

## Proposed Deferral of the IAASB's Public Interest Entity Narrow-scope Amendments

**February 2024**

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**This Exposure Draft closes for comments on April 8, 2024.**

**Note: Comments to the IAASB are due on April 8, 2024.**

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The Auditing and Assurance Standards Board (AASB) welcomes feedback from any interested party on any or all the questions posed in this Exposure Draft.

You can provide feedback to the AASB on the proposals by writing a response letter and uploading it via our [online form](#).

Response letters can be addressed to:

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Auditing and Assurance Standards Board  
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**Note:** Response letters will be posted online shortly after this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the [online form](#).

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in the Exposure Draft, if applicable.
- If you identify a potential issue in this Exposure Draft's proposals, we encourage you to clearly explain the issue and include a suggested alternative, supported by specific reasoning.
- The AASB does not expect you to respond to every single question posed – only those to which you feel you can or should respond.

## HIGHLIGHTS

The Auditing and Assurance Standards Board (AASB) proposes, subject to comments received following exposure, **not to adopt** at this time the proposed narrow-scope amendments as a result of the revisions to the definitions of Listed Entity and Public Interest Entity (PIE) in the IESBA Code<sup>1</sup> to:

- the International Standards on Quality Management (ISQMs); and
- the International Standards on Auditing (ISAs),

issued by the International Auditing and Assurance Standards Board (IAASB).

In addition, the IAASB's Exposure Draft includes proposed narrow-scope amendments to International Standard on Review Engagements (ISRE) 2400 (Revised), *Engagements to Review Historical Financial Statements*. These revisions address circumstances when the relevant ethical requirements require public disclosure that specific independence requirements for reviews of financial statements of certain entities were applied. Unlike the IESBA Code, the Canadian Independence Standards (CIS) do not currently require public disclosure that specific independence requirements for reviews of financial statements of certain entities were applied. Therefore, the AASB is not making similar narrow-scope amendments to the Canadian Standard on Review Engagements (CSRE) 2400, *Engagements to Review Historical Financial Statements*.

This Exposure Draft consists of:

- a summary of the IAASB's proposals;
- a link to the IAASB's Exposure Draft, including its Explanatory Memorandum;
- key public interest considerations;
- a description of the AASB's process for adopting international standards; and
- a discussion of the proposed Canadian amendments.

Please review "**Comments requested**" on [page iv](#) for information on preparing your response to this [Exposure Draft](#).

## IAASB's proposals

The IAASB's Exposure Draft proposes to:

- adopt the IESBA's definitions of "PIE" and "publicly traded entity" in the the Definitions section of ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, and ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*; and
- extend the applicability of most of the existing differential requirements for listed entities in the ISQMs and ISAs to apply more broadly to PIEs.

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

The proposed definition of “PIE” includes a broadly defined list of mandatory, high-level PIE categories, as shown in the box below:

Mandatory, high-level PIE categories:

- (i) a publicly traded entity;
- (ii) an entity one of whose main functions is to take deposits from the public;
- (iii) an entity one of whose main functions is to provide insurance to the public; or
- (iv) an entity specified as such by law, regulation, or professional requirements related to the significance of the public interest in the financial condition of the entity.

Law, regulation, or professional requirements may define more explicitly the categories of entities in (i)-(iv) above.

“Publicly traded entity” is one of the mandatory categories. As shown in the box below, the defined term encapsulates “listed entity” as an example rather than a stand-alone definition.

Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

The IAASB undertook a case-by-case analysis of extant differential requirements for listed entities in the ISQMs and ISAs to determine whether their applicability should be revised to apply more broadly to PIEs. A summary of the proposals is provided in Appendix 1 of the [IAASB's Explanatory Memorandum](#).

## IAASB Exposure Draft

The IAASB's Exposure Draft, “[Proposed Narrow Scope Amendments to the International Standards on Quality Management; International Standards on Auditing; and International Standard on Review Engagements \(ISRE\) 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](#)” is available on the [IAASB website](#). In addition to the text of proposed narrow-scope amendments, the IAASB's Exposure Draft includes the Explanatory Memorandum, which provides background to and an explanation for its proposals.

