

PIE Rollout

Issues and Working Group Views

I. INTRODUCTION

1. This issues paper discusses the following two topics:
 - Whether further action is necessary for the operationalization of the transparency requirement set out in paragraph R400.20 of the *Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA PIE Revisions) following the International Auditing and Assurance Standards Board's (IAASB) release of enhancements to ISA 700 (Revised)¹ in October 2023 to reflect its determination that the auditor's report is an appropriate mechanism for such operationalization.
 - Queries posed by stakeholders on Q14 and Q15 of the March 2023 *IESBA Staff Questions & Answers – Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA PIE Q&A) on the role of local bodies and firms in defining certain entities as PIEs.

II. SUMMARY OF WG PROPOSALS

2. On the first topic, the Working Group (WG) considers that the IESBA PIE Revisions are adequate considering the public interest and the principles-based nature of the Code. Therefore, the WG proposes no changes to the IESBA PIE Revisions and to update the answer to Q19 of the IESBA PIE Q&A, which currently still refers to the IAASB's consideration of proposed revisions to ISA 700 (Revised) to operationalize paragraph R400.20 of the IESBA PIE Revisions.
3. On the second topic, the WG considers that Q14 and Q15 of the IESBA PIE Q&A are correct and warrant no changes. However, the WG also considers that the queries posed might warrant a new question to be added to the IESBA PIE Q&A to ensure the conclusion in paragraph 27 below is communicated clearly to stakeholders.

III. OPERATIONALIZATION OF THE TRANSPARENCY REQUIREMENT

Background

4. Paragraph R400.20 of the IESBA PIE Revisions sets out a transparency requirement, as follows:

Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.
5. As noted in its *Basis for Conclusions: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code* (IESBA BfC), the IESBA considered several issues when finalizing the transparency requirement:²
 - The IESBA reaffirmed its earlier view that it was not appropriate to include examples of public disclosure mechanisms to comply with the transparency requirement given that the IAASB had

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

² See paragraphs 142-145 of the IESBA BfC

yet to consider, under its own due process, whether the auditor's report is an appropriate mechanism for providing transparency about the independence requirements applied for certain entities. Instead, the IESBA clarified that the public disclosure should be made "*in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.*" The IESBA believed that this refinement represented a more principles-based approach and would assist firms when considering the appropriate disclosure mechanism to comply with the transparency requirement.

- With regards to determining what might be an "appropriate" form of public disclosure, firms may consider factors such as whether there is a need to disclose the information to those stakeholders that do not have access to the auditor's report or the entity's financial statements.
 - The IESBA considered how the transparency requirement can be complied with by a firm if the auditor's report is not made available to the public. 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 have such access to know if additional independence requirements have been applied. The IESBA appreciated, however, that this may be seen to be concluding on the appropriate means of disclosure before the IAASB had considered the matter. On balance, therefore, the IESBA determined that requiring firms to make the disclosure in "a manner deemed appropriate" was sufficient given that the IAASB was yet to consider this matter.
6. This position was further explained in Q19 of the IESBA PIE Q&A.
 7. The IESBA agreed that, following the conclusion of the IAASB's deliberations on whether the auditor's report is an appropriate mechanism to operationalize the transparency requirement, it would consider the need for any further action on the matter, including whether further guidance or possibly conforming amendments to the IESBA Code would be warranted.³
 8. In June 2023, the IAASB approved narrow-scope amendments to ISA 700 (Revised) under Track 1 of its PIE project. Given the broad support from respondents to the IAASB [exposure draft](#) (IAASB ED), the IAASB reaffirmed its view 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, and provides a clear mechanism to operationalize the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions.⁴
 9. The IAASB also noted comments from respondents that an auditor's report may not be publicly available or may have limited distribution, and a caution from those respondents that disclosing in the auditor's report that the relevant ethical requirements applicable to certain entities were applied may not always result in the auditor complying with the transparency requirement in paragraph R400.20 of the IESBA PIE Revisions.⁵

³ See paragraph 143 of the IESBA BfC

⁴ See paragraphs 13 to 24 of the [Basis for Conclusions: Narrow Scope Amendments to: ISA 700 \(Revised\), Forming an Opinion and Reporting on Financial Statements; and ISA 260 \(Revised\), Communication with Those Charged with Governance, as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for Public Interest Entities \(PIEs\)](#) (IAASB BfC)

⁵ See paragraph 23 of the IAASB BfC

10. In addition, the IAASB noted that respondents who did not support the auditor's report as an appropriate mechanism of disclosure encouraged the IESBA to undertake further research and information gathering as a basis for providing guidance to help clarify the possible mechanisms, other than the auditor's report, that would meet the transparency requirement in the IESBA PIE Revisions. Suggestions included firms publicly disclosing which audits are audits of PIEs in their own annual reports, a public announcement such as a notice on the audit firm's website, using the audit firm's transparency report, social media announcements or that no specific mechanisms should be required (i.e., that the appropriate mechanism should be determined by each jurisdiction, based on their own disclosure frameworks and legislative requirements, or that it should be left to marketplace innovation to address the manner in which the disclosure is provided).⁶

