

**Meeting:** IAASB  
**Meeting Location:** Mainz  
**Meeting Date:** June 14-18, 2010

## **Agenda Item**

# **3**

### **Auditing Complex Financial Instruments—Proposed Revised IAPS 1012**

#### **Objectives of Agenda Item**

1. To consider issues relating to the development of proposed revised IAPS 1012.
2. To consider a revised draft of proposed IAPS 1012.

#### **Task Force**

3. Full Members:
  - John Fogarty, Chair
  - Jon Grant, IAASB Member and Member of UK Auditing Practices Board (APB) Working Party on Complex Financial Instruments
  - Tomokazu Sekiguchi, IAASB Member
  - Gregory Fletcher, US Public Company Accounting Oversight Board
  - John Hughes, KPMG and Chair of UK APB Working Party on Complex Financial Instruments
  - Marc Pickeur, IAASB CAG Representative for the Basel Committee on Banking Supervision

#### **Background and Activities since Last IAASB Discussions**

4. The Task Force met via teleconference on three occasions in April and May 2010 to discuss comments raised at the March 2010 meeting and revisions to the draft proposed IAPS 1012. In addition, the March 2010 draft was discussed at the April meeting of the International Valuation Standards Council (IVSC) Expert Group on Financial Instruments. Further consultations with the UK Auditing Practices Board Working Group<sup>1</sup> and other Firm representatives were also undertaken.

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<sup>1</sup> The UK APB issued Practice Note 23 (Revised), *Auditing Complex Financial Instruments*, in October 2009. This document was used as the basis for the IAASB's October 2009 Consultation Paper and the initial draft of IAPS 1012.

5. While there was general support for the material from these experts, concerns were expressed over the form and content by the practice expert on the Task Force and the UK APB Working Party. These concerns, and the Task Force's consideration thereof, are included for the IAASB's consideration in **Agenda Item 3-A**.
6. In light of these concerns and subsequent debate, the Task Force agreed there is merit in taking additional time to engage these and other experts to assist with detailed redrafting, in order to ensure the material is useful to auditors and is appropriately focused on the key issues encountered when auditing complex financial instruments. The Task Force therefore intends to revise the draft to incorporate the IAASB's comments from this meeting, and discuss that draft in face-to-face meetings with experts during July. Accordingly, the Task Force does not intend to seek the IAASB's approval for exposure at the June 2010 meeting, as originally contemplated, but rather in September 2010. However, in order for the planned meetings with experts to be effective, it is necessary that the Task Force has a clear direction from the IAASB during its June meeting about the manner in which the IAPS should be structured and the key issues it should cover.

### **Material Presented**

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| Agenda Item 3-A | Auditing Complex Financial Instruments—Issues and IAASB Task Force Proposals dated June 2010       |
| Agenda Item 3-B | Draft Revised IAPS 1012, <i>Auditing Complex Financial Instruments</i> , dated June 2010 (Clean)   |
| Agenda Item 3-C | Draft Revised IAPS 1012, <i>Auditing Complex Financial Instruments</i> , dated June 2010 (Mark-up) |

### **Action Requested**

7. The IAASB is asked to consider and comment on the issues presented in **Agenda Item 3-A**, and provide substantive comments on the draft proposed revised IAPS 1012 presented in **Agenda Item 3-B**.