### Agenda Item 7

**PIE Rollout – IESBA/IAASB Coordination**

#### Objectives of Agenda Item

1. To consider an update from the Working Group\(^1\) on Track 1 of the International Auditing and Assurance Standards Board’s (IAASB) Listed Entity and Public Interest Entity project (**IAASB PIE Project**).

2. To consider an update from Staff on (i) the preliminary data gathered by IFAC on the level of awareness in 26 jurisdictions regarding the adoption and implementation of the IESBA PIE Revisions, and (ii) the jurisdictional PIE definitions database.

**IAASB PIE Project**

3. In March 2022, the IAASB approved a project proposal to undertake a narrow-scope maintenance of standards project on the topic of “listed entity and PIE.” The project proposal sets out the IAASB’s actions to respond to the IESBA PIE Revisions. This project is being progressed on two separate tracks (Track 1 and Track 2\(^2\)).

4. Track 1 includes proposed actions to operationalize IESBA’s transparency requirement by addressing the following project objective that supports the public interest:

   Determine whether the auditor’s report is an appropriate mechanism to enhance transparency about the relevant ethical requirements for independence applied for certain entities when performing an audit of financial statements.

5. In June 2022, the IAASB unanimously approved an exposure draft: *Proposed Narrow Scope Amendments to ISA 700 (Revised)\(^3\) and ISA 260 (Revised)\(^4\) as a Result of the Revisions to the*...

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\(^1\) The Working Group consists of:
- Andrew Mintzer, Chair, IESBA Member
- Richard Huesken, IESBA Member
- Sung-Nam Kim, IESBA Member
- Felicien Muvunyi, IESBA Member
- Luigi Nisoli, IESBA Member
- Yaoshu Wu, IESBA Member

\(^2\) As explained at the IESBA February 2023 meeting, in December 2022, the IAASB discussed the IAASB PIE Task Force’s initial views and recommendations related to Track 2 of its narrow scope project. It is envisioned that the work on Track 2 will continue in Q1 2024.

\(^3\) International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

\(^4\) ISA 260 (Revised), *Communication with Those Charged with Governance*
IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs (IAASB ED).

6. At the June 2022 IESBA meeting, the Board expressed support for the IAASB PIE Task Force’s proposed revisions to ISA 700 (Revised) to operationalize the new transparency requirement set out in paragraph R400.20 of the IESBA PIE Revisions.

7. The IAASB ED also sought respondents’ feedback on whether the International Standard on Review Engagements (ISRE) 2400 (Revised) should be revised to address transparency about the relevant ethical requirements for independence applied for review engagements for certain entities and, if so, whether the IAASB should use an approach consistent with the one being proposed for the narrow-scope amendments in ISA 700 (Revised).

8. Following closure of its comment period, the IAASB received a total of 38 comment letters.

9. In March 2023, the IAASB will consider the IAASB PIE Task Force’s full analysis of the respondents’ feedback to the IAASB ED and its initial views and recommendations in response to the feedback. In addition, the IAASB will take into consideration the IESBA’s decision at its February 2023 meeting not to revise the scope of the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions, which applies to audit and review engagements.

10. Below is a summary of a selection of the IAASB PIE Task Force’s proposals regarding Track 1. For a detailed analysis of the responses and the full detail of the IAASB PIE Task Force’s proposals, please refer to the materials under Agenda Item 7 of the IAASB March 2023 meeting.

Transparency Regarding Audit Engagements

The Auditor’s Report as a Mechanism for Public Disclosure

11. Question 1 of the IAASB ED asked respondents if they agreed that the auditor’s report is an appropriate mechanism for publicly disclosing when the auditor has applied the relevant ethical requirements for independence for certain entities, such as those for PIEs in the IESBA Code.

12. Taking into account the general support from respondents, on balance, the IAASB PIE Task Force is of the view that the auditor’s report provides a clear mechanism to operationalize the transparency requirement set out in paragraph R400.20 of the IESBA PIE Revisions. The IAASB PIE Task Force noted that disclosure in the auditor’s report supports the accessibility, timeliness, and consistency of the communication when the auditor has applied relevant ethical requirements for independence for certain entities in performing the audit of the financial statements, such as the independence requirements for PIEs in the Code.

13. The IAASB PIE Task Force also noted respondents’ comments who expressed concern that, given that an auditor’s report may have limited distribution, there is a risk that this will result in the auditor not complying with the transparency requirement in paragraph R400.20 of the Code. Of note, respondents provided the following suggestions that include specific matters for the IESBA’s consideration:

(a) The IESBA should consider clarifying whether the intention of the requirement in paragraph R400.20 is to ensure transparency for those users who read the auditor’s report, or whether the transparency requirement is intended to the public at large. Respondents noted that in its

5 ISRE 2400 (Revised), Engagements to Review Historical Financial Statements
deliberations the IESBA considered the option of limiting the disclosure requirement to only those stakeholders who have access to the auditor’s report on the basis that it would be of no benefit to those who do not. They encouraged the IESBA to consider further actions to address transparency for circumstances without accessibility.