WG Views and Proposal

11. Paragraph R400.20 of the IESBA PIE Revisions was intentionally drafted in a broad, principles-based way to allow for the IAASB to determine, under its own due process, the specific mechanism for firms to ensure public disclosure of the application of the independence requirements for PIEs if they have applied such requirements.
12. Under Track 1 of its PIE project, the IAASB has agreed that the auditor's report is an appropriate mechanism to operationalize the transparency requirement set out in paragraph R400.20 of the IESBA PIE Revisions, whilst acknowledging respondents' comments about the limited distribution of certain auditors' reports.
13. In light of the IAASB's revision to ISA 700 (Revised), the WG believes the auditor is deemed in compliance with paragraph R400.20 of the IESBA PIE Revisions if the auditor's report is used to publicly disclose when the relevant ethical requirements for independence have been applied for certain entities, such as those for PIEs in the IESBA Code. The WG believes that is still the case if the auditor's report has limited distribution since those who do not have access to the auditor's report would not be relying on the additional independence requirements associated with the entity being treated as a PIE.
14. In developing its view on whether further guidance or possibly conforming amendments to the IESBA Code would be warranted following the IAASB's amendment of ISA 700 (Revised), the WG considered the following three options:
- Option A: Make no changes to the IESBA PIE Revisions.
 - Option B: Amend paragraph R400.20 of the IESBA PIE Revisions by, for instance, replacing the phrase "*in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders*" with a reference to the auditor's report.
 - Option C: Retain paragraph R400.20 of the IESBA PIE Revisions as approved by the IESBA in 2022 and add new application material with examples of disclosure mechanisms, such as: the auditor's report; a firm's transparency report; websites of the firm, the entity or local bodies; independence declarations provided to the directors of the entity.

⁶ See paragraph 19 of the IAASB BfC

15. The advantages of Option A are:
- Ensuring the stability of the IESBA PIE Revisions (which are not effective yet).⁷ Local jurisdictions are currently in the process of, or have recently concluded, implementation of the IESBA PIE Revisions, and therefore reopening the provisions now could be disruptive. In addition, revising the IESBA PIE Revisions will require observance of the due process requirements, which means that approval of the final changes would likely occur only after the effective date of the IESBA PIE Revisions. This could, in turn, create further disruption for local jurisdictions.
 - Retaining a formulation that is broad enough to include the auditor's report (as agreed by the IAASB) as well as other mechanisms of disclosure as deemed relevant or applicable by the local jurisdictions implementing the IESBA PIE Revisions and firms. It is important to note, in this regard, that respondents to the IAASB ED considered that flexibility should be allowed for jurisdictions when other appropriate public disclosure options are available to provide transparency.⁸
16. The disadvantage of Option A is that the IESBA Code would not provide guidance regarding possible disclosure mechanisms, including the circumstance where the auditor's report only has limited distribution. In this regard, the WG believes it is useful and necessary to update Q19 of the IESBA PIE Q&A to reflect the IAASB's decision that the auditor's report is the appropriate disclosure mechanism. This could be a way to overcome the disadvantage of Option A, as Q19 could mention the auditor's report as a possible disclosure avenue, as well as other examples (see the examples mentioned in respect of Option C above).
17. The advantage of Option B is that the IESBA Code would be aligned with ISA 700 (Revised). The disadvantages of Option B are:
- Narrowing the transparency requirement. The principles-based formulation of paragraph R400.20 of the IESBA PIE Revisions allows for local jurisdictions to tailor the mechanisms for disclosure and thus serves an implementability purpose, in accordance with the Public Interest Framework published by the Monitoring Group in July 2020.⁹
 - Revising the IESBA Code will need to follow the due process, which could have disruptive effects on local jurisdictions as mentioned in paragraph 15, first bullet.
18. The advantage of Option C is that the IESBA Code would provide guidance regarding possible disclosure mechanisms. The disadvantage of Option C is that it will require an amendment to the Code, with the time-related issues as mentioned in paragraph 15, first bullet.
19. The WG proposes to adopt Option A and update Q19 of the IESBA PIE Q&A, as mentioned in paragraph 16 above.

⁷ The effective date of the IESBA PIE Revisions is December 15, 2024.

⁸ See paragraph 21 of the IAASB BfC

⁹ See the Monitoring Group report, [Strengthening the International Audit and Ethics Standard-Setting System](#) (pages 22–23 of the Public Interest Framework's section on "What qualitative characteristics should the standards exhibit?").

