

IAASB
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017 USA
Via email

7 August 2017

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the Exposure Draft Proposed Amendments to ISA 540.

Firstly, we agree with paragraphs 21 (a) and A135 through A138 of ED-540 and would like to comment on these paragraphs from a viewpoint of users of financial information, such as investors and analysts.

Modern financial reporting frameworks require preparers to make accounting estimates using financial models and forward-looking information. Under this situation, it is very important for the users making investment decisions to correctly understand the model and the assumptions used by preparers, and the extent to which accounting estimates are subject to estimation uncertainty. We believe that such information should be provided through financial statements footnotes at sufficient level, however we note that some financial reporting frameworks do not regulate specific disclosure requirements at that level. Therefore, from a user's standpoint, we need paragraphs 21 (a) and A135 through A138 of ED-540 which require auditors to request additional disclosures (beyond those specified in the relevant financial reporting framework) when necessary to achieve fair presentation of the financial statements as a whole under that framework. We also believe that sufficient disclosures related to accounting estimates are essential for effective auditor's communication of key audit matters to the users.

Secondly, we agree with paragraph 26, A155 and A156 of ED-540 and would like to comment on the paragraph from a viewpoint of the users of financial information.

It is considered that users such as investors and analysts will seek more opportunities to request explanations on accounting estimates and key audit matters thereof as a result of the introduction of key audit matters and the revision of ISA 540. Because auditors bear confidentiality requirements, the users will firstly contact those charged with governance instead of auditors. In order for such users' discussions with those charged with governance to be effective, it is an essential prerequisite that those charged with governance discuss accounting estimates and key audit matters thoroughly with auditors. When the auditors discuss with the those charged with governance, we believe that the auditors need to be mindful that their ultimate clients are the users of financial statements rather than the company. Therefore, it is important for the auditors to grasp the needs and interests of the users through the discussion. As users we rely on auditors to be sceptical and challenge management accordingly. For example, while an estimate may be within an acceptable range, the auditor should consider whether that estimate is at the most appropriate point within the range in the circumstances.

Finally, we very much appreciate the IAASB in making the effort to improve quality of information related to accounting estimates through the recent projects for revisions of related ISAs.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from

around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

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