

Meeting: IAASB Meeting
Meeting Location: New York
Meeting Dates: December 1–5, 2014

Agenda Item 7

Disclosures

Objective of Agenda Item

1. To present the responses to the May 2014 Exposure Draft (ED), *Proposed Changes to the International Standards on Auditing (ISAs): Addressing Disclosures in the Audit of Financial Statements*, and discuss the way forward.

Task Force

2. The Task Force comprises:
 - Marek Grabowski, Chair, IAASB Member
 - Jean Blascos, IAASB Member
 - Karin French, IAASB Member
 - Cédric Gélard, IAASB Member
 - Tomokazu Sekiguchi, IAASB Member
 - Bruce Winter, IAASB Member

Activities since Last IAASB Discussion

3. The comment period for the ED closed on September 11, 2014. The Task Force has held two physical meetings and one teleconference to discuss the comments to the ED and the material contained in these agenda papers.
4. The International Accounting Standards Board (IASB) Staff provided an update to the Task Force in October 2014 on the progress of the IASB's initiative on disclosures. This is discussed in more detail later in this paper. In addition, the working group of the IASB on materiality, comprising IASB Staff and Members, a representative from the International Organization of Securities Commissions (IOSCO), the Task Force Chair of the Disclosures Working Group and IAASB Staff held a teleconference to discuss progress made, and the next steps on the IASB's Materiality Initiative.
5. The Task Force also held teleconferences on the proposed changes with representatives from two investor groups: CFA Institute and the California Public Employees' Retirement System. Comments made by the representatives of these groups were their own views but were made on behalf of the respective groups. Overall the representatives of these groups were very supportive of the work being done by the IAASB as, in their view, changes were needed to encourage improvements in financial reporting disclosures. They encouraged the IAASB to move forward now with the

proposed changes, and had the view that the benefits of enhanced disclosures would outweigh the costs associated with these changes. Both groups had the view that the sooner financial reporting disclosures started improving, the more helpful this would be for investors, and the IAASB's actions in this area would be a valuable contribution to furthering this improvement. They also commended the IAASB on the usefulness of the (preliminary) [Staff Guidance Document](#). Individual comments, where relevant, and have been included in the analysis of comments in Agenda Item 7-A.

Overall Information about the ED

Respondent Categorizations

6. 70 responses to the ED were received. The detailed respondent list and their allocation to a geographic region are included in Appendix. All responses can be accessed from the IAASB's website at: <http://www.ifac.org/publications-resources/proposed-changes-international-standards-auditing-isas-addressing-disclosures>. The respondents to the ED comprised the following:

Category of Respondent	No.	Percentage
Regulators and Audit Oversight Bodies	9	13%
National Standard Setters	11	16%
Accounting Firms	9	13%
Public Sector Organizations	8	12%
Member Bodies and Other Professional Organizations	29	42%
Preparers	1	1%
Academics	1	1%
Individuals and Others	2	2%
Total	70	100%

7. Included in the responses are responses from 4 of the 7 Monitoring Group members – Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, The International Forum of Independent Audit Regulators and IOSCO.

Methodology Used by Staff in Preparing the Materials

8. In summarizing the views of respondents, Staff initially focused on describing the balance of views and the ways in which they were described, with appropriate reference to the respondent(s). As such, a quantitative descriptor may not always be used. For example, reference may be made to "Respondents who did not support ..." with a footnote indicating these respondents. This ensures that views are not solely taken into account based on the number of respondents.

9. For purposes of the analysis, and when considered necessary to provide context to the magnitude of responses on key matters, the following metrics have been used, given the 70 responses received to date:
- A few respondents = 2-3
 - Some respondents = 4-6
 - Several respondents = 7-11
 - Many respondents = 12-34
 - The majority of respondents = 35 or more
 - A strong majority = 55 or more
 - No reference will be made to “most respondents.”
10. In summarizing the views of respondents, the specific respondents are included in the footnotes, grouped by stakeholder category, with the exception of when a majority exists. In many cases this is largely an interpretive exercise, as respondents may not have expressly answered the question (may have expressed a level of support, while at the same time expressing some reservations or suggestions for improvement), but may have comments along similar veins as the intent of the question.

Relevant Developments

11. The following is intended to provide an update on relevant developments that will continue to be important inputs to the IAASB’s discussions.

IASB

12. The IASB is currently undertaking a broad-based initiative to explore how disclosures in International Financial Reporting Standards (IFRS) financial reporting can be improved. This [“Disclosures Initiative”](#) is made up a number of aspects: IAS1 Amendments; Principles of Disclosures Initiative; and a Standards-Level Review of Disclosures. In addition, relevant to the IAASB’s Disclosures project is the IASB’s initiative on Materiality as well as consideration of ‘reliability in its Conceptual Framework project.

