

30 September 2022

Program and Senior Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York, NY 10017 U.S.A.

Our Ref: **2022/O/C1/IAASB/MS/714**

**Subject Line:** *Proposed Narrow Scope Amendments to: ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; and ISA 260 (Revised), Communication with Those Charged with Governance, 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 Public Interest Entities (PIEs)*

Dear Sir:

The International Organization of Securities Commissions' (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB or the Board) Exposure Draft: *Proposed Narrow Scope Amendments to: ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; and ISA 260 (Revised), Communication with Those Charged with Governance, 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 Public Interest Entities (PIEs)* (the "ED").

As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

## **Overall Comments**

### *General*

We have, for many years, advocated close coordination and collaboration between the IAASB and the International Ethics Standards Board for Accountants (IESBA) on matters of mutual interest and, therefore, we support the cooperation between the boards on this project that

promotes transparency on independence standards applied, following the clarification of the definition of public interest entities (PIEs) between the IESBA Code and the International Standards on Auditing (ISAs). We appreciate the IAASB's initiative to undertake this project which includes the important task of operationalizing, within certain ISAs, IESBA's transparency requirement which requires a firm to publicly disclose when it has applied the independence requirements for PIEs.

We believe that the proposed revisions to the audit opinion in ISA 700 (Revised) to disclose when the independence requirements related to PIEs have been followed, and ISA 260 (Revised) to appropriately inform Those Charged with Governance (TCWG), promotes transparency, high-quality audits and investors' and other users' confidence in audit reports, and, thereby, in financial reporting.

We have included certain matters below for your consideration that we believe would further strengthen the Board's proposal and enhance transparency and understandability of the disclosure requirements.

## **Observations**

### *ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements*

Proposed paragraph 28(c) of ISA 700 (Revised) requires the auditor to disclose the application of differential independence requirements only in circumstances where the relevant local rules require public disclosure.

We recommend that the standard be strengthened by requiring, at all times, disclosure in the audit report of the independence requirements that have been applied, provided that the relevant ethical requirements do not specifically prohibit such disclosure.

A requirement to clearly disclose in each auditor's report which independence requirements have been followed, when applicable, would:

- provide increased transparency by informing users of the independence requirements that were applied in the audit including specific independence requirements for financial institutions, where applicable. As such, there may be less uncertainty on the part of users regarding which independence requirements have been applied and users will not have to seek such information within the body of the financial statements or elsewhere;
- raise stakeholders' confidence in audits of financial statements performed under the ISAs by having one disclosure requirement applicable to audits, provided such disclosure is not specifically prohibited by the local ethics or audit requirements;
- enhance trust in the IAASB and its efforts to achieve the highest standards possible by requiring unconditional adherence to the disclosure requirement;
- clearly message the importance of auditor independence to strengthen investors' and other users' confidence; and

- promote clarity related to independence and ethics requirements by clearly describing which specific independence requirements are followed.

Further, we believe that the benefits of adopting an unconditional disclosure requirement does not increase the complexity of the audit report when local ethical requirements require additional disclosures for certain entities because of law or regulation. Rather, clarity is enhanced by disclosing which specific independence requirements have been used. Given the detailed and diverse nature of ethics and independence requirements in different jurisdictions, such clarity could serve to “raise the bar” of independence and ethics within the entire financial reporting ecosystem for the reasons noted above.

*ISA 260 (Revised), Communication with Those Charged with Governance*

Proposed paragraph A29 notes that: “... *The auditor’s statement to those charged with governance in accordance with paragraph 17 may include which independence requirements were applied, including whether differential independence requirements that apply to audits of financial statements of certain entities specified in the relevant requirements were applied. The auditor may also be required to provide information about such differential independence requirements that were applied in the auditor’s report in accordance with paragraph 28(c) of ISA 700 (Revised).*”

We recommend that the standard be strengthened by making it a requirement that the auditor disclose to TCWG the independence requirements applied. Making it a requirement would provide transparency to TCWG and would be consistent with the information disclosed in the audit report.

Thank you for the opportunity to comment on the ED. If you have any questions or would like to discuss these matters further, please contact Nigel James at ph. +1 (202) 551- 5394 (email: JamesN@sec.gov) or myself. In case of any written correspondence, please mark a copy to me.

Sincerely,



Makoto Sonoda  
Chair, Committee on Issuer Accounting, Audit and Disclosure  
International Organization of Securities Commissions