

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

Agenda Item

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IAASB – IASB Liaison

Objectives of Agenda Item

1. To provide an update on key IAASB – IASB liaison activities.
2. To discuss the IASB's forward work program for determining other IASB projects that should be monitored by the IAASB.

Update on Key IAASB – IASB Liaison Activities

3. Since the last status report to the IAASB in March 2010, key activities undertaken as part of the IAASB – IASB liaison initiative are outlined below. A summary of the activities and outputs of the relevant IAASB working groups to date (in addition to ongoing informal liaison between the IAASB and IASB liaison representatives)¹ is provided in the appendix to this paper (see Table 1 in the appendix to this paper).

IASB Expert Advisory Panel (Impairment of Financial Assets)

4. Since February 2010, the IAASB has been observing meetings of the IASB Expert Advisory Panel (EAP) on impairment of financial assets at the invitation of the IASB. The objectives of the EAP are two-folds:
 - (a) To make recommendations to the IASB and US Financial Accounting Standards (FASB) Board on how operational challenges of the IASB's Expected Cash Flow approach and that of the FASB's might be resolved; and
 - (b) To assist in organizing and running field testing of any proposals made by the IASB.
5. The formation of this EAP is a follow up to the IASB's exposure draft on *Financial Instruments: Amortized Cost and Impairment* and in response to the 2008 recommendations by the Financial Stability Forum. Represented by its Chairman,² the IAASB has observed physical and teleconference meetings of the EAP during February 2010 – May 2010. The EAP is anticipated to meet every four-six weeks up to June 2010.

¹ IAASB Deputy Chair Diana Hillier as the IAASB liaison representative and IASB member Prabhakar Kalavacherla as the IASB liaison representative.

² In the event the IAASB Chairman was unable to attend a meeting, he was represented by the IAASB Deputy Chair or Technical Director.

6. In itself, the IASB's extension of the invitation to the IAASB to observe its EAP meetings signals a step forward in fostering closer working relationship between the two Boards. Furthermore, observing these meetings also enables the IAASB to better achieve its objective of providing timely input to the IASB at earlier stages of its deliberations.
7. Importantly, participation in the Expert Advisory Panel has provided better insight into the approaches preparers may take to comply with the IASB's proposals. The auditability of the approaches and the reliability (that is, sources of evidence) of the inputs on which to base the estimates of impairment were frequently discussed in the EAP meetings. In general, these discussions have provided reassurance that the IASB's proposals do not pose the auditability concerns that were feared in advance. In this regard, a letter will be sent to the IASB Staff thanking them for the opportunity to participate in the EAP meetings as well as to note a few key matters arising from the EAP discussions that the IAASB believes will be important in finalizing the IASB's proposals.

Conceptual Framework—The Reporting Entity

8. At the March 2010 IAASB meeting, the Conceptual Framework Working Group met to discuss the IASB's exposure draft *Conceptual Framework for Financial Reporting: The Reporting Entity*. The Working Group was of the view that there are no significant verifiability/auditability issues for raising with the IASB. The comment period ends on July 16, 2010 and it is intended that the conclusions of the Working Group (that it does not perceive that there are auditing challenges arising from the IASB's proposals) will be communicated to the IASB Staff accordingly.

Submissions to IASB Exposure Drafts

9. In May 2010, the Liabilities Working Group submitted a response to the IASB on its exposure draft *Measurement of Liabilities in IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. The response highlighted a number of verifiability/auditability challenges that may arise as a result of the IASB's proposals and provided recommendations on how they may be addressed. In doing so, the Working Group encouraged the IASB to consider the importance of the guidance providing adequate explanation of the intent of the requirements and encouraged the IAASB to include relevant explanations in non-authoritative staff documents in the final standard. The Working Group pointed out that this is an important basis for ensuring consistency in interpretation by both preparers and auditors.
10. A response to the International Accounting Standards Committee Foundation on its exposure draft *International Financial Reporting Standards (IFRS) Taxonomy 2010* was also submitted in April 2010. Whilst not commenting on the technical specifications within the taxonomy itself, the response drew attention to the IAASB's XBRL project and the Staff Questions and Answers publication issued in January 2010. Support was also expressed for the continued development and enhancement of taxonomies for IFRS and IFRS for SMEs following due process and broad consultation.

