NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on November 30, 2017, that relates to *Proposed Auditing Standard for Auditing Accounting Estimates, Including Fair Value Measurements* and *Proposed Amendments to Auditing Standards for Auditor's Use of the Work of Specialists.* The other topics discussed during the November 29-30 2017 meeting are not included in this transcript excerpt. The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at: https://pcaobus.org/News/Events/Pages/SAG-meeting-Nov-2017.aspx

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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STANDING ADVISORY GROUP

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MEETING

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THURSDAY
NOVEMBER 30, 2017

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The Advisory Group met in the Academy Hall, FHI 360, located at 1825 Connecticut Avenue, Northwest, Washington, D.C., at 8:30 a.m., James R. Doty, Chairman, presiding.

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MR. BAUMANN: Good. Thanks, Jennifer. We're now going to talk about a couple of the recently proposed auditing standards that have gone through actually a number of proposals, accounting estimates and fair-value measures, and the work with specialists, the first two subject of staff-consultation papers, significant discussions over time at -- with the SAG here, about those consultation papers. A lot of comment letters. Then we've issued proposals, and we've gotten responses to those proposals as well.

So, right now, Keith Wilson and Barbara Vanich and Lisa Calandriello will talk about counting estimates and fair-value measures, and then the work of specialists.

MS. VANICH: Okay. Thank you, Marty. I will get started as we get to the slides here. Okay. As you heard Marty and Jim say yesterday, on June 1st, the board issued two proposals for auditor performance standards in areas we view that are just vital to audit quality. First, auditing accounting estimates and fair-value measurements. And second, the auditor's use of the work of specialists.

The two proposals were developed in tandem, so that the proposed rules can work together. For example, when using a specialist in auditing an accounting estimate. The first proposal I'm going to spend a few minutes updating you on would update and strengthen the standards for auditing accounting estimates and fair-value measurements.

As Marty mentioned, both of the proposals were subject to extensive outreach, and several commenters noted that they were very appreciative of the process followed by the staff in developing those. So, the comment periods ended back in -- on August 30th.

So, by way of review at a high level, the proposed standard on estimates would enhance and strengthen the requirements for auditing accounting estimates and fair-value measurements in the following ways. First, the proposal would replace three existing overlapping standards developed over the years with a single standard that streamlines and strengthens the direction to auditors in this important area.

Specifically, the proposed standard would replace AS 2501 on auditing accounting estimates and supersede AS 2502 on fair-value measurements and AS 2503 on auditing derivatives, hedges, and investments in securities. So, I'll just refer to those collectively as the existing estimate standards.

The proposal also includes an emphasis on applying professional skepticism. For example, the proposal would require the auditor to address in the brainstorming session how the financial statements could be manipulated through management bias, to consider in identifying the assumptions for testing the assumptions that may be more susceptible to management bias, to consider in evaluating the company's process for developing an estimate, whether the company had a reasonable basis for its significant assumptions, and in developing an independent expectation of accounting estimate, for the auditor to have a reasonable basis for the assumptions that the auditor uses.

Second, this proposal builds on three existing approaches to auditing accounting estimates that auditors are familiar with. Testing the company's process, developing an independent expectation, and evaluating evidence from subsequent transactions and events. The proposal enhances the requirements for those approaches by, for example, providing additional direction on developing an independent expectation, depending on the source of the information used by the auditor to develop that expectation.

Third, the proposal would require a robust risk assessment of a company's accounting estimates and response tailored to the assessed risks, whether they relate to subjectivity, complex processes, or the risk of management bias.

And fourth, the proposal updates PCAOB standards in light of developments on auditing practices for fair values of financial instruments. For example, auditors' evaluation of pricing services information has grown more important over the years, yet the subject is lightly covered in the current standards. This proposal contains an appendix on auditing fair-value measurements that addresses, among other things, the auditors' use of pricing service information to promote a proper evaluation of that information that builds on existing requirements for evaluating the relevance and reliability of audit evidence under PCAOB standards.

