



International Auditing
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Agenda Item 1–J

UPDATED (mark-up)

Meeting: IAASB Consultative Advisory Group
Meeting Location: Virtual Meeting
Meeting Dates: November 30, 2021

**Draft Minutes of the Joint Public Session of the Virtual Meeting of the
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD CONSULTATIVE
ADVISORY GROUP (IAASB CAG) and INTERNATIONAL ETHICS STANDARDS BOARD FOR
ACCOUNTANTS CONSULTATIVE ADVISORY GROUP (IESBA CAG)
Held Virtually on September 8, 2021**

PRESENT

Jim Dalkin	IAASB CAG Chair
Gaylen Hansen	IESBA CAG Chair
Hilde Blomme	Accountancy Europe (AE)
Dr. Christian Orth	AE
Robert De Tullio	Basel Committee on Banking Supervision (Basel Committee)
Dr. Claes Norberg	Business Europe (BE)
Mohini Singh	CFA Institute
Prof. Hysen Cela	European Federation of Accountants and Auditors for SMEs (EFAA)
Paul Thompson	EFAA
Jazmin Gamboa	Financial Executives International (FEI)
Paul Sobel	Institute of Internal Auditors (IIA)
Daniel Sarmiento Pavas	Inter-American Accounting Association (IAA)
Dr. Conchita Manabat	International Association of Financial Executives Institutes (IAFEI)
Sanders Shaffer	International Association of Insurance Supervisors (IAIS)
Natasha Landell-Mills	International Corporate Governance Network (ICGN)
Akihito Ishiwata	International Organization of Securities Commissions (IOSCO)
Gregg Ruthman	International Organization of Supreme Audit Institutions (INTOSAI)
Paul Munter	IOSCO
Hüseyin Yurdakul	IOSCO

Mr. Kazuhiro Yoshii

Japan Securities Dealers Association (JSDA)

Inanc Yazar	Organisation for Economic Cooperation and Development (OECD)
Asha Mubarak	Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)
Juan Carlos Serrano-Machorro ¹	World Bank (WB)
Wei Meng	World Federation of Exchanges (WFE)

Observers

Dawn McGeachy-Colby	IFAC Small and Medium Practices (SMP) Advisory Group (SMPAG)
Lillian Ceynowa ²	U.S. Public Company Accounting Oversight Board (PCAOB)
George Kabwe	International Money Fund

Public Interest Oversight Board (PIOB)

Dr. Yugui Chen

IAASB and IESBA Members and Staff

Tom Seidenstein	IAASB Chair
Len Jui	IAASB Deputy Chair
Dr. Stavros Thomadakis	IESBA Chairman
Caroline Lee	IESBA Deputy Chair
Michael Ashley	IESBA Member and PIE Task Force Chair
James Gunn	SSB Managing Director, Professional Standards
Ken Siong	IESBA Senior Technical Director
Willie Botha	IAASB Technical Director
Bev Bahlmann	IAASB Deputy Director
Brett James	IAASB Deputy Director
Diane Jules	IESBA Deputy Director
Natalie Klonaridis	IAASB Deputy Director
Jasper van den Hout	IAASB Principal
Kalina Shukarova Savovska	IAASB Principal
Geoffrey Kwan	IESBA Principal

¹ As agreed with the CAG Chairs, Mr. Serrano-Machorro attended on behalf of Ms. Morel as the Representative for IMF with speaking rights.

² Views expressed by the PCAOB Representative represent her views and do not necessarily reflect the views of the PCAOB Board or other Board members or staff.

Kam Leung	IESBA Principal
Phil Minnaar	IAASB Manager
Jane Talatala	IAASB Manager
Szilvia Sramko	IESBA Manager
Carla Vijian	IESBA Manager
Astu Tilahun	Assistant Manager
Diana Vasquez	Executive Assistant
David Johnson	Senior Manager, Communications

APOLOGIES

Members

Dr. Bello Lawal Danbatta	Islamic Financial Services Board (IFSB)
Xiomara Morel	WB

Opening Remarks

Mr. Dalkin welcomed the CAG Representatives and Observers to the meeting. He also welcomed the IAASB Chair, Mr. Tom Seidenstein; the IESBA Chair, Dr. Stavros Thomadakis; the PIOB Observer, Dr. Yugui Chen; and other IAASB and IESBA representatives and staff.

