



International Federation of Accountants

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Agenda Item **C.1**

Committee: IAASB Consultative Advisory Group

Meeting Location: Dubai

Meeting Date: March 9 – 10, 2009

Report Back—Financial Reporting Frameworks Described by Reference to International Financial Reporting Standards

Objective of Agenda Item

1. The objective of this Agenda Item is to provide a brief report back on the proposed revised guidance in ISA 700 (Redrafted)¹ dealing with an applicable financial reporting framework described by reference to another established framework, such as International Financial Reporting Standards. The minutes from the September 4-5, 2008 CAG discussion are included as Appendix A to this paper.²

The IAASB approved the proposed ISA as a final standard at its September 15-19, 2008 meeting.

IAASB Discussions

2. The discussion of the proposed guidance at the September CAG meeting provided valuable input the IAASB's proposals. As the minutes of the meeting showed, there was considerable unease amongst CAG members about the proposed audit-based solution.
3. After giving full consideration of the input received from the CAG and other stakeholders, and in consultation with the IAASB Chairman, the Chair of the ISA 700 (Redrafted) task force, issued a communication to the IAASB in advance of its September meeting. She indicated that the proposed guidance in IA 700 did not have sufficient support to proceed and that the task force proposed to delete the guidance in the proposed ISA (that which had been discussed by the CAG). As these paragraphs were proposed *new* guidance to the extant ISA, in the task force's view, a decision not to proceed with those paragraphs would not affect the approval of the proposed Clarity redraft of this ISA.
4. After discussion at the September meeting, the IAASB supported the Task Force's recommendation that, in light of the views of stakeholders, it would not be appropriate to include the proposed guidance in ISA 700 (Redrafted). The IAASB continued to believe that the matter of transparency is one that needs to be addressed in the public interest, but concluded that other bodies may be more appropriate ones to pursue the matter. It was agreed

¹ ISA 700 (Redrafted), "Forming an Opinion and Reporting on Financial Statements."

² The minutes will be approved at the March 2009 IAASB CAG meeting.

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that the Board should monitor future developments and be prepared to contribute further if and when it is appropriate to do so. Relevant excerpts from the minutes of the IAASB meeting are included as Appendix B to this paper.

5. Following the IAASB meeting, on September 29, 2008 a communication was sent to CAG members on behalf of David Damant indicating the following:

At its meeting in Miami on September 16th, the IAASB approved ISA 700 (Redrafted) without the proposed guidance on the audit implications of financial reporting frameworks described by reference to another framework. Thus paragraphs A11-A14 and A36-A40 will not be included in final ISA. The discussions of the CAG on this matter, and separate conversations with stakeholders, were relayed to the IAASB. The IAASB agreed that the removal of these paragraphs did not affect approval of ISA 700 (Redrafted).

6. In deleting the proposed guidance on this matter in the ISA, the IAASB agreed that its deliberations in this regard should be fully documented in the Basis for Conclusions. Relevant excerpts from the Basis for Conclusions are included as Appendix C to this paper.

Material Presented – IAASB CAG REFERENCE PAPERS ONLY

Updated Agenda Item 5-B - Final wording of
ISA 700 (Redrafted) as approved by the IAASB
in September 2008

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4293>

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Appendix A

Excerpt from CAG Minutes

Financial Reporting Frameworks Described by Reference to International Financial Reporting Standards (Agenda Item J)

To DISCUSS matters highlighted by the Task Force or brought forward by CAG Representatives in the finalization of ISA 700 (Redrafted), including a Report Back.

Mr. Damant introduced the topic, highlighting that the initial question in this area is whether a reader of the financial statements, and the auditor's opinion, should know what the applicable financial reporting framework is. He reminded the Representatives that in prior discussions on this topic, some Representatives were of the view that regulators, including IOSCO, the EC, the International Monetary Fund and the Monitoring Group as a whole, should work towards finding a collective answer to this question.