## Key public interest considerations

Appendix 2 of the [IAASB's Explanatory Memorandum](#) outlines the IAASB's key public interest considerations for this project.

The key public interest considerations relevant to Canada are set out in the [proposed Canadian amendments section](#).

## Process for adopting international standards

The AASB has committed to adopting ISQMs and ISAs as Canadian Standards on Quality Management (CSQMs) and Canadian Auditing Standards (CASs), respectively. The Board recognizes that it has a vital role in monitoring and influencing the project to ensure the proposed revisions are in the Canadian public interest. To do so, the AASB issues a Canadian exposure draft for every IAASB exposure draft of proposed revisions to ISQMs and ISAs. Adoption of revisions to these international standards as Canadian standards is not automatic. The AASB follows amendment criteria, set out in the [Appendix](#), when it considers whether Canadian amendments are required in specific circumstances.

## Proposed Canadian amendments

Subject to input from Canadian interested and affected parties, the AASB proposes to make Canadian amendments to the CSQMs and CASs to **not to adopt** at this time the IAASB's proposed narrow-scope amendments to the ISQMs and ISAs.

### *The Canadian environment*

In Canada, professional accountants are required to comply with relevant independence and other ethical requirements applicable to the practice of public accounting set out in the Canadian Codes of Conduct/Ethics (the Canadian Codes). The [Public Trust Committee \(PTC\)](#) has the authority to set harmonized CIS for proposed adoption by the CPA provincial and territorial regulatory bodies (PTBs). The PTC established the [Independence Standing Committee \(ISC\)](#) to recommend high-quality CIS for approval and proposed adoption by the PTBs.

The IESBA Code has not been adopted in Canada. Therefore, professional accountants in Canada are not required to comply with the IESBA Code when performing an audit in accordance with Canadian generally accepted auditing standards.

The Canadian Codes do not have a definition of "PIE" or use the term "PIE". The Canadian Codes include additional independence requirements that apply to specific categories of entities in Canada (reporting issuers and listed entities). In contrast, the IESBA Code includes a definition of "PIE" and requires additional independence requirements to apply to such entities.

Given the recent changes to the "PIE" definition in the IESBA Code, the ISC is collaborating with the PTBs and other interested and affected parties to develop a "PIE" definition and related guidance in Canada that is aligned with that in the IESBA Code.

The ISC plans to publish an exposure draft this year, proposing a "PIE" definition and related guidance for the CIS. Subject to comments received on the exposure draft, the PTC will approve the final "PIE" definition and related guidance for the purpose of the CIS and recommend these for adoption by the PTBs into their respective codes of conduct.

### *Application of the Canadian amendment criteria*

The amendment criteria the AASB followed are outlined in the [Appendix](#). The circumstances contemplated in the Board's criteria for amending ISQMs and ISAs when adopting them as CSQMs and CASs include "... circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada."

The lack of a definition of "PIE" in the Canadian Codes and the ISC's current work in developing a definition of "PIE" for approval by the PTC and adoption by the PTBs is a circumstance particular to Canada.

### *Public interest considerations relevant to Canada*

In proposing a Canadian amendment not to adopt at this time, the IAASB's proposed narrow-scope amendments to the ISQMs and ISAs, the AASB considered the interoperations between the CIS and the AASB standards.

The AASB, the PTC, and the ISC recognize the importance of their coordination and collaboration to ensure that the CIS and the AASB standards are interoperable and not in conflict. Recognizing the ISC's role in defining "PIE" in the Canadian context, the AASB sees merit in deferring the consideration of adopting the IAASB's narrow-scope amendments until the PTC has completed its due process to finalize its "PIE" definition for the CIS. This deferral allows the AASB to evaluate the final updates to the CIS, once approved by the PTC, and their interoperability with the IAASB's narrow-scope amendments.

The AASB intends to issue a subsequent Canadian exposure draft on narrow-scope amendments to the CSQMs and CASs after considering the PTC's "PIE" definition for the purpose of the CIS.

### ***Implications of the AASB's proposed Canadian amendments***

The IAASB anticipates that the final pronouncement for the narrow-scope amendments would be approved in December 2024. The IAASB contemplates a possible effective date of December 2026 for the proposed narrow-scope amendments.

