PricewaterhouseCoopers LLP
10-18 Union Street
London SE1 1SZ
Telephone +44 (0) 20 7583 5000
Facsimile +44 (0) 20 7822 4652
www.pwc.com/uk

For the attention of Jim Sylph
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY, 10017
USA

11 January 2008

Dear Sir

IAASB Exposure Draft – ISA 700 – The Independent Auditor's Report on General Purpose Financial Statements – Implications of financial reporting frameworks described by reference to IFRSs

We appreciate the opportunity to comment on the IAASB's Proposed Redrafted ISA 700, *The Independent Auditor's Report on General Purpose Financial Statements*. This letter supplements our previous comment letter dated 30 November in which we set out our views on the Clarity redrafting of ISA 700, the alignment of ISAs 450 and 700, and the incorporation of IAPS 1014. This letter addresses a further aspect of the exposure draft: the implications of financial reporting frameworks described by reference to IFRSs. The International Accounting Standards Board (IASB) has also consulted in its Improvements exposure draft on amendments to IAS 1 (referenced in ED ISA 700), and our comments in this letter are consistent with our response to the IASB.

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Regulatory solution needed rather than a standards solution

The increasing use of financial reporting frameworks described by reference to IFRSs is an issue that we have encountered in practice. We are concerned that proliferation of different 'IFRS' frameworks around the world could have negative consequences - it will make more difficult the comparison of financial statements across borders by market participants, and could ultimately undermine the IFRS brand. As a result, we and other observers brought this matter to the attention of both the IASB and IAASB.

Where a set of financial statements describes the financial reporting framework used to prepare the statements by reference to IFRS but does not fully comply with IFRS as published by the IASB, we agree with the IASB that highlighting differences between IFRS as applied in those financial statements and IFRS as published by the IASB is useful information for the users of those statements. However, we believe that such a requirement can only be effectively implemented and enforced by the regulatory authorities who determine the financial reporting framework to be used and disclosures made in the financial statements used in their jurisdiction.

A jurisdiction which carves out or amends certain IFRS requirements can easily carve out the proposed amendment to IAS 1 to require additional disclosures, if implemented. Whilst, as proposed in ISA 700, audit requirements might require the auditor to consider whether such disclosures are necessary for the financial statements not to be misleading, even if not required by the financial reporting framework, the jurisdiction could equally carve out such associated audit requirements as well. The financial statements, and the audit, would then accord with local law. It is up to regulators to determine the appropriate response, which may be of particular relevance in the case of cross-border listings. We note the recent decision by the US SEC to require either financial statements that are fully in compliance with IFRS as issued by the IASB or reconciliation to US GAAP.

As a result, in our response to the IASB, we comment that the amendment to IAS 1 with respect to additional disclosure requirements where an entity is unable to make an explicit and unreserved statement of compliance with IFRS is not a matter we believe should be dealt with as part of the IASB's annual Improvements process. Rather, we believe it is a matter that the IASB and the International Accounting Standards Committee Foundation (IASCF) Trustees should pursue through engagement with global regulatory organizations, particularly those that are responsible for the securities and banking sectors. The IAASB and the Public Interest Oversight Board could also play a part in such discussions.

Consequent on our views on the IASB's proposals, we do not believe that the redraft of ISA 700 should include the material in paragraphs A9-A11 and A33-34 at the current time. We suggest the IAASB should continue to follow closely the engagement of the IASB and IACSF Trustees with the global regulatory community and other interested parties on this issue.

In assessing whether the financial statements as a whole are not misleading, the auditor would consider whether the reference to the financial reporting framework is appropriate and not misleading. Hence, we believe that ISA 700 should continue to include the requirement in paragraph 12 that the auditor should evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework, and the related guidance in A3 to A5. We also believe that the guidance in A6 to A8, on which we commented in our above-mentioned previous letter, should continue to be included.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Roger Marshall (+44 20 7804 4866) or Graham Gilmour (+44 20 7804 2297).

Yours faithfully,

PricewaterhouseCoopers LLP