

Meeting: IAASB Consultative Advisory Group (CAG)

Meeting Location: New York, United States of America

Meeting Date: March 7–8, 2023

Agenda Item

H

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

Objectives of Agenda Item

1. The objectives of this Agenda Item are to:
 - (a) Report back on Representatives' comments made at the June 2022 IAASB CAG meeting.
 - (b) To provide Representatives an overview of the significant comments from respondents to the Exposure Draft (ED), [Proposed Narrow Scope Amendments to ISA 700 \(Revised\)¹ and ISA 260 \(Revised\)² as a Result of the Revisions to the IESBA Code³ that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs](#), and to obtain Representatives' views on the PIE Task Force's initial proposals to address the comments relevant to Track 1 of the narrow scope project on listed entity and PIE.
 - (c) To update Representatives on the PIE Task Force's initial views and recommendations for addressing the project objectives relevant to Track 2 of the narrow scope project on listed entity and PIE.

Project Status

2. Since the last update provided to the CAG at the June 2022 meeting, the PIE Task Force has continued to progress the narrow scope revisions to the ISQMs⁴ and ISAs to respond to the recent revisions to the IESBA Code in relation to listed entity and PIE,⁵ in two tracks, as follows:
 - (a) Track 1: A faster-moving track that deals with narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) to address transparency about the relevant ethical requirements for independence for certain entities, with an effective date that aligns with IESBA.
 - (b) Track 2: A separate track that deals with all other actions contemplated in the project proposal, with a later effective date.

¹ International Standards on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

² ISA 260 (Revised), *Communication with Those Charged with Governance*

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

⁴ International Standards on Quality Management

⁵ See the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code | IFAC \(ethicsboard.org\)](#) that becomes effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024

3. In June 2022, the IAASB unanimously approved the ED for Track 1 of the narrow scope project on listed entity and PIE, which was issued for public comment until October 4, 2022. A total of 38 written responses were received (refer to Appendix 4 of **Agenda Item H.3** for a list of the respondents).
4. In addition, in December 2022, the PIE Task Force presented to the Board its initial views and recommendations for addressing the project objectives relevant to Track 2 of the project, including:
 - Adopting the objective in paragraph 400.8 of the IESBA Code, which supports the purpose for establishing differential requirements for PIEs.
 - Extending the differential requirements in the ISQMs and ISAs for listed entities to apply to PIEs.
 - Adopting the IESBA definitions of PIE and “publicly traded entity” in the ISQMs and ISAs.
 - Incorporating a central list of factors and examples to evaluate the extent of public interest in an entity in ISQM 1⁶ and ISA 200.⁷
5. At the IAASB’s upcoming March 2023 meeting, the Board will be presented with an overview of respondents’ comments to the ED and the PIE Task Force’s initial proposals to address the comments relevant to Track 1 of the project.
6. The **Appendix** to this paper provides a history of previous discussions with the IAASB CAG and the IAASB on this topic, including links to the relevant IAASB CAG documentation.

IAASB-IESBA Coordination

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

Way Forward

8. For Track 1 of the project, the final IAASB approval of the revisions to ISA 700 (Revised) and ISA 260 (Revised) is planned for June 2023.
9. For Track 2 of the project, due to various circumstances affecting the planning for the IAASB’s forward agenda of projects,⁸ the PIE Task Force will continue its work in quarter 1 of 2024. Consequently, it is anticipated that the ED for Track 2 will be presented to the Board for approval in June 2024 and the expected approval of the final pronouncement to be in June 2025. Subject to feedback from stakeholders, the PIE Task Force is of view that an effective date of December 2026 may be possible.

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

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

⁸ Including, but not limited to, creating additional capacity necessary to prioritize the completion of IAASB’s project on Sustainability Assurance, the sequencing of deliverables across active projects based on available Staff and Board capacity, and when certain deliverables “go to market.”

IAASB CAG Discussion in March 2023

10. For purposes of the IAASB CAG discussion in March 2023, the IAASB PIE Task Force has prepared a presentation (see **Agenda Item H.1**) highlighting significant matters from the respondents' feedback to the ED (see **Agenda Items H.2** and **Agenda Item H.3**) and the PIE Task Force's proposals to address the project objectives relevant to Track 2 of the project (see **Agenda Item H.4**).

Matters for IAASB CAG Consideration:

1. Representatives are asked for their views on the PIE Task Force's initial views and recommendations in response to the feedback to the ED for Track 1 of the narrow scope project on listed entity and PIE.
2. Representatives are asked if there are any other matters the PIE TF should consider as it finalizes the final pronouncement for approval by the IAASB for Track 1 in June 2023.⁹
3. Representatives are asked for their views on the PIE Task Force's proposals relevant to Track 2 of the narrow scope project on listed entity and PIE. In particular, in relation to:
 - (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 key audit matters in the auditor's report).
 - (b) Replacing the definition of "listed entity" with "publicly traded entity" in the ISQMs and ISAs.

