

# NARROW SCOPE MAINTENANCE OF STANDARDS PROJECT ON LISTED ENTITY AND PUBLIC INTEREST ENTITY (PIE)

This project proposal was developed and approved by the International Auditing and Assurance Standards Board (IAASB).

*The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board (PIOB), which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group (CAG), which provides public interest input into the development of the standards and guidance.*

*The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.*

## I. Subject

1. This project proposal addresses the IAASB's actions in respect of recent revisions to the IESBA<sup>1</sup> Code (or "the Code")<sup>2</sup> as a result of the IESBA project on the definitions of listed entity and PIE.<sup>3</sup> The IAASB's actions are focused on:
  - (a) A limited number of targeted changes to the ISQMs<sup>4</sup> and ISAs;<sup>5</sup> and
  - (b) Developing an objective and guidelines to support the IAASB's judgments in identifying specific matters for which differential requirements are appropriate in the ISQMs or ISAs.
2. The IAASB's actions are focused on targeted revisions to the ISQMs and ISAs for the reasons explained in **Section VI** (Scope of the Project on Listed Entity and PIE). However, the IAASB's actions undertaken as part of this project may be useful in future IAASB projects to revise or enhance other IAASB pronouncements, including ISREs,<sup>6</sup> ISAEs<sup>7</sup> and ISRSs.<sup>8</sup>

## II. Introduction

History of the IESBA Project on Listed Entity and PIE

3. In December 2019, the IESBA approved its project, [Definitions of Listed Entity and Public Interest Entity](#), that proposed revisions to the IESBA Code relating to the definitions of listed entity and PIE in response

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<sup>1</sup> International Ethics Standards Board for Accountants

<sup>2</sup> The International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)

<sup>3</sup> The final pronouncement is due to be approved by the PIOB in April 2022.

<sup>4</sup> International Standards on Quality Management

<sup>5</sup> International Standards on Auditing

<sup>6</sup> International Standards on Review Engagements

<sup>7</sup> International Standards on Assurance Engagements

<sup>8</sup> International Standards on Related Services

to feedback globally for reexamining these definitions.

4. In January 2021, the IESBA published the Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED), with the comment period closing May 3, 2021. The PIE ED included an explanation of matters affecting the IAASB standards, particularly ISQMs and ISAs, and incorporated specific questions to seek preliminary views from IAASB stakeholders on those matters. 69 responses were received to the IESBA's PIE ED from a broad range of stakeholders across many regions.
5. In December 2021, the IESBA approved the revisions to Part 4A of the IESBA Code<sup>9</sup> and its glossary relating to listed entity and PIE. Key features of the revisions include:
  - (a) An overarching objective that explains why there are differential requirements for independence applicable to the audits of financial statements of PIEs.
  - (b) Factors for professional accountants to consider in evaluating the extent of public interest in the financial condition of an entity. These factors may be used by bodies responsible for setting ethics standards for professional accountants and firms as described in (c)(i) and (ii) below.
  - (c) A revised definition of PIE that includes a list of categories of entities that firms should treat as PIEs. This is accompanied by:
    - (i) A requirement for firms to take into account more explicit definitions of PIEs established by law, regulation or professional standards when deciding whether an entity falls within the scope of the mandatory PIE categories.
    - (ii) Guidance explaining that the IESBA Code provides for bodies responsible for setting ethics standards for professional accountants to more explicitly define the categories of PIEs, with examples of entities that may be considered PIEs in local jurisdictions.
    - (iii) Guidance that encourages firms to determine if any additional entities should be treated as PIEs for purposes of Part 4A of the IESBA Code, with factors for firms to consider in making this determination.
  - (d) Replacing the term "listed entity" with a newly defined term, "publicly traded entity." Publicly traded entity is one of the mandatory categories of entities included in the revised PIE definition.
  - (e) Requiring firms to publicly disclose when a firm has applied the independence requirements for PIEs in a manner deemed appropriate, taking into account the timing and accessibility of the information to stakeholders.

#### Coordination Between the IESBA and IAASB

6. As outlined in the IAASB's [Strategy for 2020-2023](#), the goal of the IAASB is "sustained trust in financial and other reporting, enhanced by high-quality audit, assurance and related services engagements, through delivery of robust global standards that are in the public interest and **capable of consistent and proper implementation.**" In pursuit of this goal, the IAASB is committed to maintaining and

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<sup>9</sup> As indicated in paragraph 400.2 of the IESBA Code, Part 4A applies to both audit and review engagements. Paragraph 400.2 also explains that in Part 4A of the IESBA Code, the terms "audit," "audit team," "audit engagement," "audit client," and "audit report" apply equally to "review," "review team," "review engagement," "review client," and "review engagement report." Accordingly, the revisions to the IESBA Code regarding listed entity and PIE apply to both audit and review engagements.

deepening connections with key stakeholders, including leveraging efforts of, and continuing to strengthen coordination and cooperation with, IESBA.

