



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

February 5, 2008

Mr. James M. Sylph
Executive Director, Professional Standards
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Email Edcomments@ifac.org

Re: IAASB Consultation Paper on Proposed Strategy for 2009-2011

Dear Mr. Sylph:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the IAASB Consultation Paper on Proposed Strategy for 2009-2011 (the Plan).

As an international organization of securities regulators representing the public interest, IOSCO SC 1 is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing and professional standards. Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns and pursuit of improved global financial reporting. Our comments in this letter reflect those matters on which we have achieved a consensus among the members of SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.

We appreciate the Board's efforts to seek broad consultation on its proposed strategy

We note the many actions the Board has undertaken over the past year to seek input for the development of its strategy, including the issuance of a Questionnaire for public

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input, the Strategy Forum in June of 2007 and discussions in the April, June and September 2007 Consultative Advisory Group meetings, as well as the current Consultation Paper. Careful due process that obtains and ensures consideration of input from all stakeholders in financial reporting and auditing is very important in global standards setting and we appreciate the Board's efforts in this regard.

The Board's highest priorities should focus on audit standards

We believe that the IAASB's most compelling reason for being a global standards body stems from the need to provide high quality assurance on the reporting of public companies in the global capital markets. As a result, we think the principal focus of the Strategic Plan and the driver for the majority of the IAASB's work should be on the overriding public interest in "audit quality" and that the Board's highest priorities should focus on standards that will contribute to high quality audits. In this regard, we think it is important that all ISAs that were only redrafted and not both revised and improved in the Clarity project receive prompt attention in the Board's future work. We have previously encouraged that work take place on ISA 250, *The Auditor's Responsibility Relating to Compliance with Laws and Regulations*, and we believe that all remaining ISAs should also be improved as soon as possible. Further, while sustainability reporting and corporate responsibility are legitimate and important concerns in an overall strategic plan for international auditing, we think these should have a secondary rather than a primary priority.

Convergence and Acceptance of the Clarified ISAs

At a time when the Board expects soon to complete a major, multi-year effort to improve and clarify its standards, the Proposed Strategy seems to project somewhat of a "business as usual" tone for the Board's planned actions to achieve increased global acceptance of auditing standards. Working to achieve increased global acceptance of the Board's new platform would seem to be an important next phase of the Board's work, a phase that would involve engaging with regulators, standard setters, users of financial statements and others on what challenges and issues exist with regard to acceptance of ISAs for global use and how to overcome those challenges.

For example, reference is made in the strategy to national jurisdictions that use locally-adapted versions of ISAs. Once the Board is satisfied that it has an improved body of ISAs upon the completion of the clarity project, this would seem an opportune time for the Board to study the reasons given in countries that have not adopted ISAs as their national standards and to engage with others on the wide range of issues and considerations involved, as well as to identify any continuing reasons for the additions that some countries include in ISAs if they do adopt them; the ISA clarifications or the "ISA plusses."

Implementation of the Clarified ISAs

As with any organization that has developed a new 'product', it would seem that the next critical step for the Board is to facilitate the effective implementation of that product. To that end, we noted that the strategic plan cited work streams to liaise with auditor oversight bodies and others to understand how auditors were implementing the clarified standards. The plan did not; however, seem to highlight specific work streams related to two other aspects of a successful implementation: namely, translation and education.

In regard to translation, we understand that presently ISA translation is handled by IFAC member bodies on a voluntary basis. We note the high-level general guidance provided under IFAC's December 2007 Policy, and we recognize IFAC's efforts to publicize the translations of ISAs that have been made available, as contributing to the goal of having timely, high quality translations of ISAs. However, as the timely availability of accurately translated ISAs can significantly affect global use and acceptance, we believe this area is one that should receive additional emphasis and study. One can postulate that a country would be more likely to effectively implement (and for that matter, adopt in the first place) ISAs if reliably translated copies were readily available. We believe it would be useful for the IAASB and IFAC to study the alternatives that exist for providing timely translations of high quality, and to include exploration of the experience of the International Accounting Standards Committee Foundation with the translation of international financial reporting standards as part of such a study.

We acknowledge that the structure and relationship of IFAC and its member bodies gives rise to differences from the accounting standards environment, and we recognize the importance of expert local resources in assuring good translations. We understand that these and other factors may have historically led IFAC and its member bodies to decide not to devote the resources to undertake a process for centrally-facilitated or supervised translation of ISAs. Nonetheless, we think the IAASB Strategic Plan should address the shorter-term issue of how best to get the body of clarified ISAs translated on an accurate and timely basis, and should also have a work stream to explore the longer term issue of how the timely availability of high quality ISA translations can be optimized.

In regard to education, it would be helpful to increase the coverage within the strategic plan of how education on the clarified ISAs is to occur and what role the IAASB and/or IFAC's International Accounting Education Standards Board will play. A solid understanding of the clarified ISAs by the practitioners applying them will play an important role in their effective implementation.

