

**Meeting:** IESBA

**Meeting Location:** New York and Virtual

**Meeting Date:** December 4-8, 13 and 15, 2023

## Agenda Item

# 7

### PIE Rollout – IAASB Coordination

#### OBJECTIVE OF THE AGENDA

1. To consider an update from the IESBA PIE Rollout Working Group<sup>1</sup> on Track 2 of the International Auditing and Assurance Standards Board's (IAASB) Listed Entity and Public Interest Entity project ([IAASB PIE Project](#)).

#### IAASB PIE PROJECT

##### Summary

2. In December 2023, the IAASB PIE Task Force (TF) will seek the IAASB's approval of the exposure draft for proposed narrow-scope amendments to the ISQMs,<sup>2</sup> ISAs,<sup>3</sup> and ISRE 2400 (Revised)<sup>4</sup> as a result of the revisions to the definitions of listed entity and PIE in the IESBA Code ([IESBA PIE Revisions](#)), constituting Track 2 of the IAASB PIE Project.
3. The IESBA PIE Rollout Working Group is of the view that the draft proposed text aligns with the IESBA PIE Revisions as well as the revisions approved by the IAASB under Track 1.

##### History

4. 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.

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<sup>1</sup> 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

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

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

<sup>4</sup> International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*

5. Track 1 addressed the following objective of the IAASB PIE Project:

- 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.

The final pronouncement was approved by the IAASB in June 2023.

6. Track 2 addresses the following objectives of the IAASB PIE Project:

- Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.
- Establish an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
- 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.

7. In March 2023, in view of the IESBA's decision to maintain the scope of the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions for both audit and review engagements, the IAASB agreed to revise ISRE 2400 (Revised) as part of Track 2 to address transparency about the relevant ethical requirements for independence applied for certain entities, such as PIEs, in the IESBA Code.

8. In December 2023, the IAASB PIE TF will seek the IAASB's approval of the exposure draft for proposed narrow-scope amendments to the ISQMs, ISAs, and ISRE 2400 (Revised) as a result of the IESBA PIE Revisions.

## Proposed Narrow-Scope Amendments for Track 2 of the IAASB PIE PROJECT

### Definition of PIE

Relevant Paragraphs in <a href="#">Agenda Item 3-B</a> of the IAASB December 2023 meeting:	Paras. 16(p)A, 18A of ISQM 1; 13(l)A, 23A of ISA 200
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9. Given the IAASB decision in December 2022 that PIE should also be a defined term for the ISQMs and ISAs, the definition of PIE was included into the Definitions section of ISQM 1<sup>5</sup> and ISA 200<sup>6</sup>.

10. In December 2022, in incorporating the definitions of the IESBA Code into the ISQMs and ISAs, some changes were applied given the differences in the drafting conventions among the respective Boards'

<sup>5</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

<sup>6</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

standards. This included that the proposed description in ISQM 1 and ISA 200 of category (d)<sup>7</sup> from the IESBA definition of PIE omitted a reference to the purpose of the differential requirements.<sup>8</sup>

11. In coordinating with the IAASB, IESBA Staff clarified that the IESBA's intent with such cross-referencing was to address IAASB concerns about an entity being categorized by law or regulation as a PIE for reasons unrelated to the significant public interest in the financial condition of an entity. In response, the IAASB PIE TF included the phrase "for a purpose related to the significance of the public interest in the financial condition of the entity" in the description of category (d) of the PIE definition.
12. Upon review of the IAASB PIE TF's proposal, the IESBA PIE Rollout Working Group is of the view that the proposed text is not inconsistent with paragraph R400.17(d) of the IESBA PIE Revisions.
13. For further information, refer to [Agenda Items 3-A, 3-B and 3-C](#) on the IAASB December 2023 meeting webpage for the IAASB PIE TF's proposed explanatory memorandum (EM) and proposed exposure draft (ED) in two versions: mark-up from extant and mark-up from the IAASB December 2022 meeting.

