listed entities. Some

<sup>25</sup> Paragraph 16 of the Appendix to the Forum of Firms briefing note referred to the factors and examples in paragraphs 400.9 and 400.19 A1 of the IESBA Code.

suggested that practical guidance on applying ISA 701 would be helpful for those firms that have not had to apply the standard previously.

- Comments were made that in respect of ISQM 1 if an entity is designated as a PIE, it is also relevant to consider whether the right risk is being addressed with the right response.
- Views were shared about the risk of a local body not appropriately refining the mandatory categories of entities in the PIE definition and thereby adding complexity at the jurisdictional level or scoping in entities that are not of significant public interest. In addition, the proposed model could lead to lack of consistency across jurisdiction, depending on how local bodies approach the definition of PIE in their national laws or regulations. It was suggested that in this regard, similar to IESBA, guidance could be issued to support local bodies.

*Replacing the Definition of Listed Entity with “Publicly Traded Entity” in the ISQMs and ISAs (Question A(b)):*

- No explicit concern for the revised definition of “publicly traded entity.” Some representatives welcomed the introduction of “publicly traded entity” noting it would lead to greater consistency.
- Broad recognition that the current definition of listed entity is out of date.
- Further outreach may be necessary in some jurisdictions that have secondary exchanges and may be particularly impacted (e.g., certain countries of the European Union).

*Views on the Factors in the IESBA Code and Suggestions for Additional Factors in the ISQMs and ISAs (Question B):*

- Support for the factors and a consistent approach between the factors and examples in the IESBA Code and those in the ISQMs and ISAs.
- There should be valid rationale for the IAASB including additional factors than those in the IESBA Code for the purpose of the ISQMs and ISAs.
- Views were shared that although it may be appropriate to have additional factors at a firm or jurisdictional level, this does not necessarily imply that they should broadly apply globally for the purpose of the ISQMs and ISAs.
- Some suggestions were made to consider whether adding a factor that the entity is “too big to fail” (e.g., US Postal Services) can be useful for the ISQMs and ISAs and whether the size factor should have a bigger impact when determining whether an entity is a PIE or if it should be supplemented with certain size thresholds, such as revenue or total assets.