7. The objectives set out in the IESBA’s project proposal on listed entity and PIE emphasized the importance of coordination with the IAASB as follows:

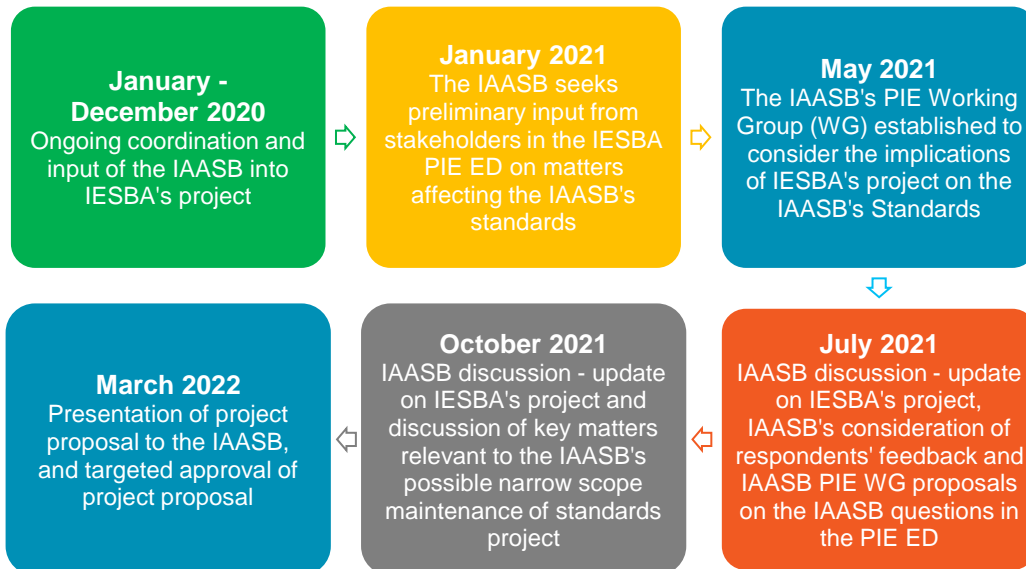
The objectives of the PIE project are:

- (a) To review, in coordination with the IAASB, the definitions of the terms “listed entity” and “PIE” in the Code with a view to revising them as necessary so that they remain relevant and fit for purpose; and
- (b) In doing so, to:
  - (i) Establish agreement between the IESBA and IAASB on a common revised definition of the term “listed entity” that would be operable for both Boards’ standards; and
  - (ii) Develop a pathway that would achieve convergence between the concepts underpinning the definition of a PIE in the Code and the description of an entity of significant public interest in the IAASB standards to the greatest extent possible.

8. Throughout the IESBA’s project, there was extensive coordination between the IESBA and IAASB through Staff coordination, the participation of IAASB correspondent members in the IESBA’s PIE Task Force and IAASB plenary discussions involving representatives of IESBA.

**IAASB-Focused Activities on Listed Entity and PIE**

9. The timeline below summarizes the IAASB’s activities in progressing the information gathering and research activities on listed entity and PIE and the planned milestones for this project proposal, as guided by the processes and procedures in the IAASB’s [Framework for Activities](#).



10. As described in paragraph 4, the IESBA's [PIE ED](#) included information and questions seeking preliminary views from stakeholders on the following matters, which has been important to the IAASB's information-gathering and research activities related to this project:<sup>10</sup>
  - (a) The overarching objective established by IESBA. This included a question about whether the overarching objective could be used by both the IESBA and the IAASB in establishing differential requirements for certain entities, including how this might be approached for the ISQMs and ISAs.
  - (b) The IAASB's proposed case-by-case approach to establishing differential requirements for certain entities in the IAASB's Standards. This included a question seeking feedback about the proposed case-by-case approach for determining whether differential requirements already established within the IAASB Standards should be applied only to listed entities or might be more broadly applied to all categories of PIEs.
  - (c) The appropriate mechanism that may be used to publicly disclose when a firm has applied the independence requirements for PIEs ("independence statement"). This included a question about whether it would be appropriate to disclose the independence statement within the auditor's report and if so, how might this be approached in the auditor's report.
11. At the July 2021 IAASB meeting, the IAASB discussed respondents' feedback on the matters affecting the IAASB Standards outlined above, and the initial views of the PIE WG.
12. At the October 2021 IAASB meeting, the IAASB discussed various aspects to be addressed in the IAASB's project proposal to undertake a project on listed entity and PIE. These discussions informed the development of this project proposal.

#### Nature of this Project

13. This project is intended to be a narrow scope maintenance of standards project. The IAASB's [Framework for Activities](#) explains that a narrow scope maintenance of standards project is intended to achieve a limited number of targeted changes ("targeted revisions") to either a single standard or across multiple standards. It further explains that narrow scope maintenance projects:
  - (a) Are not intended to amend the principles on which an International Standard is based.
  - (b) May be used for conforming and consequential amendments when they do not form part of an active IAASB project (for example, to make relevant changes to the IAASB Standards arising from changes made to the IESBA Code).
  - (c) May move quickly through the information gathering and research activities contemplated in the Framework for Activities given the urgency and narrow scope.

#### Development of this Project Proposal

14. The IAASB leveraged the Public Interest Framework (PIF) published by the Monitoring Group in July 2020 (as part of their report "[Strengthening the International Audit and Ethics Standard-Setting System](#)") in developing this project proposal. As it is likely this project will be continuing when the PIF is fully implemented, the PIE WG used key aspects of the PIF as the basis for a restructured project proposal format, while still adhering to the due process requirements currently in place. However, as

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<sup>10</sup> The Matters for IESBA Consideration included questions 1-14 of the PIE ED, however feedback on these questions also had relevance to the IAASB. Question 15 (a)-(c) of the PIE ED were specific to the IAASB.

implementation of the PIF is still in the initial planning phase, not all elements have been addressed in the recalibration of the structure of this IAASB standard-setting project proposal.