*Proposed Amendments to ISA 260 (Revised)*<sup>9</sup>

Relevant Paragraphs in <a href="#">Agenda Item 3-B</a> of the IAASB December 2023 meeting:	Paras. 16A, 17, 17A, A29A of ISA 260 (Revised)
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14. When updating the proposed narrow-scope amendments to ISA 260 (Revised), the IAASB PIE TF also considered the changes approved under Track 1 of the IAASB PIE Project that included a new general requirement (in paragraph 16A of ISA 260 (Revised) with supporting application material) to communicate with those charged with governance (TCWG) about the relevant ethical requirements, including whether differential independence requirements were applied.
15. All other elements of the drafting discussed with the IAASB in December 2022 have been retained, including removing the explicit requirement to communicate fee-related matters in paragraph 17(a) of ISA 260 (Revised), and instead referring 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.
16. Taking into account the comments from the IAASB, the IAASB PIE TF is proposing to:
  - Add a new general requirement in paragraph 16A of ISA 260 (Revised) that applies to audits of all entities to address explicit communication with TCWG about the independence requirements applied for the audit engagement, including if applicable in the circumstances, whether independence requirements for certain entities specified in the relevant ethical requirements were applied.

<sup>7</sup> Category (d) of the PIE definition presented to the IAASB in December 2022 included "An entity specified as such by law, regulation or professional requirements."

<sup>8</sup> Category (d) of the PIE definition in the IESBA PIE Revisions includes "An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10."

<sup>9</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

- Expand the application material in paragraph A29 of ISA 260 (Revised) to support clarity and implementability by highlighting the scenarios that could arise within the relevant ethical requirements and linking these to the IESBA Code by way of example.
17. In this regard, the IAASB PIE TF retained its view that this approach is appropriate as the IESBA Code would more robustly address any need to communicate matters with TCWG regarding ethics and independence and is also consistent with the objective to achieve the greatest extent possible convergence between the key concepts in the IESBA Code and the IAASB standards to maintain their interoperability. Furthermore, the IAASB PIE TF considered that revising the ISAs to replicate requirements in the IESBA Code does not promote a framework-neutral approach to ethical requirements.
  18. In response to IAASB comments made in December 2022 that the removal of the explicit requirement to communicate fee-related matters may be problematic for those jurisdictions that do not adopt the IESBA Code, the IAASB PIE TF believes that the removal would not weaken the ISAs. This is because the auditor is already required to comply with relevant ethical requirements in accordance with paragraph 14 of ISA 200 and because the ISAs are premised on the auditor being subject to relevant ethical requirements, including those pertaining to independence, which ordinarily comprise the provisions of the IESBA Code related to audits of financial statements, together with national requirements that are more restrictive.
  19. Upon review of the IAASB PIE TF's final proposed text in ISA 260 (Revised), the IESBA PIE Rollout Working Group is of the view that it aligns with the IESBA PIE Revisions as well as the revisions approved by the IAASB under Track 1.
  20. For further information, refer to [Agenda Items 3-A, 3-B and 3-C](#) on the IAASB December 2023 meeting webpage for the IAASB PIE TF's proposed EM and proposed ED in two versions: mark-up from extant and mark-up from the IAASB December 2022 meeting.

