

**Responses to IAASB’s Request for Comments in the EM for the ED, Proposed Narrow Scope Amendments to ISQMs, ISAs and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and PIE in the IESBA Code**

**PART A: Respondent Details and Demographic information**

Your organization’s name (or your name if you are making a submission in your personal capacity)	Auditing and Assurance Standards Board (AASB), Canada
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Bob Bosshard, CPA, CA, ICD.D Chair, AASB (Canada)
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Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ED). Select the most appropriate option.	<a href="#">North America</a>
	If “Other”, please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ED). Select the most appropriate option.	<a href="#">Jurisdictional/ National standard setter</a>
	If “Other”, please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB’s preference is that you incorporate all your views in your comments to the questions (also, the last question in Part B allows for raising any other matters in relation to the ED).

**Information, if any, not already included in responding to the questions in Parts B and C:**

## PART B: Responses to Specific Questions in the EM for the ED

*For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.*

### ED Question #1 - Objective for Establishing Differential Requirements for PIEs

#### *Objective for Establishing Differential Requirements for PIEs*

1. Do you agree with establishing the overarching objective and purpose for establishing differential requirements for PIEs proposed in paragraphs A29A–A29B of ISQM 1 and paragraphs A81A–A81B of ISA 200 in the ED? If not, what do you propose and why?

*(See EM Section 1-B, paragraphs 13-18)*

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

### ED Question #2 - Definitions of PIE and “Publicly Traded Entity”

#### *Definitions of PIE and “Publicly Traded Entity”*

2. Do you agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200 (see proposed paragraphs 16(p)A–16(p)B of ISQM 1 and paragraphs 13(l)A–13(l)B of ISA 200 in the ED)? If not, what do you propose and why?

*(See EM Section 1-C, paragraphs 19-26)*

**Overall response:** [Agree, with comments below](#)

**Detailed comments (if any):**

We agree with adopting the definitions of PIE and “publicly traded entity” into ISQM 1 and ISA 200. However, in our consultations with practitioners, concerns were raised about the following:

- 1) Category (iv) of the definition of PIE might inadvertently imply that firms and auditors are responsible for looking beyond the national auditing standards (i.e., to external bodies that set laws, regulations, or other professional requirements) to determine which additional entities qualify as PIEs for the purposes of the auditing standards.
- 2) Lack of clarity whether the IAASB intends that a firm/auditor can arrive at a different conclusion on whether to treat other entities as PIEs between the IESBA Code and ISQMs/ISAs

#### **Concern 1: Category (iv) of the definition of PIE**

We recognize the need for category (iv) in the definition of PIE to facilitate the addition of other categories of PIEs by relevant local bodies based on the facts and circumstances in a specific jurisdiction. In our view, category (iv) is intended to support national auditing standard-setters to add categories of PIEs specified in law, regulation or professional requirements at the jurisdictional level.

However, we heard during outreach that the wording may be read to imply that it is the responsibility of firms and auditors to look beyond the auditing standards (i.e., to external bodies that set laws, regulations, or other professional requirements) to determine which additional entities qualify as PIEs. This would include auditors needing to assess whether entities are designated as PIE by others for reasons unrelated to the significant public interest in the financial condition of the entities and therefore

should be excluded from category iv<sup>1</sup>. Firms and auditors may not have the information and insights to make such an assessment. Consequently, resulting in inconsistent practices.

**Suggest:**

We suggest clarifying paragraph A29F of ISQM 1 (and paragraph A81F of ISA 200) to make explicit that national auditing standards-setters are responsible for determining the types of entities to be included in category (iv) of the definition of PIE as follows:

Paragraph 16(p)A(iv) anticipates that **national auditing standard setters those responsible for setting law, regulation or professional requirements** may add categories of public interest entities **specified in law, regulation or professional requirements** to meet the purpose described in paragraph A29B, and may consider the matters in paragraph A29C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include...

**Concern 2: Lack of clarity whether the IAASB intends that a firm/auditor can arrive at a different conclusion on whether to treat other entities as PIEs between the IESBA Code and ISQMs/ISAs.**

In our consultations, some parties raised questions about the intention of the sentence in paragraph A29G of ISQM 1 (and paragraph A81G in ISA 200) that states:

*“When making this determination, the firm **may consider** whether it treated an entity as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence.”*

The sentence seems to suggest that how the firm/auditor treated an entity as a PIE for the purposes of applying relevant ethical requirements is only a consideration in determining whether to treat an entity as a PIE for the purposes of the auditing standards. Consequently, an auditor’s decision of whether to treat other entities as PIEs for purposes of the ISQMs/ISAs may differ from the determination made for independence purposes.

