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Dear Sir

IAASB Discussion Paper, The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications

FSR – danske revisorer the Danish Institute of Professional Accountants, is pleased to accept your invitation to comment on the IAASB Discussion Paper, The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications

FSR welcomes IAASB's initiative to initiate a thorough debate on some of the fundamental and significant issues regarding the audit of Financial Statements especially those resulting from the significant changes in the content of the reports which have taken place during the last decade and which most likely will continue to take place in the years to come.

Many of the issues raised in the Discussion Paper are of a relevance which could qualify for a separate discussion paper, however at the same time we find that some of the issues are at least in principle covered by the framework for current ISA's, why further actions relating to such matters preferably could be deferred until the current standards have been fully implemented, at which stage we also will know more about any needs for revisions/additional guidelines.

Accordingly we have in this comment letter only focused on those issues where we find the most urgent need for action.

- Required financial disclosures included in Financial Statements regardless relevance and materiality
- "Not auditable" (non - financial information) constitutes an increasing part of Financial Statements.

Required financial disclosures included in Financial Statements regardless relevance and materiality

Unless required by law or the applicable accounting framework, Financial Statement should only include disclosures which are of relevance and significance to the users. Excessive and irrelevant information in the Financial Statements blurs the true and fair view and impair the understandability of Financial Statements.

Even when an accounting standard includes a disclosure requirement, the determination whether to include it in the Financial Statements, must always be gauged against materiality. Under IFRS, IAS 1 deals with this issue in paragraph 31 stating that "An entity need not provide a specific disclosure required by an IFRS if the information is not material".

As Management has the responsibility for the true and fair view of the Financial Statements it's also Management's responsibility to determine which disclosures should be included in the Financial Statements to fulfil this responsibility. The knowledge of the entity, the industry and the applicable accounting framework is the basis for Management considerations and decision of disclosures to be included.

The auditor is responsible for evaluating and concluding on the completeness of disclosures based upon the auditor's knowledge to the entity, the industry and the applicable accounting framework. Again this evaluation should be based upon the overarching principle "the true and fair view".

However, as it is today there is a tendency for preparers to include all disclosures required according to the applicable accounting framework regardless of relevance and significance to the true and fair view of the entity's financial position etc. And at the same time auditors are inclined to recommend the preparers to include all disclosures required by the accounting framework simply due to the risk of criticism from enforcement authorities in particular.

In our view, this comes down to, amongst others, that "materiality" as defined in IAS 1.31is interpreted in very different ways. Some enforcers take the view that, when the IASB has determined that something must be disclosed under IFRS, the enforcer will almost automatically react if the required disclosures are not included in the Financial Statements. This will then lead to a debate between the entity and the enforcer. This can at times be a very time-consuming exercise. Having tried such an exercise once, entities may conclude that "it's better to be safe than sorry" resulting in the number of disclosures in Financial Statements increasing significantly.

There are many parties guilty of this development and a behavioural change is necessary by all parties involved (standard setters, preparers, auditors, enforces etc.) We welcome the different initiatives currently in progress or to be launched such as the project which focus is to analyse what the needs of users of Financial Statements are. We also support the debate around the need for a disclosure framework to guide standard setters on disclosure requirements. In the meantime, a step in the right direction could be if standard setters, when establishing disclosure requirements, make it even more evident that the overarching principle for including a specific disclosure or not in the Financial Statements is and always should be to give a true and fair view of an entity's financial position.

"Not auditable" (non - financial information) constitutes an increasing part of Financial Statements

We support the view that all disclosures required by a financial reporting framework should be covered by the opinion on the Financial Statements. The development in financial reporting and the investors growing demand for information extending beyond the traditional boundaries of financial reporting is a challenge to the audit profession which should not be ignored.

In our opinion the profession has two possibilities if the want to continue providing assurance on Financial Statements, either we can insist on keeping the traditional boundaries for Financial Reporting or we can meet the challenge by developing audit standards that address other information than historical financial information.

Whether information is auditable or not is a matter of definition. Different considerations may be necessary regarding materiality, audit evidence, misstatements etc., when providing assurance on non- financial information included in the Financial Statements, all items which in our opinion could be addressed by guidelines and the use of professional judgement and scepticism.

Accordingly we strongly recommend assurance standard setters to consider the development in accounting frameworks and address the related consequences and possible needs for additional audit standards and or guidance.

For further information on this FSR's letter, please contact Lisbeth Kjersgaard, tel. + 45 3369 1053 or via e-mail: lik@fsr.dk

Yours faithfully

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