

# IAASB CAG PAPER



**International Federation of Accountants**

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## Agenda Item

# I.1

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** London

**Meeting Date:** September 14–15, 2010

### **Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus— ISAE 3420—Report Back**

#### **Objective of Agenda Item**

1. The objective of this Agenda Item is to provide a report back on proposals of the Representatives on this project as discussed at the March 2010 CAG Meeting.

#### **Papers to Be Referred to during Discussion**

2. The discussion on this topic will follow the structure of this CAG Paper.
3. The hyperlink presented at the end of this CAG Paper to the exposure draft of the proposed ISAE 3420 is for reference only.

#### **Project Status and Timeline**

4. The IAASB approved an exposure draft of the proposed ISAE 3420 at its March 2010 meeting.
5. The Appendix to this paper provides a project history, including links to the relevant CAG documentation.

#### **March 1-2, 2010 CAG Discussion**

6. Below are extracts from the draft minutes of the March 2010 CAG meeting,<sup>1</sup> and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
SCOPE AND GLOBAL APPLICABILITY OF THE STANDARD	
Ms. Blomme noted that the majority FEE view supports the proposed scope of the standard; that is, assurance on the process to compile pro forma financial information. She also noted that in general the majority FEE view is	The IAASB agreed to seek respondents' views on exposure regarding the desirability of a separate standard on reporting on the pro forma financial information itself.

<sup>1</sup> The minutes will be approved at the September 2010 IAASB CAG meeting.

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Representatives' Comments	Task Force/IAASB Response
that the standard would have broad, global applicability. She explained that the minority view is that the standard should address the two engagement approaches that may be taken to assurance on pro forma financial information: one dealing with the process of compilation, as addressed by the proposed standard; and the other dealing with assurance on the final pro forma figures themselves. Mr. Swanney noted that the focus of the standard on the process of compilation is consistent with the original direction for the project agreed by the IAASB. He also noted that a standard on final pro forma figures would be an entirely different standard, with different work effort and reporting considerations, and based on different research by the Task Force.	<b><i>See Question 4 on page 10 of the explanatory memorandum accompanying the exposure draft.</i></b>
Mms. Blomme and Sucher noted that the scope should not be seen as applicable only to practitioners in the European Union (EU). Rather, it is a global standard applicable to any practitioner around the world who wants to perform engagements relative to an EU transaction, which is not insignificant prospect given the relative size of EU trading block.	Agreed. The proposed ISAE is intended to be framework- and jurisdiction-neutral.
While noting that IOSCO has not had the time to formulate a view, Ms. Sucher indicated support for the scope of the proposed standard. She noted that the approach taken by the Task Force is a meaningful initial step in this multi-faceted area. She found it helpful that the proposed standard now better clarifies its intended scope.	Support noted.
Mr. Robberecht expressed support for the project, provided the scope of the final standard is applicable in the EU. Ms. de Beer also expressed support for the scope of the standard, noting that the proposals of the Task Force should deal with the scope required to be addressed in terms of other jurisdictions, including South Africa, that have requirements similar to those of the EU. .	Support noted. The application of the proposed ISAE is not limited to any particular jurisdiction.

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FOCUS OF THE PROPOSED STANDARD – REPORTING ON THE PROCESS VS. PFI	
Mr. Damant supported the logic of the Task Force's proposal to provide two alternative wordings for the opinion in the practitioner's report based on the equivalency of meaning between the term "properly compiled" and the phrase "the process to compile the PFI has, in all material respects, been applied in accordance with the applicable criteria.	Support noted.
Prof. Schilder also indicated support for the proposal, noting that the two alternatives are likely to be helpful, and balances the need for global applicability of the standard with the need to maintain compatibility with existing regulatory requirements in many jurisdictions.	This is consistent with the general IAASB consensus.
PRACTITIONER'S RESPONSIBILITIES REGARDING COLUMN 1	
Ms. Blomme noted that the majority FEE view supports the Task Force's proposals, and that the CAG Working Group has no fundamental objection. She indicated that the proposed approach is logical on the basis of the proposed scope of the standard.	Support noted.
SUBSEQUENT EVENTS	
While agreeing that the obligations on the practitioner cannot be to search for subsequent events that may have effect on the pro forma financial information, Ms. Sucher was of the view that the Task Force should consider additional wording to encourage the practitioner to remain alert for subsequent events that may result on misleading information, and to take appropriate actions in such cases.	Point accepted. <b><i>See paragraph A40 of the exposure draft.</i></b>
Mr. Kuramochi was of the view that it will be very important to obtain views of the user of pro forma reports. While pro forma financial information may be widely accepted in the EU and other jurisdictions, it is not common in Japan. As such, there is a risk that	Point partly accepted. The Task Force believes that the factor that will have the greatest impact on users is whether the practitioner is reporting on the process to

