

# Basis for Conclusions

Prepared by the Staff of the International Auditing and Assurance Standards Board® (IAASB)

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Narrow Scope Amendments to ISQMs, ISAs, and ISRE 2400 (Revised) as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code

**AUGUST 2025**



**IAASB™**

International Auditing and Assurance Standards Board  
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## **About the IAASB**

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The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services 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.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

**BASIS FOR CONCLUSIONS: NARROW SCOPE AMENDMENTS TO  
THE ISQMs, ISAs AND ISRE 2400 (REVISED) AS A RESULT OF THE  
REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND  
PUBLIC INTEREST ENTITY IN THE IESBA CODE**

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The Staff of the IAASB has prepared this Basis for Conclusions. It relates to, but does not form part of, the narrow scope amendments to the ISQMs, ISAs and ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*, as a result of the revisions to the definitions of listed entity and public interest entity in the IESBA Code<sup>1</sup> (collectively referred to as “the narrow scope amendments” for the purpose of this publication).

The narrow scope amendments were approved in June 2025 with affirmative votes of 16 out of 16 IAASB members.

## Section A – Introduction

### Background

1. In December 2021, the IESBA concluded its project on the [Definitions of Listed Entity and Public Interest Entity](#) (PIE), which included revisions to Part 4A of the IESBA Code and its glossary relating to listed entity and PIE (the IESBA PIE revisions).<sup>2</sup> The revisions, which are effective for audits and reviews of financial statements for periods beginning on or after December 15, 2024, include the following key features:

- An overarching objective setting out the basis for defining a class of entities as PIEs (paragraph 400.15 of the IESBA Code)
- Factors for consideration in evaluating the extent of public interest in the financial condition of an entity (paragraph 400.14 in the IESBA Code)
- A revised definition of PIE that includes a broadly defined list of mandatory categories of entities that firms should treat as PIEs, subject to local refinement by relevant local bodies (paragraphs 400.22 and 400.23 in the IESBA Code)
- Guidance that encourages firms to determine if any additional entities should be treated as PIEs, with factors for firms to consider in making this determination (see paragraph 400.24 A1)

Please note, any reference in this Basis for Conclusions document to the IESBA Code, is to the [2024 Handbook](#) of the IESBA Code.

2. Recognizing the importance of coordination between the two Boards to achieve convergence, to the greatest extent possible, between key concepts in the IAASB and the IESBA standards, the two Boards have coordinated extensively on the topic of listed entity and PIE. This has included Staff coordination, the participation of IAASB and the IESBA correspondent members in the respective Boards’ Task Forces, plenary discussions involving representatives of the IAASB and the IESBA at the respective Board meetings, incorporating specific questions to seek views from stakeholders in the IAASB and the IESBA exposure drafts, joint IAASB-IESBA Consultative Advisory Group (CAG) discussions and joint IAASB-IESBA Jurisdictional Standards Setters (JSS) sessions.
3. In March 2022, the IAASB approved a [project proposal](#) to undertake a narrow scope project as a result of the IESBA project on the definitions of listed entity and PIE. The following are the project objectives that support the public interest – the project was undertaken through two separate Tracks:

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<sup>1</sup> The International Ethics Standards Board for Accountants (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)*

<sup>2</sup> See the [Final Pronouncement: Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#). Any reference in this Basis for Conclusions document to the IESBA Code, is to the [2024 Handbook](#) of the IESBA Code.

Track 1:

- 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 (i.e., to operationalize IESBA's transparency requirement).

Track 2:

- Achieve to the greatest extent possible convergence between the definitions and key concepts underlying the definitions used in the revisions to the IESBA Code and the ISQMs and ISAs to maintain their interoperability.
  - Establish an objective and guidelines to support the IAASB's judgments regarding specific matters for which differential requirements for certain entities are appropriate.
  - Determine whether, and the extent to which, to amend the applicability of the existing differential requirements for listed entities in the ISQMs and ISAs to meet heightened expectations of stakeholders regarding the performance of audit engagements for certain entities, thereby enhancing confidence in audit engagements performed for those entities.
4. Track 1 of the project was concluded in June 2023, when the IAASB approved the narrow scope amendments to ISA 700 (Revised)<sup>3</sup> and ISA 260 (Revised)<sup>4</sup> to operationalize the IESBA's transparency requirement.<sup>5</sup>
5. This Basis for Conclusions deals with the amendments to the ISQMs, ISAs and ISRE 2400 (Revised) in undertaking Track 2 of the IAASB's narrow scope project on listed entity and PIE.

*Exposure Draft for the Narrow Scope Amendments*

6. At its December 2023 meeting, the IAASB approved an [Exposure Draft](#) for the proposed narrow scope amendments.<sup>6</sup> The ED was issued on January 8, 2024, for a 90-day comment period that closed on April 8, 2024. The Explanatory Memorandum accompanying the ED highlighted, among other matters, the significant proposals of the IAASB and how those serve to achieve the project objectives that support the public interest, and sought responses to 8 questions relating to the ED.
7. In total, 46 responses were received from a diverse representation of stakeholder constituencies and from all geographical regions. Responses were received from two Monitoring Group (MG) members,<sup>7</sup> regulators and audit oversight authorities, JSS, accounting firms, IFAC member bodies and other professional organizations, and individuals and others.

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<sup>3</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>4</sup> ISA 260 (Revised), *Communication with Those Charged With Governance*

<sup>5</sup> See the Final Pronouncement: [Narrow Scope Amendments to ISA 700 \(Revised\) and ISA 260 \(Revised\) as a Result of the Revisions to the IESBA Code that Require a Firm to Publicly Disclose When a Firm Has Applied the Independence Requirements for PIEs](#).

<sup>6</sup> Exposure Draft (ED): [Proposed Narrow Scope Amendments to the ISQMs, ISAs, and ISRE 2400 \(Revised\), as a Result of the Revisions to the Definitions of Listed Entity and public Interest Entity \(PIE\) in the IESBA Code](#).

<sup>7</sup> The Monitoring Group comprises the Basel Committee on Banking Supervision (BIS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO) and the World Bank (WB). Responses to the ED were received from IFIAR and IOSCO.

8. In addition, the IAASB leveraged the feedback received from investors and other users of financial statements on relevant topics addressed in the Auditor Reporting post-implementation review,<sup>8</sup> as well as the public consultations on and further outreach undertaken as part of the IAASB's recent projects on Fraud<sup>9</sup> and Going Concern,<sup>10</sup> that included considering extending the scope of certain differential requirements.
9. During the exposure period and post the ED, given the high importance of coordination between the two Boards regarding the project, the IAASB continued to engage with IESBA with respect to the definition of PIE and its application. The coordination has been accomplished through staff-to-staff coordination, discussions involving the Chairs of the respective Boards' task force and working group and participation of an IESBA correspondent member in the PIE Task Force.
10. The IAASB also coordinated with other IAASB Task Forces, including with ongoing projects (Fraud and Going Concern) that were also considering changes to the auditor's report.