15. Throughout the duration of the project on listed entity and PIE, the IAASB will benefit from the independent, direct oversight by the PIOB, and will remain transparent and adhere to the IAASB's agreed strategies, due process, and the need to be responsive to the public interest.
16. This project proposal describes the project objectives that will support the public interest in relation to revisions to the ISQMs and ISAs on listed entity and PIE, as well as the project scope.

### III. Project Objectives that Support the Public Interest<sup>11</sup>

17. Taking into account the stakeholders whose interests are to be served through a project on listed entity and PIE (see **Section IV**), the project objectives are to:
  - (a) 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.
  - (b) Establish an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
  - (c) 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.
  - (d) 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.
18. The IAASB has the view that these project objectives capture an effective response to stakeholders' needs that have been identified in the information gathering and research process undertaken, and will contribute to the continued relevance and credibility of the ISQMs and ISAs in supporting quality financial reporting.

### IV. Stakeholders Impacted by a Project on Listed Entity and PIE

19. This project will aim to serve the interests of all relevant stakeholders by addressing key issues identified by the IAASB's stakeholders relating to a project on listed entity and PIE.
20. The five broad stakeholder groups<sup>12</sup> that will be impacted by a project on listed entity and PIE include:
  - *"Users of financial statements"* ("the users") – mainly investors, lenders, and other creditors, who rely on the audited financial statements to make resource allocation decisions.
  - The *profession* – all auditors and assurance providers, and other professional accountants in public practice and business who apply the standards.

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<sup>11</sup> See the PIF's section on "What interests need to be served?" (on page 21 of the Monitoring Group's report, "*Strengthening the International Audit and Ethics Standard-Setting System*").

<sup>12</sup> These five broad stakeholder groups are 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*").

- Those in charge of *adoption, implementation and enforcement* of the standards as well as monitoring of the capital markets who rely on such standards – including national standard setters, regulators and audit inspectors, market authorities, public sector bodies, and professional accountancy organizations.
  - *Preparers* – management and professional accountants in business, for entities of all sizes, in either the public or private sectors, as well as those charged with governance (e.g., audit committees who oversee the audit process), the latter group being relevant to addressing the information asymmetries among different parties involved in the functioning of companies, and who also provide the basis for the auditor’s work.
  - *Other users* – the reliability of financial and non-financial information affects a very wide range of interests in society, including consumers, taxpayers, employees, competition and prudential authorities, central banks, and bodies in charge of financial stability oversight, and those granting public contracts.”
21. In line with the PIF,<sup>13</sup> standard-setting that is in the public interest requires a process that elicits views from all stakeholders, with a focus on assessing the merits of the various stakeholder views, irrespective of whether the views are a majority or a minority. The public interest of standards cannot be ensured through a mere aggregation of all stakeholder interests, rather the public interest requires weighing and balancing all stakeholder views.
22. In order to address the public interest as contemplated by the PIF, and to achieve the objectives of this project proposal, the project on listed entity and PIE will:
- (a) Consider all stakeholder input and identify the different stakeholder interests that affect the overall objectives that will achieve the public interest;
  - (b) Appropriately weigh the input in terms of the public interest impact of the relative stakeholder interests;<sup>14</sup> and
  - (c) Appropriately balance alternative outcomes in terms of the expected responsiveness to the public interest.<sup>15</sup>

Although the PIF sets out a framework for how the public interest will be addressed, the approach to the consideration of stakeholder interests and how they are weighed is largely consistent with how stakeholder input is currently considered on IAASB projects (i.e., judgment is applied).

## V. Key Issues Identified That Will be Addressed by a Project on Listed Entity and PIE

23. The following key issues have been identified through the information gathering and research activities described in **Section II**, and discussions with the IAASB in 2021:

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<sup>13</sup> See the PIF’s sections on “For whom are standards developed?” and “How is the public interest responsiveness of a standard assessed?” (on pages 20-21 and 23-24, respectively, of the Monitoring Group’s report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

<sup>14</sup> This project will recognize the importance of all stakeholders but will focus on users of audited financial statements. See 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*”).

<sup>15</sup> See the PIF’s section on “How are the interests of users best served?” (on pages 21-22 of the Monitoring Group’s report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

- (a) Increased complexity and inconsistent application and understanding when concepts across the IAASB and IESBA standards differ, including when there is misalignment in the types of entities to which differential requirements apply.
- (b) When developing or revising the ISQMs and ISAs, the need for a more robust and consistent approach as to when differential requirements for certain entities are appropriate. In particular, when setting differential requirements for certain entities, considering:
  - (i) The need to maintain the relevance, robustness, proportionality and scalability of the ISQMs and ISAs.
  - (ii) Increased complexity if there are too many differential requirements for certain entities.
  - (iii) The heightened expectations of stakeholders regarding the performance of audit engagements for certain entities.
- (c) A need for enhanced transparency about the relevant ethical requirements for independence applied in performing audits for certain entities (such as for PIEs in the IESBA Code), and whether the auditor's report is the appropriate mechanism for such transparency.