Presentation of the Proposed Strategy

Our last general comment concerns the way that the proposed strategy is outlined and communicated in the Consultation Paper. In our view, the structure and organization of the Proposed Strategy document makes it difficult for a reader to get a clear picture of the strategy and action plans that would guide the Board's efforts in coming years. For

example, in the Introduction on page 5 of the document, three strategic initiatives are presented (a), (b) and (c) as the following:

- (a) Development of standards
- (b) Global Acceptance, Convergence, and Partnership
- (c) Communication

Later, on page 9 of the document, a new (a), (b) and (c) are presented as the focal points (or "focuses") of the Board's strategy as follows:

- (a) Contributing to the effective operation of the world's capital markets
- (b) Assisting with the implementation of standards
- (c) Addressing the needs of SMEs

We are not sure how these focal points map back to the three strategic initiatives cited, and, in the intermittent texts and tables thereafter, there is a mix of topics and changes in sequence of items discussed such that it is difficult to see how they cascade from the three strategic initiatives.

As a communication document that publicly states the Board's proposed strategy, and as a guide for organizing appropriate operational efforts and priorities, it is important that the Strategy document be as easy as possible to understand by a wide range of people. We believe it would be helpful to reorganize the Strategy document to communicate the essence of the Board's strategy and provide a better logical flow as to how the Board proposes to carry it out.

Our remaining comments highlight points that came to our attention within the context of the manner in which the Proposed Strategy document is drafted and presented.

***The World's Capital Markets and Focus of the Strategic Plan
for 2009-2011 - Paragraphs 1-9***

A global strategy should not cite particular jurisdictions – paragraph 4

As the IAASB is seeking to develop and improve a high quality set of international auditing standards, we think the Plan should have a global focus, and not emphasize the needs or interests of any area or region over another. In this regard, it seems preferable that paragraph 4 on page 9 and Action D.1 on Appendix 1 or any other statements in the Strategic Plan should not focus on a particular jurisdiction.

SME issues and the need to define the term "SME" – paragraphs 6-9

In regard to the needs of SMEs we believe that ongoing attention to the concerns of smaller entities is warranted but at the same time this work must coexist with the work needed to address the needs relating to audits of listed companies and debt and equity investors in the global capital markets. In regard to the issue of a possible alternative

assurance service for SMEs, as discussed in paragraphs 7 – 9 and elsewhere, we would urge the Board to consult with regulators and users of the financial statements as to perceived needs for a new assurance service.

We also think it is important to define the term “SME” as it is widely used in ISAs, and make clear that it does not include listed companies, if that is the Board’s intent. We have asked about this issue in IAASB Consultative Advisory Group meetings because we do not find a definition of the term “SME” in the body of ISAs and think a definition is needed to clarify to whom SME audit guidance is intended to apply.

If the IAASB has not formed a conclusion that small listed companies (however “small” would be judged) are scoped out of the SME guidance, it should acknowledge that this issue is undecided and eventually expose for comment a definition it believes to be appropriate for SMEs. In this regard, we are aware of the definition of “small entity” that currently appears in the Glossary of the 2007 Edition of the ISAs (page 157), but from the text we read there, we would not expect “small and medium size entities” necessarily to be included. We are also aware of the recent issuance for public comment of a proposed Guide to the Use of ISA's for the Audits of Small and Medium-sized Entities by IFAC's Small and Medium Practices Committee, but here also we do not find a definition of the term "SME".

Global Acceptance, Convergence and Partnership - paragraphs 44-52 and Actions D.1 – D.6

As discussed earlier in our letter, we think the activities described in the strategy paper related to "Global Acceptance, Convergence and Partnership" are important to the future. We support the actions described in Section D of the Plan. In addition to the actions listed, we believe it would be useful for the Board to promote attention to the issue of “what does convergence mean?”

Transparency in Process for Meetings with Other Audit Standard Setters

We urge the Board to improve the transparency of its periodic meetings with national standard setters for auditing by opening these meetings to the public and by providing copies of the meeting papers on the Board’s website, as is done for the IAASB Board and Consultative Advisory Group meetings. Public meetings would seem particularly appropriate now as the IAASB's focus shifts to topics such as the future standard setting agenda, international convergence and partnership with national standard setters.

Key Assumptions – Paragraphs 10 and 11

In the last bullet point of paragraph 10 on page 12, the Board states “The expectation that the membership of the IAASB will consist of 50% practitioners and 50% non-practitioners by 2009 will not affect the IAASB’s current working procedures and level of activity.” We believe that achieving the full public interest benefits of a more diverse board, one that is not dominated by persons whose principal background and business

perspective is in the audit profession, will come only if adequate time is provided for questions and exchanges of views that test audit practitioner assumptions. It seems likely that as this or any other standard-setting body becomes more diverse rather than largely homogeneous, some amount of additional time will be needed in Board deliberations. We believe this should be expected and planned for, and be viewed as strengthening rather than weakening the process.