*Post-Exposure Consultation: Invitation To Comment (ITC)*

11. During the exposure period and post ED, the IAASB identified an issue of divergence between the IAASB PIE proposals, as proposed in the ED, and the IESBA PIE revisions (see paragraphs 19 and 22). This divergence was highlighted by a discussion at the March 2024 IESBA meeting (see [Agenda Item 8](#)) to reaffirm IESBA's view through clarifying which entities a firm should treat as PIEs for purposes of the firm complying with the IESBA Code (the IESBA clarification).<sup>11</sup> Due to the divergence issue, the IAASB changed its position compared to what was presented in the ED when finalizing the narrow scope amendments.
12. The March 2024 IESBA discussion occurred shortly before the close of the comment period for the ED on April 8, 2024. Although some respondents specifically highlighted the issue of divergence in their comment letters to the IAASB, the IAASB also recognized that not all stakeholders may have been aware of that discussion or have fully appreciated the implications of the divergence between the IAASB PIE proposals and the IESBA PIE revisions read together with the IESBA clarification.
13. At its December 2024 meeting, the IAASB agreed to undertake an additional consultation process to provide clarity and transparency with regards to the IAASB's final position, rationale and pathway to

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<sup>8</sup> The [Auditor Reporting post-implementation review](#) was concluded in September 2021. An analysis of the results from the post-implementation review survey was discussed at the February 2021 IAASB mid-quarter meeting – see [Agenda Item 3](#).

<sup>9</sup> See paragraphs 5-6, 90-122 and Appendix 2 of Agenda Item 8 of the [September 2024 IAASB meeting](#), as well as paragraphs 35-41 of Agenda Item 10 of the [December 2024 IAASB meeting](#).

<sup>10</sup> See paragraphs 5-7, 13, 119-173 and Appendix 2 of Agenda Item 3 of the [June 2024 IAASB meeting](#).

<sup>11</sup> At the March 2024 IESBA meeting, the IESBA Staff presented its proposals to add a question in the [IESBA Staff Questions & Answers – Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code \(IESBA PIE Q&A\)](#) to clarify the IESBA's position that, for this specific project, compliance with the IESBA Code by firms means first and foremost compliance with local laws and regulations, whatever they may be at the time of the auditor's report. In September 2024, IESBA Staff released an update to its [IESBA PIE Q&A](#). This update includes a new question and answer (Q16) to address the scenario where a jurisdiction has no PIE definition or excluded one or more of the mandatory categories in the IESBA PIE definition. In such cases, the IESBA Code does not require firms to treat any entity in that jurisdiction as a PIE or any entity in that jurisdiction that falls in those categories as a PIE.



broader differential requirements with its stakeholders.<sup>12</sup> The ITC was issued on February 10, 2025 for a 45-day comment period that closed on March 27, 2025 and provided stakeholders the opportunity to share any observations prior to finalizing the narrow scope amendments to the ISQMs and ISAs. The ITC also sought responses to questions on forward-looking matters.

14. In total, 37 responses were received from a diverse representation of stakeholder constituencies and from all geographical regions. Responses were received from one MG member, a user of financial statements, regulators and audit oversight authorities, JSS, accounting firms, IFAC member bodies and other professional organizations, and an academic. 30 respondents to the ITC also had responded to the ED.

## Section B – Public Interest Issues Addressed

15. In developing the narrow scope amendments, the IAASB considered the qualitative standard-setting characteristics set out in paragraph 31 of the project proposal and those included in the Public Interest Framework (PIF)<sup>13</sup> as criteria to assess the proposed standard's responsiveness to the public interest.
16. The **Appendix** to this Basis for Conclusions maps the key aspects of the narrow scope amendments to the objectives and standard-setting actions in the project proposal that support the public interest and indicates which qualitative standard-setting characteristics were at the forefront, or of most relevance, in developing the narrow scope amendments.

## Section C – Definitions of Public Interest Entity (PIE) and Publicly Traded Entity (PTE)

### *Background*

17. When developing the approach to revise the PIE definition, the IESBA recognized the difficulty of establishing a concise definition that can be universally adopted at the global level because of the variety of circumstances that exist across jurisdictions. Accordingly, under the approach of the IESBA Code, relevant local bodies play a pivotal role in establishing the local PIE definition through refining the categories of entities in the IESBA PIE definition, setting size criteria or adding new types of entities or exempting particular entities. The IESBA PIE revisions included replacing the term “listed entity” and related definition with a new term – “publicly traded entity” (PTE) – and related new definition. PTE is also one of the mandatory categories of entities included in the PIE definition.
18. The IAASB believed that it is essential to incorporate in the ISQMs and ISAs the entire approach to scoping PIEs as contemplated in the IESBA Code because convergence is part of the IAASB's project objectives and because all elements of the approach are necessary to ensure that the differential requirements in the ISQMs and ISAs are appropriate in the circumstances of the jurisdiction. The IAASB proposed to adopt the definitions of PIE and PTE and to include a requirement with supporting application material to treat an entity as a PIE in accordance with the definition, based on the

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<sup>12</sup> See the Post-Exposure Consultation: Invitation To Comment (ITC), [Post-Exposure Consultation: Invitation to Comment Before the IAASB Finalizes the Narrow Scope Amendments to the ISQMs and ISAs as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code](#).

<sup>13</sup> See the PIF published by the Monitoring Group in July 2020 (as part of their report “[Strengthening the International Audit and Ethics Standard-Setting System](#)”). The PIF sets out a framework for the development of high-quality international standards by the IAASB that are responsive to the public interest. Among other matters, the PIF explains for whom standards are developed, what interests need to be served and what characteristics standards should exhibit.

approach in the IESBA Code. Some changes were applied to the wording used in the definitions given the differences in the drafting conventions used in the respective Boards' standards.

#### *Summary of Comments Received on Exposure Draft*

19. Although respondents generally supported the adoption of the definition of PIE and PTE, the IAASB identified a significant theme that highlighted a risk of divergence between the IAASB PIE proposals and the IESBA PIE revisions (read together with the IESBA clarification) regarding the definition of PIE and its application in determining which entities to treat as PIEs. The respondents noted that:
- Such divergence brings into question the convergence objective of the IAASB's Listed Entity and PIE project and would not be in the public interest. Accordingly, these respondents believed that it would be inappropriate at this time for the IAASB to extend the extant differential requirements in the ISQMs and ISAs that apply to listed entities, to apply to PIEs.
  - Because the IAASB PIE proposals did not reflect the IESBA clarification, firms appear to have significantly more responsibility under the IAASB proposals compared to the IESBA PIE revisions. Consequently firms, in certain circumstances, will be required to treat certain entities as PIEs under the IAASB PIE proposals but not for purposes of the IESBA Code.
20. In addition, respondents suggested that the IAASB revise the wording of the requirements in paragraph 18A of ISQM 1 and paragraph 23A of ISA 200 in the ED to better align with the wording in the IESBA PIE revisions (see paragraph R400.23 of the IESBA Code), since using the phrase "as well as consider" (by the IAASB) as opposed to the phrase "and shall take into account" (used by IESBA) implies a lower level of direction and lacks clarity regarding the auditor's actions.
21. Respondents also encouraged the IAASB to clarify the definition of PTE because the guidance for certain terms, such as "publicly accessible market mechanism" can only be found in non-authoritative guidance that was issued by the IESBA. Respondents were of the view that clarification is required in the standards to enable practitioners to apply the definition consistently.

#### *IAASB Decisions Following the Exposure Draft*

##### *Divergence Issue*

22. The IAASB carefully considered the comments received that identified the divergence issue between the IAASB PIE proposals and the IESBA PIE revisions read together with the IESBA clarification. Given the significance of this issue, the IAASB deliberated on different options to advance the IAASB PIE proposals:
- *Moving forward with the original PIE proposals (the ED path).* The IAASB concluded that it was not appropriate to continue with the original PIE proposals as originally contemplated in the ED. This was because:
    - The application of the IAASB PIE proposals, which were designed to be based on the IESBA PIE revisions, would go beyond the independence standards of the IESBA Code.
    - While the IAASB PIE proposals and the IESBA PIE revisions would contain the same definition of PIE, the application of the IAASB PIE proposals could lead to a different outcome compared to the IESBA PIE revisions read together with the IESBA clarification (i.e., the same entity may be treated differently for audit and ethics purposes).