In our view, it is in the public interest that when the auditor decides to treat an entity as a PIE for the purposes of applying relevant ethical requirements, that entity should ordinarily be treated as a PIE for the purposes of the ISQMs/ISAs.

Reason being, under the narrow scope amendments to ISA 700 (Revised) in the IAASB’s PIE Track 1 project, if the relevant ethical requirements require public disclosure that differential independence requirements for audits of financial statements of certain entities were applied, the Basis of Opinion would state “... we are independent of the Company in accordance with the *[relevant ethical requirements as applicable to audits of financial statements of PIEs]* ...”

Therefore, it is reasonable to presume that based on the statement in the Basis of Opinion referring to PIEs, financial statement users will also believe that the entity was treated as PIE for the purposes of the ISQMs/ISAs. However, if the auditor did not treat the entity as a PIE for the purposes of the auditing standards, the financial statement users’ confidence in the entity’s financial statements may be unduly enhanced, widening the expectation gap.

**Suggest:**

We suggest that the wording in paragraph A29G of ISQM 1 (and paragraph A81G in ISA 200) be strengthened to send a stronger message that other entities treated as a PIE for purposes of applying relevant ethical requirements should ordinarily be treated as a PIE for purposes of the ISQMs/ISAs:

“The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. ~~When making this determination, the firm may consider whether it treated a~~An entity **that is treated** as a public interest entity for purposes of applying relevant ethical requirements, including those related to independence, **is ordinarily treated as a public**

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<sup>1</sup> Paragraph A29D of ISQM 1 (and paragraph A81D of ISA 200)

interest entity for purposes of the ISQMs. In addition However, if any entity is not treated as a public interest entity for purposes of applying relevant ethical requirements, the firm may still determine that it is appropriate to treat the entity as a public interest entity for the purposes of the ISQMs. When making this determination, the firm may consider the matters set out in paragraph A29C as well as the following factors... [Similar changes should be made to paragraph A81G of ISA 200.]

### ED Question #3A. - Differential Requirements in the ISQMs and ISAs (EQRs)

#### *Differential Requirements in the ISQMs and ISAs*

3A. Do you agree with the IAASB's proposals for extending the extant differential requirements for engagement quality reviews to apply to PIEs (ISQM 1, paragraph 34(f) in the ED)?

(See EM Section 1-D, paragraphs 27-40 and Appendix 1)

**Overall response:** [Disagree, with comments below](#)

**Detailed comments (if any):**

**Key Concern:** Extending the differential requirement for engagement quality reviews (EQRs) to apply to PIEs undermines the risk-based approach and scalability upon which ISQM 1 is premised

We disagree with the proposal to extend the differential requirement for engagement quality reviews (EQRs) to apply to PIEs. Doing so undermines the risk-based approach and scalability upon which ISQM 1 is premised by scoping in lower-risk entities not currently captured. Instead, we believe that the differential requirement for EQRs should only apply to publicly traded entities (PTEs).

We share the IAASB's perspective, as stated in paragraph 39 of the Explanatory Memo (EM), that entities with a significant public interest in their financial condition would likely already be covered in the scope of entities subject to EQRs given the risk-based approach in ISQM 1. Based on this perspective, we believe that the existing requirement in paragraph 34(f)(iii) of ISQM 1, which requires firms to establish policies and procedures for EQRs where appropriate to address quality risk, already achieves the IAASB's objectives.

In our view, extending EQRs to apply to PIEs would result in EQRs being performed on lower-risk entities where there is limited or no value to doing so and therefore would not be in the public interest. This may be the case, for example, in an audit of the financial statements of a small, well-capitalized insurance company, whose financial statements are only used by regulators to ensure compliance with capital ratios.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

**Detailed comments (if any):**

We suggest replacing "public interest entities" with PTEs in paragraph 34(f)(i) of ISQM 1. In doing so, some of the application material that the IAASB intends to delete from paragraph A134 of ISQM1 would require reinstatement.

Extant ISQM 1 is already achieving the objectives of the IAASB's proposed change through its scalable risk-based approach. Accordingly, we believe that our suggested approach, which is largely consistent with the extant approach, is appropriate, practicable, and capable of being consistently applied.

