

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: April 8, 2013

Agenda Item E.2

Disclosures

Objectives of Agenda Item

1. To provide a report back on proposals of the Representatives on this project as discussed at the September 2012 CAG Meeting.

Project Status and Timeline

2. The Appendix to this paper provides a history of previous discussions with the CAG on this topic including links to the relevant CAG documentation. In September 2012, the IAASB approved a project proposal to establish a Task Force to address auditing financial statement disclosures.

September 2012 CAG Discussion

3. Below are extracts from the draft minutes of the September 2012 CAG meeting,¹ and an indication of how the project Task Force or IAASB has responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
OBJECTIVES OF THE PROJECT	
<p>Messrs. Bluhm, Grund, Hansen, Hemus, Grund and Waldron and Ms. Borgerth supported the objectives of the project.</p> <p>Ms. Borgerth added that clear requirements for auditors would assist in preventing excessive disclosures that obscure the financial statements.</p>	<p>Support noted.</p> <p>The Task Force is in the process of determining what changes, if any, should be made to the ISAs.</p>
<p>Mr. Grund expressed the view that the Task Force and IAASB would need to be careful to avoid making too much progress in advance of the work being undertaken by others, such as the accounting standard setters.</p>	<p>Mr. Archambault responded that the Task Force is coordinating with other stakeholders, including the IASB, but nevertheless believed that it was important for the IAASB to make progress in the near term. He added that timing was difficult to coordinate as other stakeholders' initiatives may be</p>

¹ The September 2012 minutes will be approved at the April 2013 IAASB CAG meeting.

Representatives' Comments	Task Force/IAASB Response
	delayed.
Mr. Baumann noted that the project raises the opportunity for the Board to explore a number of fundamental questions about audit evidence for disclosures and how to audit qualitative disclosures.	The Task Force is in the process of exploring additional material to address the issues that have been raised relating to sufficient appropriate audit evidence for disclosures, and also in respect of auditing qualitative disclosures.
Mr. Bluhm noted that disclosures are also important for SMEs and SMPs.	Mr. Archambault agreed, noting that the Working Group would be pleased to see continued input to the project from the SMPC.
LEVEL OF AUTHORITY AND GUIDANCE MATERIAL	
Messrs. Koktvedgaard, Kuramochi, Morris and Waldron supported the development of authoritative material.	The Task Force is in the process of determining what changes, if any, should be made to the ISAs.
Mr. Waldron and Mr. Koktvedgaard also noted that improvements addressing disclosures should be incorporated into existing ISAs as this would retain all relevant material on a particular topic in a single document.	As set out in the project proposal, the Task Force will determine the most appropriate way to present any changes that are identified.
Mr. Koktvedgaard noted that an IAPN may be produced faster than an ISA, however Mr. Morris believed that non-authoritative material takes as long as authoritative material, but is less useful in changing practices.	As set out in the project proposal, the Task Force will determine the most appropriate way to present any changes that are identified.
Messrs. Baumann and Hines noted that, to the extent that extant ISAs address these issues adequately, an IAPN may be sufficient; otherwise authoritative material would be required.	The Task Force is in the process of identifying areas where additional guidance may be needed, and as part of this process will determine the most appropriate way to present any changes that are identified (i.e., whether it is authoritative or not).
Mr. Hemus noted that it would be necessary to determine if changes to standards are needed before determining whether it is appropriate to make the changes via a new standard or incorporated into various ISAs.	Mr. Archambault commented that the Working Group did not have a pre-conceived notion that a new ISA is needed, but did not want to preclude the possibility. He added that many jurisdictions have adopted the clarified ISAs and may be dissatisfied with widespread changes to a number of ISAs as a result of this project.
Mr. Kuramochi highlighted that IOSCO is concerned about the volume of disclosures and the	The Task Force will identify the most appropriate way to address the issues in this area, including