- *Facilitating the same outcome as the IESBA PIE revisions in the ISQMs and ISAs (the Conditional path).* To do so, the IAASB would have had to introduce a conditional requirement in each of ISQM 1 and ISA 200 that certain categories in the PIE definition will be applicable only to the extent that relevant local bodies in jurisdictions have (i) further refined those categories; or (ii) determined that they are appropriate as is. Furthermore, in extending any of the extant differential requirements in the ISQMs or ISAs that apply to listed entities, to apply to PIEs, a requirement would apply to PIEs as determined in accordance with the conditional requirement in ISQM 1 or ISA 200, as applicable. The IAASB concluded that it was not appropriate to continue with this path. This was because:
  - This path would not lead to a global baseline for PIEs that could be consistently applied across jurisdictions. The differential requirements in the ISQMs and ISAs would be subject to jurisdictional interpretation and variation across multiple classes of entities that are otherwise intended to be part of 'mandatory' categories within the PIE definition, including that certain classes of entities could be excluded in a specific jurisdiction. Such concerns had prevented the IAASB in the past from extending differential requirements in the ISQMs and ISAs to apply to entities other than listed entities.
  - It would create a precedent risk for the IAASB in terms of its standards-design. The overarching requirements in ISA 200<sup>14</sup> relating to representing compliance with the ISAs has necessitated a standards-design whereby the requirements in the ISAs are not contingent upon local adoption (see paragraphs 18, 20 and A60 of ISA 200). Therefore, there is a risk that this path could create precedent whereby any specific performance requirement could in the future be requested to be conditional until such time that a jurisdiction 'is ready' for the requirement. This would reduce comparability and usability of information for users of audited financial statements.
- *Adoption only of the definition of PTE (the PTE path).* Undertaking this path means that for the time being the IAASB will not adopt the PIE definition in the IESBA Code for the ISQMs and ISAs. Also, the extant differential requirements in the ISQMs and ISAs that apply to listed entities (or that will apply to PTEs going forward) will not be extended to apply to PIEs. However, the IAASB will include robust guidance for determining entities other than PTEs where stakeholders have heightened expectations regarding the audit engagement. In doing so, firms may determine to apply one or more requirements set out in the ISQMs and ISAs for audits of financial statements of PTEs to the audits of such other entities. This guidance includes consideration of whether an entity is treated as a PIE for purposes of relevant ethical requirements, including those related to independence. The IAASB noted:
  - Not having a definition of PIE in the ISQMs and ISAs for the time being is a pre-existing difference between the two Boards' standards, which has not caused issues with respect to the interoperability between the IAASB standards and the IESBA Code.
  - In line with prevailing practice, a jurisdiction can always decide to 'add on' to the IAASB requirements.

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<sup>14</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

- Under the PTE path, the IAASB has still incorporated an overarching objective and purpose for differential requirements in the ISQMs and ISAs, including a framework to determine when it may be appropriate to apply a differential requirement to entities other than PTEs.
23. The IAASB concluded that the PTE path provides the most feasible solution at this time to finalize the narrow scope amendments in accordance with the project objectives.
24. In addition, the IAASB agreed to revisit the decision to adopt the definition of PIE in the IESBA Code (adapted as necessary for the ISQMs and ISAs) and extending differential requirements to apply to audits of PIEs, when the global adoption and implementation of such definition has sufficiently matured (i.e., when more jurisdictions have adopted, appropriately refined for jurisdictional circumstances, and implemented the IESBA PIE definition locally, and the nature, extent and implications of variations are clearer) (see **Section F**).

#### Changes to the Definition of PTE

25. Since the IAASB decided to follow the PTE path in finalizing the narrow scope amendments, the Board did not further consider the need for changes to the definition of PIE and the requirement and related application material in the ED to treat an entity as a PIE in accordance with the definition. Input from respondents on this matter will be carried forward to when the IAASB revisits the decision to adopt the definition of PIE (see paragraph 24).
26. However, based on responses that the requirement was redundant or, otherwise, ambiguous, unclear or confusing, the IAASB decided to move all relevant material into the definition in so far as it relates to the PTE definition, i.e., have a core definition with essential explanatory material. This included essential explanatory material to clarify how local bodies may more explicitly define PTEs.

#### Post-Exposure Consultation

27. Respondents to the ITC generally supported the IAASB's final position and rationale for the PTE path and considered it to be a practical solution at this time (compared to the ED path and the Conditional path as discussed in paragraph 22 above). Respondents highlighted the importance of the alignment of the definition of PTE in the ISQMs and ISAs with the IESBA Code to ensure the consistent application of the IAASB standards and IESBA Code. They also noted that owing to the implications of the divergence issue as described in Section III of the ITC, it would not be in the public interest for the IAASB to issue standards that could lead to a different outcome for the application of the PIE definition in the ISQMs and ISAs compared to the definition in the IESBA PIE revisions read together with the IESBA clarification.
28. However, some respondents offered observations on the IAASB's final position or rationale, as explained in the ITC. Respondents noted the following:
- *Value of the IAASB PIE proposals as presented in ED and limited benefits for the adoption of the PTE definition.* Respondents were of the view that the heightened expectations of stakeholders regarding audit engagements for PIEs would only be met with extending the applicability of the extant differential requirements in the ISQMs and ISAs to PIEs and not solely to PTEs (i.e., in accordance with the IAASB PIE proposals as presented in the ED). These respondents did not see much added value for the adoption of PTE as a replacement for listed entity and suggested that the adoption of the PIE and PTE definitions be postponed to a later

date.

- *Difference in standards-design of the IAASB standards and IESBA Code.* Respondents highlighted a key underlying difference in the way that the IESBA and IAASB treat departures from requirements in their standards, or conflicts with provisions of law or regulations. The difference in standards-design is apparent from paragraphs R100.7 and 100.7 A1 of the IESBA Code and paragraphs 18, 20 and A60 of ISA 200. In essence, this manifests as follows:
  - For the IESBA Code, if there is a conflict with the provisions of law or regulation, law or regulation prevails, and the professional accountant would still be in compliance with the IESBA Code.
  - For the IAASB, although the requirements of the ISAs do not override the provisions of law or regulation, in the case of a conflict, compliance with law or regulation does not automatically result in compliance with the ISAs. On occasion, the ISAs use the phrase “unless prohibited by law or regulation” to recognize a known potential for conflict, and in these circumstances compliance with law or regulation would result in compliance with the ISAs.

Respondents who raised the ‘difference in standards-design issue’ explained that owing to such difference, the application of the PTE definition under the respective standards of the two Boards may still lead to a different outcome, even when the definition of PTE has been refined at a jurisdictional level as contemplated under both sets of standards. For example, as explained in some comments received, when certain jurisdictions have no definition of PTE, the firms in those jurisdictions need not apply the PTE category in the IESBA PIE definition and will still be in compliance with the IESBA Code. In contrast, in such jurisdictions, not applying the definition of PTE in the ISQMs and ISAs would lead to the firms not being in compliance with the ISQMs and the ISAs. These respondents also acknowledged that this may be much more limited in the case of PTEs compared to if the IAASB had decided to adopt the PIE definition.

