

Response Template for the Invitation to Comment Before the IAASB Finalizes the Narrow Scope Amendments to the ISQMs and ISAs for the IAASB PIE Track 2 Project

Guide for Respondents

Comments are requested by **March 27, 2025**.

This template is for providing comments on the matters set out in the Invitation to Comment (ITC) for the pre-final narrow scope amendments to the International Standards on Quality Management (ISQMs) and the International Standards on Auditing (ISAs) as a Result of the Revisions to the Definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code. It also allows for respondent details, demographics and other comments to be provided. Use of the template will facilitate the IAASB's automated collation of the responses.

You may respond to all questions or only selected questions.

To assist our consideration of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Then below that include any detailed comments, as indicated.
- When providing comments:
 - Respond directly to the questions.
 - Provide the rationale for your answers. If you disagree with the proposals as explained in the ITC, please provide specific reasons for your disagreement. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view.
 - Avoid inserting tables or text boxes in the template when providing your responses to the questions because this will complicate the automated collation of the responses.
- Submit your comments, using the response template only, without a covering letter or any summary of your key issues, instead identify any key issues, as far as possible, in your responses to the questions.

The response template provides the opportunity to provide details about your organization and, should you choose to do so, any other matters not raised in specific questions that you wish to place on the public record. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

Use the "**Submit Comment**" button on the IAASB [web page](#) to upload the completed template.

Responses to IAASB’s ITC for the Pre-Final Narrow Scope Amendments to the ISQMs and ISAs 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)	Institute der Wirtschaftsprüfer (IDW)
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Torsten Moser Wolf Böhm
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Wolf Böhm Ellen Krekeler
E-mail address(es) of contact(s)	moser@idw.de boehm@idw.de krekeler@idw.de
Geographical profile that best represents your situation (i.e., from which geographical perspective are you providing feedback on the ITC). Select the most appropriate option.	Europe
	If “Other”, please clarify
The stakeholder group to which you belong (i.e., from which perspective are you providing feedback on the ITC). Select the most appropriate option.	Jurisdictional/ National standard setter
	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.

Information, if any, not already included in responding to the questions in Part B:

March 26, 2025

Dear Tom and Willie,

We would like to thank you for the opportunity to respond to the IAASB's ITC for the Pre-Final Narrow Scope Amendments to the ISQMs and ISAs as a Result of the Revisions to the Definitions of Listed Entity and PIE in the IESBA Code ("PIE Track 2").

At the outset, we would like to emphasize that we have concluded that the IAASB's position on adoption of the definition of publicly traded entity (PTE) is appropriate. However, we have issues with the rationale and how it was technically implemented. Furthermore, we continue to have concerns at a strategic level about coordination between the IAASB and IESBA.

We are asked in the ITC not to repeat our comments to the exposure draft on PIE Track 2. Nevertheless, we believe that the IAASB's need to consult on PIE Track 2 through the ITC reinforces the strategic issues that we had identified in our response to the exposure draft and the validity of the overall comments we had provided on the exposure draft. We believe that therefore these comments bear repeating as follows:

"As a matter of principle, we also believe that the definitions of terms and concepts used in the IESBA Code should be the same as those in IAASB Standards to the extent possible to avoid confusion and to prevent an unnecessary multiplication of such terms and concepts. We therefore support the IAASB seeking to align its definitions and requirements in IAASB standards with those in the IESBA Code. In this respect, we believe that the IAASB has done a remarkable job in seeking such alignment in this exposure draft.

However, such alignment does not take into account that the IESBA Code and IAASB standards treat departures, due to law or regulation, from requirements differently. In particular, R100.7 of the Code sets forth that law or regulation prevail when law or regulation preclude the professional accountant from complying with certain parts of the Code and 100.7 A1 clarifies that professional accountants must comply with the more stringent provisions of the Code unless prohibited by law or regulation. In other words, professional accountants can claim compliance with the Code even when law or regulation precludes the professional accountant from complying with the Code. In contrast, paragraph 18 in connection with paragraph A60 of ISA 200 and paragraph 21 in connection with paragraph A38 of ISA 210 clarify an auditor shall not represent compliance with the ISAs unless the auditor has complied with all of the ISAs relevant to the audit – regardless of the provisions in law or regulation. This is why, unlike the Code, requirements in the ISAs occasionally include the phrase "unless prohibited by law or regulation", which then permits auditors to claim compliance with the ISAs even when law or regulation departs from the rest of that requirement.

For these reasons, we do not believe that the IAASB should emulate a construct of definitions and requirements in its standards that does not work technically for IAASB standards and that is not in line with its own drafting conventions. The fact that these definitions and requirements were subject to due process through IESBA does not mean that they "pass the test" of due process for IAASB purposes, since the stakeholder groups may be different and the demands on the construction and use of definitions and requirements for quality management and audits may differ from those for ethical standards. While coordination between IESBA and the IAASB has improved greatly compared to the past, we are under the impression that there has been insufficient input by the IAASB into the development of the definitions and requirements in the IESBA Code in this respect given the expectation that the IAASB ought to "adopt" the definitions and requirements from the IESBA Code with as little change as possible.