**ED Question #3B. - Differential Requirements in the ISQMs and ISAs (Communication with TCWG about firm's system of quality management)**

<p>3B. Do you agree with the IAASB's proposals for extending the extant differential requirements for <u>communication with TCWG about the firm's system of quality management</u> to apply to PIEs (ISQM 1, paragraph 34(e) in the ED)?</p> <p>(See EM Section 1-D, paragraphs 27-38 and Appendix 1)</p>
<p><b>Overall response:</b> <a href="#">Agree (with no further comments)</a></p> <p><b>Detailed comments (if any):</b></p>
<p>If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?</p>
<p><b>Detailed comments (if any):</b></p>

**ED Question #3C. - Differential Requirements in the ISQMs and ISAs (Communicating about auditor independence)**

<p>3C. Do you agree with the IAASB's proposals for extending the extant differential requirements for <u>communicating about auditor independence</u> to apply to PIEs (ISA 260 (Revised), paragraphs 17 and 17A, and ISA 700 (Revised), paragraph 40(b) in the ED)?</p> <p>(See EM Section 1-D, paragraphs 27-38 and 41-45 and Appendix 1)</p>
<p><b>Overall response:</b> <a href="#">Disagree, with comments below</a></p> <p><b>Detailed comments (if any):</b></p> <p>We have concerns about the following:</p> <ol style="list-style-type: none"><li>1) Extending the communication required by paragraph 17 of ISA 260 (Revised).</li><li>2) The construct of paragraph A32 of ISA 260 (Revised)</li></ol> <p><b><u>Concern 1: Extending the communication required by paragraph 17 of ISA 260 (Revised) to all entities has minimal benefits</u></b></p> <p>We agree with the proposal to extend the differential requirements in paragraph 17A of ISA 260 (Revised) to apply to PIEs. However, we believe that the requirement in paragraph 17 of ISA 260 (Revised) should only be extended to apply to PIEs, rather than all entities.</p> <p>In our view, the cost of extending the requirement in paragraph 17 of ISA 260 (Revised) to all entities does not justify the benefit.</p> <p>For non-PIEs, this requirement would result in the firm providing an independence letter to Those Charged with Governance (TCWG) solely to state compliance with independence requirements (in contrast with PIEs, which would cover the additional matters under paragraph 17A). Providing an independence letter to TCWG for non-PIEs seems redundant, considering the statement of compliance with independence requirements is already included in the auditor's report.</p> <p>We acknowledge the reasons provided in paragraph 42 of the EM for extending the requirement in paragraph 17 to apply to all entities, including the interplay with paragraph 16A of ISA 260 (Revised) that requires the auditor to communicate with TCWG about the relevant ethical requirements applied. However, we believe that auditors might implement the communication with TCWG under paragraph</p>

16A differently from the communication under paragraph 17. While communication under paragraph 16A could be integrated into existing forms of communication such as the engagement letter (as suggested in the first bullet of paragraph A24 of ISA 210), communication under paragraph 17 requires the issuance of a separate independence letter.

**Concern 2: Construct of paragraph A32 of ISA 260 (Revised)**

Paragraph A32 of ISA 260 (Revised) includes guidance that “the communication requirements relating to auditor independence that apply in the case of PIEs *may also be appropriate* in the case of some entities other than PIEs.” However, as there is no guidance provided on what constitutes “appropriateness,” and therefore may leave auditors with questions.

We suggest the reference to ‘appropriate’ can be removed, while still achieving the paragraph’s purpose of reminding auditors that they may decide to communicate independence matters applicable to PIEs to entities other than PIEs.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

**Detailed comments (if any):**

**Suggestion to address Concern 1:** We suggest limiting the application of paragraph 17 of ISA 260 (Revised) to PIEs, rather than to all entities. In doing so, a conforming change would need to be made to proposed paragraph 40(b) of ISA 700 to require that the statement in the auditor’s report regarding the auditor’s communication with TCWG about compliance with relevant ethical requirements applies to PIEs, rather than to all entities.

**Suggestion to address Concern 2:** We suggest amending paragraph A32 of ISA 260 (Revised) to follow the same construct as paragraph A41 of ISA 700 (Revised) as follows:

Paragraph A81G of ISA 200 explains that the auditor may treat other entities as public interest entities and provides considerations for the auditor in doing so. **The auditor may also decide to apply the** communication requirements relating to auditor independence **applicable to that apply in the case of** PIEs **to may also be appropriate in the case of some** entities other than PIEs.