Representatives' Comments	Task Force/IAASB Response
<p>use of boilerplate material. He noted that issuers can use boilerplate to conceal specific circumstances from users, so having auditors raising these issues with management will be an improvement.</p>	<p>material to assist the auditor with focusing on disclosures at all stages of the audit process. However, it should be noted that some of the issues around the volume of disclosures do not arise from auditing standards, for example, behavioral considerations, and this will need to be addressed through a number of interested stakeholders making efforts in this area.</p>
<p>Mr. Kocktvedgaard noted that the timing of the project is linked to the resources available and the intended output, as standards would take longer than, for example, a Staff publication.</p>	<p>Prof. Schilder responded that the resources available were considered in the context of this proposal. Prof. Schilder added that, while a Staff publication is faster to produce, it cannot contain new material, and while an IAPN can go further it may not be faster than producing or amending one or more ISAs.</p>
<p>TIMING OF THE IAASB RESPONSE</p>	
<p>Mr. Stewart supported the proposed timing, and noted that this should not be dependent on the actions of the IASB. He noted that the IASB is committed to developing a disclosure framework and that the International Financial Reporting Standards (IFRS) Advisory Council does not believe that the IASB project will result in rapid outcomes. He added that the IASB's project is about determining the right disclosures, rather than cutting disclosures. He also noted that, as many of the newer standards have disclosure objectives rather than specific requirements, preparers have said that it is easier to add unnecessary disclosures rather than convince auditors and regulators that they are not needed. Finally, Mr. Stewart noted that the IASB would be hosting a disclosure forum to understand stakeholders' attitudes to disclosures as a way of informing their work on the disclosure framework.</p>	<p>Support for the proposed timing of the project noted. The Task Force is of the view that that behavioral considerations, such as that noted by Mr. Stewart, would need to be addressed through a number of interested stakeholders making efforts in this area.</p> <p>Mr. Archambault attended the IASB's Disclosure Forum in January 2013, and views expressed and comments made at the Forum will further inform the Task Force's efforts in this area.</p>
<p>Ms. Borgerth suggested that both preparers and auditors try to protect themselves from adverse consequence from misapplication of principles-based standards, and materiality is not, on its own,</p>	<p>Mr. Archambault noted that addressing voluminous disclosures would require both accounting and auditing standard setters to collaborate and cooperate.</p>

Representatives' Comments	Task Force/IAASB Response
the cause of voluminous disclosures.	
MATERIALITY	
Mr. Morris noted that there is a need for materiality to be consistently applied across audit firms in relation to disclosures.	Point accepted. One of the areas that the Task Force will be considering is the application of materiality to disclosures, and the Task Force will further deliberate how to appropriately make changes that will result in a more consistent approach to applying materiality to disclosures.
Mr. Stewart highlighted that he did not believe that the IASB's work on materiality via the International Financial Reporting Interpretations Committee would be of much assistance in determining materiality on individual components such as disclosures, as the IASB's concepts are based on materiality of financial statements as a whole. Mr. Grund asked if there was a difference between accounting and auditing standard setters in regard to materiality, and whether there were plans to resolve any differences.	Mr. Archambault responded that auditors look at financial statements as a whole when concluding at the end of the engagement, but it is harder to know what auditors specifically think about with respect to materiality for individual line items and disclosures. Mr. Archambault added that there are demands for guidance on auditing financial statement disclosures, particularly as disclosures become more qualitative and require more judgment from preparers, auditors and regulators. While the Task Force believes there is consistency between the accounting and auditing standard setters, it will continue to consider materiality as it applies to disclosures as a significant part of the project.
Mr. Johnson noted that materiality is an important issue for auditor reporting as well as disclosures. He also noted that materiality is affected by other factors, for example it can be nil when addressing directors' remuneration due to the related party relationship.	The concept of materiality, as it applies to disclosures, is within the ambit of this project and as previously explained, will be subject to further Task Force consideration and deliberation.
Mr. White noted that standard setters have one approach to materiality but prudential and disclosure regulators often have a different approach, and that the auditor needs to be aware of the different approaches. He also noted that there is an urgent need to address these issues to assist auditors in making their judgments.	The Task Force has noted that there are different approaches to determining materiality, and plan to further consider this aspect as it relates to disclosures as part of the project.

