

IASC Foundation  
**IFRS Conference**

Wednesday 23 and Thursday 24 June 2010  
Hilton London Metropole, United Kingdom

**Special Interest Workshop**

Regulatory update

**JEROEN HOOIJER**

*Head of Unit of Financial Reporting Policy*  
*DG Internal Market and Services*  
**European Commission**

**SOPHIE BARANGER**

*Chief Accountant*  
**French Autorité des Marchés Financiers**  
*Chair*  
**IFRS Project Group, CESR**

**RICHARD THORPE**

*Accounting and Audit Policy Sector Leader and Head of*  
*Accounting and Audit Policy Department*  
**UK FSA**

**JULIE ERHARDT**

*Deputy Chief Accountant*  
**US SEC**

*Chair:*

**AMARO GOMES**

*Member*  
**IASB**

*IASC Foundation*  
**Special Interest Session**

**Regulatory Update**

*24 June 2010—at the Hilton London Metropole (United Kingdom)*

**Programme**

13:00 **Registration**

14:00 **Introduction**

**Amaro Gomes**

*Member*

**IASB**

14:05 **European Commission**

**Jeroen Hooijer**

*Head of Unit of Financial Reporting Policy, DG Internal Market and Services*

**European Commission**

14:30 **CESR-fin**

**Sophie Baranger**

*Member EECS – European Enforcement Coordination Sessions and*

*Member, CESR-fin*

14:55 **United Kingdom**

**Richard Thorpe**

*Accounting and Audit Policy Sector Leader and Head of Accounting and Audit Policy Department*

**UK Financial Services Authority**

15:20 **United States of America**

**\*Julie Erhardt**

*Deputy Chief Accountant*

**US SEC**

15:45 **Round-table Q&A**

Chair:

Amaro Gomes, *Member, IASB*

Panellists:

- **Jeroen Hooijer**, *Head of Unit of Financial Reporting Policy, DG Internal Market and Services*  
**European Commission**
- Sophie Baranger, *Member EECS* and *Member CESR-fin*
- Richard Thorpe, *Sector Leader and Head of Accounting and Audit Policy Department, UK FSA*
- Julie Erhardt, *Deputy Chief Accountant, US SEC*