IASB Fair Value Measurement Project

11. In May, representatives of the IAASB Fair Values Working Group held a teleconference meeting with IASB staff responsible for the Fair Value Measurement project. The IASB staff provided updates on key decisions made by the IASB in this regard thereby allowing the Working Group to assess how the comments raised in its response to the IASB exposure drafts³ had been addressed. The majority of the points made by the Working Group in its response to the exposure drafts had been addressed by the IASB.
12. In the discussion, the IASB staff pointed to the likelihood of a limited re-exposure draft relating to measurement uncertainty analysis for fair value measurements (see Table 2 in the appendix to this paper). In addition, the IASB may develop further guidance of an educational nature in 2011 to address the more challenging areas of this project.

Monitoring Developments on Disclosures

13. As discussed during the annual review of financial reporting trends at the December 2010 IAASB meeting, the increasing importance of financial statement disclosures has raised questions about how auditors approach them in their audits and the judgments involved in relation to disclosures when assessing the fair presentation of the financial statements. Issues related to disclosures have linkages to a number of existing IAASB projects for example, the projects to revise ISA 720⁴ and IAPS 1012.⁵ Subject to respondents' comments on its *Strategy and Work Program* for the period 2012-2014, the IAASB envisaged it will undertake a project on auditing financial statement disclosures.
14. Further, in many liaison meetings with stakeholders, it has become clear to the IAASB that the issues related to disclosures transcend both financial reporting and auditing, and that stakeholders have differing perspectives and expectations. Active liaison with the IASB is, therefore, particularly important in this context.
15. In this regard, representatives of the IAASB have also been taking the opportunity to discuss the challenges of the increasing role and importance of disclosures in various meetings with, for example, the Financial Stability Board and regulators (in particular, financial institutions regulators). As a result of such discussions, IAASB Deputy Chair has been appointed as an observer to the Advisory Panel of the European Financial Reporting Advisory Group for their project on the development of a disclosures framework.
16. In connection with the IASB's work plan, the following key projects have relevance to the area of disclosures:

³ IASB Exposure Draft ED/2009/5, *Fair Value Measurement*, Exposure Draft ED/2009/7, *Financial Instruments: Classification and Measurement* and IASB Discussion Paper DP 2009/2 *Credit Risk in Liability Measurement* and Request for Information ('Expected Loss Model') *Impairment of Financial Assets: Expected Cash Flow Approach*.

⁴ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

⁵ IAPS 1012, *Auditing Derivative Financial Instruments*

- *Management Commentary Project.* The project's objective is to develop a best practice model for a narrative report that would accompany but be presented outside of the financial statements, setting out management's explanation of the entity's financial condition, changes in financial condition, results of operations, and causes of changes in material line items. This project plays a complementary role to the other IASB project on Conceptual Framework (described below).⁶

Although non-binding, the proposals arising from this project will have implications for the audit of financial statements (and therefore disclosures) if reporting entities elect to apply the proposed IASB model. In particular, the interplay between information disclosed in the notes to the financial statements and disclosures presented outside of the financial statements (i.e., the boundaries of disclosures) may have implications for the auditor's procedures for obtaining sufficient audit evidence, and the auditor's responsibilities for other information in documents containing financial statements that may be closely related to the financial statements (for example, ISA 720).

- *Conceptual Framework Project.* Phase E (Presentation and Disclosure including Financial Reporting Boundaries) of the IASB's Conceptual Framework project aims to determine the concepts underlying presentation and disclosure of financial information. This phase is currently inactive and a timeline has yet to be communicated by the IASB.

Of particular relevance is the work that is anticipated to be undertaken to determine the boundaries of information for achieving the objective of general purpose financial reporting. As the applicable financial reporting framework forms the basis for the auditor's opinion, the nature and extent of disclosures required by the IASB's framework will have a direct influence on the procedures the auditor has to perform so as to be satisfied with management's assertions regarding the presentation and disclosure of classes of transactions, accounting balances, and disclosures.