- *Concerns with the essential explanatory material for the PTE definition.* Although respondents acknowledged the purpose of incorporating essential explanatory material into the definition of PTE in the ISQMs and ISAs, they expressed concerns that:
  - The inclusion of such essential explanatory material may conflict with the principle that IAASB definitions should be standalone. They proposed that the application of the PTE definition and allowance for its refinement should be addressed in a requirement and related application material in each of ISQM 1<sup>15</sup> and ISA 200.
  - This may hinder the promotion of global harmonization as it allows jurisdictional requirements to take precedence over the IAASB standards.
  - Certain European Union (EU) respondents cited an issue with the PTE definition and its application in the EU jurisdictions. With the IAASB now proposing to only adopt the *PTE* definition without also adopting the *PIE* definition, the complication is that the term *PTE* is not defined in the EU (i.e., the EU *PIE* definition refers only to entities whose

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<sup>15</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

transferable securities are admitted to trading on a regulated market). Respondents felt that the proposed essential explanatory material does not resolve this issue around PTEs.

#### *IAASB Decisions Following the Post-Exposure Consultation*

29. The IAASB acknowledged the broad support for its position and its rationale and believed that its decision following the ED for the adoption of the PTE definition (i.e., choosing the PTE path over the ED path and Conditional path as discussed in the ITC) alongside its commitment to revisiting the IAASB's original PIE proposals remains well-considered and appropriate.
30. The IAASB also reaffirmed its intent that the application of the PTE definition, appropriately refined for jurisdictional circumstances as contemplated by the essential explanatory material to the definition, is expected to result in the same entities being treated as PTEs in a specific jurisdiction under the IAASB standards and the IESBA Code.

#### *Value of the IAASB PIE Proposals as Presented in ED and Limited Benefits for the Adoption of the PTE Definition*

31. The IAASB reflected on the concern raised by respondents about the Board's final position not fully addressing PIEs at this stage and that the adoption of the PTE definition alone is a marginal change with limited added value. The IAASB reiterated its commitment to adopting the definition of PIE in the IESBA Code, adapted as necessary for the ISQMs and ISAs, when the global adoption and implementation of such definition has sufficiently matured and extending the differential requirements to apply to audits of PIE (following a case-by-case consideration of existing differential requirements). The IAASB believed that this approach significantly increases the chance of a successful outcome in future in terms of establishing a global baseline definition and alignment of the IAASB standards and the IESBA Code.
32. Furthermore, the IAASB agreed with many respondents to the ITC across stakeholder groups that the adoption of the PTE definition will have benefits over retaining the definition of listed entity. Benefits include:
  - Convergence on the PTE definition between the IAASB standards and the IESBA Code
  - Adoption of the PTE definition is responsive to issues that had been identified with the listed entity definition (as highlighted in the Explanatory Memorandum to the ED (paragraphs 25-26) and in the ITC (paragraph 16)).
  - In addition to adopting the PTE definition and the application of extant differential requirements in the ISQMs and ISAs to PTE, the narrow scope amendments also incorporate an overarching objective and purpose for differential requirements in the ISQMs and ISAs, which are fully aligned with the equivalent objective and purpose for differential requirements for auditor independence in the IESBA Code.

#### *Difference in Standards-Design of the IAASB Standards and IESBA Code*

33. The IAASB noted that the difference in standards-design relating to the way that the IESBA and IAASB treat departures in requirements in their standards from, or conflicts with provisions of law or regulations is a reason why the IAASB had suggested waiting until the global adoption and implementation of the PIE definition under the IESBA Code has sufficiently matured.



34. The IAASB recognized that the application of the PTE definition may still lead to a different outcome under the two Boards' standards (see paragraph 28). However, given the relatively restricted nature of PTEs compared to PIEs, including the fact that the definition of PTE explicitly recognizes that a listed entity as defined by relevant securities law or regulation is an example of a PTE, the IAASB anticipates limited instances of this occurring – a fact that was recognized by certain respondents who raised the issue.

#### Concerns with the Essential Explanatory Material for the PTE Definition

35. The IAASB noted that the matter raised by respondents for the PTE definition to be standalone (i.e., not attaching essential explanatory material to the definition) must be considered in the context of the approach that was agreed at the ED stage to acknowledge and give effect to the role of relevant local bodies in defining more explicitly the categories of entities provided for in the PIE or PTE definitions. Local bodies are best placed to assess and determine with greater precision which entities or types of entities should be treated as PIEs or PTEs in a specific jurisdiction. Also, the IAASB had suggested adding essential explanatory material to the definition of PTE based on responses to the ED (see paragraphs 17–18 and 26). Some respondents who raised this matter acknowledged that the underlying reason for following this approach is a legitimate compromise in the circumstances of this project.
36. The IAASB decided to retain the above approach because of the overriding benefits of enhanced clarity and understandability. The IAASB also noted that the outcome is the same, whether the ability to define more explicitly a PTE is addressed by way of a core definition with essential explanatory material, or a standalone definition with a requirement and related application material to support its application.
37. However, based on feedback received, the IAASB expanded the essential explanatory material to clarify that when terms other than PTE are applied to entities by law, regulation or professional requirements to meet the purpose described in, as applicable, paragraphs 5A and 5B of ISQM 1 or paragraphs 9A and 9B of ISA 200, such terms are regarded as equivalent to “publicly traded entity”.

## Section D – Overarching Objective and Purpose of Differential Requirements in the ISQMs and ISAs

### *Background*

38. Respondents to the IESBA PIE ED<sup>16</sup> supported the use of a common objective as an overarching principle for establishing differential requirements for certain entities across the IAASB standards and the IESBA Code. Considering this support, the IAASB agreed to adopt the overarching objective and purpose from the IESBA PIE revisions into ISQM 1 and ISA 200, given that these standards prescribe the authority for all ISQMs and ISAs respectively. In doing so, the IAASB adapted the objective and purpose with minimal tailoring, so it remains appropriate in the context of the ISQMs and ISAs. The overarching objective and purpose recognize that stakeholders have heightened expectations regarding an audit engagement for certain entities where there is significant public interest in the financial condition of those entities.

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<sup>16</sup> As alluded to in paragraph 2, the IESBA ED incorporated certain questions to seek early input from stakeholders for the IAASB project that was going to follow to IESBA project.

39. In addition, the IAASB included in its ED proposals a framework for when it may be appropriate to apply the differential requirements in the ISQMs and ISAs to entities other than PIEs. This framework included a list of factors to support consideration of whether there are other types of entities for which it may be appropriate to apply such requirements. The IAASB believed this would drive consistency in the application of the requirements.

#### *Summary of Comments Received on Exposure Draft*

40. Respondents were predominantly supportive of the use of a common objective and purpose for establishing differential requirements for PIEs, noting:
- The heightened expectations of stakeholders regarding the audit engagement for a PIE. It will also help minimize the expectation gap relating to financial reporting and auditing among stakeholders.
  - Using a common overarching objective across the IAASB standards and the IESBA Code will reduce confusion and enhance certainty and ease of implementation and will contribute to the overall professionalism of the auditing and accounting profession.
41. In their written responses, stakeholders also suggested that the IAASB:
- Relocate the overarching objective and purpose for establishing differential requirements for PIEs. Respondents noted that the equivalent objective and purpose are located in the introductory section of the relevant part of the IESBA Code whereas the IAASB included such paragraphs in the application material of ISQM 1 and ISA 200. Respondents were of the view that the paragraphs provide the rationale for designating entities as PIEs and having certain separate requirements relating to the audits of such entities and therefore that they belong in the introductory sections of the standards.
  - Revise the terminology used in the overarching objective and purpose. Respondents noted that the terminology used was aligned with the objective and purpose in the IESBA Code. However, given the different contexts, respondents raised concerns that some of the terms may lack relevance, specifically the term “stakeholder” and “financial condition”.