## VI. Scope of the Project on Listed Entity and PIE

24. It is intended that a project by the IAASB on listed entity and PIE will contribute to continued trust in the financial reporting process by serving the needs of those stakeholders described in paragraph 20 above through addressing the key issues identified (as explained in paragraph 23). The table below summarizes the proposed actions to address the key issues identified. Each of the key issues identified (described in **Section V** above) corresponds to one or more actions.
25. The proposed actions to address the key issues identified include:
- (a) Targeted revisions<sup>16</sup> to the ISQMs and ISAs arising from revisions to the IESBA Code as a result of the IESBA project on the definitions of listed entity and PIE.
  - (b) Developing an objective and guidelines to support the IAASB's judgments in identifying specific matters for which differential requirements for certain entities are appropriate in the ISQMs or ISAs. Although the objective and guidelines will be developed specifically for the ISQMs and ISAs, they may be useful in identifying specific matters for which differential requirements for certain entities are appropriate when developing or revising the ISREs, ISAEs and ISRSs. A need for specific guidelines for establishing differential requirements for certain entities in the ISREs, ISAEs and ISRSs would be identified and addressed as part of future IAASB projects focused on these standards.
26. The project is limited to targeted revisions to the ISQMs and ISAs only, since there would be limited incremental benefit in amending the minimal references to listed entities or the concepts underpinning public interest entities in the ISREs, ISAEs and ISRSs.<sup>17</sup>

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<sup>16</sup> The targeted revisions will be focused on requirements or application material in the ISQMs and ISAs (unless otherwise indicated such as the introductory paragraphs, definitions or the Glossary of Terms). This project proposal also recognizes that as these proposed actions are executed, the IAASB PIE Task Force's understanding about issues may evolve, requiring, for example, that a proposed action that was focused on application material may need to be expanded to also address a requirement(s).

<sup>17</sup> The relevant standards that include references to listed entities or concepts underpinning PIE are paragraph 63 of ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, and paragraph A17 of ISRS 4410

27. Although the requirement in the IESBA Code to publicly disclose when a firm has applied the independence requirements for PIEs also applies to review engagements conducted in terms of ISRE 2400 (Revised)<sup>18</sup> and ISRE 2410, the intent of IESBA was largely to enhance transparency about the auditor’s assertion of the relevant independence requirements applied in performing an audit of financial statements. Nevertheless, recognizing that the IESBA requirement still applies to review engagements, the IAASB will:
- (a) As part of information gathering and research activities, seek stakeholder feedback as to whether the IAASB should consider revisions to ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied in performing review engagements for certain entities. This information gathering and research will be undertaken as part of the Exposure Draft to be issued under track 1 (see paragraph 38), and, if the IAASB identifies further action to be taken, the IAASB will take such action as part of track 2.
  - (b) Not amend ISRE 2410 as a result of this project since, consistent with previous decisions of the IAASB, ISRE 2410 is in a pre-clarity format and has not been subject to conforming amendments arising from the IAASB’s projects (e.g., quality management) in recent years to avoid giving the impression that this standard is up to date.
28. Without pre-judging any matters that the PIE Task Force may bring to the IAASB for discussion in the project, the table below includes a description of the proposed actions to address the key issues identified in **Section V** above.
29. There are strong interdependencies and linkages between the proposed actions, and therefore the outcome of certain actions will likely affect other actions. For example, the IAASB’s decisions regarding the case-by-case analysis for considering whether extant differential requirements for listed entities in the ISQMs and ISAs should be amended to apply to other types of entities (line 4 of the table in paragraph 30) will be considered together with, and may also impact, whether the IAASB adopts the definitions of “publicly traded entity” and PIE (lines 1 and 2 of the table in paragraph 30). Accordingly, when undertaking the actions, the PIE Task Force intends to address them simultaneously as the work is progressed in each track (see paragraph 38).
30. The proposed actions within the scope of a project on listed entity and PIE include:

Ref.	Key Issue(s) Identified	Details of Proposed Action(s)
<b>A. Project Objective: 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.</b>		
1	<i>Increased complexity and inconsistent application</i>	<b>The IESBA definition of PIE</b> <i>Consider adopting the IESBA definition of PIE into the ISQMs and</i>

(Revised), *Compilation Engagements*. ISRE 2410 is still in a pre-clarity format and this standard has not been updated for conforming amendments in relation to other recent projects of the IAASB. The reference to these concepts in ISRS 4410 (Revised) is limited to an example of commonly used general purpose financial reporting frameworks and therefore does not refer to the IAASB Standards themselves.

<sup>18</sup> ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*



Ref.	Key Issue(s) Identified	Details of Proposed Action(s)
	<p><i>and understanding when concepts across the IAASB and IESBA standards differ, including when there is misalignment in the types of entities to which differential requirements apply.</i></p>	<p><i>ISAs, or the Glossary of Terms.</i></p> <p>This project would consider whether the PIE definition should be adopted in the ISQMs and ISAs, because extant differential requirements for listed entities in the ISQMs and ISAs may be amended to apply to all categories of PIEs (also see item 4 below).</p> <p>This project would also consider the application material in the ISQMs and ISAs that describes entities that have public interest or public accountability characteristics, and any new application material supporting the differential requirements considered as part of this project, and whether it should also reflect the concepts underpinning the definition of PIE (also see item 5 below).</p> <p>This project would consider whether the PIE definition should be included in the Glossary of Terms,<sup>19</sup> if it is not defined in the ISQMs and ISAs, but still used, for example, in application material (also see item 5 below).</p>
2		<p><b>The IESBA definition of “publicly traded entity”</b></p> <p><i>Consider adopting the IESBA definition of “publicly traded entity” into the ISQMs and ISAs, as a replacement of listed entity.</i></p> <p>The project would consider the impact on the ISQMs and ISAs of adopting the definition of “publicly traded entity” and replacing “listed entity” with “publicly traded entity” (also see item 4 below). In particular, the replacement of the term may result in changes in the underlying entities that such requirements apply to, for example:</p> <ul style="list-style-type: none"> <li>• Additional entities may be scoped into the definition of “publicly traded entity” that are not scoped into the extant definition of “listed entity” in the ISQMs and ISAs.</li> <li>• The definition of “publicly traded entity” refers to “<i>a listed entity as defined by relevant securities law or regulation</i>” as an example of a publicly traded entity. As a result, depending on how the term “listed entity” is defined in securities law or regulation, the notion of a listed entity may be broader or narrower than the extant definition of a “listed entity” in the ISQMs and ISAs.</li> </ul>