- *Proposed disclosures in subject matter specific projects.* A number of the IASB's projects include proposals for new disclosures. For example, the fair value measurement project aims to introduce enhanced disclosures regarding fair value measurements, including proposed disclosures regarding sensitivity analyses and the correlation of inputs.⁷ Further the IASB's discussion paper on *Extractive Industries* includes proposal for new disclosures on reserves. Accordingly, these are some examples of areas that will need to be monitored by the IAASB.

Subject to the IAASB's discussion of the IASB's forward work plan (see below), working groups may be established to monitor financial reporting proposals arising from other IASB projects; some of which may have relations to the area of disclosures.

⁶ The IASB has indicated it intends that Phase E (Presentation and Disclosure) of the Conceptual Framework project will build upon its work in the Management Commentary project.

⁷ These proposals are expected to be exposed by the IASB for public comment soon.

17. A discussion of the project on auditing financial statement disclosures is anticipated to be held at the September/December 2010 IAASB meetings. The implications of these and other financial reporting developments will be discussed in greater detail at these meetings.

Update on IASB Forward Work Program

18. A summary of the anticipated key activities in the IASB's forward work program is provided in the appendix to this paper (see Table 2 in the appendix to this paper). For some of these projects,⁸ IAASB working groups are currently in place. In these cases therefore, it is proposed that these working groups continue to take responsibility for monitoring the respective IASB projects to identify potential auditability/verifiability issues associated with the financial reporting proposals.
19. In addition, there are other projects for which the IASB is anticipated to undertake consultation activities during the remainder of 2010. The IAASB is asked for its views on which of these projects to monitor as part of the IAASB – IASB liaison initiative.

Selecting IASB Projects for Monitoring

20. In June 2009, the IAASB considered the following three factors for the purpose of determining IASB projects that it should monitor:
- (a) *Stage of Development* – Projects that are at an earlier stage of the IASB's due process⁹ are more relevant to the IAASB's objective of providing timely input than the projects nearing finalization;
 - (b) *Nature of the Project* – Projects with a broader remit; and
 - (c) *Relation to the Work of the IAASB* – Projects with linkages to the IAASB's current and future work program are of greater relevance.

When determining projects on the IASB's forward work plan for monitoring by the IAASB, these factors should similarly be kept in mind.

21. In April 2010, the IAASB issued a questionnaire to inform the development of its strategy and related work program for the period 2012-2014. The comment period closed on May 14, 2010. Amongst other matters, respondents were asked to identify financial reporting projects, in addition to those currently monitored by the IAASB,¹⁰ which may inform the IAASB's future agenda. The following projects/areas were identified more than twice by

⁸ Fair Value Measurement & Financial Instrument, Revenue Recognition, Leases, Income Taxes, Emissions Trading Scheme and Conceptual Framework.

⁹ The IASB due process comprises of six stages which includes: (i) setting the agenda; (ii) planning the project; (iii) developing and publishing the discussion paper; (iv) developing and publishing the exposure draft; (v) developing and publishing the standard; and (vi) monitoring issues after the standard is issued.

¹⁰ These projects include: (i) Fair Value Measurement & Financial Instrument, (ii) Revenue Recognition, (iii) Leases, (iv) Income Taxes, (v) Emissions Trading Scheme, (vi) Conceptual Framework, (vii) Management Commentary; and (viii) Provisions, Contingent Liabilities and Contingent Assets.

respondents as having linkages to the work of the IAASB (in order of decreasing number of mentions):¹¹

- (a) Insurance contracts;
- (b) Financial statement presentation;
- (c) XBRL;
- (d) Consolidation; and
- (e) Non-financial information (e.g., corporate social reporting, sustainability reporting, environmental reporting and water accounting).

Actions Requested

- 22. The IAASB is asked for its views on the projects on the IASB's forward work plan that should be monitored.
- 23. Subject to the IAASB's discussion, members, technical advisors and observers are asked to consider and indicate their interest in participating in working groups to the IAASB Liaison Representative or Staff.