IAS 1¹ Amendments

13. The IASB is considering narrow-focus amendments to IAS 1 (the “ED”) to address some of the concerns raised at its discussion forum held in January 2013. The ED was published in March 2014 with a comment deadline on July 23, 2014.
14. Specifically the ED proposed:
- (a) To amend paragraphs related to materiality requirements in IAS 1 to emphasize that:
 - (i) An entity shall not aggregate or disaggregate information in a manner that obscures useful information;

¹ International Accounting Standard (IAS) 1, *Presentation of Financial Statements*

- (ii) Materiality applies to the financial statements as a whole, including the notes to the financial statements; and
 - (iii) Materiality should be applied to specific disclosure requirements in individual standards.
- (b) That an entity should also consider whether information about matters addressed by an IFRS needs to be presented or disclosed to meet needs of users of the financial statements, even if that information is not included in the specific disclosure requirements of the IFRS.
- (c) To clarify that entities do have flexibility when determining the order of the notes. The ED proposed amendments that clarify that the 'normal' order of the notes listed in IAS 1² is merely one example of how an entity could order its notes, with the ED proposing additional examples of ways in which the entity could order its notes.

The ED did not propose to prohibit the disclosure of immaterial information, because the IASB considered such a prohibition to not be operational. The IASB also proposed amendments to clarify the terminology 'present' and 'disclose'.

15. The IASB has re-deliberated changes to respond to the responses it received. The IASB is currently going through its balloting process with the changes expected to be finalized in December 2014. The IASB Staff will propose an effective date of January 1, 2016 (with early adoption allowable).

Principles of Disclosure

16. This is currently a research project being undertaken by the IASB to identify and develop a set of principles for disclosures in IFRS that could form the basis of a Disclosure Standard (which will provide general guidance on the structure and format of financial statements that is applicable across IFRS). The focus of this will be to review the general requirements in IAS 1, IAS 7³ and IAS 8⁴ with a view to improving and ultimately replacing the presentation and disclosure parts of those standards with a single disclosure standard.
17. The project will consider:
- (a) Principles of disclosures for the notes, including:
 - (i) Objectives; and
 - (ii) Principles regarding the organization, placement, format and linkage of information.
 - (b) Information in a complete set of IFRS financial statements, including:
 - (i) Presentation and disclosure of non-IFRS financial information; and
 - (ii) Comparative information.
 - (c) Cash flow reporting.

² IAS 1, paragraph 14

³ IAS 7, *Statement of Cash Flows*

⁴ IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

18. The IASB expects to complete the discussion of the contents of a Discussion Paper (DP) on the Principles of Disclosure project early in 2015, and are aiming to publish the DP in the first half of 2015.

Standards-Level Review of Disclosures

19. The IASB will review disclosure requirements in existing standards to identify and assess conflicts, duplications and overlaps. The project will be informed by the principles being developed in the Principles of Disclosures project.

Materiality

20. The IASB is researching how materiality is being applied in practice in IFRS financial statements. It will then consider whether further guidance on materiality is needed. Also, in this project the IASB is undertaking work to consider whether additional guidance could be developed that assists entities to determine what a significant accounting policy is.
21. In March 2014 the IASB tentatively agreed that:
 - (a) The objective of the project should be to help preparers, auditors and regulators use judgment when applying the concept of materiality in order to make financial reports more meaningful.
 - (b) The scope of the project should be the application of materiality across the whole of the financial statements. However the focus would be on applying the concept of materiality to the notes.
 - (c) The project should consider the following areas:
 - (i) The lack of understanding of what is meant by the concept of 'materiality;'
 - (ii) The lack of clarity in applying the concept of materiality, in particular with regard to disclosures in the notes to the financial statements; and
 - (iii) How disclosure requirements are written, i.e., the use of unclear language used to describe disclosure objectives and other disclosure guidance in IFRS.
 - (d) It would undertake work to consider whether additional guidance could be developed that assists entities to determine what a significant accounting policy is.
22. In September 2014 the IASB Staff presented research in an 'education session' and IASB Staff will present proposals for a way forward to the IASB in November 2014.
23. As part of this initiative, in recognition that it will take collaboration and cooperation of various key stakeholders, a working group has been set up with representatives from the IASB, IOSCO and the IAASB. Periodic teleconferences have been held to update the parties on the progress of the IASB's actions, and to discuss the way forward. The most recent teleconference was held at the end of October 2014, in anticipation of the IASB's discussion with its Board in November 2014. The IASB Staff discussed the proposed direction of their efforts in this area, and representatives from IOSCO and the IAASB provided input on this. As the IASB meeting on this topic is scheduled for after completion of these papers (20-28 November) an oral update will be provided by the Task Force Chair on the IASB's decisions on the way forward for materiality.