#### *IAASB Decisions*

42. The IAASB agreed with the comments from respondents that the overarching objective and purpose for establishing differential requirements are better located in the introductory section given that these paragraphs explain the rationale and scope of differential requirements for audits of financial statements of PIEs.
43. The IAASB reflected on the drafting suggestions from respondents to tailor the objective and purpose to the context of the ISQMs and ISAs. The IAASB believed that the term “stakeholders” continues to reflect the intention that significant public interest in the financial condition of certain entities is broader than users of the financial statements, which is appropriate in the context of PIE and PTE. The IAASB noted that the use of “stakeholders” does not broaden the scope of the audit or the responsibilities of the auditor.
44. The IAASB considered the IESBA Basis for Conclusions<sup>17</sup> when deliberating the use of the term “financial condition”. In its Basis for Conclusions, IESBA has bridged the concept of financial condition and financial

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<sup>17</sup> See the IESBA's Basis for Conclusions paragraph 29, [Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#).



statements by clarifying that the financial statements of an entity can be used when assessing the entity's financial condition. The IAASB has adopted the same 'bridging' approach in the IAASB proposals (see paragraph 5B of ISQM 1 and paragraph 9B of ISA 200).

45. Because of the path taken to finalize the narrow scope amendments, the overarching objective and purpose will for now apply to establishing differential requirements for the audits of PTEs (and not PIEs) (see **Section C**). For this reason, the IAASB also revised the application material that constitutes the framework to identify other entities for when it may be appropriate to apply the differential requirements in the ISQMs and ISAs (see paragraphs A2A–A2E of ISQM 1 and paragraphs A13A–A13E of ISA 200).

## Section E – Amending the Applicability of Extant Differential Requirements

### Background

46. The table below references the six differential requirements in extant ISQMs and ISAs that apply to the audit of financial statements of listed entities.

<i>Description</i>	<i>Paragraph(s) in the ISQMs and ISAs</i>
Engagements Subject to an Engagement Quality Review	ISQM 1, paragraph 34(f)
Communication with Those Charged with Governance (TCWG) About the System of Quality Management	ISQM 1, paragraph 34(e)
Auditor Independence	ISA 260 (Revised), paragraph 18; ISA 700 (Revised), paragraph 40(b)
Communicating Key Audit Matters (KAM)	ISA 700 (Revised), paragraphs 30–31, 40(c); ISA 701, <sup>18</sup> paragraph 5
Name of the Engagement Partner	ISA 700 (Revised), paragraphs 46, 50(l)
Transparency About the Other Information	ISA 720 (Revised), <sup>19</sup> paragraphs 21–22(b)

47. In developing the ED, the IAASB undertook a case-by-case analysis of extant differential requirements in the ISQMs and ISAs and considered:
- The purpose of the extant differential requirements to validate that the public interest factors which drive those requirements are consistent with the overarching objective and purpose (see **Section D**).
  - The related application material to the differential requirements in order to identify whether any unintended consequences exist, such as matters around jurisdictional considerations or practicality and operability for audits of financial statements of entities other than PIEs.

<sup>18</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>19</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

- Whether there was indication of support for extending the applicability of the differential requirements to apply to PIEs or more broadly from previous IAASB public consultations, deliberations and decisions at the time when the extant differential requirements were established.
  - Other relevant IAASB information gathering.<sup>20</sup>
48. The IAASB's key observation regarding the case-by-case analysis was that the public interest factors which drive the extant differential requirements in the ISQMs and ISAs support enhancing stakeholders' confidence in the audit and the audited financial statements of listed entities. This aligns with the overarching objective and purpose for establishing differential requirements more broadly for PIEs discussed in **Section D**.
49. In addition, the feedback from other IAASB information gathering indicated broad support from stakeholders for the applicability of the extant differential requirements in the ISQMs and ISAs to apply to PIEs, with one notable exception regarding the reporting requirements in paragraphs 21–22(b) of ISA 720 (Revised) (see **Section H**).
50. Consequently, except for ISA 720 (Revised), the IAASB proposed extending the extant differential requirements in the ISQMs and ISAs to PIEs. The IAASB believed that this would support the public interest as this would be responsive to stakeholder feedback from previous IAASB information gathering and public consultations, promote consistency among jurisdictions globally when applying the ISQMs and ISAs and result in alignment of key concepts and definitions across the IAASB and the IESBA standards.

#### *Summary of Comments Received on Exposure Draft*

51. Respondents generally supported the IAASB's proposals for extending the extant differential requirements in the ISQMs and ISAs to apply to PIEs. Respondents noted that the proposals promote consistency among jurisdictions globally when applying the ISQMs and ISAs, enhance audit quality and provide greater confidence to the public.
52. However, respondents also recommended that the IAASB:
- Consider introducing a rebuttable presumption for requiring an engagement quality review for all PIE audits. Respondents were concerned that requiring engagement quality reviews for all PIEs may scope-in lower risk PIEs and may negatively impact small and medium practices in terms of costs and resources, as they often serve those lower-risk PIEs. In addition, respondents were of the view that this requirement is inconsistent with, and may be viewed as undermining, the principle of a risk-based approach, as explained in ISQM 1.
  - Conduct additional outreach with TCWG to understand how the information regarding the firm's system of quality management helps in fulfilling the responsibility of TCWG before extending the differential requirements to apply to PIEs.
  - Allow flexibility to exempt certain PIEs from disclosing KAM, especially for PIEs who have a limited number of intended users of the auditor's report. Respondents were of the view that the cost for communicating KAM to stakeholders of certain PIEs might outweigh the benefit.

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<sup>20</sup> For example, the post-implementation review of the Auditor Reporting Standards and, where appropriate, how JSS have addressed this issue at the jurisdictional level.

- Perform further information-gathering activities to determine how disclosing the name of the engagement partner affects audit quality. Respondents questioned how disclosing the name of the engagement partner brings any additional value to accountability or stakeholder's confidence regarding the audit of a PIE. Respondents noted that intended users of the auditor's report often derive value from the firm reputation instead of who the engagement partner is.
53. In addition, respondents who commented on the identified divergence issue (see **Section C**) raised a significant concern on extending the extant differential requirements to apply to PIEs and strongly advised against it. These respondents believed that the application of the definition of PIE will vary greatly across jurisdictions, resulting in inconsistent practices globally and leading to confusion for users of financial statements. These respondents predominantly suggested amending the differential requirements that apply to listed entities in the ISQMs and ISAs to apply to PTEs solely.
54. Respondents also provided feedback on other changes that were introduced to the differential requirements in the ED, including:
- Concerns regarding extending the communication about independence of the auditor's network firms (see paragraph 18 of ISA 260 (Revised)) to TCWG for audits of all entities. They were of the view that this information does not provide any incremental information to TCWG given that a statement of compliance with independence requirements is already included in the auditor's report.
  - Disagreement with the removal of the extant requirement to communicate fee-related matters (see paragraph 18A(a) of ISA 260 (Revised)) and its relegation to application material. Respondents noted that fee-related matters are one of the important elements to communicate with TCWG and the extant requirement ensured greater consistency of application.