So, we received 37 comment letters on the proposal. As you can see, it's from a various group of constituents. Commenters across many affiliations, with the exception of trade groups, in general supported the board's efforts to strengthen auditing practices and update its standards. Investor groups supported the proposal, noting that the proposal would strengthen auditors' responsibilities, improve audit quality, and further investor protection. There was also strong support for retaining the three existing approaches for auditing estimates, and for more specifically addressing financial instruments, including the use of pricing services.

The comments received on the proposal primarily suggested clarifications and refinements to specific requirements, which I'll now touch on briefly.

So, the objective of the proposed standard emphasizes the fundamental aspects of auditing accounting estimates under the existing estimate standards, specifically, testing and evaluating whether accounting estimates are reasonable in the circumstances, have been accounted for and disclosed in conformity with the applicable financial reporting framework, and are free from bias that results in material misstatement. Some commenters expressed concern about referencing freedom from management bias as a distinct element of the audit objective, because it could, for example, suggest a broader obligation than in their view is required under the existing standards.

Another area of the proposal receiving specific comments and suggestions related to testing a company's process for developing accounting estimates. The proposal would retain the requirements from AS 2502 for testing a company's process, which includes evaluating the method, evaluating significant assumptions for reasonableness, and testing data used.

The principal comments on these aspects of the proposal related to the requirements for evaluating the methods used to develop the accounting estimates and for identifying and evaluating significant assumptions. The proposed standard would require the auditor to evaluate whether the company's methods are in conformity with the requirements of the applicable financial reporting framework and appropriate for the nature of the related account or disclosure and business, industry, and environment in which the company operates.

Some commenters expressed concerns about evaluating whether the company's methods are appropriate for the business, industry, and environment in which the company operates, because, for example, the requirement could be read to presume that all companies within a particular industry use or should use the same method.

The proposal sets forth factors relevant to identifying significant assumptions used by the company. The requirement also provided that if the company has identified significant assumptions, the auditor's identification of significant assumptions should include those identified by the company as significant.

Some commenters indicated that one of the factors relevant to identifying significant assumptions, whether the assumptions otherwise are related to and identified in assessed risk of material misstatement of the estimate, is too broad and could result in all assumptions being identified as significant.

Some commenters also expressed concerns that the requirement for the auditor to include all assumptions identified by the company as significant may not be practical. For example, because management is not subject to any specific requirements for identifying significant assumptions.

The proposed standard also set forth requirements for evaluating the reasonableness of significant assumptions, including evaluating whether the company has a reasonable basis for the significant assumptions used. In addition, for critical accounting estimates, the proposed standard would require the auditor to obtain an understand of how management analyzed the sensitivity of its significant assumptions to change based on other reasonably likely outcomes that would have a material effect. The auditor would take that understanding into account when evaluating the reasonableness of significant assumptions and potential management bias.

With respect to critical accounting estimates, a few commenters suggested that the requirement to obtain an understanding of how management analyzed the sensitivity of significant assumptions should be recast as a risk assessment procedure, rather than as a substantive procedure.

Developing an independent expectation of the estimate. The majority of comments received on that area related to developing that expectation as a range. So, under the proposed standard, the auditor's responsibilities, with respect to developing an independent expectation of the estimate, depends on the sources of the method, data, and assumptions used by the auditor.

When the auditor's independent expectation consists of a range rather than a point estimate, the proposed standard would require the auditor to determine if the range is appropriate for identifying a misstatement of the accounting estimate and supported by sufficient appropriate audit evidence.

Some commenters asked for clarification or guidance on determining that a range is appropriate for determining a misstatement, especially when there is a large degree of measurement uncertainty. And several commenters expressed concern that the proposed requirement might imply a level of precision within a range that might not be feasible.

As I mentioned, Appendix A of the proposed standard primarily sets forth requirements for evaluating the relevance and reliability of audit evidence when using pricing information from a pricing service, multiple pricing services and broker-dealers.

