



5th July 2019

FAO: IAASB
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Via IAASB website [Submit a comment](#)

Dear team

Consultation Paper: Draft Guidance on Extended External Reporting Assurance

(1) Confirmation process on the suitability of the criteria

The Corporate Reporting Users' Forum welcomes the opportunity to comment on this consultation. We appreciate that the IAASB Consultation Paper on Extended External Reporting (EER) Assurance (hereafter CP-EER) addresses, in Chapter 7, the determination of suitable criteria (as required by ISAE 3000¹ (Revised)), which includes judging if the criteria is relevant or not by considering if the subject matter information would assist decision-making by the intended users of the EER.

In our opinion, not all practitioners necessarily confirm the suitability of criteria adequately in their current assurance practice on non-financial information, assuming that the criteria adopted by preparers are relevant. We hope that the proposed guidance will establish the confirmation process on the suitability of the adopted criteria, ensuring that the practitioners confirm it during assurance engagements.

That said, we are concerned that the CP-EER does not clearly distinguish the guidance on the suitability confirmation procedure for the adopted criteria developed by a public standard setter, from that on the entity-developed criteria to complement the shortcomings of the adopted criteria. We think the guidance for these two should be more clearly distinguished.

(2) Types of misstatement

We strongly support that the types of misstatement in paragraph 184 of Chapter 9 includes a) an omission of information (failure of completeness assertion), and d) bias information, so that positive aspects of performance are focused and negative aspects are omitted (failure of a neutrality or presentation assertion). However, it is desirable to describe the types of misstatement at the beginning of Chapter 12 because discussions on the types of misstatement are important, not only from the view of the use of assurance services but also from the view of the appropriate presentation or disclosure of subject matter information.

(3) Assuring narrative information and future-oriented information

¹ ISAE 3000 is the standard for assurance over non-financial information which is issued by the International Federation of Accountants (IFAC)

We are concerned that narrative information discussed in Chapter 10 and future-oriented information in Chapter 11, may result in too subjective, biased or unrealistic information. In this regard, we hope the assurance engagement will improve the quality of such information. Having said that, we would welcome an entity proactively providing us with relevant information, such as the message from the management and growth story in the integrated reports or annual reports. The guidance may rather undermine the relevance or completeness, if it includes too rigorous a requirement for the EER to be objective, neutral and understandable.

We believe the practitioners of assurance engagements should consider the balance between the benefit of the sufficient disclosure of relevant information to users, and the mitigation of the risk of undermining objectivity, neutrality and the understandability of information. We hope that the guidance will clearly state that the practitioners should consider this balance. On the other hand, an audit firm that undertakes assurance services needs to foster practitioners of assurance with skills to evaluate and determine whether there may be material misstatements in qualitative information or future-oriented information from the perspective of investors. In that sense, the content of "Chapter 4: Applying Appropriate Skills " will be very important.

The national or jurisdictional regulators will start to encourage the companies to disclose the risk and opportunities of climate change, and the impacts on their financial statements based on the Taskforce on Climate-related Financial Disclosure (TCFD) framework. We believe this topic should be addressed in Phase 2.

Question 5.

We welcome the proposal in Chapter 8 to require the assurance practitioner to check the entity's materiality process.

In our experience, we are concerned that there appears to be a bias toward positive information that we observe in integrated reports or the non-statutory annual reports published by Japanese companies. In these voluntary disclosure documents, we have never seen the disclosure of possibly negative information, such as cross-shareholdings, i.e. the shares held for strategic purposes, whilst there are many examples that describe the active use of independent non-executive directors and diversity in detailed reports.

We have seen misconduct or fraudulent disclosure by some companies, which have been commended for their excellent voluntary disclosure documents such as the integrated reports. In the voluntary reporting published by these companies, we have never seen the information which would allow us to foresee the possible misconducts. We hope the assurance practitioners encourage companies to disclose relevant information, not only positive but also possibly negative ones, to them, to the intended readers of the EER.

We believe it is not the assurance practitioners' responsibility, but management's, to identify the information material to the entity. That said, assurance practitioners should strongly encourage the companies to disclose the relevant information identified as material by the management, considering the entity's materiality process. When an entity is reluctant to disclose negative information, we expect that the assurance practitioners should decline to undertake the assurance engagement, unless management agrees to provide such information in the EER. We appreciate the addition of the guidance on the materiality process in the CP-EER, in order to meet the users' expectations above.



On the other hand, it is essential to foster practitioners of assurance with the perspective of investors to evaluate and determine whether there may be no omission of material information. In that sense, an audit firm should work actively to establish a system to gather the information from investors. We strongly suggest to include these points in "Chapter 4: Applying Appropriate Skills".

Question 7

These comments are based on the position of the investor (i.e. financial statement user).

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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