Definitions of Listed Entity and Public Interest Entity (PIE) – Agenda Item J2

Definitions of Listed Entity and Public Interest Entity

- To *DISCUSS* significant matters arising from responses to the January 2021 Exposure Draft, [*Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code \(PIE ED\)*](#).
- To *OBTAIN* Representatives' views on key issues and the IESBA PIE Task Force's (IESBA PIE TF) proposals and to *UPDATE* Representatives on the IAASB's initiatives on this topic

Messrs. Ashley and Botha provided a high-level overview of the significant comments from respondents to the PIE ED and the IESBA PIE TF's proposals to address these comments as well as an update on the IAASB's initiatives in relation to this project, respectively.

OVERARCHING OBJECTIVE FOR ADDITIONAL REQUIREMENTS FOR AUDITS OF PIEs

Among other matters, the following were raised:

- Mr. Norberg expressed support for retaining the focus of public interest on "financial condition" in proposed paragraph 400.8 as well as the use of a common overarching objective for establishing differential requirements for audits of certain entities in both the Code and the IAASB Standards.
- Mr. Munter inquired what intersection, if any, there is between the authority of the [*Draft International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*](#) (Draft ISA for LCEs) and the definition of PIE. Mr. Botha noted that the Draft ISA for LCEs does not explicitly address PIEs and that, in developing the scope for the standard, the aim was to describe those matters and/or circumstances that would be considered complex for which application of the standard would not be appropriate. Mr. Botha explained that this was achieved through determining specific exclusions (e.g., for listed entities) as well as describing when entities have certain qualitative characteristics of complexity that would result in the application of the Draft ISA for LCEs not being appropriate. In reference to the former, there also are other classes of entities that have public interest characteristics that could embody a level of complexity in fact or appearance. Mr. Botha noted that once comments on the exposure draft are received from respondents, the IAASB will further analyze how the revisions to the IESBA Code would affect the authority of the ISA for LCEs, in particular the specific prohibitions.
- Whilst not disagreeing that the focus should be on financial condition, Mr. Thompson observed the rapid growth in sustainability reporting and the demand for assurance thereon, noting that recent publications from the International Federation of Accountants (IFAC) and the American Institute of Certified Public Accountants (AICPA) have highlighted the rising levels of assurance reporting on non-financial information of larger companies. He is of the view that non-financial reporting will grow rapidly in importance in the near to medium term.

- Ms. Manabat supported retaining the focus on financial condition instead of financial statements. She also encouraged standard setters to begin developing the necessary standards on non-financial reporting and assurance in light of the market evolution and needs.
- Whilst acknowledging the growing importance of sustainability reporting, Mr. Ashley expressed the view that it is necessary to explore which independence standards should be applied to assurance engagements in this area as a broad issue before thinking about what makes an entity a PIE from a sustainability or non-financial perspective.

APPROACH TO DEVELOPING THE PIE DEFINITION

Among other matters, the following were raised:

- Mr. Norberg indicated that whilst his preference is the narrow approach, he accepted that the broad approach may be the way forward. However, he expressed a concern about the potential for divergence between the Code and the IAASB Standards as some entities might be treated as PIEs for purposes of the Code but not for purposes of the IAASB Standards. He inquired if any consideration has been to an impact assessment for both the proposed PIE definition and the Draft ISA for LCEs. In response, Mr. Ashley confirmed that the two Boards will continue to liaise closely as the project reaches its final stage. Mr. Botha explained that the current differential requirements in the IAASB Standards apply only to listed entities. He noted that the IAASB's possible project on listed entity and PIE would, on a case-by-case basis, consider whether the scope of the differential requirements in the IAASB Standards need to be expanded from listed entities to PIEs. Mr. Botha also clarified that the differential requirements in the IAASB Standards are not related to the audit effort in obtaining audit evidence but rather on communication with those charged with governance, disclosure of key audit matters in the auditor's report, and the engagement quality review. Mr. Botha noted that some IAASB members have also cautioned against the proliferation of differential requirements in the IAASB standards as this may increase complexity, which would not be in the public interest.
- Ms. Blomme and Mr. Sobel expressed general support for the Task Force's proposals and noted that they were now sensible and responsive to respondents' comments. Mr. Sobel noted that he preferred the broad approach as it gives more flexibility at a local level.
- Ms. Meng was pleased to see that the concept of listed entity has been incorporated into the revised definition of publicly traded entity, which she believes would promote adoption of the PIE definition across jurisdictions. She encouraged the IESBA PIE TF to continue to be open to the views of capital market regulators and stakeholders whilst finalizing the proposals.
- Ms. Mubarak supported the broad approach from her regulatory perspective. She suggested that further guidance on adding new categories at local level would be helpful. She also noted that Mr. Ashley's comment about the number of PIEs in a jurisdiction needing to be manageable aligns with the views of some within the international audit oversight community. As a result of these discussions and other related studies, SLAASMB is in the process of reviewing the local legislation for potential changes to the national PIE definition.
- Mr. Yurdakul expressed the view that, with respect to paragraph R400.14(d), if an entity has been determined by local regulators as a PIE for reasons other than the proposed factors listed in paragraph 400.9, that entity should nonetheless be treated as a PIE for the purposes of the Code.

- Dr. Cela supported the broad approach, noting that this is a reasonable approach given the need for jurisdictions to consider their local contexts. He also emphasized the need for additional guidance to be developed to assist local bodies with refining the PIE definition at the local level.
- Ms. Landell-Mills suggested that the role of determining which entities are PIEs should be that of local bodies and not the IESBA. She also inquired about what would happen if the local definition of PIE differs from the Code's. In response, Mr. Ashley pointed out that the broad approach in conjunction with the overarching objective are designed to set up a high-level framework to guide local bodies, and thereby promoting global consistency, by conveying the IESBA's thinking on the characteristics and broad categories of entities that should be PIEs. He also clarified that if a jurisdiction has defined certain entities as PIEs for auditing and financial reporting reasons, such entities are scoped in as PIEs under the IESBA PIE TF's proposals. In this regard, he acknowledged that it would be rare for an entity to be defined as a PIE for other reasons whilst there would not also be significant public interest in its financial condition.

PIE DEFINITION – PUBLICLY TRADED ENTITY

Among other matters, the following were raised:

- Mr. Norberg expressed support for the IESBA PIE TF's proposed definition of publicly traded entity and the inclusion of listed entity as an example of a publicly traded entity. With regards to the term "financial instruments," he was of the view that it should not be defined nor should there be reference to the definition of that term in [International Accounting Standard \(IAS\) 32, Financial Instruments: Presentation](#). He pointed out that IAS 32 was developed for different purposes and that local capital markets would have their own listing requirements, including which financial instruments can be traded.
- Mss. Blomme and Manabat also expressed support for the IESBA PIE TF's proposals and agreed that "financial instruments" should not be defined as there should be sufficient general understanding among stakeholders about the meaning of the term.
- Mr. Sobel expressed support for the IESBA PIE TF's proposals. In response to Mr. Sobel's query about entities that are trading crypto currencies, Mr. Ashley noted that there is little support from respondents for adding a new category to scope in entities that are raising funds via initial coin offerings, adding that most respondents felt that the crypto market should be given time to evolve. He also noted that the proposed definition of publicly traded entity, with appropriate local refinement, should be sufficiently broad to cover the types of entities that should be captured.

PIE DEFINITION – OTHER PROPOSED PIE CATEGORIES

Among other matters, the following were raised:

- Messrs. Hansen and Norberg and Ms. Blomme expressed support for the IESBA PIE TF's proposals to remove the categories relating to post-employment benefits ("category (d)") and collective investment vehicles ("category (e)") from the proposed PIE definition.
- Mr. Hansen queried if the reference to "deposits" in paragraph R400.15(b) is too broad, whilst acknowledging that this matter has been previously addressed.
- Ms. Blomme pointed out that the remaining proposed categories align with the PIE categories in the EU definition and that some member states have added other categories such as post-employment benefits and collective investment vehicles as appropriate to their local context.