**ED Question #3D. - Differential Requirements in the ISQMs and ISAs (Communicating KAM)**

3D. Do you agree with the IAASB’s proposals for extending the extant differential requirements for communicating KAM to apply to PIEs (ISA 700 (Revised), paragraphs 30-31, 40(c) and ISA 701, paragraph 5 in the ED)?

(See EM Section 1-D, paragraphs 27-38 and 46 and Appendix 1)

**Overall response:** [Disagree, with comments below](#)

**Detailed comments (if any):**

**Key Concern 1: Benefits of extending KAM reporting to PIEs may not justify the cost**

We disagree with extending the differential requirements for KAM reporting to apply to PIEs. We do not believe that sufficient evidence has been provided to demonstrate the public interest benefits of extending this requirement to PIEs to justify the costs. We therefore believe that more information is needed before the IAASB can make this decision. Until such time, we are of the view that KAM reporting should be limited to PTEs.

We acknowledge the support for extending the differential requirement for KAM reporting to apply to PIEs in the IAASB's Auditor Reporting Post-Implementation Review (PIR) survey. However, we note the following:

- The IAASB's Auditor Reporting PIR survey was conducted in 2020, a time when KAM reporting was not yet effective in many jurisdictions. This circumstance was acknowledged in the [IAASB's September 2021 Agenda Item 5, paragraph 9\(c\)](#).
- Subsequent studies conducted by various national standard-setters since the IAASB's Auditor Reporting PIR survey present a more nuanced perspective on the benefits and costs associated with KAM reporting for listed entities. For example, an independent research study undertaken in Canada titled "[Lessons Learned from KAM Reporting on Audits of TSX-Listed Entities: Observations from the 2020 Canadian Experience](#)," found limited benefits to KAM reporting. A summary of the research study is also on the [AASB website](#).
- While paragraph 46 of the EM points to the guidance in paragraph A59 of ISA 701 that there may be certain limited circumstances when there are no KAMs, we note that even in such instances, significant costs are still incurred. This was evidenced in the Canadian research study mentioned above, where most interviewees reported discomfort with the prospect of reporting zero KAMs and noted that it led to extensive consultations across the firm.

**Concern 2: Paragraph A43 of ISA 700 (Revised) is no longer relevant (if KAM reporting extended to PIEs)**

Based on the IAASB's current position on KAM reporting, we believe paragraph A43 of ISA 700 (Revised) is no longer relevant.

Extant paragraph A43 was intended to highlight circumstances when the public sector entity may be significant due to size, complexity or public interest aspects but is not a listed entity, and the auditor may decide (or be required by law) to report KAM. In our view, the public sector entities that include the qualitative factors listed in paragraph A43 would likely be already captured by the guidance in:

- Paragraph A40 of ISA 700 (Revised) on category (iv) of PIEs;
- Paragraph A81G of ISA 200 on whether to treat other entities as PIEs (as highlighted in the first sentence of paragraph A41 of ISA 700 (Revised)); or
- Paragraph A41 (second sentence) on the auditor's decision to communicate KAM for entities other than PIEs.

Accordingly, there is no need to retain paragraph A43.

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

**Detailed comments (if any):**

**Suggestion to address Concern 1:** We suggest that the IAASB not extend the differential requirements relating to KAM reporting to apply to PIEs until a follow-up PIR survey on KAM reporting is performed. This approach will provide the IAASB with more substantive evidence of the public interest benefits of extending KAM reporting to PIEs to support the increased costs. In the meantime, we suggest amending the applicability of KAM reporting to apply to "publicly traded entity".

**Suggestion to address Concern 2:**

If the IAASB maintains its existing position to extend the applicability of KAM reporting to apply to PIEs, paragraph A43 of ISA 700 (Revised) should be deleted.



If the IAASB agrees with our suggestion to limit KAM reporting to PTEs, the first sentence of paragraph A43 of ISA 700 that was proposed to be deleted should be retained (but “listed entity” should be replaced with “PTE”).

**ED Question #3E. - Differential Requirements in the ISQMs and ISAs (Name of Engagement Partner)**

3E. Do you agree with the IAASB’s proposals for extending the extant differential requirements for the name of the engagement partner to apply to PIEs (ISA 700 (Revised), paragraphs 46 and 50(l))?  
(See EM Section 1-D, paragraphs 27-38 and Appendix 1)

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

If you do not agree, what alternatives do you suggest (please elaborate why you believe such alternatives would be more appropriate, practicable and capable of being consistently applied globally)?