Matters for IESBA Consideration

1. Do IESBA members agree with the WG's proposal to adopt Option A above and update Q19 of the IESBA PIE Q&A?

III. QUERIES REGARDING THE IESBA PIE Q&A

Background

20. Q14 and Q15 of the IESBA PIE Q&A relate to the adoption of revised PIE definitions by relevant local bodies:

Q14. What if a relevant local body has not yet adopted the PIE revisions when they become effective on December 15, 2024?

Q15. What if a jurisdiction has an extant PIE definition that is different from the revised PIE definition set out in paragraph R400.17 and the relevant local body does not intend to make any revision to its extant definition?

21. In Q4, 2023, Staff received the following queries on Q14 and Q15:

As the answers to Q14 and Q15 state that “local extant requirements continue to apply in that jurisdiction” and “its extant definition will continue to apply” respectively, some members of the Forum of Firms take this to mean that Transnational auditors do not need to adopt the IESBA Code revised definitions if the “local body has not yet adopted the PIE revisions [by Dec 15 2024]” or if the local body has determined that “its extant definition of PIE already covers all the mandatory categories of PIEs and no further revision ... is necessary”. Would you be able to clarify what the Rollout WG intended?

Also, there were concerns that scenarios might arise where a firm adopts the broader IESBA Code revised definition which includes entities that take deposits from the public for audits of financial statements for periods beginning from Jan 1, 2025 only to have to revert back to non-PIE in the following year should the local body refine that part of the definition to something that is more appropriate for the local jurisdiction but with an effective date of a year later than the IESBA Code change.

22. These queries were posed by representatives from two member firms of the Forum of Firms (FoF). In accordance with the FoF constitution, amongst other matters, FoF members are committed to having policies and methodologies that conform to the IESBA Code and national codes of ethics with respect to transnational audits.¹⁰

WG Views and Proposal

23. Paragraph R400.17 of the IESBA PIE Revisions sets out the following requirement:

For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

¹⁰ See here: <https://www.ifac.org/who-we-are/transnational-auditors-committee-forum-firms>

- (a) *A publicly traded entity;*
- (b) *An entity one of whose main functions is to take deposits from the public;*
- (c) *An entity one of whose main functions is to provide insurance to the public; or*
- (d) *An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10.*
24. This new provision effectively establishes three specific types of mandatory PIE categories defined at a high level (paragraph R400.17(a)-(c)) and a fourth open category that local bodies may use to include additional PIEs that are relevant in their local jurisdictions (paragraph R400.17(d)).
25. In developing the revised PIE definition, the IESBA undertook its role to set out broad mandatory categories that responsible local bodies could further refine. The IESBA reaffirmed its view that the responsible local bodies are best placed to decide which entities or class of entities should be scoped in as PIEs given their local knowledge and understanding of the broader issues that impact public expectations. The IESBA recognized that ***it is ultimately the role of local bodies*** to refine these categories so that the right entities are scoped in as PIEs.¹¹ To acknowledge the role and authority of local bodies in establishing the definition of PIE for the purposes of independence requirements at the local level:
- Paragraphs R400.17(d) and 400.18 A1 of the IESBA PIE Revisions allow for additional PIEs to be included by the responsible local bodies.
 - Paragraphs 400.18 A1 and A2 acknowledge that local bodies may more explicitly define the specific PIE categories set out in paragraphs 400.17(a)-(c).¹²
 - Paragraph R400.18 requires firms to apply any more explicit definitions or refinements established at the local level for the mandatory categories set out in paragraph R400.17 (a)-(c).
26. The IESBA also considered the role of firms when finalizing the firms' responsibilities under the revised provisions. The IESBA agreed that whilst firms have an important role in ensuring public expectations regarding their independence are met, the responsibility for determining which entities or class of entities should be categorized as PIEs rests with legislators or other relevant local bodies. The IESBA therefore agreed that ***firms should not be required to determine*** if other entities should be treated as PIEs.¹³ In reaching this view, the IESBA had taken into account the following comments from respondents to its exposure draft, amongst other matters:¹⁴

¹¹ For instance, the European Union (EU) Audit Directive (Directive 2006/43/EC, as amended) sets out three categories of PIEs that can be broadly deemed parallel to the three IESBA PIE categories (listed companies, credit institutions and insurance companies). However, only listed companies in a regulated market are deemed PIEs under the EU Audit Directive, and this can be considered a refinement of paragraph R400.17(a) of the IESBA Code.

¹² While local bodies can refine the three mandatory categories (per paragraph 400.18 A1 of the IESBA PIE Revisions), they cannot simply exclude any of them – as mentioned at the end of Q15 of the IESBA PIE Q&A.