Work of the IASB

Mr. Upton briefed the Representatives on the International Accounting Standards Board's (IASB) amendment to IAS 1 which was intended to address the issue. The IASB determined in June 2008 that the proposed amendment to IAS 1 should be set aside as a result of responses received to the exposure draft. This does not mean rejected, but rather that it did not clearly meet the criteria for improvements. These were initially thought not to represent a significant change in the standards; however, respondents addressed a number of concerns with the IASB's proposals. Some suggested it was unwise for the IASB to be undertaking the matter at all, others did not support the way in which the proposals were done, and many questioned whether the disclosures describing the differences between other frameworks and IFRS should be qualitative or quantitative. The IASB itself had mixed views – some suggested that the use of the phrase “as adopted in country X” should be stated to mean that the financial statements are not compliant with IFRS. He noted that it may become increasingly difficult for European companies to assert compliance and, in some countries in Asia there are significant differences.

The IASB did receive a fair amount of comment on whether disclosures regarding the differences should be qualitative or quantitative. Some respondents said they would not know how to make a meaningful qualitative statement about the differences, and many called for quantitative disclosure which, in his view, may not be reasonable. He cited problems with the reconciliation of IFRS to other accounting standards (such as US GAAP), noting that many companies do not show financial statements as if they were prepared under US GAAP (for example, showing the full effects of hedge accounting as would be required of US GAAP filers). Such reconciliations are usually enormously difficult and expensive. Believing that the issue could not be solved by the IASB alone, he asked the CAG Representatives whether, if the IASB clarified the status of IAS 1 to state that financial statements prepared under IFRS “as adopted in Country X” are not IFRS

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compliant (which is implied by the current standard), this would be sufficient in the light of work done by IOSCO, the IAASB and others.

Statement by IOSCO

Ms. Koski-Grafer explained the IOSCO statement that had been issued on February 6, 2008. It was the product of discussions that spanned both accounting and disclosure issues. It was a recommendation directed at issuers, designed to improve the clarity of disclosure of the accounting framework and policies that they used. In particular, in cases where a framework is described by reference to IFRS (though not pure IFRS as issued by the IASB), companies were recommended to explain in what regard the standards and the reporting framework used differ from IFRS as issued by the IASB, if this is the case, and where information on the national framework could be found. This did not mean that an issuer would need to disclose in detail all differences between the framework used and IFRS, but rather would need to provide an appropriate high-level summary of the areas of difference.

The purpose of this disclosure was to serve as an alert that there were differences in the frameworks underpinning the financial statements that readers needed to be aware of – it was not meant to be a detailed description of entity-specific impacts. IOSCO believed that such a high-level national framework-oriented disclosure would be a relatively simple task for issuers and auditors, and therefore could be widely implemented, thereby increasing awareness in the markets. With this disclosure, investors and their advisors could go to the sources cited and other valuable information to obtain more detail about the differences and impacts if they considered it necessary to do so.

Mr. Damant inquired as to how a user would be able to find out the impacts of the differences between the two frameworks. Ms. Koski-Grafer noted IOSCO's intent was not to suggest that countries or companies had to publish a detailed analysis of the differences between their standards and IFRS as issued by the IASB, so how an investor would find more information would depend upon exactly what information the investor wanted. When asked whether every member of IOSCO will follow this statement, Ms. Koski-Grafer noted that, while all IOSCO members were supportive of this statement being made, issuers at whom the recommendation is directed are not IOSCO members.

Mr. Edwards suggested that prior work in the context of the International Forum on Accountancy Developments that had been done by the firms to summarize differences between the national frameworks and IFRS could provide investors with some of the information called for in the IOSCO statement. Ms. Koski-Grafer said she was not sure that it would, and noted that the IOSCO disclosure would call for a description of differences from IFRS only if the issuer cited IFRS in the issuer's description of the framework used and therefore some confusion might arise.

Further views of the Representatives were as follows:

- Mr. Krantz thought that the differences should be more readily apparent for all users of the financial statements, not just the sophisticated investor. In his view, a reference to a national standard setters' webpage was not sufficient and explanations of the differences should be

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more readily available to users. Mr. Waldron noted the CFA Institute's 2007 survey on corporate disclosures cited the priorities of understanding and knowledge of different accounting frameworks, and that having a good understanding of the differences is critical to user's understanding. He supported Mr. Krantz' view that investors should not have to go through a cumbersome activity to find relevant information.