<sup>19</sup> The Glossary of Terms relating to the IAASB Standards is not an authoritative document. Paragraph A64 of ISA 200, *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*, explains that the Glossary of Terms contains a complete listing of terms defined in the IAASB Standards and includes descriptions of other terms found in the IAASB Standards to assist in common and consistent interpretation and translation.

Ref.	Key Issue(s) Identified	Details of Proposed Action(s)
<b>B.</b>	<b>Project Objective: Establish an objective and guidelines to support the IAASB’s judgments regarding specific matters for which differential requirements for certain entities are appropriate.</b>	
3	<p><i>When developing or revising the ISQMs and ISAs, the need for a more robust and consistent approach as to when differential requirements for certain entities are appropriate. In particular, when setting differential requirements for certain entities, considering:</i></p> <p>(i) <i>The need to maintain the relevance, robustness, proportionality and scalability of the ISQMs and ISAs.</i></p> <p>(ii) <i>Increased complexity if there are too many differential requirements for certain entities.</i></p> <p>(iii) <i>The heightened expectations of stakeholders regarding the performance of audit engagements for certain entities.</i></p>	<p><b>An objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs</b></p> <p><i>Adopt the overarching objective established by IESBA in paragraph 400.8 of the IESBA Code as a principle for establishing differential requirements for certain entities and application material in the ISQMs and ISAs.</i></p> <p><i>Develop a tailored objective, based upon the overarching objective, and taking into consideration paragraph 400.10 of the IESBA Code, that explains the purpose for differential requirements for certain entities in the ISQMs and ISAs.</i></p> <p><i>Develop guidelines that assist the IAASB in identifying when differential requirements for certain entities may be appropriate, and if so, how such requirements should be established in the ISQMs and ISAs.</i></p> <p><i>Determine the appropriate location and accessibility of the objective or guidelines described above.</i></p> <p>This project would consider how the factors used in evaluating the extent of public interest in the financial condition of an entity in paragraph 400.9 of the IESBA Code may be incorporated in the objective(s) and guidelines described above.</p> <p>The objective and guidelines would be used as a basis for:</p> <ul style="list-style-type: none"> <li>• Undertaking a case-by-case analysis of existing differential requirements for listed entities in the ISQMs and ISAs to determine whether those requirements need to be amended to apply to all categories of PIEs (also see item 4 below); and</li> <li>• Future IAASB projects in determining whether differential requirements need to be established for certain entities in the ISQMs and ISAs (i.e., it would be used to inform the approach by providing principles against which future proposals for differential requirements can be tested).</li> </ul>

Ref.	Key Issue(s) Identified	Details of Proposed Action(s)
C.	<p><b>Project Objective: 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.</b></p>	
4	<p><i>Increased complexity and inconsistent application and understanding when concepts across the IAASB and IESBA standards differ, including when there is misalignment in the types of entities to which differential requirements apply.</i></p>	<p><b>Case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs</b></p> <p><i>Undertake a case-by-case analysis to determine:</i></p> <ul style="list-style-type: none"> <li>• <i>Whether the extant differential requirements<sup>20</sup> for listed entities should be amended to apply to all categories of PIEs; and</i></li> <li>• <i>The impact on extant differential requirements for listed entities of adopting the definition of “publicly traded entity” as a replacement of “listed entity.”</i></li> </ul> <p>In undertaking the case-by-case analysis, the project would consider:</p> <ul style="list-style-type: none"> <li>• The objective and guidelines for establishing differential requirements for certain entities in the ISQMs and ISAs (also see item 3 above).</li> <li>• The impact of amending the extant differential requirements for listed entities to apply to other entities, including the impact of adopting the definition of “publicly traded entity” as a replacement of “listed entity” if the differential requirements were to apply to “publicly traded entities” (also see items 1</li> </ul>

<sup>20</sup> With the exception of the engagement quality review requirements in ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, the current differential requirements for listed entities are focused on enhancing transparency about aspects of the audit to those charged with governance or to intended users of the auditor’s report through communication with those charged with governance or including specific statements or information in the auditor’s report, respectively. In summary, these differential requirements include:

- Communicating with those charged with governance about the system of quality management and establishing policies or procedures that address the selection of engagements for engagement quality review in accordance with ISQM 1.
- Communicating with those charged with governance about auditor independence in accordance with ISA 260 (Revised), *Communication with Those Charged with Governance*.
- Reporting on specific matters for audits of financial statements of listed entities in accordance with ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.
- Communicating key audit matters in the auditor’s report in accordance with ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.
- Reporting specific matters regarding other information for audits of financial statements of listed entities in accordance with ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*.