**Detailed comments (if any):**

**ED Question #4 - Proposed Revisions to ISA 720 (Revised)**

4. Do you agree with the IAASB’s proposal to amend the applicability of the differential requirements for listed entities in ISA 720 (Revised) to apply to “publicly traded entity”? If not, what do you propose and why?  
(See EM Section 1-D, paragraphs 47-51)

**Overall response:** [Agree \(with no further comments\)](#)

**Detailed comments (if any):**

**ED Question #5 - Proposed Revisions to ISRE 2400 (Revised)**

*Proposed Revisions to ISRE 2400 (Revised)*

5. Do you agree with the new requirement and application material in ISRE 2400 (Revised) to provide transparency in the practitioner’s review report about the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code? If not, what do you propose and why?  
(See EM Section 1-E, paragraphs 52-57)

**Overall response:** [Neither agree/disagree, but see comments below](#)

**Detailed comments (if any):**

We have not adopted ISRE 2400 (Revised) in Canada.

In principle, it seems reasonable to make the revisions to ISRE 2400 (Revised) as the IESBA Code applies to audit and review engagements. However, we would have to do more research and consider any potential unintended consequences of such revisions before responding conclusively.



## ED Question #6 - Other Matters

### *Other Matters*

6. Are there any other matters you would like to raise in relation to the ED? If so, please clearly indicate the requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

**Overall response:** [Yes, with comments below](#)

### **Detailed comments (if any):**

#### **Concern: Lack of clarity on the determination of PIEs in the context of a group audit**

The ED is silent on the auditor's determination of PIE in the context of a group audit. In our view, guidance is needed on how:

- When a group entity is a PIE, this would impact the auditor's determination of whether the components are PIEs; and
- When a component is a PIE, this would impact the auditor's determination of whether the group is a PIE.

We note that paragraph 43 of the IAASB's Basis for Conclusions on its PIE Track 1 project referred to how the IESBA addressed whether an entity in a group audit situation was a PIE for purposes of the independence standards. However:

- it may not be appropriate to presume that the IESBA's decision about whether the entity is a PIE in a group audit situation would be the same as the IAASB's decision. The considerations of whether an entity is a PIE for the purposes of the auditing standards may be different given that the purpose of the differential requirements in the ISQMs/ISAs include more than one rationale and address broader matters than auditor independence (as discussed in paragraph 16 of the EM); and
- given PIEs are now defined by the ISQMs/ISAs, guidance on how this decision is made in a group audit situation needs to be included directly within the auditing standards.

#### **Suggest:**

We suggest the IAASB consider, and make the necessary revisions to its standards, to address how the definition of PIE should be applied under various group audit scenarios.

## Part C: Request for General Comments

The IAASB is also seeking comments on the matters set out below:

### ED Question #7 - Translation

7. Translations—Recognizing that many respondents may intend to translate the final narrow scope amendments for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED.

**Overall response:** [No response](#)

**Detailed comments (if any):**

### ED Question #8 - Effective Date

8. Effective Date—Given it is preferred to coordinate effective dates with the fraud and going concern projects, the IAASB believes that an appropriate effective date for the narrow scope amendments would be for financial reporting periods beginning approximately 18-24 months after approval of the final narrow scope amendments for Track 2. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the narrow scope amendments for Track 2 of the listed entity and PIE project.

**Overall response:** [See comments on effective date below](#)

**Detailed comments (if any):**

To support effective implementation of the PIE Track 2 revisions, we propose an effective date of no less than 24 months after the revisions are approved. We believe an extended implementation period is necessary for the following reasons:

- Unlike other projects involving amendments to the ISQMs and ISAs, the PIE Track 2 revisions will require substantive jurisdictional amendments. National auditing standard-setters need time to refine the mandatory PIE categories and determine additional categories specific to the local environment under category (iv) of the PIE definition.
- Similar to the extensive coordination between the IAASB and the IESBA, in adopting these changes at the jurisdictional level, coordination between national auditing standards-setters and national ethical standards-setters is essential to achieve jurisdictional convergence between the concepts of PIE and “publicly traded entity”. Such coordination requires adequate time, much of which will need to occur after the IAASB approves the final revisions.