

## Definitions of Listed Entity and Public Interest Entity— November 2020 IAASB PIE Session Draft Minutes

### Note to IESBA Members

These draft minutes were prepared by IESBA staff only and have not yet been reviewed by IAASB staff. Refer to the [IAASB meeting page](#) for a copy of the draft minutes that will be presented to the IAASB for approval.

### 1. Definitions of Listed Entity and Public Interest Entity (PIE)

By way of introduction, Messrs. Seidenstein and Botha reminded the Board that there has been a significant level of coordination between the two boards for the PIE project, including participation of IAASB correspondent members at the PIE Task Force meetings, staff-level coordination, as well as an IAASB working group to develop the material in **Agenda Item 1-B**.

Mr. Ashley and Ms. Jackson updated the Board on work the Task Force since the July 2020 IAASB virtual session as presented in **Agenda Items 1, 1-A, 1-B and 1-C**. Among other matters, the Board discussed the Task Force's proposals on the overarching objective for defining a class of entities (i.e., PIEs) which require additional audit and independence requirements, the list of PIE categories, the expected role of local bodies and role of firms. In particular, the Board provided input to the concept of a shared overarching objective, the continual use of listed entities in the IAASB standards and a possible new transparency disclosure requirement in the auditor's report.

#### OVERARCHING OBJECTIVE

The Board continued to support the proposed overarching objective, as expressed in paragraphs 400.8 and 400.9 of the revised first read, for use by both the IESBA and IAASB in establishing additional audit and independence requirements for certain entities.

With regards to the proposed paragraph 400.8, the Board asked the PIE Task Force to consider:

- Whether the term “financial condition” in the lead-in sentence is too broad, which might inadvertently cause some users to look further than financial statement audits which is focused on financial position and financial performance. The Task Force was also asked to consider other terms that better align with those used in other standards such as the IFRS (e.g. “financial position” and “financial performance”).
- Clarifying bullet #4 by adding “not” in front of the phrase “easily replaceable”.

#### USE OF “LISTED ENTITIES” IN ISAs AND ISQM1<sup>1</sup>

The Board considered the use of “listed entity” in the ISAs and ISQM1, noting that it is currently the only class of entities whose audits are subject to differential requirements and that the key focus of the relevant provisions, with the exception of subparagraph 34(f) of ISQM1, is on enhanced transparency.

The majority of the Board continued to support a case-by-case approach when determining whether differential requirements should be applied only to listed entities or more broadly to other categories of

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

PIEs. In supporting this approach, IAASB noted that whilst it might embrace the new PIE definition in the IESBA Code, the IAASB needs to properly assess the impact of expanding the differential treatment to all PIEs, taking into account the rationale for using listed entities in its current standards.

Mr. Seidenstein expressed his view that it is reasonable for IAASB to form the view that only a subset of PIE, such as listed entity, requires differential requirements with respect to audit and assurance standards, noting that:

- One of the drivers for the project was to remove the inconsistency created by the use of the term “entity of significant public interest” in the ISAs and the term PIE in the IESBA Code and that the ultimate goal of the IAASB is to achieve alignment.
- In adopting a case by case approach, it is important to consider that the term ‘listed entities’ in the IAASB standards might be replaced by the term eventually used by IESBA, be it “publicly traded entity” or otherwise, in order to achieve alignment.

The Board agreed to utilizing the IESBA’s exposure draft process to seek views from its stakeholders as part of the Board’s information gathering, recognizing that this process, as a demonstration of the level of maturity in two Board’s coordination efforts, is an excellent opportunity to help inform the Board’s decision without binding it in any way. The Board also agreed on the importance of having the right form of communication and messaging to ensure its stakeholders understand the issues from an IAASB perspective and respond accordingly.

#### TRANSPARENCY AND AUDITOR’S REPORT

The Board discussed the PIE Task Force’s proposed requirement for firms to disclose whether an audit client was treated as PIE in the auditor’s report and considered three options with respect to the suggestion of including in the auditor’s report a reference to whether an audited entity was treated as a PIE:

**Option 1** – No change be made to the auditor’s report

**Option 2** – IAASB to pursue the possibility of enhanced transparency as part of its Auditor Reporting Post-Implementation Review (PIR)

**Option 3** – IAASB to explore potential revisions to ISA 700.28(c)

A majority of the Board members preferred Option 2, noting that further analysis as part of its Auditor Reporting AIR will allow the Board to properly consider Option 3 including any potential impact and unintended consequences. The Board also supported the approach of using the IESBA’s exposure draft process to seek initial feedback from its stakeholders with regards to the three options. In this regard, Ms. Stothers reinforced the PIOB’s view that it is in public interest to enhance transparency and expressed support for the approach of seeking stakeholders’ feedback through the exposure draft process.

#### IAASB CAG CHAIR’S REMARKS

Mr. Dalkin reinforced the view of the Consultative Advisory Group (CAG) that it would like to see the terms ESPI and PIE be aligned.

#### PIOB OBSERVER’S REMARKS

Ms. Stothers reiterated the importance of the PIE project from a public interest perspective and noted that the PIOB is hopeful that the project will achieve greater alignment of the terms used by the two Boards.

WAY FORWARD

The PIE Task Force will present a second read of the proposed text to the IESBA at its November-December 2020 meeting, with a view to seeking its approval for exposure.