

Meeting: IAASB
Meeting Location: New York
Meeting Date: September 17-21, 2012

Agenda Item 5

Objectives of the Agenda Item

1. To provide an update on key IAASB-International Accounting Standards Board (IASB) liaison activities, and to provide the IAASB members an opportunity to comment on the recent activities of the IAASB-IASB Liaison Working Group (WG).

IAASB-IASB Liaison WG

2. Until 2011, there were seven working groups¹ in place to deal with the IASB's respective projects that had previously been identified as important to monitor for potentially significant verifiability or auditability issues.
3. At the end of 2011, the effectiveness of the model was reviewed by the IAASB's Steering Committee, and it was concluded that a standing WG with responsibility for monitoring relevant IASB projects would be a more appropriate structure going forward. It was further concluded that the role of the standing WG would be to:
 - (a) Prepare written comments to the IASB and others, where relevant, regarding potential verifiability or auditability issues arising from their proposals, in consultation with the IAASB Steering Committee;
 - (b) Share information within the WG regarding recent financial reporting developments, which may have an impact on the remit of the WG; and
 - (c) Assess the auditing implications arising from newly issued relevant IASB pronouncements.
4. The WG comprises:
 - Tomokazu Sekiguchi, IAASB Member and Chair of WG
 - Dan Montgomery, IAASB Deputy Chair and co-Chair of WG
 - Jean Blascos, IAASB Member
 - Marc Pickeur, IAASB Member
 - Hiram Hasty, IAASB Technical Advisor
 - Greg Shields, former IAASB Technical Advisor

¹ The seven working groups in place included revenue recognition, fair value measurement & financial instruments, liabilities, leases, income taxes, emissions trading schemes, and conceptual framework.

Update on Key IAASB-IASB Liaison Activities

5. In 2009, the IAASB Chairman agreed with then Chairman of the IASB, Sir David Tweedie, to pursue an initiative intended to help ensure that relevant auditing considerations are part of the input to the development of International Financial Reporting Standards (IFRSs) and other relevant pronouncements of the IASB. After meeting with the IASB's new leadership, including Mr. Hans Hoogervorst, Chairman of the IASB, in February 2012, the importance of the initiative was reaffirmed.
6. As a result of the initiative:
 - (a) The IAASB WG has prepared and submitted on behalf of the IAASB numerous comment letters to selected IASB consultative documents (further details on the letters submitted since the last status report in June 2010 can be found under the heading of "Submissions to IASB Exposure Drafts" later in this paper).²
 - (b) From early 2012, IAASB staff started to participate in the IASB's confidential 'fatal flaw' review of the pre-ballot drafts of final standards.³
 - (c) A joint outreach event was held in London in November 2011, between the leadership and staff of the IAASB, IASB and IFAC, and representatives from the Commonwealth of Independent States (CIS) and Baltic countries to discuss adoption and implementation of ISAs and IFRSs in their respective jurisdictions. Further opportunities for joint IAASB-IASB outreach, particularly in emerging economies, will be explored in the future.
 - (d) The IAASB Chairman and Deputy Chair attended the IFRS Advisory Council's meeting in London in June 2012, and suggested to participants at this meeting that the IASB may want to consider clarifying certain terminology and providing additional guidance on disclosures related to going concern. These issues had been identified in the context of the Auditor Reporting project currently underway.⁴
 - (e) The IAASB Chairman followed up his concerns, as noted above, with a letter to the IASB Chairman requesting that the International Financial Reporting Interpretations Committee (IFRIC) consider clarifications that would assist preparers to apply the principles around going concern more consistently. This in turn would further assist with some of the audit issues identified in this area. The IASB Chairman responded that the matter would be further considered and that they would engage in ongoing dialogue to collaboratively determine the issues and priorities in this area. A follow-up teleconference in this regard was held on August 7, 2012.

² All comment letters sent to the IASB can be found at <http://www.ifac.org/publications-resources/iaasb-comments-iasb-exposure-drafts>

³ The Technical Director of the IAASB participated in the external review of the pre-ballot drafts, *Government Loans (Amendments to IFRS 1)* in February 2012, and *Transition Guidance, Amendments to IFRS 10, IFRS 11 and IFRS 12* in May 2012.

⁴ There has not yet been a formal decision at the IASB in relation to the issue of going concern. In May 2012, the US Financial Accounting Standards Board (FASB) decided to revisit the question of whether management should be required to assess whether there is doubt about an entity's ability to continue as a going concern in light of its recent decision not to pursue going-concern-type disclosures in the project about liquidity and interest rate risk disclosures.