- Mr. Bradbury was of the view that this area would not be one in which the World Bank would likely be able to make a statement. To him, this is an issue for financial statement preparers and, as such, the IASB would seem to be the most relevant party to resolve the issue.
- Mr. Goebel noted the IAIS' interest in participating in the debate, as the long-term goal is that all issuers apply IFRS as issued by the IASB. His concern with the IOSCO statement is that it does not acknowledge that these disclosures are meant to be temporary, with the overarching goal of moving to full IFRS adoption by all. Ms. Koski-Grafer supported this view.
- Mr. Koktvedgaard believed that since preparers are entitled to refer to the framework in the country in which they operate, and these standards are accepted by the stock exchanges, the exchanges should have a role in describing the standards to which their registrants refer. Mr. Upton did not support this view, because when law imposes the limitation the exchange would not have the authority to override the standards that have been adopted by the government (for example, IFRS as adopted in Europe). Ms. De Beer noted that an exchange cannot contradict a regulator, but can require those who list on the exchange to provide additional disclosure as to the differences. If this does not happen, and companies and regulators do not require the disclosures, she believes it would then be the role of the auditor.
- Mr. Sekiguchi noted that domestic issuers in Japan are required to prepare financial statements in accordance with Japanese GAAP, and are not permitted to describe the financial statements as "IFRS as adopted in Japan." Japanese GAAP is in the process of converging with IFRS. European issuers are permitted to make public offering or listing at Japanese capital markets with financial statements prepared in accordance with EU-IFRS, and to state that the financial statements are prepared in accordance with IFRS as adopted in Europe. He was supportive of the IOSCO statement. Mr. Uchino noted that it will take time for investors to understand the differences between Japanese GAAP and IFRS and believes there is a need for investor education.
- Mr. Ju highlighted that China has fully adopted IFRS with some slight differences. Financial statements are prepared under Chinese accounting standards but do not refer to IFRS. In his view, the problem lies with investors, in particular because of cross-border transactions. While Mr. Damant agreed, he also reiterated that the mere reference to IFRS was confusing and that perhaps the reference should be "modified" rather than "as adopted by" a particular country.
- Mr. Damant was of the view that it is essential for the official parties to come together and produce a solution that is not technically difficult. He believed this entailed that companies should be required to state the differences between IFRS and the adopted framework, in their financial statements, with perhaps oversight by the exchanges. He also noted that the phrase

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“IFRS as adopted in XXXX” could be understood to mean that IFRS had been adopted in full. Some such phrase as “as modified in XXXX” would be preferable.

The IAASB’s Proposal in ISA 700 (Redrafted)

In the absence of sensible disclosure, Mr. Damant believed there is a deficiency in information. The IAASB is attempting to correct those deficiencies by requiring the auditor to do so. Ms. Hillier clarified that the issue is not whether the financial reporting framework is deficient, as extant ISA 700 has always required the auditor to consider the adequacy of the financial reporting framework, but rather that it is important to ensure that such framework is adequately described. The problem that IAASB is trying to address is that there may be a risk of misunderstanding on the part of the reader if a framework is described by reference to another framework without the differences being adequately described. The proposals in the exposure draft of ISA 700 (Redrafted) were based on the guidance to the proposed amendments to IAS 1, namely, that the financial statements could be misleading in the absence of disclosure that gave transparency about the differences.

Some respondents to the exposure draft of ISA 700 (Redrafted) did not believe the term “misleading” was appropriate. The majority of the IAASB, having agreed that the focus should be on the risk that the reader misunderstands the basis on which the financial statements are prepared, were of the view that it was appropriate to have guidance in this ISA. The Board agreed that the guidance should relate to the transparency of the disclosure and that the auditor’s response would depend on whether the differences could impact the financial statements. For example, in the Task Force’s view, if a jurisdiction has gone through a due process whereby readers understand how the standards differ from IFRS, there may be a lower risk of misunderstanding by readers in that jurisdiction. However, if such financial statements are used in cross-border registrations it could create more confusion. Ms. De Beer supported this view.