A large portion of the comments on Appendix A related to requests for clarification about the unit of testing, with commenters expressing concern that, as drafted, the requirements in the Appendix suggested that procedures could be read to say that they must be applied to each individual financial instrument.

Some commenters requested clarification or guidance on the additional procedures to be performed when evaluating the process used by a pricing service, while others called for clarification regarding how the requirements apply when a centralized pricing desk is used.

Others asked for clarification on certain factors used to assess the reliability of pricing information from pricing services along the proposed requirements for using information from multiple pricing services.

And, lastly, a few commenters suggested retaining portions of AS 2503 that in their view provided helpful guidance on auditing derivatives and other financial instruments.

With respect to the proposed amendments that accompanied the standard, proposed Appendix A to AS 1105 would retain and update certain requirements from AS 2503 to better align the required procedures to evaluate evidence obtained regarding the valuation of investments based on the investee's financial condition or operating results within the risk-assessment standards.

The primary comments received on the proposed appendix were questions on the intent of the requirement to obtain an understanding of whether the report of the investee's auditor indicates that the audit was performed under PCAOB standards. Concerns that there's certain procedures that involve interaction with investee management or the investee auditor might not be practicable, because the investment company's auditor might not have access to those parties. And suggestions for alternative procedures relating to testing, the investor management's process.

With respect to the proposed amendment on AS 2401 on retrospective review, extant AS 2401 requires the auditor to perform a retrospective review for significant accounting estimates reflected in the prior year financial statements. Proposed amendment to AS 2401 would clarify that requirement by removing extraneous language that distracts from the actual requirement and aligning the language of the requirement more closely with the proposed standard.

Several commenters expressed concern that the proposed amendments would expand the population of accounting estimates subject to the retrospective review, resulting in excessive work.

Other areas of comments related primarily to requests for additional guidance, for example, on how to apply the requirements to certain accounting estimates. Others, as noted earlier, asked for certain guidance in AS 2503 to be retained.

Commenters who commented on a potential effective date generally supported an effective date of two years after SEC approval of final requirements, asserting that this would allow firms sufficient time to develop tools, update methodologies, and provide training on the new requirements.

And, lastly, the proposal noted that the IAASB published an exposure draft of proposed ISA 540 in April 2017. And a number of regulators, accounting firms, and professional associations recommended greater alignment of the proposal and the IAASB's exposure draft on ISA 540 to achieve greater consistency in practice.

MR. BAUMANN: We'll take any comments or thoughts about this proposed auditing standard, which we hope to move towards adoption 2018, either right now or -- Lisa is going to comment now on the auditor's use of the work of specialists. And, as was mentioned by Barbara, commenters on both the consultation paper on auditing estimates and on separate consultation paper on specialists said, given the role of specialists in complex estimates and fair-value measurements that when we adopt these two standards, they think that we should adopt them in tandem, as they should work together. So, again, if you have comments on these or what Barbara presented, please get your tent cards up, and we'll respond. And -- or wait until Lisa is finished on specialists.

Lisa.

MS. CALANDRIELLO: Thanks, Marty. Good morning. The proposal on specialists would enhance the requirements of the auditor's use of the work of company specialists and for the supervision of auditor specialists, whether employed or engaged in audits under PCAOB standards.

So, for some background. Currently, PCAOB standards primarily apply to the -- auditors use two PCAOB standards, currently apply to the auditor's use of the work of specialists. The general standard on supervision, AS 1201, applies to auditor-employed specialists. Another standard, AS 1210, applies to the use of the work of company specialists and auditor-engaged specialists.

Furthermore, two fundamentally different approaches apply to the use of auditor specialists, depending on whether they're employed or engaged, even though they do fundamentally the same work. So, this proposal addressed the odd pairing.

Proposing to improve PCAOB standards in two basic ways, establishing a uniform, risk-based approach to testing and evaluating the work of company specialists in amendments to the standard on audit evidence, AS 1015.