Representatives' Comments	Task Force/IAASB Response
Ms. Simpson noted that materiality is often meaningful only from the user's perspective. She added that for equity owners, matters involving potential conflicts of interest such as executive compensation or political donations will inform other ownership decisions. She also noted that materiality relied on different approaches such as qualitative and quantitative influences and that this should be retained.	Mr. Archambault noted that auditors look at materiality from the users' perspective while also understanding the environment.
Mr. Ratyanake noted that regulators are primarily focused on recognition and measurement issues on items that are material to the financial statements. He noted that disclosures may sometimes be material due to qualitative factors in addition to those that are material in a quantitative sense.	As part of the project, the Task Force will be further considering if changes need to be made to address disclosures that are qualitative in nature.
Mr. Koktvedgaard noted that a number of regulators in different European countries have guidance on materiality for specific disclosures.	Mr. Archambault responded that he would be pleased to see the regulators' guidance on materiality.
Mr. Peyret noted that risk factors are often required to be disclosed, and it is important to address the risk that management may include additional risk disclosures to overwhelm the pertinent ones.	As part of the project, the Task Force will further consider the issue that has been raised relating to immaterial disclosures, which do not convey relevant information, obscuring essential information.
Mr. James noted that a focus should be circumstances when the volume of immaterial disclosures obscures relevant information in the financial statements. Mr. Hansen noted that, in his experience, voluminous disclosures may obscure important points but this was not intentional by management.	Through the efforts of the Task Force in relation to this project, they will identify the most appropriate way to address the issues in this area. However, it should be noted that some of the issues are not an auditing standards issue but are behavioral, and this will need to be addressed through a number of interested stakeholders making efforts in this area.
Mr. Hansen also questioned whether the project included footnote disclosures only or also financial statement presentation.	Mr. Archambault clarified that the project was not intended to go beyond the footnote disclosures.
OTHER INITIATIVES	
Mr. Waldron noted that the Working Group should coordinate with the European Financial Reporting	Mr. Archambault commented that the Task Force has been monitoring these initiatives as indicated

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Advisory Group and US Financial Accounting Standards Board (FASB). Mr. Baumann noted that the FASB project is addressing the volume of disclosures, and therefore would not be addressing the central issues of this project.	in the agenda material.
Mr. Grund highlighted the Financial Stability Board project on risk disclosures, which anticipates releasing a document in October 2012.	Mr. Archambault commented that the Task Force has been monitoring these initiatives.

Matters for CAG Consideration

4. The Representatives are asked to note the Report Back above, in particular that the IAASB is currently progressing the project and is still exploring the most appropriate way to address the issues that have been identified.

IAASB Interaction with the IAASB CAG

5. There are no substantive issues being raised at this time at the April 2013 IAASB meeting. Accordingly, this report back serves as the status update to the CAG.

Project History

Project: Disclosures

Summary

	CAG Meeting	IAASB Meeting
Project Commencement		March 2010
Development of Discussion paper and Feedback Statement	March 2011	September 2010 December 2010 December 2011
Project proposal	March 2012 September 2012	June 2012 September 2012
Development of Proposed International pronouncement (up to Exposure)		December 2012

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Items N of the following): http://www.ifac.org/sites/default/files/meetings/files/5978_0.pdf</p> <p>See CAG meeting minutes: http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf</p> <p><u>March 2012</u></p> <p>See IAASB CAG Report Back meeting material: (in Agenda Item E.5 of the following): http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E5-Disclosures.pdf</p> <p><u>September 2012</u></p> <p>See IAASB CAG meeting material: (in Agenda Items E and E-1 of the following): http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_E-Disclosures_Draft_Project_Proposal-Cover%20Sheet.pdf http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_E1-Disclosures_Draft_Project_Proposal.pdf</p> <p>See draft minutes included as Agenda Item A of the April 2013 CAG Meeting.</p>
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