Report Back

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

Report Back on the June 2022 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
<i>The Approach to Addressing the Transparency Disclosure Regarding Independence</i>	
Drs. Cela and Norberg and Mmes. Blomme, Manabat and Mubarak noted their support for the IAASB's preferred approach to revising paragraph 28(c) of ISA 700 (Revised), as included in the draft ED (i.e., previous Option 2 presented to the CAG in March 2022).	Support noted.
Ms. Wei and Mr. Ishiwata emphasized their preference for the alternative approach considered	Point noted. Ms. Jackson emphasized that a key reason that the

⁹ Taking into account that Track 1 proposes only narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised), and the nature and extent of the revisions being proposed based on respondents' feedback to the ED, the PIE Task Force does not anticipate the need to further consult with the CAG before the June 2023 IAASB meeting.

Report Back on the June 2022 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
<p>by the IAASB for amending ISA 700 (Revised) (i.e., previous Option 1 presented to the CAG in March 2022), noting that this option provides more transparency for users of audited financial statements that enables them to understand whether the differential independence requirements for PIEs have been applied. Ms. Wei acknowledged that the IAASB has undertaken its due process in developing the proposals included in the draft ED.</p>	<p>alternative approach was not selected is that it may inadvertently disregard any jurisdictional decision not to impose a transparency requirement in the relevant ethical requirements. Ms. Jackson further noted that the Explanatory Memorandum (EM) accompanying the ED includes further information that provides insights to stakeholders as to the reasons why the IAASB selected the preferred option.</p>
<p>Mmes. Wei and Manabat and Mr. Ishiwata supported the inclusion of the alternative approach in the EM accompanying the draft ED. Ms. Manabat noted that providing an explanation of the alternative approach considered by the IAASB in the EM accompanying the draft ED is a good reference point for stakeholders to have further information about the options considered by the IAASB.</p>	<p>Support noted.</p>
<p>Ms. Wei noted her support for encouraging in the application material that voluntary disclosure can be made when the relevant ethical requirements do not require to publicly disclose that the differential independence requirements that are applicable only to audits of financial statements of certain entities were applied.</p>	<p>Support noted.</p>
<p><i>Illustrative Auditor's Reports in ISA 700 (Revised)</i></p>	
<p>Ms. Blomme explained that in the European Union there are more stringent statutory requirements that require additional disclosures in the auditor's report for PIEs regarding auditor independence, for example, disclosing that the auditor has not provided prohibited non-audit services to an audit client. Accordingly, she noted that in certain circumstances, the required disclosures about auditor independence can become very complex. Ms. Blomme inquired whether the PIE Task Force</p>	<p>Point noted.</p> <p>Ms. Jackson acknowledged that national jurisdictions may include more demanding requirements than the IESBA Code with respect to disclosure requirements about auditor's independence. She explained that ISA 700 (Revised) includes guidance with respect to combined presentation of other reporting responsibilities and the auditor's responsibilities under the ISAs. Ms. Jackson added that the Auditor Reporting Consultation Group may develop</p>

Report Back on the June 2022 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
considered addressing this complexity through providing further illustrations in ISA 700 (Revised).	Frequently Asked Questions if capacity opens up, in response to the post-implementation review, and if it is identified when that work is undertaken that illustrations are needed, they could be considered as part of developing the publication.
<i>Reference to PIEs in the ISAs</i>	
Mr. Ruthman noted the use of the term “public interest entity” in the draft ED is the first time this term is used in the ISAs and inquired whether it would be necessary to further explain or define this term. He noted that there may be possible confusion of the meaning of this term in the context of public sector audits given the potential interpretation that public sector entities are always entities of significant public interest. Mr. Ruthman suggested that a similar approach may be undertaken as for group audits where further explanation is provided in the context of the auditor’s report (e.g., that the group includes the company and its subsidiaries).	Point noted. Ms. Jackson explained that as part of the actions included in Track 2 of the narrow scope maintenance on standards project on listed entity and PIE, the PIE Task Force will consider adoption of the IESBA definition of PIE into the ISQMs and ISAs, or the IAASB Glossary of Terms. She also noted that providing further explanation in the auditor’s report for the purpose of the draft ED is not necessary given that the differential independence requirements as specified in jurisdictional codes may refer to other terms, such as for example, “large private entities” or “large public entities.”
<i>Effective Date</i>	
Ms. Manabat supported bifurcating the project into two tracks and addressing as a priority the disclosure relating to enhanced transparency about independence to align with IESBA’s effective date.	Support noted.
Ms. Mubarak noted that in certain jurisdictions there may be practical difficulties for aligning the effective date for the proposed revisions proposed in the draft ED with the effective date of revisions to the IESBA Code in relation to listed entity and PIE, given there may be a lag in adopting the most recent version of the IESBA Code.	Point noted. Ms. Jackson noted that the IAASB acknowledges that national jurisdictions may have their own effective dates given the need to undertake their national implementation and due process.
<i>Proposed Revisions to ISA 260 (Revised)</i>	