*Proposed Amendments to ISA 720 (Revised)*<sup>10</sup>

Relevant Paragraphs in <a href="#">Agenda Item 3-B</a> of the IAASB December 2023 meeting:	Paras. 6, 21, 22, Appendix 2 of ISA 720 (Revised)
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21. Given the IAASB's decision in December 2022 to defer a discussion of extending the differential requirements that apply to listed entities to PIEs for ISA 720 (Revised), the IAASB PIE TF agreed to revert the proposed drafting to extant. However, certain changes were proposed to the illustrative auditor's reports in Appendix 2 of ISA 720 (Revised) as they were necessary to maintain the consistency with the proposed extensions for the differential requirements for listed entities in ISA 700 (Revised)<sup>11</sup> and ISA 701<sup>12</sup> to apply to PIEs. This included:
  - Removing the reference to "whether listed or other than listed entity" in illustrations 1, 5-7 in Appendix 2 of ISA 720 (Revised) so as not to cause conflict with requirements and illustrations in ISA 700 (Revised) and ISA 701. These illustrations will continue to apply to "any entity" that

<sup>10</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

<sup>11</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>12</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

may be a public interest/other than a public interest entity (in the context of ISA 700 (Revised) and ISA 701) or a listed entity/other than listed entity (in the context of ISA 720 (Revised)).

- Adding a clarification to the circumstances in illustrations 2-4 in Appendix 2 of ISA 720 (Revised) that a listed entity is as defined by relevant securities laws or regulations. This was considered helpful because “listed entity” is no longer a defined term for the purposes of the ISQMs and the ISAs. However, “listed entity” is still encapsulated as an example within the definition of “publicly traded entity” and on this basis, a listed entity as defined by the relevant securities law or regulation in the jurisdiction will continue to meet the definition of a “publicly traded entity” provided the other criteria of the definition are met (subject to any refinements to this category by local bodies such as making reference to specific public markets for trading securities).

22. The IAASB PIE TF also proposed the following clarifications:

- Expanding paragraph 6 of ISA 720 (Revised) to address the auditor’s reporting responsibilities in the context of this standard, without causing confusion or complexity for other ISAs that refer to either publicly traded entities or listed entities (i.e., there may be application material in other standards that continue to refer to listed entities by way of example or to describe specific circumstances).
- Including in the IAASB Glossary of Terms a description of “Listed entity—(see Publicly traded entity)” given the Glossary can include a description of other terms to assist in common and consistent interpretation and translation.

23. Upon review of the IAASB PIE TF’s final proposed text in ISA 720 (Revised), the IESBA PIE Rollout Working Group is of the view that it aligns with the IESBA PIE Revisions as well as the revisions approved by the IAASB under Track 1.

24. For further information, refer to [Agenda Items 3-A, 3-B and 3-C](#) on the IAASB December 2023 meeting webpage for the IAASB PIE TF’s proposed EM and proposed ED in two versions: mark-up from extant and mark-up from the IAASB December 2022 meeting.

*Proposed Amendments to ISRE 2400 (Revised)*

Relevant Paragraphs in <a href="#">Agenda Item 3-B</a> of the IAASB December 2023 meeting:	Paras. 86(j)A, A137A of ISRE 2400 (Revised)
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25. The IAASB PIE TF proposed amendments to paragraph 86(j)A of ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities. In doing so, the IAASB PIE TF:

- Proposed amendments to the minimal extent necessary to maintain consistency and interoperability with the IESBA Code.
- Remained mindful not to address broader matters that go beyond the scope of the narrow-scope amendments contemplated by Track 2.
- Considered information provided by the National Standard Setters (NSS) acknowledging that reviews of PIEs’ historical financial statements under ISRE 2400 (Revised) are rare in practice.