The Representatives commented as follows:

- Mr. Robberecht noted that the EC is concerned with the proposed language in ISA 700 (Redrafted) for two reasons. Firstly, he was of the view that since corresponding guidance is no longer in IAS 1, the responsibility lies with regulators to increase the transparency of disclosure should this be considered necessary. Secondly, statutory auditors, who are mandated by law, cannot challenge the accounting framework under which they are auditing.
- Mr. Kellas did not agree that the intent of the proposed language in the ISA was to require the auditor to challenge the accounting framework. While he agreed in part that a statutory auditor does not have authority to challenge the financial reporting framework, the European framework is rooted in true and fair presentation, which requires further disclosures if the preparers or auditors feel these are necessary.
- Mr. Upton’s concern with the IAASB’s proposal was that any evaluation of the differences between the IFRS and “IFRS as adopted in Country X” could change each year if either framework changed. Ms. Hillier agreed. Ms. Sucher did not support the proposed approach, which was the result of seeking an assessment at the company (rather than jurisdictional)

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level, noting it would be confusing if in one year the auditor's report contained an Emphasis of Matter and did not the next. She also believed the IAASB's proposals would result in the auditor going beyond the framework, and argued that it could not be accommodated within true and fair considerations which are in the context of the framework. Mr. Koktvedgaard supported Ms. Sucher's view that the entity route is not desirable.

- Mr. Roussey questioned how the decision not to adopt a particular standard affected the auditor's assessment of "true and fair." Ms. Hillier explained that when an auditor accepts an engagement the auditor considers the acceptability of the framework and, therefore, that question is addressed at the outset of the engagement rather than when evaluating whether or not the resulting financial statements give a true and fair view. Mr. Koktvedgaard suggested that if auditors in a particular jurisdiction have problems with the way a framework is described, this should be dealt with by the professional bodies within that jurisdiction, which would likely lead to a generally accepted reference.
- Mr. Edwards was of the view that if regulators in a particular jurisdiction would require listed companies to follow the IOSCO recommendation, or all entities adopted this recommendation, this would alleviate the need for disclosure in the auditor's report. Ms. Hillier agreed.
- Mr. Upton suggested the IASB would not support the IAASB's proposal.
- Mr. Johnson believed the primary responsibility for this matter lay with IASB, and with regulators. He did not believe it was appropriate for the IAASB to attempt to handle the matters. Mr. Sekiguchi supported this view, as the IAASB's proposals were based on the premise that IAS 1 would change. Since this is no longer the case, he suggested that re-exposure of ISA 700 (Redrafted) might be necessary.
- Mr. White suggested that if the IASB made progress within IAS 1 to explicitly state that the financial statements should not refer to anything other than IFRS as issued by the IASB the premise of ISA 700 (Redrafted) would be different. He was also concerned about imposing on the auditor the need to make an assessment of the risk that a user of the auditor's report would not understand. This implies the auditor would need to consider who the intended users are, a determination which would be unclear. The proposals could also lead to complications with national standard setters, if the auditor is required to make an assessment as to whether the applicable financial reporting framework was adopted with due process and transparency.

Mr. Damant concluded the discussion. He polled the Representatives as to their support for the inclusion of this matter in ISA 700 (Redrafted). Twelve Representatives did not support the proposal, five supported it, and four Representatives registered their formal abstention.

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Appendix B

Excerpt from IAASB Minutes on ISA 700 (Redrafted)

Financial Reporting Frameworks Described by Reference to Another Established Framework

In advance of the meeting, Mr. Kellas and Ms. Hillier met representatives of the International Accounting Standards Board (IASB) and of the International Organization of Securities Commissions (IOSCO) to discuss the proposed revised guidance.

It was clear that the IASB would not have approved any relevant amendment to IAS 1³ before this meeting; nor is it yet clear that the approach proposed by the IASB will be acceptable in the light of responses received to its own consultation.

The IOSCO representatives noted that the recommendation⁴ issued by its Technical Committee to issuers was designed to promote transparency in all cases, whereas the proposed ISA, with its inevitable focus on an evaluation by the auditor of whether users might be misled by inadequate disclosure in the circumstances of the particular entity, acknowledged that there may be cases where no disclosure could be accepted.

The IAASB CAG Representatives agreed that this matter of transparency needs to be addressed in the public interest; however, the majority did not support dealing with the matter in ISA 700 (Redrafted), and advised the IAASB against doing so. The reasons for this stance varied, but included concern about the subjectivity of the particular proposals and wider concern that this was a matter for relevant regulators to resolve as the auditor ought to form the opinion within the context of the applicable financial reporting framework. They believed that further dialogue amongst the various stakeholders is needed.

After giving full consideration to all of the input received, the Task Force concluded that there was not sufficient support from stakeholders to proceed with the proposed approach and recommended to the IAASB that the proposed guidance be deleted from ISA 700 (Redrafted). Ms. Hillier noted that the deletion of the proposed guidance would not affect the approval of the proposed redrafted ISA as this had been proposed new guidance that was self-contained.