The proposal would require auditors to, for example, evaluate the data, methods, and assumptions used by the company specialists. Importantly, the amount of required audit effort to evaluate that work would vary based on four factors, the risk of material misstatement, the significance of that specialist's work to the auditor's conclusions, the professional qualifications of the specialist, and the susceptibility of that specialist to company influence or bias.

The second fundamental changes would be to establish a common supervisory approach for auditor specialists, whether employed or engaged by amending AS 1201 and replacing the current AS 1210 with new requirements for using the work of auditor-engaged specialists. The proposal provided more direction on how to apply the general supervisory principles of AS 1201 to the supervision of specialists, whether employed or engaged by the auditor. The proposal also had tailored requirements in certain areas where it's appropriate to differentiate between auditor-employed and auditor-engaged specialists, such as evaluating the qualifications of those specialists.

We received 34 comment letters across a range of constituencies on the proposal, as you can see here. Generally received a number of comments in a variety of areas. There was -- many commenters supported aligning the requirements for using specialists with the risk-assessment standards and presenting separate requirements for company specialists, auditor-employed specialists, and auditor-engaged specialists. A few commenters, though, expressed concerns over replacing the extant 1210 with a new standard, primarily because of potential burdens imposed on smaller firms and certain smaller companies.

There was general support for retaining the existing meaning of the term, specialist. All those who commented on this topic agreed with or didn't object to applying the proposal to those specialists currently covered by existing AS 1210.

Some commenters suggested that the board extend the scope to specialists in areas of information technology and tax or entirely eliminate the current distinction between expertise inside or outside the field of accounting and auditing.

The proposal sought comment on rescinding the current -- auditing interpretation 11, using the work of a specialist, which relates to using a specialist with transfers of financial assets. Most commenters contended that the interpretation continues to provide useful guidance to auditors and supported retaining the interpretation in some form.

One of the last bigger areas of comment was the economic impact on smaller accounting firms. Many expressed concerns over the proposal's impact on smaller firms, its unintended consequences, and the potential cost impact. Specifically, commenters asserted that the cost of the proposal would be relatively greater on smaller firms and certain smaller companies. The proposal would adversely affect smaller firms' ability to compete in the audit-services market. And that the incremental cost of certain aspects would outweigh any increase in audit quality.

And, lastly, from this perspective, that the proposal could result in a shortage of qualified specialists, largely due to the proposed requirements for assessing objectivity of the auditor-engaged specialist.

And then, as another high-level theme, some commenters suggested clarifications or guidance to specific requirements in the proposal. For example, how to apply the terms auditor-employed and auditor-engaged specialists when specialists are employed by affiliates of the audit firm, how to tailor the nature and extent of procedures for testing management's process when management uses a specialist, and how the auditor would test the appropriate use of data by the company specialist.

We also receive comments on specific aspects of the proposal. First area there is testing and evaluating the work of the company specialist. There were mixed views on the concept that the auditor should test and evaluate the work of a company specialist.

Comments on specific provisions in this area related primarily to the requirements to evaluate whether data was appropriately used by the specialist, testing and evaluation when the specialist uses proprietary models, and interaction of the requirements of the estimates proposal for testing management's process when management uses a specialist.

Specifically, requirements for understand methods and assumptions used by the company specialist and evaluating whether data was used appropriately by the company specialist.

We also receive comments about assessing the relationship of the company specialist to the company. Some commenters here ask for clarification of the boards expectation for the necessary level of effort to obtain information from the company-engaged specialist on the relationship to the company.

Others asserted that there could be practical challenges in the application of the requirement, as the entity that employs the specialist may lack a system to track the relationships, or the auditor may not have access to those systems, even if they exist.

Some commenters also expressed a preference for retaining the term, objectivity, with respect to the company specialist. Several commenters also asserted that the proposal did not adequately account for differences between company-employed and company-engaged specialists and that the nature and extent of the audit procedures with respect to the work of a company-engaged specialist with the necessary knowledge, skill, and objectivity, should not necessarily be the same as those of a company-employed specialist.