16:25 **Concluding comments**

**Amaro Gomes**

*Member*

**IASB**

\*Subject to confirmation

IASC FOUNDATION IFRS CONFERENCE

**REGULATORY UPDATE  
CESRfin**

**Sophie BARANGER**

Chief Accountant - Autorité des Marchés Financiers

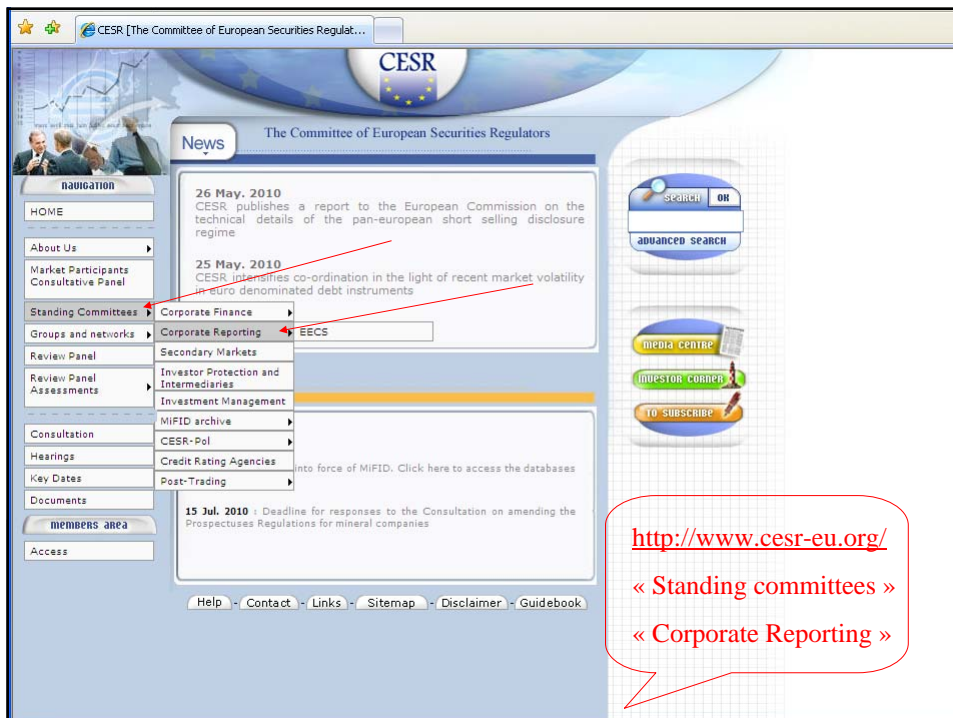
London - 24 June 2010

Today's presentation

- **How CESRfin organises its activities concerning financial reporting by listed entities**
- **Focus on enforcement activities**

## CESR and its role in Europe

- **Committee of European Securities Regulators**
- **Established June 2001**
- **3 main objectives:**
  - Improve co-ordination among securities regulators
  - Act as an advisory group to assist the European Commission
  - Work to ensure consistent and timely day-to-day implementation of community legislation in the Member States
- **Most work proliferated through working groups and common consensus**
- **Will be transformed into an EU Agency – European Securities & Markets Agency - effective 1 January 2011**



The screenshot shows the CESR website interface. On the left, there is a navigation menu with categories like 'HOME', 'About Us', 'Market Participants Consultative Panel', 'Standing Committees', 'Groups and networks', 'Review Panel', 'Investor Protection and Intermediaries', 'Investment Management', 'MiFID archive', 'CESR-Pol', 'Credit Rating Agencies', 'Post-Trading', 'Consultation', 'Hearings', 'Key Dates', 'Documents', and 'members area'. The 'Standing Committees' menu is expanded, showing sub-items: 'Corporate Finance', 'Corporate Reporting', 'Secondary Markets', 'Investor Protection and Intermediaries', and 'Investment Management'. A red arrow points from the 'Corporate Reporting' sub-item to a news item dated '25 May, 2010' which mentions 'EECS'. Another red arrow points from the 'Corporate Reporting' sub-item to a search bar. The news section contains two items: one from '26 May, 2010' about a report to the European Commission, and another from '25 May, 2010' about intensifying co-ordination. A red speech bubble at the bottom right contains the URL <http://www.cesr-eu.org/> and the text « Standing committees » and « Corporate Reporting ».

## Corporate Reporting Standing Committee (CESR-Fin)

- **Responsible for Accounting, Auditing and Periodic Financial Reporting issues**
- **European Enforcement Coordination Sessions (EECS)**
- **IFRS Project Group**
- **CESR-Fin has observers at**
  - ARC
  - EFRAG TEG Meetings
  - FEE's Audit Standard Setters Meetings
  - IASB's Standards Advisory Council
  - Financial Crisis Advisory Group

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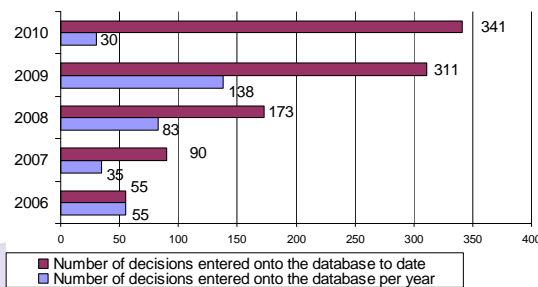
## The European Enforcers Coordination Sessions

- **The European Enforcers Coordination Sessions (EECS) are a forum, organised by CESR, in which CESR members and other EU enforcers, exchange views and discuss experiences on the enforcement of financial information.**
- **EECS aims to promote a high level of consistency amongst enforcers in their enforcement decisions.**
- **EECS meets regularly (approximately 7 meetings per year)**
  - To analyse and discuss decisions made or about to be made by European enforcers relating to the enforcement of financial information requirements;
  - To identify areas which are not covered by financial reporting standards or which may be open to conflicting interpretations for referral to the IASB or IFRIC; and
  - To share and compare practical experience on the monitoring of the financial information of companies with securities offered to the public or in the process of having securities admitted to trading on a regulated market.