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<p>confusion arises about the nature of such an engagement, and thus an expectations gap. He suggested that the explanatory memorandum of the exposure draft should explain the anticipated impact of the proposals on users, and that it should draw attention to the proposed illustrative practitioner's report. He also suggested that the explanatory memorandum in the exposure draft include a general question on whether users find the report meaningful and understandable from their perspective. Further, he suggested that a specific question be included pertaining to what work effort users believe should be applied to the unadjusted financial information (i.e., column 1 figures). Prof. Schilder agreed that consideration should be given to what can be done to increase input from the user community. Mr. Kuramochi indicated that he would be interested in knowing how many users respond to the exposure draft.</p>	<p>compile the pro forma financial information or the pro forma financial information itself. While not explicitly describing the impact of the proposals on users, the explanatory memorandum explains at length the objectives and focus of the proposed standard as well as the form and meaning of the practitioner's opinion. <i>See page 5-6 of the explanatory memorandum accompanying the exposure draft</i></p> <p>Nevertheless, the IAASB shares the view that input from the user community would be important. It has therefore specifically invited respondents from the issuer, investor and regulatory communities to comment on the proposals in the exposure draft. <i>See Request for Specific Comments on page 10 of the explanatory memorandum accompanying the exposure draft.</i></p> <p>While respondents will be able to comment freely on any aspect of the illustrative practitioner's report, including whether they find it meaningful and understandable, the IAASB felt it more important to specifically seek respondents' views on whether the report clearly communicates the nature of the subject matter on which the practitioner is reporting, i.e. the process of compilation vs. the pro forma financial information itself. <i>See Question 3 on page 10 of the explanatory memorandum accompanying the exposure draft.</i></p> <p>In relation to the practitioner's work effort, the IAASB agreed to seek respondents' views on the broader question of whether the work effort set out in the proposed ISAE, which includes the work effort on the unadjusted financial information, is sufficient and appropriate to enable the practitioner to express an opinion on</p>

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	the process of compilation. <b>See Question 2 on page 10 of the explanatory memorandum accompanying the exposure draft.</b>
Mr. Damant noted that the nature of the standard is such that it is susceptible to pervasive misunderstanding, including for example: the degree of work performed on the unadjusted financial information (i.e., column 1 figures); the practitioner's responsibilities relating to subsequent events; the meaning of "proper compilation;" etc. He suggested that these and related matters be emphasized in the explanatory memorandum accompanying the exposure draft. Mr. Swanney noted that the Task Force's intention is to include specific questions in the explanatory memorandum around the more contentious issues.	Point accepted.  The explanatory memorandum to the exposure draft explains the objectives and focus of the proposed standard as well as the more significant issues discussed at the IAASB.
Mr. Kocktvedgaard was of the view that the illustrative report is somewhat difficult to follow. He suggested that the list of procedures performed by the practitioner be presented in bullet form, to improve readability.	Point accepted.  <b>See the Appendix to the exposure draft.</b>

#### Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Exposure draft of proposed ISAE 3420

<http://www.ifac.org/Guidance/EXD-Download.php?EDFID=00336>

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### Appendix

#### Project History

**Project:** Proposed ISAE 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in a Prospectus*

#### Summary

	CAG Meeting	IAASB Meeting
Project Commencement	March 2008	March 2008
Development of Proposed International Pronouncement (up to Exposure)	March 2009 September 2009	March 2009 September 2009 December 2009
Exposure	March 2010	March 2010
Consideration of Respondents' Comments on Exposure – Planned for March 2011	-	-

#### CAG Discussions: Detailed References

<b>Project Commencement</b>	<u>March 2008</u> See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3740">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3740</a> See CAG meeting minutes (in Agenda Item E of the following material): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4274">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4274</a> See report back at the September 2008 CAG meeting (Agenda Item C.4): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4099">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4099</a>
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<b>Development of Proposed International Pronouncement (Up to Exposure)</b>	<p><u>March 2009</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5596">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5596</a></p> <p>See CAG meeting minutes: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5589</a></p> <p>See report back on March 2009 CAG meeting: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4966">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4966</a></p> <p><u>September 2009</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4965">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4965</a></p> <p>See CAG meeting minutes: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305</a></p> <p>See report back on September 2009 CAG meeting (see paragraph 32 of the follows meeting material): <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5288">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5288</a></p> <p><u>March 2010</u></p> <p>See IAASB CAG meeting material: <a href="http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5288">http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5288</a></p> <p>See draft March 2010 CAG meeting minutes at Agenda Item B.</p> <p>See report back on March 2010 CAG meeting in this CAG paper.</p>
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