### *IAASB Decisions*

#### *Amending the Applicability of the Differential Requirements to Apply to PTE*

55. Given the decision to only adopt the definition of PTE (see **Section C**), the IAASB revised the narrow scope amendments to reflect the adoption of the PTE definition as a replacement for "listed entity", with the effect that the extant differential requirements in the ISQMs and ISAs will henceforth apply to PTEs.
56. In making its decision, the IAASB reflected on the project objective to 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 audit engagements for certain entities, thereby enhancing the confidence of stakeholders in the financial statements of those entities. The IAASB noted that:
- The extent to which the extant differential requirements in the ISQMs and ISAs ought to apply to entities other than listed entities is dictated by the fact that the definition of PTE has been adopted as a replacement for "listed entity" (the PIE definition has not been adopted). Therefore, the extant differential requirements have been amended to apply to PTEs.
  - Application material to the extant differential requirements has been updated to reflect that the firm may determine that it is appropriate to apply a requirement for an audit of financial statements of a PTE to audits of other entities, guided by considerations of significant public interest in the financial condition of such entity.

57. The IAASB notes that the feedback received from respondents on the applicability of the differential requirements will be used to inform the Board when it revisits the decision to adopt the definition of PIE, aligned with the definition of the IESBA Code, and the scope and applicability of differential requirements in the ISQMs and ISAs (see **Section F**).

#### Communication About Independence

58. The IAASB believed that the extension of the requirement to confirm with TCWG that the engagement team has complied with relevant ethical requirements for all audits of financial statements remains appropriate. The IAASB concluded that this revision aligns with the requirement in paragraph 28(c) of ISA 700 (Revised) that requires communication about compliance with independence requirements in the auditor's report for all audit engagements.
59. The IAASB reflected on the concern from respondents about the removal of the extant requirement to communicate fee-related matters. On balance, the IAASB proposed to restore this requirement in paragraph 18A of ISA 260 (Revised).
60. The IAASB also revised paragraph A32 of ISA 260 (Revised) to avoid confusion that there is any exemption to communicate with TCWG about independence.

### Section F – Commitment to Revisit the Decision to Adopt the Definition of PIE

#### Background

61. The IAASB confirmed in December 2024 its commitment to all elements of its original proposals in the ED. As part of the IAASB decision to finalize the narrow scope amendments in accordance with the PTE path, the IAASB agreed to revisit the decision to adopt the definition of PIE in the IESBA Code (adapted as necessary for the ISQMs and ISAs), when the global adoption and implementation of such definition has sufficiently matured (see **Section C**).
62. As indicated in the ITC (paragraphs 38–41), the IAASB initially planned to perform information-gathering activities and start its discussion and deliberation about revisiting the decision, and any other implications for the IAASB's standards that may be relevant, in the second half of 2026. In addition, the IAASB indicated its plan to collaborate with IESBA in monitoring the adoption of the IESBA PIE revisions and to coordinate related information-gathering and outreach activities, including leveraging any early monitoring activities that IESBA may undertake. According to the [IESBA Work Plan for 2024-2027](#), a post-implementation review of the IESBA PIE revisions is planned to commence in 2027.

#### Post-Exposure Consultation

63. Respondents to the ITC who supported the IAASB's commitment and timeline viewed it to be a pragmatic solution. They noted that the approach facilitates a more informed assessment of the practical implications of the adoption of the PIE definition. Convergence or consistency of terminology and concepts of the IAASB standards and IESBA Code is crucial to support global harmonization of standards and clarity for stakeholders.
64. However, many other respondents, across different stakeholder groups, recommended the following:
- *Joint action by the IAASB and IESBA.* Respondents strongly noted the need to strengthen collaboration between the IAASB and IESBA. Respondents suggested a joint standard-setting

project to facilitate the adoption of an appropriate global baseline definition of PIE. Respondents believed that a joint project would be beneficial to ensure greater alignment and consistency between the two boards, while mitigating the risk of diverging interpretations in practice. Further suggestions included undertaking joint information-gathering activities and utilizing joint IAASB-IESBA plenary sessions or plenary time during each Board's meetings to promote Board level coordination.

- *Timing of the post-implementation review of IESBA PIE revisions.* Respondents were of the view that the IAASB's decision rests upon the status of adoption and implementation of the IESBA PIE revisions across jurisdictions. Given that some jurisdictions might still be in the process of adopting and implementing the IESBA PIE revisions, and that the IESBA post-implementation review is scheduled to commence in 2027, respondents doubted that the IAASB would have a thorough understanding of the impact and effectiveness of the IESBA PIE revisions by the second half of 2026.

#### *IAASB Decisions Following the Post-Exposure Consultation*

65. The IAASB agreed with respondents who called for joint action by the IAASB and IESBA, recognizing that IESBA already has a PIE definition and the IAASB has yet to adopt a PIE definition.
66. Given that a majority of respondents disagreed with the proposed timing of the IAASB revisiting the decision to adopt the definition of PIE, the IAASB concluded that it is appropriate to reconsider the timing of this action, which should be jointly undertaken with IESBA. In June 2025, both the IAASB and IESBA were supportive in principle of the following path forward:
  - IAASB and IESBA staff will coordinate, in consultation with the Planning Committees of the Boards, to integrate joint action regarding PIE with the post-implementation review of the IESBA PIE revisions to achieve efficiency and effectiveness of work effort and to maximize the likelihood of a satisfactory and interoperable outcome.
  - Joint action should recognize the following overarching dual purposes which are to culminate in achieving to the greatest extent possible convergence between the definition and the key concepts underlying the definition of PIE used in the IESBA Code and the ISQMs and ISAs to maintain their interoperability:
    - For the IESBA, to undertake a post-implementation review of the IESBA PIE revisions read together with the IESBA clarification, to determine whether these are being consistently understood and effectively implemented in accordance with the original objectives of the IESBA PIE revisions, to identify practical challenges and concerns regarding the application of these revisions and to determine what actions, if any, are needed to address identified matters.
    - For the IAASB, to undertake information-gathering and outreach activities and develop proposals for the adoption of the definition of PIE in the ISQMs and ISAs as a global baseline for determining which audits are PIE audits, and to determine whether and the extent to which, to extend the application of differential requirements in the ISQMs and ISAs for PTEs, to PIEs (i.e., adopting a case-by-case approach in evaluating existing differential requirements).
  - Subject to the two Boards' discussion and agreement, a joint PIE project team will be assigned, comprising IAASB and IESBA staff and at least one Project Board Member / Board Advisor from

each Board. The joint progression of work will mean that any recommendations and their impact will mutually inform the decisions within the remit of each Board.

- The joint PIE project team will present and advance any proposed actions during the IAASB and IESBA plenary sessions, which, for practical reasons, will include both separate discussions of proposals by the two Boards and joint plenary sessions.

## **Section G – Revisions to ISRE 2400 (Revised)**

### *Background*

67. Given that Part 4A of the IESBA Code also applies to review engagements,<sup>21</sup> the IAASB proposed amending ISRE 2400 (Revised) as part of Track 2 of the PIE project to address transparency about the relevant ethical requirements for independence applied for certain entities, in order to maintain coherence and interoperability with the IESBA Code. This decision followed the finalization of Track 1 of the PIE project, where enhanced transparency for audit engagements was addressed (see also paragraph 4).