Based on the developments in the Canadian environment, the AASB expects to issue a subsequent Canadian exposure draft on proposed narrow-scope amendments to the CSQMs and CASs by the second half of 2025. Consequently, the Board anticipates being approximately one year behind the IAASB in finalizing the narrow-scope amendments, leading to a potential effective date in Canada after the IAASB's narrow-scope amendments take effect.

This delay in the possible adoption of the IAASB's narrow-scope amendments in Canada does not affect the practitioner's ability to conduct an audit for listed entities in accordance with the CASs to comply with the ISAs. However, for practitioners conducting audits of non-listed entities falling under the IAASB's mandatory PIE categories, compliance with the ISAs when conducting an audit under the CASs might be affected.

## **Comments requested**

### ***Responding to the IAASB's Exposure Draft***

Respondents are asked to provide comments on the IAASB's Exposure Draft directly to the IAASB and provide the AASB with a copy of their responses. Respondents are asked not to include comments on matters particular to the Canadian environment in their responses to the IAASB. Such comments should be included only in responses sent to the AASB.

The Request for Comments section in the [IAASB's Exposure Draft](#) contains templates for respondents and information on responding to the specific questions therein.

### ***Providing comments to the AASB***

The AASB would appreciate receiving responses to the questions set out below.

1. Do you agree with the AASB's proposal to make Canadian amendments **not to adopt** at this time the IAASB's proposed narrow-scope amendments to the ISQMs and ISAs? If not, what changes do you believe are required and why?
2. On a preliminary basis, are you aware of any issues that the AASB should consider when developing its subsequent exposure draft on the narrow-scope amendments to the CSQMs and CASs?

The deadline for providing your comments to the AASB on the above is April 8, 2024.

## APPENDIX

### Criteria for amending ISAs when adopting them as CASs

With respect to the adoption of ISAs as CASs, as well as the adoption of an International Standard on Assurance Engagements (ISAE) as a Canadian Standard on Assurance Engagement (CSAE) and International Standard on Related Services (ISRS) as a Canadian Standard on Related Services (CSRS), on a case-by-case basis, the AASB's overriding goal is to adopt ISAs into the CPA Canada Handbook – Assurance without amendment. However, there may be circumstances where amendments are required. The following sets out the limited circumstances when the AASB will make amendments to ISAs:

1. The AASB limits additions to an ISA to those required to comply with Canadian legal and regulatory requirements.<sup>2</sup>
2. The AASB limits deletions from, or other amendments to, an ISA to the following:
  - (a) The elimination of options (alternatives) provided for in the ISA.
  - (b) Requirements or guidance, the application of which Canadian law or regulation<sup>3</sup> does not permit, or which require amendments to be consistent with law or regulation.
  - (c) Requirements or guidance, where the ISA recognizes that different practices may apply in different jurisdictions and Canada is such a jurisdiction.
3. The AASB may make amendments to an ISA with respect to requirements or guidance that do not fall within 1 or 2 above when it believes that there are circumstances particular to the Canadian environment where such amendments are required to serve the Canadian public interest and maintain the quality of auditing and reporting in Canada.
4. To the extent possible, amendments that are:
  - (a) additions to an ISA will not be inconsistent with the current requirements or guidance in the ISA; and
  - (b) deletions from, or other amendments to, an ISA will be replaced by an appropriate alternative that achieves the objective of the deleted requirement.

Proposed amendments to an ISA are highlighted in exposure drafts of proposed Canadian standards. The AASB indicates the reasoning for the amendments and respondents are invited to comment on them, including when the amendment will not result in convergence with the ISA in accordance with the IAASB's guide for national standard setters. Amendments to ISAs will be separately identified in the final Assurance Handbook material.

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<sup>2</sup> Reference to ISAs in this appendix also includes reference to ISQMs adopted as Canadian Standards on Quality Management, relevant ISAEs adopted as CSAEs, and relevant ISRSs adopted as CSRSs, where applicable.

<sup>3</sup> Canadian-incorporating and other governing legislation often require entities to prepare financial statements in accordance with Canadian generally accepted accounting principles (GAAP). Accordingly, if Canadian GAAP necessitates a different audit response in Canada, these differences fall within the definition of a legal or regulatory requirement.

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