Report Back on the June 2022 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
<p>Mr. Ishiwata inquired whether the proposed amendments to ISA 260 (Revised) for communication with those charged with governance (TCWG) should be elevated to a requirement, given the importance of the communication with TCWG about auditor's independence.</p>	<p>Ms. Jackson explained that paragraph 17 of ISA 260 (Revised) already includes a requirement to communicate with TCWG that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the relevant ethical requirements regarding independence. In addition, paragraph A32A of ISA 260 (Revised) emphasizes that differential independence requirements may apply. Therefore, implicitly, the auditor would need to communicate which independence requirements were applied.</p> <p>Ms. Jackson also explained that as part of its proposals for Track 2 of the project, the PIE Task Force propose to bifurcate paragraph 17 of ISA 260 (Revised) and address the communication about the differential independence requirements that would apply to audits of all entities, including for PIEs. These proposals address the inclusion of an explicit requirement to communicate with TCWG in this regard.</p>
<p><i>Other Matters</i></p>	
<p>Mr. Stokhof observed that paragraph 20 of the project proposal for the narrow scope maintenance project on listed entity and PIE refers to stakeholders impacted by the project and provides a reference to <i>the profession</i> that includes auditors and assurance providers, and other professional accountants in public practice and business who apply the standards. He inquired whether it would be more appropriate to refer to external auditors in the context of the project, given that the phrase “all auditors” can be understood to also include internal auditors, and reference to “other professional accountants” may imply that auditors are only accountants.</p>	<p>Ms. Jackson and Mr. Botha explained that the reference to the stakeholders impacted by the project is leveraged from the Public Interest Framework (PIF) published by the Monitoring Group in July 2020.¹⁰ Mr. Botha noted that the references in the PIF are deliberately broadly described and that in the context of the narrow scope maintenance of standard project on listed entity and PIE it should be understood in the context of external auditors who provide assurance in audit and review engagements.</p>

¹⁰ See the five broad stakeholder groups as explained in the PIF's section on “For whom are standards developed?” (on pages 20–21 of the Monitoring Group's report, “[Strengthening the International Audit and Ethics Standard-Setting System](#)”).

Report Back on the June 2022 IAASB CAG Meeting	
Representatives' Comments	IAASB PIE Task Force / IAASB Response
<p>Mr. Dalkin encouraged the IAASB to consider the overall impact of the changes being considered to enhance transparency in the auditor's report through several of its standard setting projects, particularly since it is adding to the length and complexity of the auditor's report.</p>	<p>Ms. Jackson noted that the auditor's report is the only mechanism that is available in the IAASB standards to communicate with users externally about the audit that was performed. She explained that the IAASB's approach in the various projects that are considering changes to the auditor's report is to consider separately for each project what revisions are necessary to address the key public interest issues identified from the information gathering and research activities undertaken. Ms. Jackson noted that there will continue to be close coordination between the various projects involved, mindful of the possible effective dates of the revised standards.</p>
<p>Mr. Dalkin encouraged the PIE Task Force to simplify and streamline the EM accompanying the draft ED in order to enhance the understandability of the proposals.</p>	<p>Point noted. The PIE Task Force further revised the EM before the release of the ED in order to simplify, streamline and enhance the understandability of the proposals presented.</p>

Material Presented – IAASB CAG Papers

- Agenda Item H.1 Presentation
- Agenda Item H.2 Track 1: Narrow Scope Amendments to ISA 700 (Revised) and ISA 260 (Revised) (Marked-Up from ED) (March 2023)

Material Presented – IAASB CAG Reference Papers

- Agenda Item H.3 Track 1: IAASB Listed Entity and PIE Feedback and Issues Paper (March 2023)
- Agenda Item H.4 Track 2: IAASB Listed Entity and PIE Issues Paper (December 2022)

Appendix

Project Details and History

Project: Listed Entity and PIE

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

Task Force Members

- Sue Almond, IAASB Member and Task Force Chair
- Chun Wee Chiew, IAASB Member
- Fernando Ruiz Monroy, IAASB Member
- Susan Jones, IAASB Technical Advisor
- Sung-Nam Kim, IESBA Member (correspondent PIE Task Force member)

Summary

	IAASB CAG Meeting	IAASB Meeting
Information Gathering	N/A	July 2020 November 2020 July 2021 October 2021
Project proposal	March 2022	March 2022
Exposure Draft.	June 2022	June 2022
Consideration of Comments	N/A	December 2022

IAASB CAG Discussions: Detailed References

Project Proposal	<u>March 2022</u> See IAASB CAG meeting material (Agenda Item B).
Exposure Draft Development	<u>June 2022</u> See IAASB CAG meeting material (Agenda Item B).