Reliability

24. As part of its current [Conceptual Framework project](#), the IASB has reconsidered whether to include reference to 'reliability' in its *Qualitative Characteristics of Useful Financial Information*.⁵
25. Before the 2010 revision of the Conceptual Framework, one of the qualitative characteristics of useful financial information was reliability. This was replaced in 2010 with the qualitative characteristic of faithful representation i.e., information is useful if it faithfully represents what it purports to represent. The Basis for Conclusions explained that the main reason for the change was a lack of common understanding of the term reliability. In particular, it noted that many seemed to equate reliability with information being verifiable or free from material error.
26. As part of its current project to revise other chapters of the Conceptual Framework (the IASB is not proposing to revise Chapter 3), the IASB did received comments about reconsideration of introducing reliability back into the Conceptual Framework. In May 2014 the IASB agreed not to revisit reliability as a qualitative characteristic. In October 2014, the IAASB discussed proposals to replace 'reliability' with 'faithful representation' in IAS 1 and IAS 8 in the paragraphs that refer to reliability as a qualitative characteristic of useful information. However, the IASB agreed to defer considering this change until completion of its Conceptual Framework project.

Financial Accounting Standards Board (FASB)

27. The FASB is in the process of developing a Disclosure Framework to improve the effectiveness of disclosures in the notes to the financial statements by clearly communicating the information that is most important to users of each entity's financial statements. In March 2014, the FASB issued a proposed Concepts Statement—*Conceptual Framework for Financial Reporting: Chapter 8 Notes to the Financial Statements*. The Exposure Draft includes consideration of conceptual matters relating to the notes to the financial statements, and the FASB intends to use the concepts developed in this project as a basis for establishing disclosure requirements in the future as well as evaluating existing disclosure requirements. The proposed Disclosure Framework includes a separate component related to the decisions that reporting entities make when evaluating disclosure requirements.
28. The Exposure Draft was out for comment until July 14, 2014, and the Board is currently deliberating the responses. It is intended that the Disclosure Framework will be used by the FASB in developing its standards. Currently, there are four disclosure areas being evaluated by the FASB as part of this project, considering the Board's and the entity's decision process: fair value measurement; defined benefit plans; income taxes and inventory.

Matters for IAASB Consideration

29. Matters for IAASB consideration are set out in Agenda Item 7-A.

⁵ See chapter 3 of the IASB's *Conceptual Framework*.

Material Presented

Agenda Item 7-A	Disclosures – Summary of Exposure Draft Responses and Task Force Recommendations
Agenda Item 7-B	Auditing Disclosures – Revised Proposed Changes to the ISAs
Agenda Item 7-C	Auditing Disclosures – Revised Proposed Changes to Full ISA Standards (ISA315, ISA 330, ISA 450, ISA 700) (For Reference)

Appendix

List of Respondents to the Exposure Draft—Proposed Changes to the International Standards on Auditing: Addressing Disclosures in the Audit of Financial Statements

Note: Members of the Monitoring Group are shown in bold below.

#	Abbrev.	Respondent (70)	Region
Regulators and Oversight Authorities (9)			
1.	BCBS	Basel Committee on Banking Supervision	GLOBAL
2.	EAIG	European Audit Inspection Group (21 European Audit Regulators) ⁶	EU
3.	EBA	European Banking Authority	EU
4.	FRC	Financial Reporting Council – UK	EU
5.	IAIS	International Association of Insurance Supervisors	GLOBAL
6.	IFIAR	International Forum of Independent Audit Regulators	GLOBAL
7.	IOSCO	International Organization of Securities Commissions	GLOBAL
8.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
9.	MAOB	Securities Commission of Malaysia - Audit Oversight Board	AP
National Auditing Standard Setters (11)			
10.	ASB	American Institute of Certified Public Accountants Auditing Standards Board	NA
11.	AUASB	Australian Auditing and Assurance Standards Board	AP
12.	CAASB	Canadian Auditing and Assurance Standards Board	NA
13.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables	EU
14.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
15.	IDW	Institut der Wirtschaftsprüfer	EU
16.	JICPA	The Japanese Institute of Certified Public Accountants	AP
17.	MAASB	Auditing and Assurance Standards Board of Malaysian Institute of Accountants	AP