- Ms. Landell-Mills queried if size criteria could be used in the Code to address issues relating to scoping in entities that are too small. She cited the recent UK White Paper "[Restoring trust in audit and corporate governance](#)" which suggests the use of a size threshold for large private companies as a proposed new PIE category. In response, Mr. Ashley noted that the IESBA did not consider that using size criteria in a global Code would be suitable given that size depends on the jurisdictional context.

ROLE OF FIRMS

Among other matters, the following were raised:

- Ms. Blomme expressed support for the IESBA PIE TF's proposals and welcomed the IAASB's efforts to further explore disclosure in the auditor's report.
- Mr. Ruthman was of the view that the proposals in the PIE ED were an elegant way to scope in some entities in the public sector as not many entities in that sector are listed entities. He accepted that the IESBA PIE TF's proposals were responsive to respondents' comments.
- Mr. De Tullio supported disclosure in the auditor's report as it seems to be the most suitable location and easiest way to disclose the relevant information. Mr. Ashley observed that it should not entail a significant effort to state in the auditor's report which independence standards have been applied if the auditor is already required to disclose that the auditor is independent. In response to Mr. De Tullio's query about other mechanisms for disclosure, Mr. Ashley explained that the IESBA's Fees final pronouncement has provided a list of examples of disclosure avenues, which include firms' transparency reports and websites.
- Ms. Mubarak and Mr. Hansen expressed support for the transparency requirements as well as disclosure in the auditor's report.
- Mss. Landell-Mills and Meng supported disclosure in the auditor's report as the most suitable way to meet the transparency requirement. They suggested that firms should also disclose if independence requirements for non-PIEs have been applied. They were of the view that most stakeholders will not know about disclosure of independence requirements that have been applied if they are not auditors or close to the standards themselves. Accordingly, they encouraged consideration of disclosure in both cases. In response, Mr. Ashley pointed out that one of the significant issues raised by respondents was the expectation for stakeholders to understand what it would mean for an entity to be treated as a PIE. He was of the view that a similar concern would arise in disclosing that non-PIE requirements have been applied. He also noted that it is unclear if stakeholders will gain much from knowing that non-PIE requirements have been applied. Mr. Botha confirmed that the IAASB intends to explore whether the auditor's report is the suitable location for the disclosure about the application of the independence requirements for PIEs, and if so, how this may be accomplished, as part of its narrow-scope amendments project that will be undertaken in due course.

EFFECTIVE DATE

Representatives did not provide any comments.

FINAL REMARKS

Dr. Thomadakis expressed his appreciation for the constructive comments from Representatives. He reiterated that the IESBA is aiming to break new ground with the PIE project by setting up a framework to guide local bodies in developing their PIE definitions. Accordingly, the IESBA must be careful about how far to venture. In this regard, he noted both CAGs' general support for the IESBA PIE TF's proposals. Mr. Seidenstein echoed Dr. Thomadakis' appreciation for the comments received and noted that it was helpful to hear the CAGs' perspectives.

PIOB COMMENTS

Dr. Chen noted that the IESBA PIE TF's proposals to retain the overarching objective and the broad approach to developing the PIE definition are responsive to public interest. Whilst acknowledging the IESBA PIE TF's efforts to strike a balance, Dr. Chen raised concerns about the proposal to remove categories (d) and (e) from the proposed PIE definition. He commented that the proposed removal of these two categories does not seem to be responsive to the public interest and reiterated the concerns raised by the PIOB in its August 2021 communication of public interest issues on IESBA projects.

With regards to the IESBA PIE TF's proposals to revert the requirement for firms to determine if additional entities should be treated as PIEs to application material, Dr. Chen queried the rationale for this change and wondered whether it might be perceived as appeasing firms. He also suggested that in light of the proposal to remove categories (d) and (e), the proposed requirement for firms became more relevant and necessary so that entities that have public interest characteristics are treated as such. He urged the IESBA to also consider the impact of the proposals to remove categories (d) and (e) and to revert the firm requirement to application material, which he felt could lead to some entities with significant public interest being scoped out. Dr. Chen also observed the absence of respondents from the investor community and potential translation issues with the term "financial condition."

Closing Remarks

Mr. Hansen thanked the participants for their contributions and closed the meeting.