Ref.	Key Issue(s) Identified	Details of Proposed Action(s)
		<p>and 2 above).</p> <ul style="list-style-type: none"> <li>Other information available (e.g., the post-implementation review of the auditor reporting standards, respondents' feedback from the Exposure Draft on Proposed ISQM 1<sup>21</sup> regarding the scope of entities that should be subject to an engagement quality review, the Board's deliberations and decisions at the time when certain differential requirements were established, and, where appropriate, how national standard setters have addressed this issue at jurisdictional levels).</li> </ul>
5		<p><b>Application and introductory material in the ISQMs and ISAs</b></p> <p><i>As a consequence of undertaking the case-by-case analysis, consider whether:</i></p> <ul style="list-style-type: none"> <li><i>The application material in the ISQMs and ISAs should be updated as a result of any changes to entities to which the extant differential requirements apply and to align with the concepts underpinning PIE.</i></li> <li><i>Updates may be needed to application material (e.g., examples and appendices) and introductory material (e.g., scope and scalability paragraphs) that use the term "listed entity(ies)" or otherwise make reference to listed entities (e.g., entities that are listed or entities other than listed entities).</i></li> </ul> <p>The ISQMs and ISAs include application material to explain that certain entities other than listed entities could have characteristics that give rise to similar public interest issues as listed entities to alert auditors that it may be appropriate to apply a requirement that was designed for an audit of financial statements of a listed entity to a broader range of entities.<sup>22</sup> Various examples are included in application material to illustrate the types of entities that may exhibit such characteristics.</p> <p>This project will consider whether such application material should be updated:</p> <ul style="list-style-type: none"> <li>As a consequence of the IAASB's decisions regarding which</li> </ul>

<sup>21</sup> See Exposure Draft: [Proposed International Standard on Quality Management 1 \(Previously International Standard on Quality Control 1\), Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#).

<sup>22</sup> References in the application material made with respect to "public interest entities", "public entities", "entities with public accountability", "entities with public interest or public interest characteristics", "entities with significant public interest" and other similar descriptions.

Ref.	Key Issue(s) Identified	Details of Proposed Action(s)
		<p>entities the differential requirements apply to; and</p> <ul style="list-style-type: none"> <li>To include the categories of entities included in the definition of PIE (i.e., if the requirement continues to apply to listed entities or publicly traded entities only), the factors in the IESBA Code for evaluating the extent of public interest in the financial condition of an entity and the factors in the IESBA Code for firms to consider in determining whether to apply the requirements in the IESBA Code for PIEs to other entities.</li> </ul> <p>The ISQMs and ISAs include references to listed entities and related terms<sup>23</sup> (e.g., examples in application material, appendices, and scope and scalability paragraphs). The project will consider whether such application material needs to be updated.</p>
<p><b>D. Project Objective: 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.</b></p>		
6	<p><i>A need for enhanced transparency about the relevant ethical requirements for independence applied in performing audits for certain entities (such as for PIEs in the IESBA Code), and whether the auditor’s report is the appropriate mechanism for such transparency.</i></p>	<p><b>Enhanced transparency in the auditor’s report</b></p> <p><i>Enhance and clarify ISA 700 (Revised)<sup>24</sup> if it is determined that the auditor’s report is an appropriate mechanism to disclose that relevant ethical requirements for independence for certain entities have been applied in the audit of the financial statements, such as the independence requirements for PIEs in the IESBA Code. In considering how this may be accomplished, the project will give consideration to:</i></p> <ul style="list-style-type: none"> <li>The appropriate location of the communication in the auditor’s report. For example, such communication may expand upon the required statement in accordance with paragraph 28(c) of ISA 700 (Revised), i.e., that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, as well as identifying the jurisdiction of origin of the relevant ethical requirements or referring to the IESBA Code.</li> <li>Whether ISA 700 (Revised) could include a requirement or application material, and whether additional information and illustrations are necessary to explain the additional independence requirements applied and demonstrate how</li> </ul>

<sup>23</sup> Related terms include the following: “non-listed”, “other than listed”, “unlisted” and “smaller listed” entity.

<sup>24</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Ref.	Key Issue(s) Identified	Details of Proposed Action(s)
		<p>such disclosure would be made.</p> <ul style="list-style-type: none"> <li>• Whether any amendments to ISA 260 (Revised)<sup>25</sup> are appropriate to address the auditor’s communication with those charged with governance about the form and content of the auditor’s report.</li> <li>• Whether the illustrative reports in the other ISAs need to be revised to reflect the changes in ISA 700 (Revised).</li> </ul>

31. The PIF sets out the framework for the development of high-quality international standards by the IAASB that are responsive to the public interest. In explaining how the stakeholders’ needs can be served, the PIF sets out qualitative characteristics to assess a project’s responsiveness to the public interest.<sup>26</sup> In developing and revising principles-based requirements and application material in the ISQMs and ISAs, certain of the qualitative characteristics described in the PIF<sup>27</sup> that will be applicable to the changes being made as the project is being progressed, include:

- (a) *Coherence* with the overall body of standards, including that requirements addressing the same subject matter are not in conflict;
- (b) *Scalability* (including proportionality to the standard’s relative impact on different stakeholders).
- (c) *Relevance* (through recognizing and responding to emerging issues, changes in business or public practice environments, developments in accounting practices, or changes in technology).
- (d) *Comprehensiveness* (through limiting the extent to which there are exceptions to the principles set out).
- (e) *Clarity and conciseness* (to enhance understandability and minimize the likelihood of differing interpretations).
- (f) *Implementability* and ability of being *consistently applied and globally operable*.
- (g) *Enforceability* (through clearly stated responsibilities).

