

November 29, 2011

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

Re: IASB Agenda Consultation 2011

The International Auditing and Assurance Standards Board (IAASB) is pleased to offer the following comments on the International Accounting Standards Board's (IASB) Agenda Consultation 2011.

Shared Commitment to Co-operation and Collaboration

Stakeholders of both the IAASB and IASB recognize the importance of close co-operation between our respective standard-setting boards. Many respondents to the consultation on our *2012-2014 Strategy and Work Program* commented specifically on the importance of our liaison efforts with your Board. We noted with interest that responses to the IFRS Foundation Trustee's Strategy Review recommended closer co-operation with the IAASB to ensure that financial reporting standards are written so that they are auditable – a topic that continues to attract attention, as evidenced by some of the comments made in the US Securities and Exchange Commission (SEC) roundtable on uncertainty in financial information earlier this month. Clearly, co-operation and collaboration between the IAASB and IASB are seen by many of our common stakeholders as important in the public interest.

Since 2009, the relationship between the IASB and IAASB has strengthened. We have an ongoing programme of monitoring the development of IASB projects with the objective of identifying potentially significant verifiability and auditability issues and providing input to the IASB. This monitoring also provides an opportunity for the IAASB to gauge whether there is a need for new or revised auditing standards, or further guidance, as we have recently done with our new International Auditing Practice Note (IAPN) on auditing financial instruments.¹ Our efforts in monitoring and, as appropriate commenting on, specific IASB projects have been complemented by the close liaison between IAASB Deputy Chair, Ms. Diana Hillier, and IASB Member, Mr. Prabhakar Kalavacherla, Mr. Kalavacherla's periodic presentations to our Board, and the IASB's representation on our Consultative Advisory Group.

¹ IAPN 1000, *Special Considerations in Auditing Financial Instruments*

Based on our successful experiences to date, and in recognition of the strong encouragement of stakeholders, our ongoing IASB liaison program will feature prominently in our *2012-2014 Strategy and Work Program* as one of the activities the IAASB will continue to undertake in supporting global financial stability.² It would demonstrate our shared commitment to active liaison if the IASB's commitment to it was explicitly recognised in the IASB's strategic plan as well.

Presentation and Disclosure Framework

As you are aware, the IAASB published the Discussion Paper (DP), *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*, in January 2011. The DP explored the changing role and importance of disclosures in financial reporting and the implications of that trend for auditors. In the DP, the IAASB solicited stakeholders' views about various questions, *inter-alia*, materiality, the blurring border between financial and non-financial information, misstatements in disclosures, challenges associated with objective-based disclosure requirements, expectations regarding audit evidence in relation to different types of disclosures, and thoughts around auditability.

We received very thoughtful and insightful comments from a wide range of respondents, including preparers; investors; audit, securities and prudential regulators; as well as auditors. We are in the process of analysing the responses as a basis for determining future actions by the IAASB. In addition, we plan to issue a Feedback Statement to share what we have learned to stimulate further thinking and exploration of this important topic. Much of the input that we received is equally relevant to accounting standard setters and we look forward to sharing our findings with you.

Of particular relevance to the IASB's agenda consultation is the priority many respondents placed on the need for a disclosure framework and more guidance on the application of the concept of materiality to disclosures³—which are, of course, not necessarily mutually exclusive. Although most respondents thought that auditors had a role to play in responding to concerns regarding the complexity of financial reporting and disclosure overload, there was a widespread and strongly held view that these issues cannot be solved by the IAASB alone. Many recognized that an effective response would require a co-operative and collaborative approach with, in particular the IASB, but also other stakeholders.

We note that you have identified developing principles for presentation and disclosure as a possible future phase in your conceptual framework project. Based on the feedback to our DP, it is clear that stakeholders strongly support that project. They view it as important to high quality financial reporting and audit quality, and believe that it is urgently needed. Therefore, we encourage the IASB to place the proposed development of a presentation and disclosure framework high on your priority list.

We note that other accounting standard setters are also working in this area. We have been participating as observers in the Advisory Group to the European Financial Reporting Advisory

² The IAASB plans to finalize its *2012-2014 Strategy and Work Program* at its December 5-9, 2011 meeting.

³ Amongst others, we note that the European Securities Market Authority (ESMA) has launched a public consultation regarding the concept of materiality in financial reporting, including exploring possibly differing interpretations in the accounting and auditing literature.

Group's (EFRAG's) project to stimulate debate on a disclosure framework and have found that involvement to be particularly useful. The EFRAG project has involved the French and UK accounting standard setting bodies, and the US Financial Accounting Standards Board (FASB) has also participated in recent meetings given their renewed interest in establishing an overarching framework to make financial statement disclosures more effective, coordinated, and less redundant. The Institute of Chartered Accountants of Scotland and the New Zealand Institute of Chartered Accountants contributed thought leadership to the debate through their report issued early this year.⁴ In the interests of achieving a common global framework, we encouraged the IASB to liaise closely with the FASB and these other interested parties to forge solutions.

Given the recognition from stakeholders that the issues around disclosures are as relevant to financial reporting as they are to auditing, we would welcome the opportunity to discuss with you how we can collaborate with you in developing a framework for disclosures to help guide the judgments that need to be made by both preparers and auditors in relation to them.

Implementation Reviews

We also note with interest the proposal that the IASB obtain a better understanding of operational issues of new IFRSs and major amendments through conducting post-implementation reviews. We have recently released our plan for a post-implementation review of the clarified International Standards on Auditing. There has already been dialogue between the IAASB and IASB on our respective implementation monitoring initiatives, which has been useful. It will also be important that we share findings, as it is likely that information that we learn may have relevance to one another.

We have appreciated the interest of the IASB and its staff and leadership in strengthening the liaison between our Boards over the past few years and look forward to meeting with you in the near future to further our cooperation and collaboration on issues that transcend our respective Boards' mandates.

Yours sincerely,



Prof. Arnold Schilder
Chairman, IAASB

cc. Prabhakar Kalavacherla, Member and Liaison Representative, IASB
Diana Hillier, Deputy Chair and Liaison Representative, IAASB
Dan Montgomery, Incoming Deputy Chair and IASB Liaison Co-Chair, IAASB
Tomo Sekiguchi, Incoming IASB Liaison Co-Chair, IAASB
Jim Sylph, Executive Director, Professional Standards, IFAC
James Gunn, Technical Director, IAASB

⁴ *Losing the Excess Baggage: Reducing Disclosures in Financial Statements to What's Important*