7. Since the last status report to the IAASB in June 2010, other key activities undertaken as part of the IAASB-IASB liaison initiative, in addition to those mentioned above, are outlined below.

IASB Agenda Consultation 2011

8. In July 2011, the IASB launched its first formal public agenda consultation on its future work plan. The IASB sought input from all interested parties on the strategic direction and the broad overall balance of the work plan. Comments were requested through November 30, 2011.
9. The IAASB submitted a response to the IASB's *Agenda Consultation*⁵ in November 2011, recognizing the importance of co-operation between the respective standard-setting boards in several areas. In the response, the IAASB highlighted the need for a disclosure framework and further consideration to guidance for the application of the concept of materiality to disclosures, which was emphasized by respondents to the IAASB's Discussion Paper (DP), [*The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*](#). To assist with the collaborative efforts of different stakeholders to improve the quality of financial reporting, the IAASB encouraged the IASB to prioritize the proposed development of a presentation standard and/or a disclosure framework.
10. In response to a number of comments received, the IASB tentatively decided that further consideration will need to be given to a disclosure framework. The IASB took note of a review of research already done in this area by others, and has noted that the disclosure chapter of their conceptual framework project is likely to constitute their major disclosure project, and represents a longer-term standard-setting initiative.⁶
11. The IASB also indicated that they may commence a shorter-term initiative to explore how IFRSs can improve and simplify disclosures within the existing disclosure requirements. In this context, the IASB indicated that they would hold roundtables in the second half of 2012 to hear views about the benefits of short-term improvements without the need for current standard-setting intervention. The input from these roundtables is also expected to feed into their longer-term "conceptual framework—disclosures" project.
12. Both the IAASB-IASB Liaison WG and the Disclosures Task Force will continue to monitor developments in this area for the potential effects on the IAASB's proposed project on the Audit Implications of Disclosures (see Agenda Item 6), and to collaboratively develop comments on the IASB's proposals as they are published.

⁵ The IASB's *Agenda Consultation* can be found at:
www.ifrs.org/Current+Projects/IASB+Projects/IASB+agenda+consultation/agenda+consultation+2011/agenda+consultation+comment+letters+2011.htm

⁶ Accounting standard setters and others who are undertaking work in this area have published their initial views on a disclosure framework and have released documents for public comment. In July 2012, the FASB published an Invitation to Comment, *Disclosure Framework* (comments through November 16, 2012). On the same date, the European Financial Reporting Advisory Group (EFRAG) published a Discussion Paper, *Towards a Disclosure Framework for the Notes* (comments through December 31, 2012).

Submissions to IASB Exposure Drafts

Hedge Accounting

13. In April 2011, the WG submitted a response to the IASB on its Exposure Draft (ED), *Hedge Accounting*,⁷ identifying potential auditing challenges arising from the proposal. The WG provided specific examples for the IASB's further consideration on whether to provide more guidance or to clarify the intent. At the request of the US FASB, the letter was subsequently modified and forwarded to the FASB in response to their Discussion Paper, which was based on the IASB's ED.

Financial Instruments: Impairment

14. Also in April 2011, a response to the IASB's Supplementary Document to the ED, *Financial Instruments: Impairment*,⁸ was submitted. While the WG appreciated that the IASB's initiative in this area was an appropriate response to lessons learned in the financial crisis, the WG highlighted in the response that some of the proposals were expected to result in challenges from an auditing perspective. This included the lack of clarity in some areas around the judgments to be made, as well as documentation requirements to support the increased use of judgments to be made when applying the proposal.

Revenue from Contracts with Customers

15. In November 2010, in response to the IASB and FASB's initial joint proposals for revenue recognition, *Revenue from Contracts with Customers* (Revenue ED),⁹ the WG for revenue recognition considered and supported the IASB and FASB's objectives to establish principles for recognizing revenue that provided clearer, and more consistent, guidance. However, the WG identified areas within the proposals that, in their view, would be difficult to apply and would be problematic from a verifiability and/or auditability perspective. The response also encouraged the IASB to move some guidance and explanatory material in the Basis for Conclusions to form part of the proposed IFRS, and to provide examples that would illustrate more complex situations.
16. In March 2012, the WG submitted its response to the revised Revenue ED,¹⁰ commending the IASB and FASB on the significant improvements made. The response highlighted that additional auditing challenges may arise from differences in interpretation and application when determining the timing and amount of revenue to be recognized. The response also encouraged the IASB to consider clarifying certain principles underlying the requirements, and further explaining key terms.