Mr. Kellas noted that this matter was originally raised by representatives from the audit firms who had been increasingly finding the use of modified IFRS in practice and requested assistance in determining the audit reporting implications, if any. The IAASB therefore has to determine to what extent it should pursue this matter in the future. He noted that the IAASB CAG Representatives were of the view that it is not a matter that can be resolved by the audit profession on its own. The IAASB CAG Chair is contemplating pursuing the matter with the regulatory community. He also noted that during the discussion with representatives of IASB it was proposed

³ International Accounting Standard (IAS) 1, "Presentation of Financial Statements."

⁴ *Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements* issued by the Technical Committee of IOSCO on February 6, 2008.

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that a joint letter might be sent to IOSCO, suggesting that the recommendation⁵ issued by its Technical Committee become a requirement.

Two IAASB members spoke directly on the matter. Both acknowledged the views of the IAASB CAG, and the dilemma faced by the Task Force in light of the lack of mandated disclosures through accounting standards or regulation for preparers. One IAASB member agreed that in the circumstances the IAASB could not resolve the matter on its own, but suggested that the IAASB remain alert to opportunities to assist in this regard. He was also skeptical as to whether the regulatory community on its own would resolve the matter. He expressed the hope that, should criticism of relevant disclosures be made at some future date, it would be remembered that the IAASB had made considerable efforts to develop guidance for auditors in the absence of mandated disclosures for preparers, but that stakeholders had not been supportive. Another IAASB member expressed similar concerns.

The IAASB agreed that other bodies are the more appropriate ones to pursue the matter, but that the IAASB should monitor future developments and be prepared to contribute further if and when it is appropriate to do so.

The IAASB agreed that the proposed revised guidance (paragraphs A11-A14 and A36-A40) should be deleted, and that the IAASB's deliberations in this regard should be fully documented in the Basis for Conclusions.

⁵ See footnote 26.

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Appendix C

Excerpt from ISA 700 (Redrafted) Basis for Conclusions

Financial Reporting Frameworks Described by Reference to Another Established Framework

Background

50. A number of jurisdictions are adopting IFRS. In some cases, the jurisdictions may adopt less than the complete set of current IFRS. This may be because of the time it takes a jurisdiction to introduce new standards locally, such that the issue is merely one of timing. It may be because a jurisdiction regards a certain IFRS as unsuitable for the jurisdiction. Or it may be because a regulator wishes to impose its own rules in respect of certain aspects of financial reporting. In each case, national standard setters, legislators or regulators may mandate how the financial reporting framework is to be described in the financial statements or the auditor's report, or both. For example, the framework may be described as "IFRS as adopted by [industry supervisor or regulator] for use of [industry] in [jurisdiction X]." Such descriptions may be used in the general purpose financial statements of the relevant entities.
51. When the applicable financial reporting framework is described by reference to another established framework, users may mistakenly assume that the applicable financial reporting framework is the same as, or at least very similar to, the other established framework. This would not be the case, however, when there are differences between the applicable financial reporting framework and the other established framework that are significant in the context of the entity's financial statements. A description of a financial reporting framework in terms such as that set out above is not an explicit and unreserved statement of compliance with IFRS; but the user may not know what the differences between the financial reporting framework and IFRS are, or where to find them.
52. In some cases, the differences between adopted or modified IFRS and the complete set of current IFRS may be of no significance to some or many entities, such that the effect of using the framework is in fact identical to IFRS in the vast majority of cases. In other cases, however, a difference between adopted or modified IFRS and the complete set of current IFRS may have a significant effect on the reported financial position or performance of some or many entities. As a result, there is a risk that users may misunderstand the basis on which the financial statements are prepared. The IAASB believes that it is, therefore, in the public interest, to promote transparency in order to avoid such a possibility.
53. This matter has been of concern to the International Accounting Standards Board (IASB), for the reasons set out above. In December 2006, the IASB agreed to issue a proposed amendment to IAS 1 that would add disclosure requirements for entities that refer to IFRS in describing the basis on which their financial statements are prepared, but that are not able to make an explicit and unreserved statement of compliance with IFRS. Such an entity would be required to make disclosures about how its financial statements would have been different if prepared in full compliance with IFRS. The proposed amendment formed part of the annual

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improvements process of the IASB. The Exposure Draft of the IASB's annual improvements was published in October 2007.

