

Supplement E to Agenda Item 2

Preliminary Analysis of Responses to Question 8 of the Exposure Draft

Section I: Question included in Exposure Draft

1. The following question was asked in the exposure draft:
 - 8) *In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:*
 - (a) *Translations – Recognizing that many respondents may intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-540.*
 - (b) *Effective Date – Recognizing that ED-540 is a substantive revision, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods ending approximately 18 months after the approval of a final ISA. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA.*

Section II: Staff Analysis of Respondents' Views¹

Translations

2. A majority of respondents to the Exposure Draft of Proposed ISA 540 (ED-540)² did not address the question about potential translation issues, indicated that no potential issues had been noted, or otherwise stated that they had no comment. A total of 14 respondents³ provided specific comments.
3. A number of the comments received were general in nature, but referred to the importance of using clear, concise language and the need to avoid inconsistent terminology:
 - Long complex sentences are difficult to translate.⁴
 - Language should be as crisp and precise as possible.⁵

¹ In this paper the following terms have been used:

- "A respondent" = 1;
- "A few" = 2–3;
- "Some" = 4–6;
- "Several" = 7–11;
- "Many" = 12–34;
- "Majority" = more than 50%; and
- "Significant majority" = greater than ~80%.

² Proposed ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

³ NSS: CAASB, CNCC-CSOEC, IDW, NBA, *Firms*: BDO, DTT, GTI, *Member Body*: AE, EFAA, IBRACON, IBR-IRE, ICAS, SMPC, *Public Sector Organizations*: INTOSAI

⁴ NSSs: NBA

⁵ *Firms*: DTT

- The use of plain English should mitigate the risk of translators inadvertently changing the meaning of the original text.⁶
 - Elimination of redundancies and repetitive phrases will aid translation.⁷
 - Consistent terminology throughout the standards is particularly important to avoid difficulties in the translation of the text.⁸
4. Specific concerns were noted over wording used in ED-540 that could cause difficulties with translations. These include:
- Concerns about the use of “reasonable” when referring to disclosures (see discussion in the analysis of Question 6);⁹
 - Technical terms, for example, ‘level 1 inputs’, ‘level 3 fair values’, may be difficult to translate;¹⁰
 - Words such as “may” or “could” may, when translated, lead to different interpretations and meanings;¹¹
 - The meaning and differentiation in the use of the term ‘estimate’ and ‘estimates’ needs to be made clear. This is a subtle nuance that can be easily lost;¹²
 - Overuse of the words “includes” or “including”;¹³ and
 - The use of, or possible need to define, “significant data” (see discussion in the analysis of general comments)¹⁴

Effective Date

5. A majority of respondents, including one member of the Monitoring Group,¹⁵ were supportive of the proposed 18-month transition period from the date of approval of a final ISA. Of those respondents some¹⁶ noted that 18 months should be the minimum transition period, given the time needed for translation and due process in various jurisdictions, and that audit firms need to implement significant changes to their methodologies. Other respondents¹⁷ indicated that the transition period should at least be 12 months after approval. A few respondents¹⁸ suggested an effective date for financial reporting periods beginning two years after approval of the final ISA.

⁶ *Member Bodies:* EFAA, SMPC

⁷ *Firms:* DTT, *Member Bodies:* IBRACON

⁸ *Member Bodies:* AE, IBR-IRE

⁹ *NSSs:* CNCC-CSOEC, *Member Bodies:* AE, IBR-IRE, *Firms:* BDO

¹⁰ *NSSs:* NBA, *Firms:* BDO

¹¹ *Member Bodies:* AE, IBR-IBE

¹² *Firms:* GTI

¹³ *NSSs:* IDW

¹⁴ *Firms:* BDO

¹⁵ *Regulators:* IAIS, IRBA, *NSSs:* AUASB, CAASB, CNCC-CSOEC, IDW, MAASB, NBA, NZAuASB, *Firms:* BDO, DTT, GTI, KPMG, PKF, PWC, RSM, *Public Sector:* AGA, AGC, GAO, INTOSAI PAS, *Member Bodies:* AE, CPAA, EFAA, FACPCE, IBRACON, IAA, ICAS, ICAZ, ISCA, ICPAK, SAICA, SMPC, *Investors & Analysts:* CFA, *Individuals & Others:* NDEG

¹⁶ *NSSs:* IDW, *Firms:* KPMG, DTT, *Member Bodies:* SAICA, SMPC, *Public Sector:* INTOSAI

¹⁷ *Firms:* EYG, *Public Sector:* ACAG, *Member Bodies:* ANAN

¹⁸ *Public Sector:* INTOSAI, *NSSs:* IDW, *Member Bodies:* SMPC

6. A few respondents, including three members of the Monitoring Group,¹⁹ did not comment specifically on the proposed effective date or length of the transition period. However, Some respondents, including two members of the Monitoring Group,²⁰ urged the IAASB to finalize the revision of ISA 540²¹ as soon as possible given the impending mandatory effective date of IFRS 9²² (annual periods beginning on or after January 1, 2018) and other standards (e.g., IFRS 15).²³
7. Some respondents stressed that it is important not to compromise on quality in finalizing the revisions to ISA 540²⁴ and to provide a sufficient period to support the effective implementation of the revised standard.²⁵ A few respondents²⁶ encouraged the IAASB to take extra time to finalize the standard if needed to improve clarity and ensure a high-quality standard. A respondent²⁷ noted that additional time will be required to educate the business community, management and auditors with respect to management's and the auditor's responsibilities under the finalized proposals. Other respondents²⁸ cautioned the IAASB against finalizing the revised ISA 540 before fully considering the consequential impact on ISA 540 of proposed changes to ISA 315 (Revised).²⁹
8. All respondents³⁰ that commented on early adoption agreed that early adoption should be permitted. Of these, several noted their support for early adoption in view of the effective date of IFRS 9.

¹⁹ *Regulators: BCBS, IFIAR, IOSCO*

²⁰ *Regulators: BCBS, EBA, ESMA, IAIS, Firms: PKF, Member Bodies: ICAS*

²¹ *ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

²² *International Financial Reporting Standard (IFRS) 9, Financial Instruments*

²³ *IFRS 15, Revenue from Contracts with Customers*

²⁴ *Regulators: EBA, ESMA, NSS: CNCC-CSOEC, Member Bodies: AE, ICAS*

²⁵ *Regulators: IRBA, IAIS, NSS: IDW, Public Sector: INTOSAI, Member Bodies: ICPAK*

²⁶ *NSSs: NBA, Firms: KPMG*

²⁷ *NSS: AUASB*

²⁸ *Public Sector: ACAG, AGA, Member Bodies: ICAS, SPMC*

²⁹ *ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

³⁰ *Regulators: EBA, ESMA, IAIS, UKFRC, NSSs: AUASB, CAASB, IDW, NBA, NZAuASB, Firms: DTT, EYG, GTI, KPMG, PKF, PWC, Member Bodies: FACPCE, ICAEW, ICAS, ICAZ, ICPAK, SAICA, Individuals & Others: NDEG*