

November 21, 2014

Mr. James R. Doty
Chairman
PCAOB
1666 K Street, NW
Washington, DC 20006
USA

By email: comments@pcaobus.org

Dear Mr. Doty,

RE: Staff Consultation Paper, *Auditing Accounting Estimates and Fair Value Measurements*

We would like to commend the Public Company Accounting Oversight Board (“PCAOB”) on the release of its Staff Consultation Paper on the audit of accounting estimates and fair value measurements.

We note the PCAOB’s references to the IAASB’s International Standards on Auditing (“ISAs”) and International Auditing Practice Notes (“IAPNs”) in the Paper. Both ISA 540¹ and IAPN 1000² are the result of global consultation and development, and we believe that the IAASB’s experiences in developing these, and the global feedback we received on them, will be informative to PCAOB’s deliberations.

The IAASB also sees the importance of continued consideration of the areas addressed by these pronouncements, particularly in the context of auditing financial institutions. The IAASB has, therefore, included in its Work Plan 2015–2016 a project on financial institutions, which relates to a number of issues identified in the PCAOB Staff Consultation Paper. This project is an area of focus for the Basel Committee on Banking Supervision³ and the International Association of Insurance Supervisors, as well as other respondents to the consultation on our *Strategy and Work Program*.

IAASB Staff, and as necessary, a Working Group (including experts in this area), will initially focus on considering the suggestions of the Basel Committee on areas where more specificity may be needed to address audits of banks (including the relationship between banking supervisors and auditors). This will likely include the use of fair value accounting and related estimates, including but not limited to impairment and loan loss provisioning, and ISAs particularly relevant to the audits of banks and other financial institutions, including ISA 540. The wider applicability of these potential changes beyond financial institutions (including to ISA 540 or other ISAs as necessary) will also be considered as part of the initial information-gathering activities. In addition, other specific issues identified relating to ISA 540 include:

¹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

² IAPN 1000, *Special Considerations in Auditing Financial Instruments*

³ In 2013, the BCBS wrote to the IAASB to acknowledge the common interest in recognizing the importance of banks’ external audits to financial stability and to share the BCBS’s views on how to enhance the quality of external audits (<http://www.bis.org/bcbs/commentletters/ifac45.pdf>).

- The application of professional skepticism (e.g., how auditors obtain audit evidence, challenge and test management's assumptions and considerations about possible management bias);
- The work effort on accounting estimates and fair values that have not been identified as significant risks or the risk of material misstatement due to fraud; and
- The implications of the use of third-party pricing sources.

The project also includes specific consideration of audit issues relevant to insurers, particularly given the accounting developments in this area⁴ and the significance of these changes to insurers.

At the same time, the IAASB will discuss the process to develop non-authoritative material, including IAPNs, to enable this Working Group to recommend an appropriate way forward to address special audit considerations for financial institutions, as well as to consider whether these considerations are more broadly applicable to other entities.

Information-gathering activities will commence in 2014, with an initial discussion by the IAASB on the topic planned in early 2015.

We believe the PCAOB and the IAASB should seek opportunities to share perspectives on our respective projects, while recognizing and respecting the individual mandates of each board. Accordingly, we welcome opportunities to discuss any matters in connection with these projects.

If you have any questions regarding the above, please do not hesitate to contact me at ArnoldSchilder@iaasb.org, or alternatively, Kathleen Healy, IAASB Technical Director, at KathleenHealy@iaasb.org or (212) 471-8713.

Yours sincerely,



Prof. Arnold Schilder
Chairman, IAASB

CC: Martin F. Baumann, Chief Auditor and Director of Professional Standards, PCAOB

⁴ See the International Accounting Standards Board's project on insurance contracts (<http://www.ifrs.org/current-projects/iasb-projects/insurance-contracts/Pages/insurance-contracts.aspx>).