⁷ The IASB's ED *Hedge Accounting*, can be found at:
www.ifrs.org/Current+Projects/IASB+Projects/Financial+Instruments+A+Replacement+of+IAS+39+Financial+Instruments+Recognition/Phase+III+-+Hedge+accounting/edcl/ed.htm

⁸ The IASB's Supplementary Document to the ED, *Financial Instruments: Impairment*, can be found at:
www.ifrs.org/Current+Projects/IASB+Projects/Financial+Instruments+A+Replacement+of+IAS+39+Financial+Instruments+Recognition/Financial+Instruments+Impairment+of+Financial+Asset+replacement+of+IAS+39+Financial+Instruments+Recog/Supplementary+document/Supplementary+document.htm

⁹ The IASB's ED, *Revenue with Contracts for Customers*, can be found at:
www.ifrs.org/Current+Projects/IASB+Projects/Revenue+Recognition/ed0610/Exposure+draft.htm

¹⁰ The IASB's revised ED, *Revenue with Contracts for Customers*, can be found at:
www.ifrs.org/Current+Projects/IASB+Projects/Revenue+Recognition/EDNov11/ED.htm

Investment Entities

17. In January 2012, the WG submitted a response to the IASB on its ED, *Investment Entities*.¹¹ This response highlighted a number of auditability and verifiability issues arising from the IASB's proposals and included recommendations, particularly around clarification of some terms used by the IASB and for additional guidance in certain areas.

Update on the IASB's Forward Work Program

Identified IASB Projects for Monitoring

18. A summary of the most recent IASB work plan, with projected targets, can be found in the Appendix.
19. When determining projects on the IASB's forward work plan for monitoring by the IAASB, the WG generally kept the following factors in mind:
- (a) *Stage of Development* - Projects that are at an earlier stage of the IASB's due process are more relevant to the IAASB's objective of providing timely input than the projects nearing finalization;
 - (b) *Nature of the Project* - Projects with a broader remit are more relevant; and
 - (c) *Relation to the Work of the IAASB* - Projects with linkages to the IAASB's current and future work program are of greater relevance.
20. Taking into account the above factors, the WG will focus their monitoring activities on the following IASB projects in 2012:
- (a) Financial Instruments: Classification and Measurement;
 - (b) Financial Instruments: Impairment;
 - (c) Financial Instruments: Hedge Accounting;
 - (d) Leases;
 - (e) Insurance Contracts; and
 - (f) Conceptual Framework (including disclosure framework).

Action Requested

- Q1. The IAASB is asked to comment on:
- (a) Whether the projects that have been identified by the WG to be monitored are appropriate; and
 - (b) Whether there are other matters that the WG should take into consideration as it progresses its work.

¹¹ The IASB's ED, *Investment Entities*, can be found at:
www.ifrs.org/Current+Projects/IASB+Projects/Consolidation/IE/investment+entities+ED+Aug+2011/ED+and+comment+letters.htm

IASB Projects Currently Being Monitored by the WG including Anticipated Timing of Outputs

The following details the IASB's most recent work plan for projects currently being monitored by the WG, together with the expected timing of outputs. This includes IASB projects which are in the process of being finalized and for which no further responses from the WG are expected (*):

Project	Anticipated Timing
IFRS 9: <i>Financial Instruments</i>	
Classification and Measurement	Target ED in Q4, 2012
Impairment	Target ED in Q4, 2012
General Hedge Accounting	Staff Draft in Q3, 2012; Target IFRS in Q4, 2012
Accounting for Macro Hedging	Target ED before the end of 2012
Leases	Target ED in Q4, 2012
Revenue Recognition*	Target IFRS before mid-2013
Insurance Contracts	Staff Draft or revised ED before the end of 2012
Consolidation – Investment Entities*	Target amendments to IFRSs in Q3 or Q4, 2012
Conceptual Framework	TBD

In addition to the above, the IASB is currently undertaking a comprehensive review of *IFRS for SME's*, and a post-implementation review of IFRS 8, *Operating Segments*. Details about other projects not being actively monitored by the IAASB, such as the annual improvements projects, can be found on the IASB's [project page](#).