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## The European Enforcers Coordination Sessions

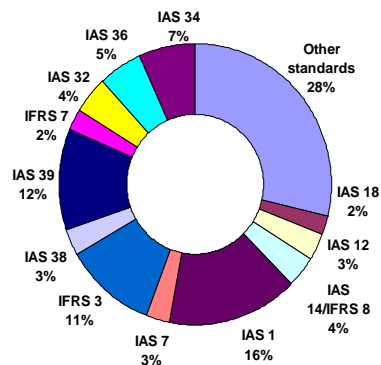
- Cases discussed at EECS are entered into a confidential CESR database which can be accessed only by all European enforcers.
- As of the end of May 2010, there are 341 decisions in this database (entered by 20 jurisdictions).



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## The European Enforcers Coordination Sessions

- These decisions deal with issues relating to almost all applicable standards, including IFRIC interpretations. Problems in terms of:
  - Application of the principles set by a standard or
  - Lack of (or inadequate) disclosures.
- Some standards have obviously created more difficulties or problems are more visible for enforcers as showed by the following graph, which provides the distribution of decisions per standard:
  - 1 out of 5 decisions relate directly to financial instruments;
  - 1 out of 6 decisions relate directly to Financial Statements presentation;
  - 1 out of 9 decisions relate directly Business combinations.



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## The European Enforcers Coordination Sessions

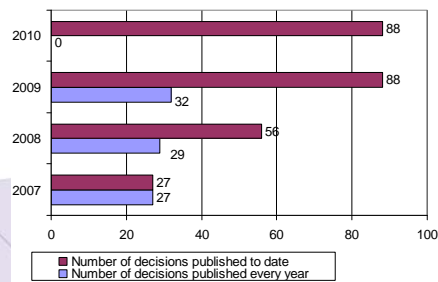
- **Examples of disclosures that did not quite hit the mark can be sorted into two main categories:**
  - disclosures are not adapted to the specific situation of the issuer
  - disclosures had not gone far enough
- **Examples where the standards themselves may have caused difficulties. For instance:**
  - Difficulties with IAS 39 where preparers struggled
    - (i) assessing the fair value of complex instruments which were no longer traded on a liquid market; or
    - (ii) understanding the meaning of “*significant or prolonged decline*” (IAS 39.61).
  - Difficulties in identifying the acquirer in a business combination (IFRS 3).

## CESR’s publications of enforcement decisions

- **CESR intends that publishing enforcement decisions gives market participants an insight into how European enforcers analyse whether accounting treatments are within the acceptable range permitted by IFRSs or by IFRIC interpretations.**
- **CESR is of the view that publishing such decisions together with the rationale behind them also helps towards achieving consistent application of IFRS in the EU.**
- **In order for a decision to be published, there must be a large consensus on the nature of the decision amongst the enforcers attending a meeting where such publication is approved, and also at CESR-Fin level.**
- **Decisions dealing with straightforward accounting matters or whose technical merit is deemed low are not published, even when the enforcer has assessed the error to be material and sanctions have been taken.**

## CESR's publications of enforcement decisions

- So far CESR has published 7 separate packages of enforcement decisions (the most recent dates from December 2009), containing a total of 88 decisions.
- The next package will be published in July 2010.
- The following graph provides an overview of the decisions published by CESR since 2007:



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Market Participants Consultative Panel

Standing Committees

Groups and networks

Review Panel

Review Panel Assessments

Consultation

Hearings

Key Dates

Documents

members area

Access

EECS is a forum which brings together all EU National Enforcers of financial information, whether CESR Members or not. The enforcers meet to exchange views and discuss experiences of enforcement of IFRS.