Given the nature and extent of substantive and technical issues that we have identified in this comment letter with the definitions and related requirements, we believe that projects at IESBA that have a direct impact on the terms and concepts, and their definitions, in IAASB standards ought to be done concurrently with a combined due process rather than separately with time lags and that both Boards need to be satisfied with the results before moving forward. We hope that the IAASB and IESBA reconsider their future cooperation in this sense at a strategic and operational level."

We would like to add that in some circumstances, such a joint project may lead to the conclusion that the IESBA Code and IAASB standards need different terms and concepts, rather than the same ones (e.g., the joint project on professional skepticism led to the concept of "inquiring mind" for the IESBA Code rather

than the use of the term “professional skepticism”, which is limited to assurance engagements in IAASB standards).

The fact that the IAASB has chosen not to adopt the IESBA definition of PIE exemplifies the issues we have identified above. In our view, the general principle for IAASB definitions is that they should stand-alone without allowing for local adjustment (in order to encourage harmonization of practice internationally). A particular issue in the proposal is that the proposed PTE definition allows for a narrower locally adjusted definition "...incorporating exemptions for specific types of entities, or setting size criteria...". If a definition requires local adjustment in many jurisdictions, it means that either the definition was not appropriately designed or that a definition at an international level is not desirable.

That being said, we recognize the political realities of the situation and therefore support the IAASB position to adopt the definition of PTE with the ability to allow for a narrower locally adjusted definition. We believe this position to be politically appropriate because the IAASB seeking convergence with IESBA by adopting the definition of PTE rather than PIE is better than retaining the definition of listed entity, which would increase the divergence between IAASB standards and the IESBA Code. The IAASB's position would also lead to the extent of differences among jurisdictions through the application of the definition of PTE to being less than for the application of the definition of PIE.

However, as described in greater detail in our response to Question 1 below, we do not agree with the rationale set forth in the ITC, because the definition of PTE is subject to the same issues as the definition of PIE. In addition, as we describe in our response to Question 1, we do not agree with how the ability to allow for a narrower locally adjusted definition was implemented in the proposed narrow scope amendments because it violates the Clarity Conventions and CUSP. We propose how this ability should be implemented in line with those conventions and CUSP.

If you have any questions about our response, feel free to reach out to us, as we would be pleased to be of assistance.

Kind Regards,

Torsten Moser
Executive Director

Wolf Böhm
Technical Director, Assurance Standards
Director, International Affairs

PART B: Responses to Specific Questions in the ITC

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.

1. You are invited to share any observations that you believe might be relevant to the IAASB prior to finalizing the narrow scope amendments to the ISQMs and ISAs.

Please note:

- *This ITC does not extend to and is not inviting comment on the IESBA PIE revisions read together with the IESBA clarification. IESBA’s Listed Entity and PIE project is complete.*
- *If you submitted a comment letter to ED-PIE Track 2 in April 2024, the IAASB has fully considered those responses during its deliberations in September and December 2024; therefore, it is not necessary to repeat comments previously provided. You may believe that a specific matter remains relevant to share as an observation here, in which case the request is that you please clearly relate such matter to the IAASB’s decisions and rationale in this Post-Exposure Consultation. (See **Section IV**, paragraphs 23-32.)*

Overall response: [Do not concur - see observations below](#)

Detailed comments (if any):

The question being asked based upon the drop-down response above for concurrence is whether we concur with the IAASB’s position and rationale for finalizing the narrow scope amendments, which implies that the question being asked includes whether we concur with the rationale for those amendments set forth in the ITC. Unfortunately, the drop-down menu did not permit a neutral response (neither concur nor do not concur) if we agree the direction of the position (even if we disagree with how it was implemented from a technical point of view), but do not agree with the rationale, which reduces our response in the drop-down response to “do not concur”.

Issues with the rationale, and concurrence with position

The reasons given in paragraph 24 of the ITC as to why the definition of PIE was not adopted by the IAASB are:

“(a)The application of the IAASB PIE proposals would go beyond the independence standards of the IESBA Code.

(b) 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”.

(c) The lack of a global baseline for PIEs that could be consistently applied across jurisdictions.”

Furthermore, it was noted in paragraph 27 of the ITC that the differential requirements in the ISQMs and ISAs would be subject to jurisdictional interpretation and variation in the PIE definition and that the requirements in the ISAs would be contingent upon local adoption.

While we agree with this rationale for not having adopted the definition of PIE, we note that this rationale applies equally to not adopting the definition of PTE. In particular, refinements to the definition of PTE at a local level through the essential explanatory in the definition may result in:

- (a) The application of the IAASB PTE proposals going beyond the independence standards of the Code for PTEs (e.g., if the local body has not adopted the definition of PTE, including not having a mandatory category PTE, the IESBA Code would not require entities to be treated as PTEs, but this would not be in compliance with the ISQMs or the ISAs).
- (b) The application of the IAASB PTE proposals potentially leading to a different outcome compare to the IESBA PIE revisions read together with the IESBA clarification (same example as for (a)).
- (c) The lack of a global baseline for PTEs that could be consistently applied across jurisdictions (the fact that the definition of PTE proposed by the IAASB includes essential explanatory material permitting a local jurisdiction to refine the definition of PTE using certain criteria such as size, which leads to jurisdictional differences and therefore inconsistent application globally).