We also received specific comments around assessing the objectivity of an auditor-engaged specialist. Commenters expressed concern about the statement of the proposed standard, that an auditor should not use a specialist who lacks the necessary objectivity.

Some of these commenters asserted that objectivity should be viewed along a spectrum, rather than as a binary decision, and that the auditor should be able to use the work of a less objective specialist, as long as the auditor performed additional procedures to test and evaluate that work.

Other areas of comment on the specialist proposal included guidance, as I mentioned earlier, which includes how to assess the objectivity of the entity that employs the specialist, what constitutes sufficient, appropriate audit evidence to support the assessment of objectivity, and how to apply the requirements when a company specialist uses a proprietary model.

We also received comments on the effective date. Similar to those comments on the estimates proposal that Barb just talked about, and some commenters emphasized the importance of having the same effective date for any new standards on using the work of specialists and auditing accounting estimates.

MR. BAUMANN: Thanks Lisa and Barbara. Let me just make a couple of comments on this. And see if this triggers any further discussion among the group.

These are first of all two very important standards, as I mentioned earlier. And I think as you realized, a set of financial statements is largely a conglomeration of estimates and fair value measures.

There are very few numbers in financial statements that are precise numbers. There are estimates and fair value measures.

So, that standard is very important as estimates are growing more and more complex. And there's a greater use of estimates in financials, complex estimates and complex fair value measures.

So a critically important standard to update. And my perception of the comments, my view entirely, is very good comments we received.

But in my view, I think these are comments that are largely around the edges of things that we can address, and deal with, and move ahead. Good comments.

We have to deal with them. But I think we can move ahead with them.

The specialist in these complex estimates and fair value measures, more and more specialists are being used in audits. The point that Lisa was making about, and this came up as a real important distinction here, competitive factors.

Large firms typically, and maybe I see some cards up from a couple of large firms. Large firms often employ specialists.

And so they can supervise the actuaries and evaluation specialists who are on that audit. Specialists are used because the auditor may not have those actuarial skills, evaluation skills for instance, and use the work of those specialists as part of their completion of their necessary audit procedures.

Smaller firms often don't have these people on their staffs. And don't engage them. But instead use the work which is currently permitted under extant standard of the company specialist who may have done work for the company in developing that accounting estimate or fair value measure.

The proposed standard said that -- put a higher bar on the extent of work that the auditor had to do to evaluate the work of that company specialist regarding the reasonableness of their assumptions, the data, et cetera.

After all, it's the auditor's opinion, not the company specialist's opinion on the financial statements. And that's where we were going with that.

So, that's an issue that was raised as to what type of work is appropriate with respect to the company specialist when that work is used by the auditor typically in a smaller firm as part of the audit.

And it really goes around the extent of testing those significant assumptions, valuating those methods, or relying on the work of that company specialist.

And as I said, in my own opinion, it's the auditor who's giving the opinion. And the auditor needs to understand those assumptions, methods, sufficiently to give an opinion on the financials.

That is an important area for us to address. And we'll work through that one. But, I think it's a -- we will work through it and come up to a good answer.

Whose card was up first? David Kane.

MR. KANE: Thanks, Marty. And thanks to the staff. I thought it was a very good summary.

These comments are in our comment letter, so I don't want to belabor them. But just to punctuate.

I think on the specialist the auditing interpretation number 11, so this has to deal with the legal isolation criteria in order to get financial assets derecognized. Auditors need a legal letter today.

And having lived through many of those types of transactions, I can tell you that we need those letters. We're not bankruptcy specialists.

We spent a lot of time with the legal community developing those letters. I think lawyers are very familiar with them.

They understand exactly what the requirements are. Trying to take those away, I'm fearing could actually create a vacuum for us on that.

And I think on the same lines, auditing interpretation 28, dealing with tax work papers that was going to get proposed. Yet I think many of the concepts are in the document itself.

