

AGENDA PAPER

Item Number: 3

Date of Meeting: 11 August 2015

Subject: Revision of APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document* (APES 350)

Action required For discussion For noting For information

Purpose

To provide the Board with:

- an evaluation of the respondents' comments on the proposed revision of APES 350 (revised APES 350 (2015));
- a proposed approach to address the comments raised by respondents in respect of low doc offerings and the circumstances in which an APES 350 sign-off can be provided; and
- obtain the Board's approval to issue the revised APES 350.

Background

Accounting Professional and Ethical Standards Board (APESB) issued a revised APES 350 in March 2011 with an effective date of 1 May 2011. In January 2015, in accordance with APESB's constitution, Technical Staff performed an annual review of APES 350 (2011) to identify and resolve any issues identified by stakeholders.

The APES 350 Taskforce held four meetings from October 2014 to April 2015 to discuss the proposed APES 350 Exposure Draft (APES 350 ED). The taskforce considered the following key matters:

Matters noted in the Issues Register

- Definitional changes in section 2 *Definitions* of APES 350 due to revisions of APES 110 and other APES standards; and
- Changes to Appendix 2 *Materiality Letter* due to the withdrawal of AASB 1031 *Materiality*, AGS 1062 *Reporting in Connection with Proposed Fundraisings* and AUS 804 *The Audit of Prospective Financial Information* and updated references to materiality made in respect of ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or*

other Document and ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.

Matters raised by Taskforce members

- The Due Diligence Committee Member's responsibilities when signing a Due Diligence Sign-Off and to limit it to matters that are within the Member's expertise; and
- Developing guidance to clarify a Member in Public Practice's professional obligations, either as a DDC Member or a DDC Observer (e.g. where the entity is subject to US SEC auditor independence requirements) when issuing a sign-off in respect of new circumstances.

The proposals developed by the taskforce were considered by the Board at the 14 April 2015 meeting. The Board discussed the proposals and requested that Technical Staff seek specific comments from stakeholders in respect of the paragraphs pertaining to New Circumstances.

The Board issued the APES 350 Exposure Draft on 29 April 2015 for a 45-day comment period. The comment period closed on 15 June 2015 and APESB received six submissions from accounting firms and Professional Bodies.

Technical Staff have prepared an analysis of the respondents' general and specific comments and a taskforce meeting was held on 16 July 2015 to review the respondents' comments.

Consideration of Issues

Low doc offerings

Respondents to APES 350 has identified the growing market need for further guidance in respect of the application of APES 350 for low doc offerings and when it is appropriate to provide an APES 350 sign-off. APES 350 has been developed to primarily apply to Public Documents but it does provide flexibility in paragraph 1.10 to apply in other circumstances when appropriate and leaves this to the professional judgement of the Member. It should be noted that low doc offerings are not governed by the same requirements and disclosure obligations as Public Documents.

The taskforce is of the view that the decision to provide an APES 350 sign-off in a low doc scenario must be made on a case-by-case basis following a consideration of its specific circumstances, and will require lengthy discussions with the various parties involved in the process. Thus the taskforce agreed that this issue is probably best addressed as a separate project and requested that Technical Staff bring this matter to the Board's attention.

DDC Observer and New Circumstances Statement

A respondent had noted that there are a wide range of circumstances in which a New Circumstances Statement can be issued and that there should be further flexibility in the template letter in Appendix 3. The taskforce discussed this matter and a taskforce member undertook to provide proposals to further enhance Appendix 3.

Technical Staff have now incorporated the respondents' and taskforce's proposed amendments into the revised APES 350 (2015) (refer Agenda Item 3 (a)) for the Board's consideration.

Staff Recommendations

- (1) Subject to the Board's review comments, the Board approve the issue of the revised APES 350 which will be effective for Engagements commencing on or after 1 October 2015; and
- (2) The Board note the issue of low doc offerings and determine whether the Board is supportive of Technical Staff developing a project proposal in this regard for the Board's consideration.

Material Presented

- Agenda Item 3 (a) Proposed revised APES 350 (2015) (marked-up);
- Agenda Item 3 (b) APES 350 General Comments Table;
- Agenda Item 3 (c) APES 350 Specific Comments Table;
- Agenda Item 3 (d) Minutes of 3rd APES 350 Annual Review 2014/2015 taskforce meeting held on 19 January 2015;
- Agenda Item 3 (e) Minutes of 4th APES 350 Annual Review 2014/2015 taskforce meeting held on 11 February 2015; and
- Agenda Item 3 (f) Draft minutes of 5th APES 350 Annual Review 2014/2015 taskforce meeting held on 16 July 2015.

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