(b) The IESBA should consider explicitly stating, either directly in the Code or in its supplemental implementation materials, that the auditor’s report is an appropriate mechanism to provide the transparency disclosure required by paragraph R400.20. Respondents felt that such an explicit acknowledgement would bring clarity for firms and other stakeholders that the IESBA’s transparency requirement is sufficiently addressed through disclosing in the auditor’s report that the relevant ethical requirements for independence for certain entities were applied.

(c) While certain respondents acknowledged that there may be limited other mechanisms available beyond the auditor’s report to provide the disclosure required by paragraph R400.20 in a timely, accessible, and consistent manner, others encouraged the IESBA to consider alternative mechanisms to provide the disclosure (e.g., the audit firm’s website and/or a transparency report).

14. As mentioned in paragraph 145 of the Basis for Conclusions, Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code, “…the IESBA will consider what further actions, if any, might be warranted once the IAASB has concluded its deliberations on whether the auditor’s report is a suitable location for such disclosure and, if so, how this may be accomplished.” As such, the Working Group will consider the respondents’ suggestions after the IAASB approves its deliberations on Track 1, which is planned for June 2023, and afterwards present a proposal to the Board.

Proposed Amendments to ISA 700 (Revised)

15. Following the broad support from respondents (apart from the two Monitoring Group members\(^6\) and one audit oversight body), the IAASB PIE Task Force continued to support a conditional approach to revise paragraph 28(c) in ISA 700 (Revised) as proposed in the revisions included in the IAASB ED. Under this approach, the auditor is required to indicate in the auditor’s report that differential independence requirements for the audits of financial statements of certain entities were applied, but only when (i.e., the condition) the relevant ethical provisions require public disclosure of that fact.

16. Furthermore, given respondents’ comments that the term “differential”\(^7\) is not a commonly understood term that may cause misunderstanding (also in terms of its translation) and if retained in the requirement it would be appropriate to define the term “differential independence requirements,” the IAASB PIE Task Force proposed to remove the term from the requirement in paragraph 28(c) of ISA 700 (Revised). It also proposed to enhance the application material to explain that relevant ethical provisions may require the auditor to apply “additional” independence requirements (e.g., those for

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\(^6\) Refer to Agenda Item 7 of IAASB March 2023 meeting for further details. Essentially, the two Monitoring Group respondents expressed their support for an unconditional requirement that would mandate the transparency disclosure in the auditor’s report in all cases, provided that the relevant ethical requirements do not specifically prohibit such disclosure. However, the IAASB PIE Task Force opted for a proportionate response (i.e., continued to support a conditional approach). This is based on the various comments received on question 1, across stakeholder groups, that emphasized the need for jurisdictional flexibility and cautioned about unintended consequences in operationalizing the transparency requirement of the Code through the auditor’s report.

\(^7\) When referring to the additional independence requirements that the Code sets out for audits of financial statements of PIEs.
PIEs in the Code) or “differential” independence requirements for certain entities (as may be the case when the independence requirements are included in a completely different set of national requirements as well as within law or regulation).

17. In addition, the IAASB PIE Task Force proposed to add new application material to mitigate against the risk that users may inadvertently believe the entity is a PIE when it is not, as may be the case when the auditor has determined to treat other entities as PIEs⁸ and the relevant ethical provisions require public disclosure.

**Proposed Amendments to ISA 260 (Revised)**

18. Respondents were generally supportive of the proposed amendments to ISA 260 (Revised). However, some respondents, including the two Monitoring Group members, believed that the proposed revisions to ISA 260 (Revised) should be strengthened by including a requirement (rather than providing application material) for the auditor to communicate with those charged with governance (TCWG) the independence requirements applied, mirroring the IAASB’s proposals for paragraph 28(c) of ISA 700 (Revised).

19. The IAASB PIE Task Force considered that it already proposed in December 2022, as part of Track 2, and the IAASB supported, to bifurcate paragraph 17 of ISA 260 (Revised) into two parts, i.e.:

   (a) A part that applies to all audit engagements and addresses communication with TCWG about compliance with relevant ethical requirements regarding independence, including requiring communication about the differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant ethical requirements.

   (b) A part that applies to audits of financial statements of PIEs and addresses further communication with TCWG on matters related to independence, such as relationships that bear on independence.

20. The IAASB PIE Task Force formed the view that the revisions discussed above, proposed under Track 2, address concerns on exposure expressed by Monitoring Group respondents and others. However, the IAASB PIE Task Force noted that because term “public interest entity” and the approach to IESBA’s definitions of PIE and “publicly traded entity” will only be holistically addressed in Track 2, it may not be effective or practical for the IAASB to undertake the revisions to paragraph 17 of ISA 260 (Revised) now given the affected requirements will need to be amended twice in short succession. Instead, the IAASB PIE Task Force suggested to address bifurcating the requirement as part of Track 2 and rely on the application material in the interim period to increase transparency to TCWG that differential independence requirements for certain entities have been applied.