But, I think what we currently have is more targeted and specific. So I would recommend to the extent that we can retain that, I would be and advocate for that.

I appreciate that. Thank you.

MR. BAUMANN: Thanks for those comments. Just to clarify though, they're somewhat different then the points I was making.

But you're just clarifying that there are interpretations that exist today that you think should continue to exist.

MR. KANE: Exactly.

MR. BAUMANN: Len?

MR. COMBS: Yes. First of all I would like to commend you guys for the job you've done on both of these standards. I think you've done a great job on two standards that cover difficult areas. And I know a lot of hard work over a long period of time has gone into that.

Certainly when we responded to the IAASB on their similar standard on estimates, we told them it may be beneficial for them to look to the PCAOB's proposed standard. Because we thought the framework was appropriate. And it was well written. So, thank you for that.

One thing I would just like to reiterate, and I think it was well summarized in both standard summaries, is in certain cases where we need to look to other third parties whether it's pricing services, whether it's, you know, other auditors of equity method investees, whether it's specialists engaged by the company and how much we need to assess their relationships with the company, or the methods used, I think there just needs to be careful consideration.

I know you guys are. But I just want to reemphasize this about our ability to influence and access others. Because we may not have that ability. So, the words around these are really important. I think they've been well captured in the responses. And I would just encourage you to really think about that and continue to focus on that as you finalize. But well done on both the summaries and the standards where they stand so far.

MR. BAUMANN: Thanks, Len for those comments. So these are very complex areas, very technical standards. We've again, had a number of discussions with the SAG about these. We've had a lot of outreach.

The consultation paper has a lot of comment. The proposal is a has of comment. And so we have a lot of information to work with as we move ahead.

And so thanks to you for your comment letters.

…

MR. JOHNSON: Marty, I waited just because I didn't want to go back to the previous recitation until there is ample opportunity for people to make comments about this.

But, there was one thing that Lisa said that concerned me. And you started to raise the issue. And that was in relation to the economic impact on smaller firms where they use a specialist. And I'd just like some clarification.

Because in the complex world that we're in, and you mentioned it a number of times that fair value estimates, et cetera, impact the financial statements. I can't see any reason where a specialist wouldn't be appointed. Whether it be internal or external in those circumstances. Irrespective of the size of the firm.

And could you just clarify what your thought processes might be here? We talked -- you know, we talked about scalability of auditing standards.

But it just worries me that if you're playing in the game, in a complex situation, then you've got to abide by the rules irrespective of size of audit firm.

So I'm just a bit concerned when I read those comment letters or the impact of those comment letters where economics are coming into the equation.

And I don't see the -- I was protective of the smaller firms yesterday, vis a vis software providers and making sure that they weren't exposed.

But I think that the markets will get exposed if smaller firms are not prepared to invest in specialists. So, could you just clarify for me the thought processes.

I know you raised it as a potential issue when you needed to cover it.

MR. BAUMANN: I can. But Keith looks like he's ready to take a shot at it as well. So go ahead.

MR. WILSON: Well, I was going to say to your point about how big an issue this is, this is something we are actually trying to look at now and gather data.

We definitely understand the point about smaller firms needing to be able to do this. And I think that the record we get through the comments is really rather mixed.

Some of it is simply a function of people reading some of the requirements in a way that they think means hey, I have to go in as an auditor and re-perform exactly everything step by step that that specialist did. Which is not what the intent of the proposal is.

But, you know, when they read it that way, they think hey, I can't -- there's no way that I could possibly do this. This is a small firm.

I have to go out and try to find my own specialist. That's really difficult sometimes in some maybe remote location, it's difficult to get a second specialist.

So they're raising these practical concerns that are in some part driven by a perception of what we're requiring. There are some others who are -- who really just have a very fond view of our existing standard that essentially allows something a little bit more like just a straight reliance on a company specialist.

So, there's a balance there that we're working through and trying to carefully understand the comments. Trying to think about how clear we can be on the requirements related to that.