¹³ It should be noted that paragraph 400.19 A1 of the IESBA PIE Revisions (i.e., the encouragement for firms to determine whether to treat other entities as PIEs for the purposes of Part 4A of the IESBA Code) is application material only and should not be interpreted as requiring or expecting firms to take action to correct action or inaction by local bodies.

¹⁴ See paragraph 120 of the IESBA BIC

- It is not appropriate for firms to determine, for example, the potential systemic impact of an entity on other sectors and the economy as a whole in the event of financial failure of the entity. Governments, regulators and/or other relevant local bodies are better placed to determine which entities meet these criteria.
 - There were some concerns about the appropriateness for firms, and the potential practical impact for them, to go beyond the definition of a PIE in local laws, or to be seen as questioning the capacity of the local lawmakers.
 - It was argued that a local regulator may be put in a very difficult situation, being expected to confirm that firms abide by the requirement but at the same time not wanting to be in a position to judge their lawmaker.
27. In light of the provisions set out in the IESBA PIE Revisions, in particular paragraphs R400.17 and R400.18 to 400.19 A1, as well as the considerations and rationale of the IESBA highlighted in the IESBA BfC, the WG is of the view that, for this specific project, compliance with the IESBA Code¹⁵ by firms (any firm, including those in an association of firms that are committed to complying with the Code, such as a member firm of the FoF) means first and foremost compliance with local laws and regulations, whatever they may be at the time of the audit report.
28. This conclusion is aligned with the overarching objective of the PIE project set out in paragraph 400.10 of the IESBA PIE Revisions¹⁶ and the IESBA's consistent view that local bodies are better placed to ascertain the significance of the public interest in the financial condition of PIEs,¹⁷ as that significance is relevant from a local (rather than international) perspective.
29. This conclusion provides an adequate solution to the case of joint audits where one auditor is a member firm of the FoF and the other is not. If compliance with the Code is interpreted narrowly to simply equal the list in paragraph R400.17 of the IESBA PIE Revisions – instead of giving prevalence to the role of local bodies in refining and/or adding to that list – this would mean that the auditor which is a member firm of the FoF would be bound by the list in the Code whereas the other auditor would follow the local PIE list. This situation could lead to the application of different independence requirements to the same entity by different auditors simply based on the fact that one is a member firm of the FoF and the other is not, with potential negative impacts on the public interest.
30. This conclusion also avoids a situation where a firm could be treating an entity as a PIE because it falls within the broad category set out by the IESBA PIE Revisions, but afterwards the firm would need to reverse such treatment because the responsible local body ultimately decided to refine that category in a way that excludes that particular entity from its local PIE definition.

¹⁵ Whether compliance with the IESBA Code is voluntary or mandatory (the latter as a result of a firm being a member of the FoF).

¹⁶ Paragraph 400.10 sets out the following: *Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.*

¹⁷ The overarching objective set out in paragraph 400.10 of the IESBA PIE Revisions places the emphasis on the significant level of public interest in the financial condition of entities, reflecting the public interest in the broader financial well-being of the entity and the possible impact of that financial well-being on stakeholders instead of merely its financial performance or financial position. See paragraph 19 of the IESBA BfC.

31. One of the following scenarios regarding the adoption and implementation of the IESBA PIE Revisions can occur by December 15, 2024:¹⁸
- The local body has undergone the process of adoption and implementation of the IESBA PIE Revisions and reached a certain conclusion (including that no change to the local PIE list is necessary to be in compliance with the IESBA Code).
 - The local body is still undergoing the process of adoption and implementation of the IESBA PIE Revisions.
 - The local body has not yet initiated the process of adoption and implementation of the IESBA PIE Revisions.
32. The application of the WG's conclusion mentioned in paragraph 27 means that firms (whether or not they are member firms of the FoF) should comply with the local PIE list in all the scenarios mentioned above.
33. In addition, some jurisdictions do not have a local PIE definition. However, certain entities are treated as PIEs (such as listed entities or credit institutions) based on market practice or, in some cases, other regulatory considerations. In practice, this means that those entities are substantially treated as PIEs in those jurisdictions even though they might not formally be classified as such.¹⁹
34. The WG believes Q14 and Q15 of the IESBA PIE Q&A are correct and do not require any revisions. However, the WG also considers that the questions posed might warrant a new question to be added to the IESBA PIE Q&A to ensure the conclusion in paragraph 27 above is communicated clearly to stakeholders.

Matters for IESBA Consideration

2. Do IESBA members agree with the WG's conclusion set out in paragraph 27 and its proposal to add a new question to the IESBA PIE Q&A?

¹⁸ The effective date of the IESBA PIE Revisions is December 15, 2024.

¹⁹ These are situations where paragraphs 400.17 A1 and 400.19 A1 of the IESBA PIE Revisions might apply.