**DESCRIPTION :**

A key function of EECS is the analysis and discussion of decisions taken by independent EU National Enforcers in respect of financial statements published by issuers with securities traded on a regulated market and who prepare their financial statements in accordance with IFRS. The purpose of this is to increase convergence amongst enforcers activities across Europe.

EECS is not a decision-making forum. It neither approves nor rejects decisions taken by EU National Enforcers who apply their judgement, knowledge and experience to the particular circumstances of the cases that they consider as relevant factors may include other areas of national law beyond the accounting requirements.

Extracts from the EECS database of enforcement decisions are published on a regular basis and provide greater transparency for market participants on interpretations provided of unusual cases that they find useful.

Any correspondence regarding the work of this Committee should be sent to the CESR Secretariat.

**DOCUMENTS :**

DATE :	TITLE :	REFERENCE :
16 Dec. 2009	Seventh Extract from EEC's Database of Enforcement Decisions	[09-1134]
	<a href="#">summary</a> <a href="#">view document</a>	
26 Aug. 2009	6th extract from EECS's database of enforcement decisions	[09-720]
	<a href="#">summary</a> <a href="#">view document</a>	
24 Mar. 2009	5th extract from EECS's database of enforcement decisions	[09-252]
	<a href="#">summary</a> <a href="#">view document</a>	
23 Dec. 2008	4th extract from EECS's database of enforcement decisions	[09-966]
	<a href="#">summary</a> <a href="#">view document</a>	
19 May. 2008	3rd extract from EECS's database of enforcement decisions	[08-283]
	<a href="#">summary</a> <a href="#">view document</a>	

Decision ref.EECS/1209-02: Classification of a loan

Financial year end: 31 December 2008 / Interim Financial Statements  
 Category of issue: Classification of loan  
 Standard involved: IAS 1  
 Date of the decision: 23 April 2009

Examples of  
decisions  
published

**Description of the issuer's accounting treatment**

In November 2008, the issuer defaulted on an interest payment on an issued bond loan of USD 100 million. The loan agreement stipulates that such default can lead to an obligation to repay the whole of the loan immediately, including incurred interest and expenses. The bondholders, however, issued a waiver postponing the interest payment until 19 December 2008. On 17 December the issuer summoned a meeting of the bondholders and requested a further waiver of the interest payment to February 5 2009. The extension was granted by the bondholders at a further meeting held on January 6.

The issuer classified the loan as long term debt in its balance sheet at 31 December (issued February 26) on the basis that the loan was not in default at the balance sheet date as the bondholders had issued waivers and had not sought redemption.

**The enforcement decision**

The enforcer found that the loan should have been classified as short term debt as the issuer did not have an unconditional right to defer payment for at least twelve months after the balance sheet date as required by IAS 1, paragraphs 65 and 66 in order to be classified as short term debt.

**Rationale**

According to IAS 1 paragraph 60 d a liability should be classified as current if it is due to be settled within twelve months after the balance sheet date. Paragraph 65 clarifies that, if an issuer breaches an undertaking under a long-term loan agreement on or before the balance sheet date, such that the debt becomes payable on demand, the loan is classified as current even if the lender agrees, after the balance sheet date, not to demand payment as a consequence of the breach. It follows from IAS 1 paragraph 66 that a liability should also be classified as current if a waiver is issued before the balance sheet date, but does not give the issuer a period of grace ending at least twelve months after the balance sheet date.

In the enforcer's opinion, the default on the interest payment in November represented a default that could have led to a claim from the bond holders to repay the totality of the loan immediately, inclusive of incurred interest and expenses. As the waiver was issued after the balance sheet date, and only postponed payment for a short period, the issuer did not have an unconditional right to defer the payment for at least twelve months after the balance sheet date as required by the standard in order to be classified as long term debt.