And also trying to understand, I think this is a -- these are issues that are probably more confined to specific industries and specific types. And so, we're trying to get a handle on that right now.

MR. BAUMANN: So, again, the company specialist is working for the company and developing information for the company to record in their financial statements that the company itself probably can't do and it's relying on the specialist to calculate their actuarial liability, their benefit reserves, evaluation of some of their instruments, whatever it might be.

And the debate is between, well how much can the auditor rely on the evidence produced by that company specialist which is really they're producing information to be part of the financial statements. Versus how much audit testing do we have to do of that company specialist's work.

And that's where that balance has to be drawn. And we think we've -- we think we drew a good balance. But some read it that you had to completely re-perform what that specialist did versus maybe testing that work.

But, certainly at the far end of the extreme it's rely on it and do nothing, which is highly questionable. Right?

And the other end of extreme is don't rely on it at all and just get your own specialist and completely re-perform. So.

MR. JOHNSON: But the auditor has to be able to understand the output as well as what the inputs are. And that was my concern.

That it's that understanding that this, you know, the specialist has of that information. Whereas any -- any practitioner, whether it's large firm or small firm, may not have that understanding.

And that's just the area that concerns me. Now what is -- what is the output? Do I really understand it? And therefore, can I rely on it?

And that's the judgement that causes me some concern.

(Off mic comment)

MR. BAUMANN: Right. So the auditor has to understand that we're concluding. How as it done? And what were the key assumptions? And the key methods that were used?

Otherwise, you're sort of outsourcing part of the audit work to a third-party. Right. I do agree with you.

...

MS. STEVENS: Thank you, Marty. And as a smaller firm we've been pretty involved in the dialogue and the reach out and the response to the earlier ones that you were bringing up.

So I just -- I wanted to make sure and be clear that there's not going to be -- that the request from the smaller firms isn't for special dispensation to not do the procedures that are going to be prescribed.

It's more in the principals and the criteria of it's not one size fits all. So let's not default to one place. That's what the comments are related to.

And I think an import -- what I get out of this, what is very important is for investors and particularly audit communities to ask the questions and you'll have the opportunity in the CAMs.

Because a lot of the CAMs are going to be surrounded, are going to be with respect to estimates. And by definition also to use a specialist.

So, I encourage audit communities to ask the questions. And to ask what the auditors are doing in their procedures in that context.

Because I think those dialogs are going to be elevated as ARM roles out in the practice phase that was recommended yesterday, as well as for real.

…

MS. JOY: Thank you. I just wanted to reiterate the issue with the smaller firms and the use of a specialist.

And I think at the outset of the project there was concern that we wouldn't have the ability to use specialists in the manner that we had used them previously.

Meaning that the level of work to be able to rely on them would basically place the small firm outside of being able to use the specialist.

But I don't think anybody was trying to not adhere, you know, to the proposal. I think the issue was making sure that the level of work that was required recognizing that there's a reason -- there is the use of a specialist.

You know, and when does the auditor become the specialist? And that's really kind of the sliding scale, I think that had some of the smaller firms concerned.

That the pendulum would swing to a point where we effectively had to become the specialist. And then we were at a significant disadvantage in the resources that the smaller firms had.

But I think over the years just under the current standards, the use of a specialist and what the auditors are doing has been substantially increased just in practice anyway.

So I concur with the fact that you can't blindly use a specialist. You have to have a certain level of knowledge and a level of testing for reliance.

But it was the scale of that that I think was questionable.

MR. BAUMANN: And your comments refer to the company specialist?

MS. JOY: The company specialist. Yes. Yes.

MR. BAUMANN: Which is the -- generally the issue. Because most of the large firms have specialists on their staff to evaluate these complex areas of valuation, actuarial and things of that nature.

MS. JOY: Exactly.

MR. BAUMANN: All right. Well thank you everybody for -- the presentations team on these very important proposed standards which we look to move forward.