It is intended that these qualitative characteristics are explicitly considered as changes are proposed.

32. While undertaking the project, the PIE Task Force will continue to monitor global developments for any other changes that may be relevant to the project on listed entity and PIE. The PIE Task Force plans to understand, through engagement with stakeholders, the implications of expanding the application of the existing differential requirements for listed entities to “publicly traded entities” or PIEs, given varying definitions of PIEs across jurisdictions.

<sup>25</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>26</sup> See the PIF’s section on “What qualitative characteristics should the standards exhibit?” (on pages 22-23 of the Monitoring Group’s report, “*Strengthening the International Audit and Ethics Standard-Setting System*”).

<sup>27</sup> The other qualitative characteristics apply more broadly, with some addressed by the matters set out in this project proposal, while others may need to be considered at the end of the project.

33. In undertaking the revisions, the PIE Task Force will follow the CUSP Drafting Principles and Guidelines<sup>28</sup> to enable the writing of standards that result in the consistent and effective application of the standards.

*Ongoing Activities – Coordination with IESBA and IAASB Task Forces and Consultation Groups*

34. The narrow scope maintenance of standards project will involve coordination and collaboration with IESBA, as considered appropriate as the project progresses (also see paragraph 40).
35. In addition, the PIE Task Force will collaborate with:
- (a) The Auditor Reporting Consultation Group (ARCG) on possible changes to the auditor's report, in particular to obtain their views in the context of the feedback from the post-implementation review of the auditor reporting standards.
  - (b) The Audits of Less Complex Entities (LCE) Task Force, including considering feedback from the Exposure Draft that may be relevant to the project on listed entity and PIE.

## **VII. Project Timeline, Project Priorities and Resources**

36. The project will be undertaken in accordance with the Public Interest Activity Committees' Due Process and Working Procedures.<sup>29</sup>
37. Subject to the IAASB's approval of this project proposal, the project on listed entity and PIE will commence immediately. In order to remain consistent with IESBA's revisions to the IESBA Code, which will become effective for audits of financial statements for periods beginning on or after December 15, 2024, the IAASB has noted the urgency of first finalizing the IAASB's proposals regarding enhanced transparency about the relevant ethical requirements for independence applied in audits of financial statements (see project objective (d) in paragraph 17).
38. Accordingly, the project will be bifurcated into two tracks, i.e.:
- (a) Track 1: A faster-moving track that deals with project objective (d) in paragraph 17, with an effective date that aligns with IESBA.
  - (b) Track 2: A separate track that deals with all project objectives that address the other public interest issues with a later effective date (project objectives (a), (b) and (c) in paragraph 17).
39. The PIE Task Force proposes the following preliminary timetable, noting that specific project milestones and outputs may change as the project develops.

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<sup>28</sup> See the Complexity, Understandability, Scalability and Proportionality (CUSP) project [page](#).

<sup>29</sup> As required by the IAASB's [Terms of Reference](#), this is the [Due Process and Working Procedures](#) as approved by the PIOB and that the IAASB must adhere to in developing its International Standards.

Targeted Timing	Action(s)	
	Track 1	Track 2
Quarter 2 <sup>30</sup> of 2022	<ul style="list-style-type: none"> <li>Develop an exposure draft, including IAASB deliberation of issues, proposals and relevant discussion of the exposure draft.</li> <li>Obtain input from the CAG on the issues and proposals, including the proposed exposure draft.</li> <li>June 2022: Approval of an exposure draft by the IAASB.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing monitoring of developments in different jurisdictions.</li> </ul>
Quarter 3 of 2022	<ul style="list-style-type: none"> <li>July 2022: Publish exposure draft and an Explanatory Memorandum for a 90-day comment period.</li> </ul>	<ul style="list-style-type: none"> <li>Engagement with stakeholders regarding amending the application of the existing differential requirements for listed entities to publicly traded entities or PIEs.</li> <li>IAASB deliberation of issues and proposals relevant to this track.</li> </ul>
Quarter 4 of 2022	<ul style="list-style-type: none"> <li>Comment period for responses to exposure draft closes.</li> </ul>	
Quarter 1 of 2023	<ul style="list-style-type: none"> <li>IAASB deliberation of responses to the exposure draft and resulting proposed changes to address feedback.</li> <li>Obtain CAG input on consideration of the responses to the exposure draft and proposed changes to address feedback.</li> </ul>	<ul style="list-style-type: none"> <li>Obtain input from the CAG on the proposals to address the issues relevant to this track.</li> <li>Progress the issues relevant to this track in developing an exposure draft.</li> </ul>
Quarter 2 of 2023	<ul style="list-style-type: none"> <li>June 2023: IAASB approval of the final pronouncement</li> </ul>	
Quarter 3 of 2023	<ul style="list-style-type: none"> <li>PIOB approval of due process in the development of the final</li> </ul>	<ul style="list-style-type: none"> <li>Obtain input from the CAG on the issues and proposals,</li> </ul>

<sup>30</sup> Quarter 1 includes the period January through March, Quarter 2 includes the period April through June, Quarter 3 includes the period July through September and Quarter 4 includes the period from October to December of any calendar year.