### *Summary of Comments Received on Exposure Draft*

68. Respondents were predominantly supportive of the enhancements to the requirements to ISRE 2400 (Revised), noting the importance of providing a mechanism for practitioners to comply with the requirements outlined in Part 4A of the IESBA Code given that they are applicable to both audit and review engagements. Whilst respondents noted that there would be very limited circumstances for a review of PIE financial statements under ISRE 2400 (Revised), it is important that ISRE 2400 (Revised) maintains coherence and interoperability with the IESBA Code.

### *IAASB Decisions*

69. Given the overall support from respondents, the IAASB retained the narrow scope amendments to ISRE 2400 (Revised) as proposed in the ED.

## **Section H – Other Matters**

### *ISA 720 (Revised)*

70. The ED, which contemplated adoption of the definitions of PIE and PTE, reflected the IAASB's decision not to extend the differential requirements for listed entities in paragraphs 21–22(b) of ISA 720 (Revised) to apply to PIEs, but to amend their applicability to apply to PTEs. In reaching its view, the IAASB considered the findings from the post-implementation review of the Auditor Reporting Standards that noted challenges and practical difficulties which arose in various jurisdictions with the implementation of ISA 720 (Revised). The IAASB believed that it is not in the public interest to extend the differential requirements in ISA 720 (Revised) to PIEs as this may exacerbate the identified issues.

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<sup>21</sup> Paragraph 400.2 of the IESBA Code explains that Part 4A (which includes the transparency requirement in paragraphs R400.20–R400.21 of the IESBA PIE revisions) applies to both audit and review engagements unless otherwise stated, and that 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.



71. Respondents to the ED agreed with the above proposal, noting the practical issues which arise in various jurisdictions when applying ISA 720 (Revised). Respondents suggested that the IAASB could revisit the need to extend the differential requirements to PIEs when a complete revision of the standard is undertaken, addressing the current challenges.
72. Given the overall support from respondents, the IAASB retained the narrow scope amendments to ISA 720 (Revised) as proposed in the ED. The IAASB also noted that the differential requirements in ISA 720 (Revised) are aligned with amendments to the differential requirements in the ISQMs and other ISAs, following its decision to finalize the narrow scope amendments in accordance with the PTE path.

*Conforming Amendments to ISA 570 (Revised 2024)*<sup>22</sup>

73. The IAASB approved ISA 570 (Revised 2024) in December 2024. The final pronouncement introduced new differential requirements for listed entities. The explanatory memorandum accompanying the exposure-draft of the revisions to ISA 570 (Revised)<sup>23</sup> sought views from respondents on whether the differential requirements should be extended to apply to audits of financial statements of entities other than listed entities.
74. Respondents to the exposure draft of proposals to revise ISA 570 (Revised) had mixed views, including both views that agreed and disagreed with extending the differential requirements to apply to entities other than listed entities, including PIEs. The respondents' comments will be considered when the IAASB revisits its decision to adopt the definition of PIE (see **Section F**).
75. Given the IAASB's decision to only adopt the definition of PTE, the IAASB has amended the applicability of the differential requirements in ISA 570 (Revised 2024) to apply to audits of financial statement of PTEs. In addition, the IAASB provided examples to help the auditor in determining whether it may be appropriate to apply the differential requirements for audits of PTEs to audits of other entities.

*Conforming Amendments to ISA 240 (Revised)*<sup>24</sup>

76. The IAASB approved ISA 240 (Revised) in March 2025. The explanatory memorandum accompanying the exposure draft of the revisions to ISA 240<sup>25</sup> sought views from respondents on whether transparency in the auditor's report about matters related to fraud should be extended to apply to audits of financial statements of entities other than listed entities, such as PIEs.
77. Respondents had mixed views on whether the requirement should be extended to other entities, such as PIEs. Respondents were of the view that there are limited benefits for non-listed entities, there is a lack of consistency in the application of the definition of PIE and there is a risk of boilerplate disclosure. However, other respondents noted that it is in the public interest to enhance transparency for PIEs and that ISA 240 (Revised) should stay aligned with ISA 701. The respondents' comments will be considered when the IAASB revisits its decision to adopt the definition of PIE (see **Section F**).
78. Given the IAASB's decision to only adopt the definition of PTE, the IAASB proceeded with alignment

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<sup>22</sup> ISA 570 (Revised 2024), *Going Concern*

<sup>23</sup> ISA 570 (Revised), *Going Concern*

<sup>24</sup> ISA 240 (Revised), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>25</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

changes and has amended ISA 240 (Revised) to replace the term “listed entity” with PTE.

## **Section I – Effective Date**

### *Background*

79. In developing the ED, the IAASB proposed an effective date for audits of financial statements for periods beginning approximately 18 to 24 months after IAASB’s approval of the final standard. The explanatory memorandum accompanying the ED also recognized the need for the IAASB to remain mindful about coordinating the possible effective date of the narrow scope amendments with the effective dates of other IAASB projects that were also considering changes to the auditor’s report (i.e., the Going Concern and Fraud projects).

### *Summary of Comments Received on Exposure Draft*

80. Respondents generally supported the proposed implementation period as a reasonable period for jurisdictions to implement the standard, including where translations are necessary as well as for development of implementation guidance and the update of methodologies, tools and training materials. Respondents also noted that the proposed amendments were consistent with the IESBA PIE revisions, which minimized translations challenges.
81. In addition, respondents strongly supported aligning the effective dates for the narrow scope amendments with the Going Concern and Fraud projects, to avoid changes to the auditor’s report impacting consecutive periods.

### *IAASB Decisions Following the Exposure Draft*

82. The IAASB decided that the narrow scope amendments should be effective for audits (or reviews) of financial statements for periods beginning on or after December 15, 2026. This aligns the effective dates between the Going Concern, Fraud and Track 2 of the Listed Entity and PIE projects, as well as provides for a sufficient implementation period and for national adoption processes in jurisdictions to occur.

### *Early Adoption*

83. Because of the potential confusion for users if auditors’ reports for the same or similar periods within the marketplace lack consistency, the IAASB believes that if early adoption is contemplated the collective changes arising from the Going Concern, Fraud and Listed Entity and PIE projects should preferably be early adopted as a package, rather than on a piecemeal basis.

### *Post-Exposure Consultation*

84. Respondents generally reiterated their support to the proposed effective date, to be aligned with the effective dates of the revised standards for Going Concern and Fraud.
85. However, some respondents provided comments about:
- Practical transitional challenge for audits of certain entities that are listed entities under the IAASB’s current definition, which will continue to apply until the proposed effective date of December 15, 2026, but are not PTEs under the IESBA Code because of the December 15, 2024 effective date of the IESBA PIE revisions. Respondents suggested permitting early adoption of the IAASB narrow scope amendments to address the inconsistency.



- Deferring the proposed effective date until after the post-implementation review of the IESBA PIE revisions or until the Board approves the adoption of the PIE and PTE definitions altogether in the ISQMs and ISAs, given their perception of the limited benefits of adopting the PTE definition by itself.

*IAASB Decisions Following the Post-Exposure Consultation*

86. In view of the overwhelming support by respondents across stakeholder groups, the IAASB reaffirmed the Board's decision in December 2024 of an effective date for audits (or reviews) of financial statements for periods beginning on or after December 15, 2026.
87. In addition, the IAASB reaffirmed its position regarding the early adoption of the narrow scope amendments in paragraph 83.

