



Meeting: IAASB Consultative Advisory Group
Meeting Location: Brussels
Meeting Date: March 6–7, 2012

Agenda Item E.5

Disclosures—Report Back

Objective of Agenda Item

1. To provide a report back on proposals of the Representatives on this project as discussed at the March 2011 CAG Meeting.

Project Status and Timeline

2. In January 2011 the IAASB released a Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications* (DP). Comments on this DP were received through June 1, 2011. In response to the comments received, and in recognition of the support of the CAG for a formalized feedback to enhance the IAASB's consultations, the IAASB approved the release of a *Disclosures Feedback Statement*¹ in December 2011 to provide an overview of the key messages from the responses to the DP. This feedback statement and the January 2011 Discussion Paper can both be accessed from the IAASB website at www.ifac.org/publications-resources/feedback-statement-disclosures.
3. The IAASB is of the view that international collaboration and cooperation with the accounting standard setters, regulators and others are key to addressing some of the more significant issues identified. The IAASB will further deliberate on the issues that should be addressed in IAASB standard-setting or other related activities.

March 12–13, 2011 CAG Discussion

4. Below are extracts from the draft minutes of the March 2011 CAG meeting,² and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
Mr. Robberecht noted that disclosure of a stress test had been used as an example, but that this was not being pursued by the IASB.	Ms. Hillier acknowledged this, noting that the Discussion Paper was using this as an example of a disclosure that raised numerous issues.

¹ www.ifac.org/sites/default/files/publications/files/IAASB%20Feedback%20Statement-Nature%20of%20Financial%20Reporting.pdf

² The minutes for March 2011 were approved at the September 2011 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
<p>Mr. Kuramochi suggested that input from auditors on the auditability of new disclosures is critical, and that any concerns about auditability should be raised with the IASB.</p> <p>He observed that many IOSCO members have expressed concern about boiler plate disclosures, and circumstances where the auditor challenged management about disclosure issues, but did not persevere when management did not change the disclosures.</p>	<p>The IASB Liaison Working Group, made up primarily of IAASB members and technical advisors, prepares and submits comment letters to the IASB on their Exposure Drafts where the Working Group has identified relevant auditing issues, commenting in particular on auditability / verifiability issues in the IASB's proposals. In addition, the leadership of the IAASB meets annually with the IASB's leadership to further discuss collaboration and cooperation, including the development of accounting standards, and how this can be improved between the two standard setting bodies.</p> <p>The issue of "boilerplate" disclosures was recognized by many respondents to the DP and was included in the significant comments in the <i>Feedback Statement</i>. The issue and any response thereto, will be further deliberated in the project proposal stage of this project.</p>
<p>Ms. Borgerth supported the discussion paper, noting that, as a preparer, she acknowledges that she is responsible for the financial statements and the value of professional skepticism in an audit is that it increases her confidence that the financial statements presented to the market are accurate. She observed that the disclosures related to line items in the financial statements should be auditable, as she must have evidence for the related disclosures in order for the disclosure to be accurate. However, she also noted that some information, such as management judgments, may be unauditable as the business strategy and business model is not under the auditor's control. She believed that the auditor should be in charge of verifying that management's disclosures are complete. In relation to the example of a stress test disclosure, she saw the auditor's responsibility as looking at the premises of the stress test and the use of the model but that the auditor should not consider whether the stress test model was right.</p>	<p>Similar points were raised by the respondents to the DP, and have been noted in the <i>Feedback Statement</i>. The issues highlighted in the <i>Feedback Statement</i> will form the base of deliberations for proposals on further standard setting or related activities by the IAASB.</p>
<p>Ms. Blomme welcomed the IAASB's work on disclosures and the important IASB liaison activities. She agreed with Ms. Borgerth that there are issues related to auditability in</p>	<p>As discussed above, the auditability issues will be further considered when the IAASB deliberates</p>

Representatives' Comments	Task Force/IAASB Response
<p>relation to certain disclosures. She commented that, ordinarily, the auditor should be able to review the evidence management relied upon in preparing the disclosure. She also noted that some organizations may have difficulty responding to the Discussion Paper as there are few people who are both audit and accounting specialists.</p>	<p>the project proposal for this initiative later in 2012.</p>
<p>Mr. Gutterman agreed with Ms. Blomme's assessment of the difficulty in finding specialists in both accounting and auditing who can respond to the Discussion Paper. He noted, that the Discussion Paper was particularly relevant to insurance as risk disclosures related to insurance contracts can be "box ticking," or can consider issues such as sensitivity testing, uncertainly analysis. He commented that a key issue was the need to include more disclosures relative to particular risks, and how preparers and auditors determine if there is sufficient and adequate disclosure. He noted that the Discussion Paper raised issues needing a hybrid of accounting and auditing, as well as qualitative and quantitative analysis.</p> <p>Mr. Windsor agreed with Mr. Gutterman, and explained that the IAIS has an ED on disclosure requirements for insurers.</p>	<p>As discussed above, the auditability issues and other disclosures related issues will be further considered when the IAASB deliberates the project proposal for this initiative later in 2012.</p>

5. The Representatives are asked to note the Report Back above.

IAASB Interaction with the IAASB CAG

6. There are no substantive issues being raised at this time for the purposes of the March 2012 IAASB meeting. Accordingly, this report back serves as the status update to the CAG.