Decision ref.EECS/0809-01: Impairment of available for sale equity instruments

Financial year end: 31 December 2007  
 Category of issue: Impairment of available for sale equity instruments  
 Standard involved: IAS 39  
 Date of the decision: 13 November 2008

The decisions are  
available at  
[www.cesr.eu](http://www.cesr.eu), in the  
category "Standing  
Committees/Corporate  
Reporting/EECS"

**Description of the issuer's accounting treatment**

The issuer is a large life insurance and pension group with 8% of its financial assets, excluding derivatives, invested in equity instruments. In its 2007 consolidated financial statements, there was a € 45 million charge to profit and loss relating to the impairment of equity instruments.

The issuer stated, in its summary of accounting policies, that a significant or prolonged decline in the fair value of an equity instrument below its cost was considered to be objective evidence of impairment always resulting in a loss being recognised in the income statement.

The issuer further disclosed in a note that equity securities held in an unrealised loss position below cost for a specified period or which were significantly below cost at the balance sheet date were evaluated for possible impairment.

When asked to explain its treatment, the issuer noted that IFRS does not give any quantitative thresholds determining what should be considered 'significant' or 'prolonged' and does not require an entity to define these terms. The issuer added that, when conducting its impairment test, equity investments which had a market to book value of less than a certain percentage, unrealised losses of more than a threshold amount or were in an unrealised loss position for a specified period of time were further analysed for evidence of impairment. The equity investments were impaired to fair value unless documentation is available supporting recovery of that value in the short term.

**The enforcement decision**

The enforcer did not accept the issuer's accounting treatment. In the view of the enforcer, a significant or prolonged decline in the fair value of an equity instrument as determined by the issuer in the aforementioned situations is, of itself, objective evidence of impairment. No further evaluation is required or, indeed, permitted, in such circumstances.

**Rationale for the enforcement decision**

IAS 39 paragraph 61 provides examples of what might be considered objective evidence of impairment for an investment in an equity instrument and which includes a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. No further evaluation is required to establish whether the investment is impaired in such circumstances.

The issuer should, therefore, impair its equity instruments where the decline in value is either significant or prolonged (defined by the management judgement under IAS 39 paragraph 61) regardless of whether there is documentation supporting recovery of their fair value in the short term.

## Dialogue with IFRIC representatives

- Since 2007 EECS has established a dialogue with IFRIC and has held several meetings with IFRIC representatives.
- The objective of these meetings is to discuss, on an informal basis, issues which have been raised by EECS members and for which the standards seem to be unclear.

## Other CESRfin activities

- In 2009, CESR undertook a review of the application of the amendments to IAS 39 published by the IASB in October 2008. This review dealt with:
  - (i) the interim financial statements for the third quarter of 2008. The results were published in January 2009;
  - (ii) the annual financial statements for 2008. The results were published in July 2009.
- In November 2009, CESR published a review of the application of the disclosure requirements related to financial instruments (IFRS 7) in the 2008 Financial Statements of a sample of 96 financial institutions. CESR is currently undertaking an update of this review as of 31 December 2009.
- During these reviews, CESR has identified areas where the quality of disclosures could be improved and has therefore informed EU issuers that CESR members would focus more specifically on those areas in order to improve information provided to investors.
- The results of these reviews can be found on CESR's website.

Edition Affichage Favoris Outils ?

CESR [The Committee of European Securities Regulat...]