Targeted Timing	Action(s)	
	Track 1	Track 2
	<p>pronouncement.</p> <ul style="list-style-type: none"> <li>• Publication of the final pronouncement and Basis for Conclusions.</li> </ul>	<p>including the proposed exposure draft.</p> <ul style="list-style-type: none"> <li>• September 2023: Approval of an exposure draft by the IAASB.</li> </ul>
Quarter 4 of 2023		<ul style="list-style-type: none"> <li>• October 2023: Publish exposure draft and an Explanatory Memorandum for comment.</li> </ul>
Quarter 1 and 2 of 2024		<ul style="list-style-type: none"> <li>• Comment period for responses to exposure draft closes.<sup>31</sup></li> <li>• IAASB deliberation of responses to the exposure draft and resulting proposed changes to address feedback.</li> <li>• Obtain CAG input on consideration of the responses to the exposure draft and proposed changes to address feedback.</li> <li>• Outreach with other key stakeholders on key issues as the final pronouncement is developed.</li> </ul>
Quarter 3 of 2024		<ul style="list-style-type: none"> <li>• Obtain CAG input on consideration of the responses to the exposure draft and proposed changes to address feedback.</li> <li>• September 2024: IAASB approval of the final</li> </ul>

<sup>31</sup> Under the IAASB's Due Process and Working Procedures, the exposure period for a draft international pronouncement issued by the IAASB is ordinarily 120 days, however a shorter or longer exposure period may be set when appropriate. Given this project is a narrow scope maintenance of standards project, a shorter exposure period of 90 days may be considered by the IAASB . The exposure period is determined concurrently with the approval of the exposure draft, which may in turn result in adjustments to the overall timeline for the completion of the project.

Targeted Timing	Action(s)	
	Track 1	Track 2
		pronouncement
Quarter 4 of 2024		<ul style="list-style-type: none"> <li>• PIOB approval of due process in the development of the final pronouncement.</li> <li>• Publication of the final pronouncement and Basis for Conclusions.</li> </ul>

40. In determining the resources required for the project on listed entity and PIE, the IAASB will:
- Establish a task force responsible for the project and select task force members (comprising IAASB members or others, as appropriate, with relevant experience and subject-matter expertise). In order to ensure that the close coordination with IESBA continues through the project completion, the IAASB has offered that IESBA appoint a correspondent member. The selection process will also seek balance in:
    - Representation between practitioners and non-practitioners, including public members.<sup>32</sup>
    - Other representational needs, including geographic representation.
  - Assign IAASB Staff to support the PIE Task Force that is adequate to the weight of the project and with the appropriate level of seniority and experience. Given the scope of the project, the IAASB anticipates assigning a director and a principal to the project.
  - Allocate sufficient Board plenary time to deliberate significant matters that will be raised from a broad stakeholder consultation process (including targeted outreach as may be appropriate), and finalize the revisions to the ISQMs and ISAs.
  - Allocate sufficient time to consult with the CAG on significant issues raised during the course of the project.
  - Allocate sufficient time to consult with the PIOB on its [public interest issues](#) relevant to the project.

### VIII. Project Output and Impact

41. The expected output of the project are narrow scope amendments across several ISQMs and ISAs, to achieve the objectives set out in this project proposal, and an objective and guidelines for use by the IAASB when developing standards to support the IAASB's judgments in identifying specific matters for which differential requirements in the ISQMs and ISAs are appropriate. In line with the PIF's qualitative characteristics used to describe the assessment of a standard's responsiveness to

<sup>32</sup> A public member is an individual who satisfies the requirements of a non-practitioner and is also expected to reflect, and is seen to reflect, the wider public interest. Not all non-practitioners are therefore eligible to be public members.

the public interest, when finalizing this project, the PIE Task Force will consider whether the narrow scope amendments:

- (a) Are consistent with the identified public interest objectives set out for the project (see paragraph 17).
- (b) Operate coherently with the overall body of the IAASB Standards.
- (c) Address the identified key issues (see paragraph 23).
- (d) Respond, as appropriate to differing circumstances, emerging issues, changes in business or public practice environments, developments in accounting practices, or changes in technology.
- (e) Reflect the results of broad consultation and has balanced stakeholder priorities.
- (f) Have been developed with sufficient clarity and conciseness to support proper intended application and minimize the likelihood of differing interpretations.
- (g) Are capable of being implemented effectively, and consistently applied globally.

These qualitative characteristics can be explored with the IAASB's stakeholders in the exposure draft consultation (i.e., specific questions asking stakeholders about these matters will be included within the exposure draft).

42. The impact of the changes from this project will come through effective implementation of the revised standards and monitoring of their application (e.g., through firms' systems of quality management and external inspections, as well as with ongoing outreach with the IAASB's key stakeholders). Notwithstanding that other environmental influences may also impact auditor behavior, the effective implementation of the revised standards and monitoring efforts, it is expected that the narrow scope amendments will result in:

- Alignment, to the greatest extent possible, between the IAASB Standards and the IESBA Code, and maintaining their interoperability.
- The development of an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate, thereby promoting consistency in the development of the ISQMs and ISAs.
- Clarification and consistency regarding the mechanism to enhance transparency about the relevant ethical requirements for independence applied when performing an audit of financial statements for certain entities (such as for PIEs in the IESBA Code), resulting in enhanced confidence in audits of financial statements of those entities.