¹¹ Other projects/areas raised by at least one respondent include IFRS for SMEs, intangible assets, related party disclosures, offshore investments and companies, extractive industries, public sector financial statements, employee benefits, derecognition and islamic banking. These and other results obtained on the strategy questionnaire will be discussed in greater detail at the September 2010 IAASB meeting.

APPENDIX

Table 1: Activities and Outputs of IAASB Working Groups

IASB Project	Activity/Output	Status
Fair Value Measurement & Financial Instrument	Submitted comment letter in September 2009. Established direct communication between Working Group and IASB staff responsible for the project.	See Table 2 below.
Liabilities	Submitted comment letter in May 2010.	Final IFRS anticipated Q3/Q4 2010.
Leases	Working Group discussed auditability/ verifiability issues with IASB Liaison Representative and IASB staff responsible for the project.	See Table 2 below.
Management Commentary	Working Group discussed auditability/ verifiability issues with IASB Liaison Representative.	Completed guidance anticipated Q3/Q4 2010.
Conceptual Framework	Communicated to IASB Liaison Representative that Working Group did not identify any significant auditability/ verifiability issues with the IASB's proposals in its ED on Phase D: <i>The Reporting Entity</i> .	See Table 2 below.

Table 2: Anticipated Forward IASB Work Program

IASB Project	Status	Proposal
<i>Working Group Currently In Place</i>		
Fair Value Measurement & Financial Instrument	<p><i>Fair Value Measurement:</i></p> <p>ED on measurement uncertainty analysis disclosure for fair value anticipated May 2010.¹²</p> <p><i>Financial Instruments:</i></p> <ul style="list-style-type: none"> • ED on amortized cost and impairment issued in November 2009. Comment period closes June 30, 2010.¹³ • ED proposing changes to the fair value option for financial liabilities issued in May 2010. Comment period closes July 16, 2010. • ED on hedge accounting anticipated June/Q3 2010. 	Fair Value Working Group to discuss EDs.
Revenue Recognition	ED anticipated June 2010.	Revenue Recognition Working Group to discuss ED.
Leases	ED anticipated Q2 2010.	Leases Working Group to discuss ED.

¹² Issuance of ED delayed.

¹³ As described earlier in the paper, the IAASB has been observing meetings of the IASB EAP. It is planned that a letter will be submitted to the IASB to convey that, as long as the IASB adequately takes into account the recommendations of the EAP, significant verifiability/auditability issues would be addressed through that channel. Notwithstanding this, the letter will also reinforce key points including that relating to the presentation issues arising from allowing disclosures outside of the body of the financial statements and the entity's judgments about the future.

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Income Taxes	ED anticipated Q3/Q4 2010.	Income Taxes Working Group to discuss ED.
Emissions Trading Scheme	ED anticipated Q4 2010.	Emissions Trading Scheme Working Group to discuss ED.
Conceptual Framework	Discussion paper (DP) on Phase C: <i>Measurement</i> anticipated Q4 2010.	Conceptual Framework Working Group to discuss DP.
IASB Project	Status	Proposal
<i>Working Group Not In Place</i>		
<i>Exposure Draft Issued</i>		
Extractive Activities	DP issued April 2010. Comment period closes July 30, 2010.	Working Group to be set up to discuss ED.
Post-Employment Benefits	ED on defined benefit plans issued April 2010. Comment period closes September 6, 2010.	No action proposed.
Financial Statement Presentation	ED (presentation of items of other comprehensive income) issued June 2010.1 Comment period closes September 30, 2010.	Working Group to be set up to discuss ED.
<i>Exposure Draft Anticipated</i>		
Financial Statement Presentation	EDs on discontinued operations and replacement IASs 1 and 7 anticipated May 2010. ¹⁴	As above.

¹⁴ Issuance of ED delayed.

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Derecognition	ED anticipated June 2010.	Views of the IAASB sought.
Financial Instruments with Characteristics of Equity	ED anticipated June 2010.	Views of the IAASB sought.
Insurance Contracts	ED anticipated June 2010.	Working Group to be set up to discuss ED.