DOCUMENTS :

DATE :	TITLE :	REFERENCE :
03 May. 2010	Comment letter on EFRAG's amended draft response on the IASB's Exposure Draft Measurement of Liabilities in IAS 37	[10-517]
	<a href="#">summary</a> <a href="#">view document</a>	
23 Apr. 2010	Comment letter on IFRIC's Tentative Agenda decision on IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Reversal of disposal group impairment losses relating to goodwill	[10-495]
	<a href="#">summary</a> <a href="#">view document</a>	
23 Mar. 2010	Comment letter on EFRAG's draft response on the IASB's Exposure Draft Measurement of Liabilities in IAS 37	[10-390]
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18 Feb. 2010	Comment letter - CESR comments on EFRAG's draft response on the IASB's ED Management Commentary	[10-197]
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09 Dec. 2009	Comment letter - EFRAG's draft comment letter on the IASB's Exposure Draft Rate-Regulated Activities	[09-1112]
	<a href="#">summary</a> <a href="#">view document</a>	
07 Dec. 2009	Press Release - CESR gathers international supervisors to discuss worldwide enforcement of IFRS	[09-1196]
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05 Nov. 2009	Comment letter to EFRAG's draft comment letter on the IASB's Exposure Draft Improvements to IFRS	[09-10121]
	<a href="#">summary</a> <a href="#">view document</a>	
02 Nov. 2009	Press release - CESR analysis sees room for better compliance with IFRS disclosures	[09-1037]
	<a href="#">summary</a> <a href="#">view document</a>	
02 Nov. 2009	Statement on application of disclosure requirements related to financial instruments in 2008 financial statements	[09-821]
	<a href="#">summary</a> <a href="#">view document</a>	
22 Oct. 2009	Comment letter on the consultation on the Adoption of International Standards on Auditing	[09-766]
	<a href="#">summary</a> <a href="#">view document</a>	
02 Oct. 2009	CESR's comment letter to EFRAG's draft response on the ED Discount Rate for Employee Benefits.	[09-807]
	<a href="#">summary</a> <a href="#">view document</a>	
29 Sep. 2009	CESR's response to EFRAG's draft comment letter on the IASB's Exposure Draft Fair Value Measurement	[09-780]

AMF  
Autorité des Marchés Financiers


## Other CESRfin activities – IFRS Project Group

- CESR-Fin also actively participates in the EU endorsement process by sending its comments to EFRAG on the IASB's consultations and also by commenting IFRIC's tentative agenda decisions. For instance:

	2009	2010
Discussion Papers	<ul style="list-style-type: none"> <li>• Preliminary Views on Leases</li> <li>• Preliminary Views on Financial Statements presentation</li> <li>• Credit risk in liabilities measurement</li> </ul>	
Exposure Drafts	<ul style="list-style-type: none"> <li>• Financial Instruments : Classification and Measurement</li> <li>• Fair Value Measurement</li> <li>• Consolidated financial statements</li> <li>• Derecognition</li> <li>• Classification of right issues</li> <li>• Relationships with the State</li> <li>• Rate Regulated Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Management Commentary</li> <li>• Measurement of liabilities</li> </ul> <p>The following projects are still in progress:</p> <ul style="list-style-type: none"> <li>• Financial Instruments: Impairment for FI at amortised cost</li> <li>• Conceptual Framework: The Reporting Entity</li> <li>• Fair Value option for financial liabilities</li> </ul>
Draft Interpretations	<ul style="list-style-type: none"> <li>• Extinguishing Financial Liabilities with Equity Instruments (D25)</li> </ul>	
IFRIC tentative decisions	<ul style="list-style-type: none"> <li>• Meaning of "significant or prolonged" (paragraph 61 of IAS 39)</li> </ul>	<ul style="list-style-type: none"> <li>• IFRS 5 – Reversal of disposal group impairment losses relating to goodwill</li> </ul>

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**AUTORITÉ  
DES MARCHÉS FINANCIERS**

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**REGULATORY UPDATE**  
**CESRfin**

**Sophie BARANGER**  
 Chief Accountant - Autorité des Marchés Financiers

London - 24 June 2010

## **UK Regulatory Update**

**Richard Thorpe**

**Accounting & Audit Policy Sector Leader**

**Financial Services Authority**

## **Topics**

- **Banks' disclosures**

- FSA Discussion Paper and FSA Accounting Review Team
- Other disclosure initiatives
- The role of Auditors