- Aligned the proposed amendments with those for paragraph 28(c) of ISA 700 (Revised), as approved by the IAASB in June 2023 under Track 1. In this respect, the IAASB PIE TF notes views from respondents to the exposure draft for Track 1, including the broad support for a consistent approach for the amendments in ISRE 2400 (Revised) with those made to paragraph 28(c) of ISA 700 (Revised).
26. The IAASB PIE TF subsumed the new requirement into paragraph 86 of ISRE 2400 (Revised), as this achieved a better linkage with the other requirements relevant to the practitioner's report and avoided the need to update other paragraphs where cross-references may be necessary (e.g., updates to paragraphs 33 and A148 of ISRE 2400 (Revised) relating to a practitioner's report prescribed by law or regulation).
  27. The proposed application material in paragraph A137A of ISRE 2400 (Revised) refers to the IESBA Code as an example of relevant ethical requirements that have a transparency requirement and provides an illustration of the disclosure in the practitioner's report when the IESBA Code comprises all the relevant ethical requirements that apply to the review engagement.
  28. Upon review of the IAASB PIE TF's final proposed text in ISRE 2400 (Revised), the IESBA PIE Rollout Working Group is of the view that it aligns with the IESBA PIE Revisions as well as the revisions approved by the IAASB under Track 1.
  29. For further information, refer to [Agenda Items 3-A, 3-B and 3-C](#) on the IAASB December 2023 meeting webpage for the IAASB PIE TF's proposed EM and proposed ED in two versions: mark-up from extant and mark-up from the IAASB December 2022 meeting.

*Factors to Evaluate the Extent of Public Interest of an Entity*

<i>Relevant Paragraphs in <a href="#">Agenda Item 3-B</a> of the IAASB December 2023 meeting:</i>	<i>Paras. A29G, A128, A130, A134 of ISQM 1; A81G of ISA 200; A32 of ISA 260 (Revised); A41 of ISA 700 (Revised)</i>
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30. In response to comments from the IAASB in December 2022, the IAASB PIE TF retained the factor “entities with a high public profile, or whose management or owners may have a high public profile” in paragraph A134 of ISQM 1. However, this factor was not included in paragraph A130 of ISQM 1 given that the context is different, and this may not be a relevant factor when considering whether it is appropriate for the firm to communicate with external parties about the firm's system of quality management.
31. The IAASB PIE TF also considered IAASB comments that it may not always be appropriate to rely on the determination of a predecessor firm when making a determination to treat other entities as public interest entities. However, the IAASB PIE TF believes that the factor should be retained in paragraph A29G of ISQM 1 and paragraph A81G of ISA 200, given it represents a valid consideration when making the determination and because of the desire for keeping the factors and examples in the ISQMs and ISAs as closely as possible aligned with those in the IESBA Code. The IAASB PIE TF has however moved this factor down the list of factors for consideration.
32. The IAASB PIE TF removed the cross-references to the central list of factors in paragraph A29G from paragraphs A128 and A134 of ISQM 1. This was because the cross-referencing was duplicative given the factors in paragraph A29G of ISQM 1 already form part of the application material of the standard and would be already considered when applying the requirements for PIEs. The IAASB PIE TF also

moved the cross-reference to the central list of factors in paragraph A32 of ISA 260 (Revised) and paragraph A41 of ISA 700 (Revised) to the beginning of the paragraph to improve the flow of the guidance.

33. Upon review of the IAASB PIE TF's final proposed text in ISQMs and ISAs, the IESBA PIE Rollout Working Group is of the view that it aligns with the IESBA PIE Revisions as well as the revisions approved by the IAASB under Track 1.
34. For further information, refer to [Agenda Items 3-A, 3-B and 3-C](#) on the IAASB December 2023 meeting webpage for the IAASB PIE TF's proposed EM and proposed ED in two versions: mark-up from extant and mark-up from the IAASB December 2022 meeting.

#### **Next Steps**

35. Subject to the IAASB's approval in December 2023, the narrow-scope amendments for Track 2 are expected to be released in Q1 of 2024 for a 90-day comment period.
36. Based on this date, responses would be due in Q2 of 2024. The final pronouncement is expected to be approved by the IAASB in December 2024 to allow for the possible alignment of the effective dates of the revised going concern and fraud standards that are also considering possible revisions that impact auditor reports.

#### **ACTION REQUESTED**

37. IESBA members are asked if they agree with the IESBA PIE Rollout Working Group's views with respect to Track 2 of the IAASB PIE Project as set out in paragraphs 12, 19, 23, 28 and 33 of this paper.