## Appendix – Mapping the Key Changes Proposed for the Narrow Scope Amendments to the ISQMs, ISAs and ISRE 2400 (Revised) to the Actions and Objectives in the Project Proposal that Support the Public Interest

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>26</sup>
	Description	
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.		
<p><b>A.1: The IESBA definition of PIE</b></p> <p><i>Consider adopting the IESBA definition of PIE into the ISQMs and ISAs, or the IAASB 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 C.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 C.5 below).</p> <p>This project would consider whether the PIE definition should be included in the IAASB Glossary of Terms, if it is not defined in the ISQMs and ISAs, but still used, for example, in application material (also see item C.5 below).</p>	<p>The IAASB decided not to adopt the definition of PIE for the ISQMs and ISAs (see Section C of this Basis for Conclusions and Section IV of the Post-Exposure Consultation / ITC).</p> <p><i>Introduction Section on ISQM 1 and ISA 200</i></p> <ul style="list-style-type: none"><li>• Incorporating in the Introduction and related application material of ISQM 1 and ISA 200 the approach for establishing differential requirements in the ISQMs and ISAs, aligned with the IESBA Code.</li><li>• This includes providing a framework for when it may be appropriate to apply a differential requirement set out in the ISQMs or ISAs for audits of financial statements of publicly traded entities to the audits of other entities.</li></ul> <p><i>Para’s. 5A–5B and A2A–A2E of ISQM 1; 9A–9B and A13A–A13E of ISA 200</i></p>	<ul style="list-style-type: none"><li>• <i>Scalability and proportionality</i></li><li>• <i>Coherence</i></li><li>• <i>Relevance</i></li><li>• <i>Clarity and conciseness</i></li><li>• <i>Implementability, and ability of being consistently applied and globally operable</i></li></ul>

<sup>26</sup> The qualitative standard-setting characteristics listed are those that were at the forefront, or of most relevance, when determining how to address each proposed action.

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>26</sup>
	Description	
<p><b>A.2: 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 C.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 “a listed entity as defined by relevant securities law or regulation” 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>	<p><i>Definitions</i></p> <ul style="list-style-type: none"> <li>Adopting the definition of “publicly traded entity” in the Definitions section of the ISQMs and ISAs.</li> </ul> <p><i>Introduction Section on ISQM 1 and ISA 200</i></p> <ul style="list-style-type: none"> <li>See item A.1 above related to incorporating in the ISQMs and ISAs the overarching objective and purpose for establishing differential requirements, and the framework for when it may be appropriate to apply a differential requirement to an audit of financial statements of an entity other than a publicly traded entity.</li> </ul> <p><i>Para’s. 16(p)B, 5A–5B and A2A–A2E of ISQM 1; 13(l)B, 9A–9B and A13A–A13E of ISA 200</i></p>	<ul style="list-style-type: none"> <li><i>Scalability and proportionality</i></li> <li><i>Coherence</i></li> <li><i>Relevance</i></li> <li><i>Comprehensiveness</i></li> <li><i>Clarity and conciseness</i></li> <li><i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>
<p><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></p>		
<p><b>B.3: 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 the 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</i></p>	<p><i>Introduction Section on ISQM 1 and ISA 200</i></p> <ul style="list-style-type: none"> <li>Adopting the overarching objective for establishing differential requirements in the ISQMs and ISAs, based on paragraph</li> </ul>	<ul style="list-style-type: none"> <li><i>Scalability and proportionality</i></li> <li><i>Coherence</i></li> <li><i>Relevance</i></li> </ul>

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>26</sup>
	Description	
<p>and ISAs.</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>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 C.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>	<p>400.8 of the IESBA PIE revisions.<sup>27</sup></p> <ul style="list-style-type: none"> <li>• Tailoring the purpose for the objective in paragraph 400.10 of the IESBA PIE revisions<sup>28</sup> to meet “the heightened expectations of stakeholders regarding <i>the audit engagement</i>.”</li> <li>• Including a framework for determining when it may be appropriate to apply a differential requirement set out in the ISQMs or ISAs for audits of financial statements of publicly traded entities to the audits of other entities.</li> </ul> <p><i>Paras. 5A–5B and A2A–A2E of ISQM 1; 9A–9B and A13A–A13E of ISA 200</i></p>	<ul style="list-style-type: none"> <li>• <i>Comprehensiveness</i></li> <li>• <i>Clarity and conciseness</i></li> <li>• <i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>
<b>C. 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</b>		

<sup>27</sup> See paragraph 400.13 in the 2024 Handbook of the IESBA Code.

<sup>28</sup> See paragraph 400.15 in the 2024 Handbook of the IESBA Code.

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>26</sup>
	Description	
entities, thereby enhancing confidence in audit engagements performed for those entities.		
<p><b>C.4: 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 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 B.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 A.1 and A.2 above).</li><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>29</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</li></ul>	<p><i>Scope and Requirements</i></p> <ul style="list-style-type: none"><li>Amending the differential requirements for listed entities to apply to publicly traded entities in ISQM 1, ISA 260 (Revised), ISA 570 (Revised 2024), ISA 700 (Revised), ISA 701 and ISA 720 (Revised).</li><li>Bifurcating the requirements in paragraph 18 of ISA 260 (Revised), to address the communication about compliance with independence requirements in the auditor’s report for all audit engagements.</li></ul> <p><i>Paras. 34(e)–(f) of ISQM 1; 18, 18A of ISA 260 (Revised); 34(b), 35(b) of ISA 570 (Revised 2024); 30–31, 40(b)–(c), 46, 50(l) of ISA 700 (Revised); 5 of ISA 701; 21–22(b) of ISA 720 (Revised)</i></p>	<ul style="list-style-type: none"><li><i>Scalability and proportionality</i></li><li><i>Relevance</i></li><li><i>Clarity and conciseness</i></li><li><i>Comprehensiveness</i></li><li><i>Implementability, and ability of being consistently applied and globally operable</i></li></ul>

<sup>29</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](#).

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>26</sup>
	Description	
differential requirements were established, and, where appropriate, how national standard setters have addressed this issue at jurisdictional levels).		
<p><b>C.5: 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 PIEs.</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>30</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</p>	<p><i>Application Material</i></p> <ul style="list-style-type: none"> <li>Inclusion of a framework in the application material to the Introduction sections of ISQM 1 and ISA 200 that supports consideration of whether there are other types of entities for which it may be appropriate to apply the differential requirements in the ISQMs and ISAs that apply to audits of publicly traded entities.</li> <li>Changes to align the entities to which the extant differential requirements apply as well as to align with the concepts underpinning the definition of “publicly traded entity.”</li> </ul> <p><i>Various application and introductory material paragraphs and the illustrative auditor’s reports in the ISAs</i></p>	<ul style="list-style-type: none"> <li><i>Comprehensiveness</i></li> <li><i>Implementability, and ability of being consistently applied and globally operable</i></li> </ul>

<sup>30</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.

Proposed Actions in the <u>Project Proposal</u> (Ref. Section VI, paragraph 30)	Key Changes Proposed	Qualitative Standard-Setting Characteristics Considered <sup>26</sup>
	Description	
<p>updated:</p> <ul style="list-style-type: none"> <li>As a consequence of the IAASB's decisions regarding which entities the differential requirements apply to; and</li> <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>31</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>		

<sup>31</sup> Related terms include the following: "non-listed", "other than listed", "unlisted" and "smaller listed" entity.

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