Basis for Possible Actions – Pages 15 -20

New Technology and Reporting Model

A.1.3 (Page 16): As the IAASB already has a standard dealing with the auditor's obligations in connection with other information in documents containing audited financial statements, an early step in considering matters relating to XBRL would be to explore whether there are or are not investor needs for assurance beyond what is already provided in an audit. We believe that the Board's focus should be on monitoring the current development and evolution of XBRL and related regulatory requirements and conducting relevant research. Such research would also support later development of global auditing guidance if needed.

A.1.4 (Page 16): In regard to the issue of "continuous audit", we believe the focus should be to monitor developments rather than seek to develop guidance prematurely. Some of our members have questioned whether the call for this work is arising from public interest/investor needs or is more in the realm of developing new kinds of auditing services.

Assurance on Sustainability Reports

A.3.1 (Page 17): It is unclear to us whether providing assurance on carbon credit information would require the development of new guidance, as general guidance already exists on non-audit assurance services. As stated earlier, we believe the Board's highest priorities should focus on auditing standards.

Implementation Assistance

B.1.1 (Page 18) and paragraphs 6 and 14 (pages 10 and 15): The discussions regarding the two-year period in which no new ISAs would be required to be implemented seems a bit extreme in its articulation by using the phrase in paragraph 14 "the IAASB will not develop any new or revised ISA unless it is clearly necessary to do so" or the phrase in paragraph 6 "a period at least two years after the effective dates of the ISAs redrafted under the clarity project ... during which no new auditing standards will become effective, unless there is an urgent need to respond to new or unforeseen circumstances." One is prompted to ask "what is the intended difference between *necessary* and *clearly necessary*?" and also to note that the way that the period is explained is sometimes 'two years' and at other times 'at least two years'.

B.1.2 (Page 18 and Paragraph 33): We believe there should be a specific mention of, and a greater emphasis on, working with independent oversight bodies that perform audit inspections and others to determine how auditing standards are being applied in practice. This will be important to determine both consistency and completeness of application, and also to identify any areas in standards that require improvement. We are unsure as to how the Board would be able to obtain the information to judge "effectiveness of implementation" of the improved ISAs that it cites. "Effectiveness" sounds like comparing the outcomes in the capital markets with implementation versus without. Instead of literally "effectiveness", does the Board mean that it will focus on understandability and consistency of application of the new ISAs around the world?

B.1.3 (Page 18): We agree that short "up-front" summaries can be helpful in highlighting key changes in a standard for the reader; at the same time, extreme care must be taken not to undermine the need for auditors to read all the content in a standard and the importance of a full reading.

B.1.4 (Page 18): We recognize the importance of good worldwide communications and the value of educating market participants on developments with respect to international auditing standards. However, we do not see the translation of newsletters and short summaries of developments into five languages as a high priority for IFAC and the IAASB. First, the IFAC website is already rich in useful summary content on such matters and local translations of short documents would not seem to be a pressing problem. If translations were to be done, it is unclear to us why the five United Nations languages would be the most relevant to. In any translation work relating to global auditing standards, we believe more than the five languages cited should be involved. Large numbers of accountants and auditors, including some in developed capital markets around the world, have other languages as their primary language.

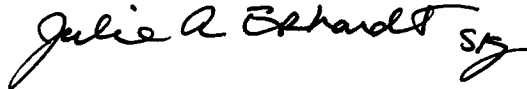
B.2.1 (Page 19): We would encourage the Board to review the IAPSs with the presumptive view that they contain useful content to incorporate into the application sections of ISAs, with updating as needed. Simply withdrawing an IAPS can cause useful information and guidance to be lost.

B.2.2 (Page 19): We support work on the auditing of fair values derived from models and suggest that this be given a high priority.

Impact Assessment

B.3.1 (Page 20): Considering costs and benefits is always important in standard setting, however, the Board will need to take care to ensure that giving specific attention to this issue does not lead to an inordinate focus on the costs only to auditors and reporting companies. An enhanced auditing standard may generate additional costs for both implementation and ongoing application by auditors and preparers, but this must be balanced against the benefits to investors and the capital markets in general.

This concludes our Standing Committee No. 1 comments on the IAASB Proposed Strategy for 2009-2011. We would be pleased to respond to any questions regarding these comments if desired. Please contact me on 202-551-5300 or any member of the IOSCO Auditing Subcommittee.

A handwritten signature in black ink that reads "Julie A. Erhardt" followed by a stylized monogram or initials.

Julie A. Erhardt
Chair
IOSCO Standing Committee No. 1