Certainly, as noted in the ITC, adopting the definition of PTE would achieve convergence with the IESBA Code on that definition, which retaining “listed entity” would not have achieved, and would not impact interoperability with the IESBA Code on the definition of PTE. However, it would lead to different results between the IESBA Code and IAASB standards. When national jurisdictions have no definition of PTE, under the IESBA Code and the further clarification provided by IESBA, the firms in those jurisdictions need not apply the category PTE and still be in compliance with the IESBA Code. In contrast, in such jurisdictions, not applying the definition of PTE (even if refined) when using ISQM 1 and the ISAs would lead to the firms not being in compliance with ISQM 1 and the ISAs.

Of particular concern is item (c) above, where the essential explanatory material within the definition results in inconsistency among jurisdictions and therefore undermines the very purpose of international standards setting, which is to promote consistency in practice. We note that therefore this ability to refine the definition of PTE at a jurisdictional level is a retrograde step from an international standard setting point of view, since the definition of listed entity is not subject to this kind of international inconsistency.

On this basis, we do not concur with the rationale stated in the ITC for not adopting the definition of PIE but yet adopting the definition of PTE.

It appears to us that the underlying rationale is legitimately political – that is, the IAASB is seeking convergence with IESBA by adopting the definition of PTE rather than PIE because retaining the definition of listed entity would increase the divergence between IAASB standards and the IESBA Code, and the extent of differences among jurisdictions through the application of the definition of PTE would be less than the for the application of the definition of PIE. The remaining inconsistencies arising from the adoption of the definition of PTE (which result from the ability to define more explicitly a PTE) are viewed as being politically more palatable than the impact of the extent of inconsistencies for the other categories of PIE. *On this basis, we concur with the IAASB’s position to adopt the definition of PTE but not the definition of PIE.*

Issues with the technical implementation of the adoption of the definition of PTE

The IESBA Code addressed the application of the definition of PIE and therefore of PTE in its requirement in paragraph R400.22, which repeats the definition of PIE from the authoritative Glossary. In essential explanatory material within the definition, the definition in the Glossary addresses the ability set forth in the (requirements and) application material to more explicitly define or add to the categories. The ability to explicitly define the categories is set forth in the requirement in paragraph R400.23 of the Code, which is further explained in the application material in paragraphs 400.23 A1 of the Code. This requirement

and its application material to more explicitly define the categories therefore also applies to the definition of PTE in the authoritative Glossary.

This means that the ability to more explicitly define the category PTE is grounded in a requirement within the IESBA Code.

In contrast, in the proposed narrow scope amendments of the IAASB, the ability to more explicitly define the PTE definition is set forth in essential explanatory material (which includes normal application material in the form of examples) directly attached to the definition of PTE in both ISQM 1 and ISA 220. *This violates the rule (under the Clarity Project and CUSP) that essential explanatory material (and any application material therein) cannot override a definition or requirement.*

For this reason, the ability to define more explicitly a PTE should be placed within a requirement in both ISQM 1 and ISA 220 and the related application material ought to be placed in application material to those requirements. This would also be aligned with the approach used in the IESBA Code.

Specific questions on forward-looking matters (See **ITC Section V**):

2(a). Do you agree with the proposed effective date of the narrow scope amendments, i.e., for audits of financial statements for periods beginning on or after December 15, 2026, to be aligned with the standards from the Going Concern and Fraud projects? (See **Section V**, paragraphs 35-37.)

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

Detailed comments (if any):

To the extent that such narrow scope amendments are issued by the IAASB as proposed, we agree with the proposed effective date so that the application of the amendments become effective together with the Going Concern and Fraud standards.

2(b). Do you agree with the IAASB’s commitment 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? (See **Section IV**, paragraph 31 and **Section V**, paragraph 38.)

Please note: *When the decision is revisited, the IAASB will develop an exposure draft for public consultation. Therefore, you do not now need to provide comments or to repeat comments previously provided regarding the extant differential requirements in the ISQMs and ISAs.*

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

Detailed comments (if any):

We agree with the proposal to revisit the adoption of the definition of PIE. In this context, it would be important to determine whether any of the issues that lead the IAASB not to adopt as part of the narrow scope amendments continue to exist and if so, consider not adopting.

2(c). Do you agree with the proposed timing for revising the matters highlighted in 2(b) above? (See **Section V**, paragraphs 39-41.)

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

Detailed comments (if any):

We are not convinced that by the second half of 2026 most jurisdictions that have their ethical and independence requirements set forth in law or regulation would have had the opportunity to make the changes needed to adopt the definition of PIE in the Code. For this reason, we believe that the timing for revisiting the matters ought to be deferred to 2027 or 2028.