IACVA
INTERNATIONAL ASSOCIATION
of Consultants, Valuators and Analysts

International Association of Consultants, Valuators and Analysts
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Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York NY 10017
Submit to iaasb.org

Dear Sir,

This letter of comment is submitted on behalf of the IFRS Committee of the International Association of Consultants, Valuators and Analysts (IACVA), a member of the International Valuation Standards Council (IVSC) and the World Association of Valuation Organizations (WAVO). We are a knowledge transfer and credentialing organization with Charters, issued or pending, covering Canada, China, Egypt, Germany, Ghana, India, Indonesia, Jordan, Kenya, Kuwait, Lebanon, Mexico, Nigeria, Philippines, Russia/CIS, Saudi Arabia, South Korea, Taiwan, Thailand, United Arab Emirates, United States (National Association of Certified Valuation Analysts – NACVA and the Institute of Business Appraisers – IBA) and Vietnam. The organization has nearly 10,000 members, who are mainly involved in business valuation and fraud deterrence.

As a worldwide organization, we are extremely concerned with the development of the valuation profession especially in Canada, where we are incorporated, as well as the United States which has, at the moment, a majority of our members.

We appreciate the opportunity to comment on the Discussion Paper *"The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications".* Our observations to the questions in this Discussion Paper are as follows:

Section II–Financial Reporting Disclosure Trends

Section II of the discussion paper explores the recent trends in financial reporting disclosures, and the practical experiences of preparers and auditors.

I1) In general, do you believe that the reliability of disclosures is at the same level as that of the line items on the face of the financial statements? Do you believe that different types of disclosures in audited financial statements can or should have different levels of reliability? Please explain your answer.

Our view is that Financial Statements in general, should be read Chinese style, starting with the Notes, which are essential to give context to the various line items. Valuators and investors need different, often forward looking information, than many other classes of readers, such as lenders and other creditors. While we hope the reliability of the Notes disclosures is at the same level as that of all the line items, we acknowledge that, due to time and budget constraints, maximum efforts should be placed on the largest and most material items. In addition, we accept that many line items are based, at least in part, on management's estimates of various types and therefore, inherently less reliable.

I2) In the particular circumstance when a financial statement line item is measured on one basis, such as amortized cost, but the disclosure includes the fair value of the line item, should the auditor's effort on the fair value disclosure be the same as if the fair value was on the face of the financial statements? Please explain your answer.

As we view the Notes as forming a context for the line items, we are willing to accept less effort from the auditors with respect to figures such as those for certain Fair Values that have limited direct effect on reported cash flows.

I3) Have you encountered a disclosure which you believe was immaterial, and could have been removed to enhance the understandability of the financial statements? Please provide examples and your reasoning for why you believed they were immaterial in the context.

Much disclosure is immaterial if one takes, as do many valuators, a cash flow view of businesses. The most common is the disclosure requirements for financial instruments and those for hedging; this is especially so when the effect, for instance, solely relates to inventories of raw materials. Another example of immaterial disclosure are the details relating to future income taxes. As they do not give any indication of the expected timing of the realization of either the assets or liabilities, they have little impact on estimating future cash flows.

I4) Do you believe that consistency in disclosures is important (either over time for the same entity, or between entities in the same industry), even if achieving this aim may result in extensive disclosures that may not, in the context of a particular entity, be material to that entity in the current period?

Consistency over time is essential, while that with other members of the industry is only important. Trends, both in the actual line items: amounts, as well as their ratios to sales, are excellent measures of management's effectiveness.

Section IV–Audit Issues Regarding Disclosures Required by a Financial Reporting Framework

Section IV discusses the implications of disclosures required by accounting standards. In particular, it explores the challenges in providing evidence to support some disclosures (paragraphs 59–78) and discusses the assessment of materiality and misstatements (paragraphs 79–101).

I5) Does the shift in the IASB Conceptual Framework away from reliability and towards faithful representation change what you expect of preparers and auditors? Please explain your answer.

We are very concerned not only about the shift in both FASB and IASB's conceptual framework from reliability, to faithful representation which is not at all the same thing, but also with the Boards' Back to the Future moves to put more stress on Assets and Liabilities at Fair Values than on Income and Expenses, which give rise to cash flows.

I6) Some disclosures are relevant to an understanding of the entity but are not related to any specific line item in the financial statements. Below are two examples of these types of disclosures:

(a) Financial statements may include disclosures of the policies and procedures for managing the risk arising from financial instruments. Such disclosures may, for example, discuss the controls the entity has put in place to mitigate risks. What do you believe would constitute a misstatement of such a disclosure?

The disclosures should include not only a qualitative description of the processes and types of staff involved, but also qualitative indicators of the entity's maximum, and minimum, levels of an appropriate risk parameter, for instance "value at risk" during each reporting period.

(b) The IASB has proposed disclosures regarding stress tests (see paragraphs 65–66). What work would you expect an auditor to do in relation to the proposed stress test disclosures? What do you believe would constitute a misstatement of a stress test disclosure?

We would prefer that the stress test not form part of the financial statements but that then details be required to be included in the Management Commentary. This should contain not only a qualitative description but the quantitative factors used, and the conclusion arrived at, in the maximum stress scenario.

I7) What do you believe represents a material misstatement of a disclosure? Please give an example of what, in your view, would constitute a material misstatement for the following categories of disclosures:

- Judgments and reasons;
- Assumptions/models/inputs;
- Sources of estimation uncertainty/sensitivity analysis disclosures;
- Descriptions of internal processes;
- Disclosure of fair value information for a line item recorded on the balance sheet using a different measurement basis; and
- Objective-based disclosure requirements.

There are two ways a disclosure can represent a material misstatement. The first is if the facts either qualitative or quantitative are wrong. The second is if they give an impression, favourable or unfavourable, that might be misleading as to the future prospects of the entity.

I8) If there were certain disclosures that were determined to be incapable of being audited, would you want them to be included in the financial statements and labeled ―unaudited‖ or would you prefer that they be placed outside of the audited financial statements?
Please provide any other relevant comments that you wish to make on Section IV.

If a disclosure cannot be audited, it should be so labelled in the Financial Statements together with a full description of the reasons why.

Should a Board or staff member wish to discuss this matter further, you may contact me during normal business hours (Eastern Time) at 416-865-9766.

Respectfully submitted on behalf of the IFRS Committee of IACVA
Per

James P. Catty, MA, CA•CBV, CPA/ABV, CVA, CFA, CFE
Chair