54. The Explanatory Memorandum that accompanied ED-ISA 700 explained that the IAASB was of the view that, where it is an option, a preferred solution is to avoid references to IFRS in circumstances when a financial reporting framework is such that compliance with it will not result in an explicit and unreserved statement of compliance with IFRS, and instead refer to or describe such framework as “the financial reporting framework applicable in [jurisdiction X],” or “accounting principles applicable to [industry] in [jurisdiction X].” The notes to the financial statements would include an appropriate description of the accounting policies. However, there will be cases where such a solution is not possible because the description of the framework is mandated by law or regulation. In such cases, the auditor's concern is to ensure that the references are not misleading.
55. To deal with the matter, the IAASB included proposed guidance in paragraphs A9-A11 of ED-ISA 700 (addressing the auditor's evaluation of the description of the financial reporting framework in the financial statements) and paragraphs A33-A34 of ED-ISA 700 (addressing the effect that such description may have on the auditor's opinion). The main element of the proposed guidance was that, if the applicable financial reporting framework was described in the financial statements as being a modified version of another established framework, the auditor should consider whether such description may be misleading if the financial statements did not include appropriate details of the difference between the applicable financial reporting framework and the other established framework. It followed closely the proposed amendment to IAS 1, though it also sought to generalize the relevant consideration to other frameworks.
56. The Explanatory Memorandum acknowledged that the proposed guidance was based on the proposed amendment to IAS 1, which had not yet been finalized. It indicated that, in the event that the IASB did not proceed with its current proposal or amended the proposal in a material respect, the IAASB would have to decide how, if at all, to deal with the matter in those changed circumstances.

Responses to ED-ISA 700⁶

57. Approximately half of those who responded to this particular matter supported the proposal, although some of them suggested that it be amended in one way or another. A few respondents, for example, did not agree that the auditor's report should include an Emphasis of Matter paragraph if the financial statements adequately describe the difference between the applicable financial reporting framework and the other established framework.
58. Some respondents, however, did not support the proposal. Some argued that the ISAs should be neutral with regard to the financial reporting framework, whereas the proposed guidance

⁶ See paragraphs 6-14 of the Summary of Significant Comments and Task Force Recommendations—ED-ISA 700 at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3976>.

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was largely directed to IFRS. A few were concerned about the effect that the proposed guidance may have on the “true and fair requirement” for companies and auditors in the European Union (EU). (That is, they considered that the proposal raised the following question: If the applicable financial reporting framework is designed to give a true and fair view, but does not require such disclosure, how can the failure to include such disclosure result in financial statements that do not give a true and fair view?) Others thought that the disclosures would be difficult to enforce in the absence of support in the standards – for example, if the adopting authority did not adopt the proposed amendment to IAS 1, or if the framework was other than IFRS. They argued that it was not the role of auditors to enforce such disclosure when it is not required by the applicable financial reporting framework, or law or regulation. A few were expressly of the view that the matter requires a regulatory rather than an auditing standards solution, though this thought seemed to lie behind other responses as well. Few responses from regulators, however, supported the proposed guidance.

Relevant Action by the International Organization of Securities Commissions

59. On February 6, 2008, the Technical Committee of the International Organization of Securities Commissions (IOSCO) issued a Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements, which recommends “that all annual and interim financial statements that are prepared on the basis of national standards that are modified or adapted from IFRS and published by publicly traded companies should include at a minimum the following statements (which should be tailored to the company’s circumstances and the markets in which securities may be traded):
- (a) A clear and unambiguous statement of the reporting framework on which the accounting policies are based;
 - (b) A clear statement of the company’s accounting policies on all material accounting areas;
 - (c) An explanation of where the accounting standards that underpin the policies can be found;
 - (d) A statement that explains that the financial statements are in compliance with IFRS as issued by the IASB, if this is the case; and
 - (e) A statement that explains in what regard the standards and the reporting framework used differ from IFRS as issued by the IASB, if this is the case.”