⁶ Austrian Auditors Supervisory Authority (Austria), Audit Public Oversight Council (Czech Republic), Danish Business Authority (Denmark), Auditors Activities Oversight Council (Estonia), Haut Conseil du Commissariat aux Comptes (France), Abschlussprüferaufsichtskommission (Germany), Auditors' Public Oversight Authority (Hungary), Irish Auditing & Accounting Supervisory Authority (Ireland), Authority of Audit and Accounting (Lithuania), Commission du Surveillance du Secteur Financier (Luxembourg), Netherlands Authority for the Financial Markets (The Netherlands), Finanstilsynet (Norway), Conselho Nacional de Supervisão de Auditoria (Portugal), Romanian Public Interest Oversight Body of Accounting Profession (Romania), Auditing Oversight Authority – UDVA (Slovakia), Agency for Public Oversight of Auditing (Slovenia), Instituto de Contabilidad y Auditoria de Cuentas (Spain), Revisorsnämnden (Sweden), Federal Audit Oversight Authority FAOA (Switzerland) and Financial Reporting Council (United Kingdom).

#	Abbrev.	Respondent (70)	Region
18.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU
19.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
20.	ZAAPB	Zimbabwe Accounting and Auditing Practices Board	MEA
Accounting Firms (9)⁷			
21.	ANA	Altaf Noor Ali Chartered Accountants (Pakistan)	AP
22.	BDO*	BDO International Limited	GLOBAL
23.	CHI*	Crowe Horwath International	GLOBAL
24.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
25.	EYG*	Ernst & Young Global Limited	GLOBAL
26.	GTI*	Grant Thornton International Ltd	GLOBAL
27.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
28.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
29.	RSM*	RSM International	GLOBAL
Public Sector Organizations (8)			
30.	AGA	Auditor General of Alberta	NA
31.	ACAG	Australasian Council of Auditors-General	AP
32.	AGNZ	Auditor General of New Zealand	AP
33.	CIPFA	Chartered Institute of Public Finance & Accountancy	GLOBAL
34.	GAO	United States Government Accountability Office	NA
35.	NAOUK	National Audit Office (UK)	EU
36.	PAS	Provincial Auditor of Saskatchewan	NA
37.	SNAO	Swedish National Audit Office	EU
Member Bodies and Other Professional Organizations (29)			
38.	ACCA	Association of Chartered Certified Accountants	GLOBAL
39.	ASSIREVI	Associazione Italiana Revisori Contabili (Association of the Italian Auditors)	EU
40.	ANAN	Association of National Accountants of Nigeria	MEA
41.	CAI	Chartered Accountants Ireland – Audit and Assurance Committee	EU
42.	CalCPA	California Society of CPAs	NA
43.	CAANZ	Chartered Accountants Australia and New Zealand (previously ICAA)	AP
44.	CPAA	CPA Australia	AP

⁷ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

#	Abbrev.	Respondent (70)	Region
45.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
46.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas	SA
47.	FEE	Fédération des Experts Comptables Européens - Federation of European Accountants	EU
48.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
49.	IBR-IRE	Institut des Réviseurs d'Entreprise/ Instituut van de Bedrijfsrevisoren	EU
50.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
51.	ICAG	Institute of Chartered Accountants (Ghana)	MEA
52.	ICAP	Institute of Chartered Accountants of Pakistan	AP
53.	ICAS	Institute of Chartered Accountants of Scotland	EU
54.	ICAZ	Institute of Chartered Accountants of Zimbabwe	MEA
55.	IMCP	Instituto Mexicano de Contadores Públicos, A.C. (Mexican Institute of Public Accountants)	NA
56.	INDCP	Instituto Nacional De Contadores Públicos (Colombia)	SA
57.	ISCA	Institute of Singapore Chartered Accountants	AP
58.	IAA	Interamerican Accounting Association	SA
59.	KICPA	Korean Institute of Certified Public Accountants	AP
60.	MICPA	The Malaysian Institute of Certified Public Accountants	AP
61.	NASBA	National Association of State Boards of Accountancy	NA
62.	NYSSCPA	New York State Society of Certified Public Accountants	NA
63.	SAICA	South African Institute of Chartered Accountants	MEA
64.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
65.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU
66.	ZICA	Zambia Institute of Chartered Accountants	MEA
Preparers (1)			
67.	QCA	Quoted Companies Alliance	EU
Academics (1)			
68.	HC	Hunter College Advanced Auditing Class at the Graduate School (Prof. Joseph A. Maffia)	NA
Individuals and Others (2)			
69.	CBarnard	Chris Barnard(Affiliated with ESMA, Germany)	EU
70.	DJuvenal	Denise Silva Ferreira Juvenal	SA