OICU-IOSCO

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

3 October 2014

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017 U.S.A.

Our Ref: 2014/JE/C1/IAASB/131

Subject Line: IAASB's Exposure Draft: ***Proposed Changes to the International Auditing Standards (ISAs) – Addressing Disclosures in the Audit of Financial Statements***

Dear Madam:

The International Organization of Securities Commissions' Committee on Issuer Accounting, Audit and Disclosure (Committee 1) appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB or the Board) Exposure Draft: *Proposed Changes to the International Auditing Standards (ISAs) – Addressing Disclosures in the Audit of Financial Statements* (the Paper). As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through the promotion of high quality accounting, auditing and professional standards, and other pronouncements and statements.

Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting, disclosure and auditing concerns, and pursuit of improved global financial reporting. Unless otherwise noted, the comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments

We believe full and accurate disclosure of material information is an important attribute that can assist investors in assessing a company's historical performance and future cash flow prospects. We believe disclosures in the financial statements need to be presented in accordance with the relevant accounting

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

standards and in a manner that increases the prominence of useful, understandable and relevant information.

We believe that investors would like access to relevant information about the company to gain a better understanding of the impact of judgment and estimation uncertainty, among other things, on the reporting of a company's results and financial position. While the responsibility for disclosure requirements for such information primarily rests with accounting standard-setters, we support the Board's effort in focusing on what is expected of auditors when auditing financial statement disclosures. This is because auditors play an important role in providing assurance that the company's financial statements, including disclosures, can be relied upon by investors and other users of the financial statements. At the same time, we encourage the Board to keep the needs of investors and other users of the financial statements to the forefront as the Board deliberates the results of the feedback to the Paper.

While we do not object to the Board's proposed changes, subject to our comments herein, we note that the Board's approach is to propose changes mainly to the application material in the ISAs. We believe the Board can more effectively drive changes in the auditor's approach to auditing disclosures by strengthening the requirements provisions within the ISAs. This primarily involves:

1. Providing clear requirements to the auditor in evaluating the materiality of disclosures;
2. Elevating the provisions in assessing going concern disclosures; and
3. Strengthening the requirements in ISA 315 to drive a more integrated approach to auditing account balances together with the related disclosures.

We have elaborated on these matters below for the Board's consideration. We are concerned that if these issues are not addressed then the Board's current proposal may lead to an insufficient change in the behavior of the auditor in the auditing of disclosures resulting in only a negligible gain in audit quality. We believe changes to the requirements could become a catalyst for changing the behavior of auditors in addressing both the overall adequacy of disclosures in the financial statements and the importance of the auditing of disclosures throughout the audit process.

Evaluating Materiality of Disclosures

As mentioned above, while we understand the role the accounting standard-setters can play in increasing the effectiveness of financial statement disclosures, we believe the IAASB should also play its part. We support this because based on our observations as securities regulators and, in some cases, also as auditor oversight regulators we note that in practice today auditors seem to have difficulty in

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

establishing materiality for evaluating disclosures, including those that are qualitative in nature, and the associated work effort.

We note that the Board has separately proposed amendments to two standards with the view of clarifying the application of the concept of materiality to the risk assessment and evaluation of misstatements aspects regarding disclosures, and in particular, narrative/non-quantitative disclosures. However, we do not believe the proposed changes address a primary concern facing auditors which is how to apply the concept of materiality when assessing disclosures. The IAASB should play its part by including clear requirements in the ISAs to assist auditors in determining the process for, and how to make judgments in, assessing materiality in the context of disclosures.

More specifically, we believe more emphasis should be placed in the standards on the auditor's role in assessing the content and quality of disclosures. In particular, we believe the Board should include clear provisions for auditors to determine how to assess how a company provides relevant and understandable disclosures as part of assessing the content of the notes to the financial statements, in addition to verifying the completeness of the information provided in the context of the applicable accounting standards. At the same time, the Board could use the opportunity to encourage auditors to be mindful of companies' use of irrelevant and/or boilerplate disclosures as they can negatively affect the understandability of the auditor's report.

Going Concern Disclosures

We believe that the information required to be provided and disclosed by preparers in accordance with the applicable accounting framework relating to going concern deserves specific attention by the auditor. We are aware that the Board has addressed the auditor's reporting requirements relating to the appropriateness of the use of the going concern assumption by the preparer and the related disclosures made by preparers in the context of the "Auditor Reporting" project. As a result of the importance of these disclosures we believe the relevant provisions found in paragraph A128c and Appendix 2 of ISA 315 (revised) should be elevated to the requirements section of the standard.

Integrating Assertions

While we believe auditors should take an integrated approach in auditing account balances along with the related disclosures, we are concerned that in integrating the assertions relating to presentation and disclosure into the assertions about classes of transactions and events and account balances, the Board has inappropriately eliminated any reference to classification in evaluating assertions about account balances and related disclosures. We believe classification is relevant for both assertions and should therefore be reflected in both categories. We believe there are areas in which the auditor should

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

consider assertions about presentation and disclosures separate from those of account balances (for example, as part of going concern disclosures and segment reporting).

We believe a more integrated approach to auditing account balances together with the related disclosures may be achieved by including more explicit provisions within ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. Such provisions could require the auditor to identify and assess the risk of material misstatement as they plan the nature, timing and extent of audit procedures for those accounts or disclosures.

Other Matters

In addition to our primary concerns expressed above, we have included other important matters below which we believe the Board should address in evaluating the feedback received on the Paper.

Use of the Term "Non-Quantitative" Disclosures

With regard to how the Board's proposal may operate in practice, we note that financial reporting frameworks, such as IFRS, generally use the terms "quantitative" and "qualitative" when describing the types of disclosures. Is the Board confident that the term "non-quantitative" as used in the Paper is easily understandable in light of the more established terms commonly used by auditors and other stakeholders?

Liaising with the IASB

We agree with the Board that an effective response to certain issues with disclosures will require collaboration and cooperation between many interested stakeholders. We believe some of the issues noted herein, such as addressing boilerplate language and evaluating materiality, to name a few, could be addressed in tandem with the IASB. We encourage the Board to liaise with the IASB on the IASB's Disclosure Initiative as the establishment of sound financial reporting disclosures can provide a good basis from which effective auditing standards can be developed.

Definition of Financial Statements

We encourage the Board to further examine whether the term "including disclosures" in the proposed definition of "financial statements" may lead to inconsistencies in auditors implementing the provisions. If some ISAs use the term "financial statements, including disclosures" but others only refer to "financial statements" would auditors assume that in the latter case disclosures are excluded

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

OICV-IOSCO

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

from consideration? We believe the Board should provide clarification on the use of the term "including disclosures" in the proposed definition of "financial statements".

"Boilerplate" Language

We believe users of financial statements expect differences in the disclosures of various companies that reflect the specific facts and circumstances of the company's activities. As such, we continue to believe that the auditor should be alert to management's use of boilerplate language and encourage management to limit its use and to enhance the disclosures, where necessary, to reflect current facts and circumstances surrounding specific activities of the company. We believe this notion should be included in ISA 315 under "The Use of Assertions" provisions.

Thank you for the opportunity to comment on the Paper. If you have any questions or would like to further discuss these matters, please contact either Nigel James or me at 202-551-5300.

Sincerely,

Julie A. Erhardt
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org