Consideration By and Decision of the International Auditing and Assurance Standards Board

60. In June 2008, the Task Force recommended to the IAASB that, based on the importance of the matter and the level of support received, the ISA continue to include guidance that addresses this matter. However, the Task Force recommended that the guidance be amended to focus on

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whether the reference renders the overall financial statements misleading, rather than simply considering whether the disclosures required by IAS 1 are present.⁷

61. The IAASB debated the proposed revised guidance.⁸ The IAASB decided not to focus on whether or not the reference renders “the overall financial statements misleading,” as this could be misinterpreted as implying that the auditor would be concluding that the entity’s financial position and performance are misleading, which was not the intent. Rather the IAASB suggested that the auditor’s evaluation of the adequacy of the description of the applicable financial reporting framework should include consideration whether there is a risk that users may misunderstand the basis on which the financial statements are prepared. If the applicable financial reporting framework is described by reference to another established framework, users may mistakenly assume that the applicable financial reporting framework is the same as, or at least very similar to, the other established framework. If the differences between the applicable financial reporting framework and the other established framework are not significant in the context of the entity’s financial statements, users are unlikely to misunderstand the basis on which the financial statements are prepared. If the differences are significant in the context of the entity’s financial statements, there is a risk that users may misunderstand the basis on which the financial statements are prepared. However, such risk is reduced by being transparent about the applicable financial reporting framework and how it differs from the other established framework. The Task Force was asked to consider drafting guidance accordingly.
62. Based on the above, the Task Force proposed revised guidance⁹ to:
- Explain the risk of misunderstanding.
 - Explain that the risk of misunderstanding is likely to be lower in certain circumstances.
 - Provide examples of how the risk of misunderstanding can be reduced by disclosures in the financial statements.
 - Deal with the circumstances where the applicable financial reporting framework has to be described by reference to the other established framework, but the differences between the two frameworks are not significant in the context of the entity.
 - Explain that, if the differences between the applicable financial reporting framework and the other established framework are significant in the context of the entity’s financial statements, the auditor’s evaluation of the adequacy of the description of

⁷ See Agenda Item 11 of the June 16-20, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0142&ViewCat=0948>.

⁸ See paragraphs A11-A12 and A35 of ISA 700 (Redrafted) presented as Agenda Item 11-B of the June 16-20, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4017>.

⁹ See paragraphs A11-A14 and A39-A40 of ISA 700 (Redrafted) presented as Agenda Item 5-A of the September 15-19 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4122>.

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the applicable financial reporting framework involves consideration of whether the financial statements include a description of the differences. It contained a number of examples to illustrate this point, including the possibility of emphasis in the auditor's report and in extreme cases, qualification.

63. The Task Force included the revised guidance in the agenda papers for the IAASB meeting in September 2008¹⁰ and discussed the proposals with the IAASB CAG earlier that month.¹¹ In addition, in advance of the September IAASB meeting, discussions were held with representatives of the IASB and of IOSCO.
64. It was clear that the IASB would not have approved any relevant amendment to IAS 1 before it was necessary for the IAASB to move ahead with ISA 700 (Redrafted); nor is it yet clear that the approach proposed by the IASB will be acceptable in the light of responses received to its own consultation. The IOSCO representatives noted that the recommendation¹² issued by its Technical Committee to issuers was designed to promote transparency in all cases, whereas the proposed ISA with its inevitable focus on an evaluation by the auditor of whether users might be misled by inadequate disclosure in the circumstances of the particular entity acknowledged that there may be cases where no disclosure could be accepted. Representatives on the IAASB CAG agreed that this matter of transparency needs to be addressed in the public interest; however, the majority did not support dealing with the matter in ISA 700 (Redrafted), and advised the IAASB against doing so. The reasons for this stance varied, but included concern about the subjectivity of the particular proposals and wider concern that this was a matter for relevant regulators to resolve as the auditor ought to form the opinion within the context of the applicable financial reporting framework. They believed that further dialogue amongst the various stakeholders is needed.
65. After giving full consideration to all of the input received, the IAASB concluded that it would not be appropriate to include the proposed guidance in ISA 700 (Redrafted). The IAASB agreed that other bodies are the more appropriate ones to pursue the matter, but that the IAASB should monitor future developments and be prepared to contribute further if and when it is appropriate to do so.

¹⁰ See Agenda Item 5 of the September 15-19, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0143&ViewCat=0968>.

¹¹ See Agenda Item J of the September 4-5, 2008 IAASB CAG meeting at <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0132&ViewCat=0984>.

¹² *Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements* issued by the Technical Committee of IOSCO on February 6, 2008.