- **Fair values and financial stability**

# Banks' disclosures

## FSA Discussion Paper on banks' disclosures (1 of 7)

- **The financial crisis raised questions about banks' disclosures**
  - Pre-crisis and in early stages of crisis: disclosures about financial instruments and related exposures were less comprehensive than more recently
  - Market participants concerned that banks' published accounts did not capture the reality of emerging problems
    - reduced market confidence
- **Turner Review DP stated that high-quality disclosures by banks is an important factor in fostering market confidence**

## FSA Discussion Paper on banks' disclosures (2 of 7)



- **A wide range of stakeholders have also commented on the topic of disclosures**
  - Treasury Select Committee criticised the length and complexity of banks' annual reports
  - Bank of England has called for more standardised, comparable disclosures by banks
  - International Monetary Fund view that UK banks should report quarterly with more comprehensive and comparable disclosures
  - FRC paper on reducing complexity of corporate reporting
  - FASB disclosure project to reduce disclosure overload and make disclosures more effective

## FSA Discussion Paper on banks' disclosures (3 of 7)



- **These factors led the FSA to publish its discussion paper on banks' disclosures**
  - '*Enhancing financial reporting disclosures by UK credit institutions*' – published October 2009
  - Comment period ended 30 April 2010 - allowed respondents to consider banks' 2009 year-end reports when responding to the paper
  - Intended to add to the quality and usefulness of disclosures, not the quantity
- **The paper sets out the main issues affecting complexity and comparability of banks' disclosures**

## FSA Discussion Paper on banks' disclosures (4 of 7)



- **Main issues affecting complexity and comparability of banks' disclosures**

- Granularity / materiality;
- Valuation uncertainty / impairment;
- Period averages, highs and lows;
- Use of non-defined terms;
- Location and format of disclosures;
- Boilerplate and formulaic disclosures;
- Extensive disclosures of less significant items; and
- Reconciliation to primary financial statements

## FSA Discussion Paper on banks' disclosures (5 of 7)



- **The paper proposes two approaches to enhancing banks' disclosures**

- A template approach; or
- A code approach (BBA Code)

- **The BBA Code has been developed with significant input from the FSA**

- Contains key principles with explanatory text to highlight how the principles should be applied in practice.
- At the FSA's request, the UK's 7 largest banks applied the Code in their 2009 year-end reports

## FSA Discussion Paper on banks' disclosures (6 of 7)



- **The BBA Code commits the banks to**
  - Actively consider comparability across the sector when considering new disclosure standards or practices
  - Include a glossary of non-IFRS terms from 2009, and thereafter to seek to converge the meaning of such terms
  - Actively consider topical and emerging issues and provide information to enable stakeholders to understand the effect on the banks' business of such issues

## FSA Discussion Paper on banks' disclosures (7 of 7)



- **Next steps**
  - We will continue to closely monitor and analyse banks' public reporting; we expect immediate, tangible enhancements in disclosures as a result of application of the BBA Code
  - We are considering publication of our findings on 2009 disclosures
  - Feedback statement mid-2010
- **Based on our analysis and responses to the paper, we will consider the need for further policy initiatives to strengthen disclosure**

## FSA Accounting Review Team

(1 of 1)



- **Turner Review DP stated FSA's intention to intensify its analysis of bank balance sheets and the oversight of accounting judgements**
- **Newly-established Accounting Review Team to lead this work – team of 7**
  - Detailed analysis of banks published accounts, developing a deeper understanding of key accounting judgements
  - Thematic work on key aspects of accounting judgements
  - Support to Prudential and Supervision specialists

## Other disclosure initiatives - CESR

(1 of 2)