**Transparency Regarding Review Engagements**

21. Question 3 of the IAASB ED asked respondents if the IAASB should consider a revision to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for review engagements for certain entities, such as for PIEs in the IESBA Code. Overall, there were mixed views from respondents.

22. Question 4 of the IAASB ED sought views from respondents if they supported a consistent approach to the revisions for ISRE 2400 (Revised) with the proposals for ISA 700 (Revised) (i.e., a conditional

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⁸ Under paragraph 400.19 A1 of the Code.
requirement in the practitioner’s report). Respondents broadly supported that, if the IAASB were to amend ISRE 2400 (Revised), a consistent approach should be applied.

23. On February 10, 2023, the IESBA decided to retain the scope of the transparency requirement set out in paragraph R400.20 of the IESBA PIE Revisions, thus retaining its applicability to both audit and review engagements.

24. The IAASB PIE Task Force noted the mixed views expressed by respondents to Question 3 of the IAASB ED and agreed with respondents’ views that circumstances would be rare in practice when a review of historical financial statements for a PIE would be undertaken. Nevertheless, given the IESBA’s decision not to pursue changing the scope of the transparency requirement in paragraph R400.20 of the IESBA Code, the IAASB PIE Task Force proposed that the revision of ISRE 2400 (Revised) is undertaken under Track 2 given that the alternative considered (i.e., pursuing the revision as part of a comprehensive project to revise ISRE 2400 (Revised) subject to future workplan decisions) would represent a longer misalignment gap (i.e., more than two years) from the effective date of paragraph R400.20 of the IESBA PIE Revisions.

Next Steps

25. Regarding Track 1, the IAASB PIE Task Force will refine its proposals taking into account the IAASB’s feedback at its March 2023 meeting. In June 2023, the IAASB PIE Task Force will present to the IAASB for approval the final narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) related to Track 1.

26. Due to various circumstances affecting the planning for the IAASB’s forward agenda, the IAASB PIE Task Force will continue its work on Track 2 in Q1 2024. Consequently, it is anticipated that the exposure draft for Track 2 will be presented to the IAASB for approval in June 2024. The expected approval of the final pronouncement would be June 2025. Subject to feedback from stakeholders, the IAASB PIE Task Force is of the view that an effective date of December 2026 may be possible.

Adoption and Implementation of the IESBA PIE Revisions & Update of Jurisdictional Database

27. In Q1 2023, IFAC distributed an adoption and implementation questionnaire on the IESBA PIE Revisions to 26 jurisdictions as part of a new systematic approach to strategic member engagement. The preliminary results of that questionnaire show that 21 jurisdictions have ongoing discussions with regulators while 5 do not have the matter on their agenda.

28. Some of the challenges that IFAC heard as a result of that questionnaire include:

(a) Translations as a critical barrier to progress adoption.

(b) Concerns about the capacity and ability of local bodies to develop a list of PIEs specific to their jurisdiction and the scope of the refinement of the IESBA definition.

(c) Concerns about the multi-location audit implications, where the entity has been defined as PIE in one jurisdiction and not in another.

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9 Austria, Azerbaijan, Botswana, Cambodia, Chile, Colombia, Georgia, Germany, Hong Kong SAR, Indonesia, Italy, Japan, Kazakhstan, Lao PDR, Moldova, Myanmar, Nepal, Papua New Guinea, Portugal, Sri Lanka, Tanzania, Uganda, Ukraine, United Kingdom, Uruguay, Vietnam.
(d) A need to carefully conduct research on the type of entities that should be included in the scope of PIEs.

(e) Challenges from the local adoption and implementation classification of PIE between the IESBA Code and jurisdictional existing laws and regulations.

(f) Initiatives on preparing a cost analysis of the implementation of the standards.

29. As part of the PIE rollout activities, Staff is updating the PIE jurisdictions definitions database released in November 2021 and has sent requests focusing on jurisdictions in North and South America, Europe, Africa, the Middle East and Asia for updated and more detailed information regarding the categories included in their respective PIE definitions.

30. Staff received responses from a number of professional accountancy organizations and national standards setters and is awaiting confirmation from certain jurisdictions that did not respond. Staff anticipates that the updated jurisdictional PIE definitions database will be released in Q2 2023.

Action Requested

31. IESBA members are asked to consider the updates and share any views on, or reactions to:

   (a) Track 1 of the IAASB PIE Project;

   (b) The adoption and implementation data regarding the IESBA PIE Revisions; and

   (c) The jurisdictional PIE definitions database.