- **CESR analysis of annual reports for 2008**
  - Carried out by national enforcers in member states
  - Sample of 96 large European listed banks/insurers including 22 from the FTSE-Eurotop 100 index
  - Looked at compliance with IFRS 7 disclosures and best-practice recommendations from IASB Expert Advisory Panel, CESR and others
- **Some areas where compliance with best-practice recommendations was high...**
  - E.g. around half of all companies disclosed a fair value hierarchy (non-mandatory in 2008)

## Other disclosure initiatives - CESR

(2 of 2)



- **... but poor compliance with mandatory disclosures in some important areas**
  - 20% did not disclose valuation methods used for determining fair values
  - 40% did not disclose sensitivities in fair values to changes in assumptions
  - 20% did not disclose the criteria used to determine impairment losses (separately, 20% did not have *any* impairment losses)
  - 20% did not disclose details of how SPEs were controlled, or judgements applied in assessing the transfer of all significant risks and rewards of ownership

## Other disclosure initiatives - CEBS

(1 of 1)



- **CEBS consultation paper on banks disclosures**
  - *'Disclosure guidelines: Lessons learnt from the financial crisis'* - High-level disclosure principles with a focus on matters to consider for periods or activities under stress
  - Based on findings from CEBS analyses of banks' annual reports and Pillar 3 disclosures
  - Not intended to amend, duplicate or add to existing disclosure requirements

## Other disclosure initiatives - FASB

(1 of 1)



- **FASB Disclosure Framework project**

- Project to create an overarching principles-based disclosure framework for USGAAP - move away from disclosures being a compliance exercise
- Intention to reduce 'disclosure overload' – aim is to make disclosures 'more effective, coordinated and less redundant'
- Consider ways to better integrate the various parts of the reporting package (e.g. financial statements, MD&A)
- The FASB expects to issue a preliminary views document in the first half of 2010
- The FSA would support the IASB undertaking a similar project, jointly with the FASB

## Disclosure – Audit Issues

(1 of 4)



- **Scepticism**
- **The 'fair view'**

**Are Auditors doing enough?**

## Disclosure – Audit Issues

(2 of 4)



### Scepticism

**Audit Standards require auditors to exhibit professional scepticism**

#### Includes

- A questioning mind
- Being alert to possible misstatement due to error or fraud
- Critical assessment of audit evidence

**When looking at financial instrument valuations could auditors do more?**

## Disclosure – Audit Issues

(3 of 4)



### The fair view

#### – IAS 1

The application of IFRS with additional disclosure where necessary is presumed to result in financial statement that achieve a fair presentation

#### – IFRS 7

Additional disclosures required about the future and other sources of estimation uncertainty that could result in a material adjustment of assets or liabilities. Covers the most difficult, subjective or complex adjustments

## **Disclosure – Audit Issues**

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### **True and Fair**

#### **ASB Statement of Principles**

- A dynamic concept**
- Accounts must contain information sufficient in quantity and quality to satisfy the reasonable expectations of users**

**It is not enough merely to meet the disclosure requirements of the standards.**



**FSA and FRC Discussion Paper to be published in late June.**

**“Enhancing the auditor’s contribution to prudential regulation”**

# Fair value and financial stability

## Fair value and financial stability

(1 of 2)

- There are links between accounting standards and financial stability – both require that the economic substance of firms' activity is reflected in accounting
- Is behaviour of the 'market' as whole influenced by accounting standards? If so, should financial stability be considered when setting such standards? The main areas to consider in practice include:
  1. Valuation principles (amortised cost vs. fair value), particularly for illiquid financial instruments
  2. Provisioning for bank loans

## Fair value and financial stability

(2 of 2)



- **1. Valuation principles**

- Fair value accounting can be procyclical
- Fair value gains & losses for illiquid instruments may be illusory

- **2. Provisioning for bank loans**

- Incurred loss model may not portray the economic substance of lending transactions
- IASB's work on developing an 'expected cash flow' approach is welcome



**Any questions?**