



July 30, 2015

Office of the Secretary, PCAOB
1666 K Street
Washington, D.C. 20006-2803

REGARDING: The Auditor's Use of the Work of Specialists

Wilary Winn thanks the PCAOB for the opportunity to respond to *Staff Consultation Paper No. 2015-01 – The Auditor's Use of the Work of Specialists – May 28, 2015*.

Wilary Winn LLC and Wilary Winn Risk Management LLC provide objective fee-based advice to financial institutions located across the country. We work as “engaged specialist” for the external auditors and for companies directly. We have performed work for half of the accounting firms ranked from 5 through 25 and currently have 43 bank clients which are publicly traded. We are a highly specialized firm with a relatively narrow set of valuation services. The services we provide which we believe are relevant to the PCAOB include valuation of:

- Non-Agency (private label) mortgage-backed securities
- Pooled trust preferred collateralized debt obligations (TruPS)
- Servicing rights, including residential and commercial
- Mortgage banking derivatives
- Assets acquired and liabilities assumed in business combinations
- Goodwill impairments
- Intangible assets

We believe the Staff Consultation Paper rightly recognizes the increasing complexity of financial reporting standards, especially fair value, and the increased use of specialists. We caution the PCAOB that the alternatives identified in the paper risk the loss of specific expertise in order to build perceived improved objectivity. We believe the keys to ensuring quality audit results involving the use of specialists are to ensure:

1. The specialist provides non-contingent fee-based advice regardless of whether it performs work directly for the audit firm or the company.

2. The specialist limits its advice to areas where it has a deep understanding of the issues.
3. The specialist's work is transparent with valuation methodologies clearly laid out and input assumptions described in such specificity that they can be independently corroborated when possible.
4. The specialist has a good understanding of the accounting and regulatory issues related to the valuation in addition to the financial and economic factors.

Following are our specific responses to selected staff questions:

1. Does the information presented in Section III accurately characterize current practice? Are other aspects of current practice – at larger and smaller accounting firms – relevant to the staff's consideration of standard setting in this area?

In our experience, the staff has accurately characterized current practice with regard to the use of specialists. Over the course of the past several years, we have had numerous opportunities to discuss our valuation findings with the external auditors and banking regulators. These interactions include discussions with the very large firms' employed specialists.

We have not worked as an engaged specialist for one of the "big four" firms directly, but we have performed valuation work for companies audited by them. We have generally found that the auditing firms which have engaged us directly, or referred us to their clients, did so when faced with complex valuation issues. We also believe in certain cases that we have a deeper understanding of the complex financial instruments we value than did the audit firms' employed specialists. We found this to be especially true in the case of the TruPS and non-Agency MBS. We believe this is because the employed specialists are expected to have an understanding of a wide variety of financial instruments, while we have focused and developed deep expertise on a very narrow set of securities.

5. For accounting firms that use the work of an auditor's engaged specialist:

a. What process does the firm use to assess the knowledge and skill of a specialist before engaging the specialist?

We provide a 14 page SAS 73 questionnaire response to each of the audit firms for which we provide valuation services. The response addresses:

- Professional qualifications
- Independence and potential conflicts of interest

- Engagements we will undertake and, perhaps more importantly, engagements we will not undertake
- Reputation and standing on the views of peers and others familiar with our work
- Understanding the nature of the work of the expert
- Valuation methodologies, including the development of input assumptions

Attached to the questionnaire we include samples of our valuation work, bios of our senior team, copies of white papers and presentations, as well as a list of our references.

We note that we have licensed CPAs on staff and are fully aware of the need for objectivity and healthy skepticism.

d. In using the work of an engaged specialist, does the firm have access to all methods and models of that specialist or are there instances when access to proprietary methods or models is restricted by the specialist or the specialist's employer?

We believe the issues here center on the transparency of a specialist's work. We do not allow our employees to send our proprietary cash flow engines outside of the office and we are generally not permitted to directly share our vendors' valuation models with others. We note that our vendors include Intex and Bloomberg. However, we routinely provide "pdf" copies of our proprietary model cash flow results. In addition, we provide cash flow results from our vendor supplied models upon request after obtaining permission from our providers. We welcome clients (auditors and companies) to visit our offices where we are willing to walk through our models in detail.

6. For accounting firms that use of the work of a company's specialist.

a. What are the circumstances in which the firm uses the work of a company's specialist?

Accounting firms across the country recommend our firm to their clients. This includes public and private companies. In our experience, an accounting firm will recommend that a company engage us if it believes the company does not have the internal wherewithal to perform the work on its own. This includes instances in which the external auditors are skeptical or uncomfortable with the company's valuation results. In general, we have already been vetted by an accounting firm before they refer work to us. If our firm is new to the external auditor that refers the work, we forward our SAS 73 documentation to them as a matter of course.

11. Are there other considerations related to the alternatives that staff should be aware of?

We caution against the unintended consequences of making a change to the existing rule. We believe a benefit of the existing standards is that we are able to share our expertise with multiple accounting firms directly as an engaged specialist, and indirectly as an engaged specialist of their clients. We

caution against integrating engaged specialists into the engagement team and providing requirements for evaluating the work of an auditor's engaged specialist that are the same as the auditor's responsibilities for supervising the work of employed specialists. We believe this could lead to acquisitions of independent specialist firms by the larger accounting firms in order to gain an economic advantage. We believe this could have two adverse consequences. First, smaller firms would be deprived of needed objective expert advice. We note that we have informed smaller firms about the details of complex securities accounting – OTTI for example – using information provided to us by the national experts in the larger firms. We believe the result is a stronger external auditing industry.

Second, we believe that, like us, many independent valuation firms depend on referrals from multiple accounting firms. If an independent valuation firm were to be acquired by a large accounting firm, we believe it would lose clients as other accounting firms would be hesitant to continue providing referrals to a firm owned by one of their competitors. We believe this could in turn lead to diminished expertise because the valuation firm would not be able to spread its costs over as many valuation clients. For example, we have approximately 25 clients for which we value TruPS. This allows us to spread our costs and develop deep expertise in the area. We further believe that in order to replace the revenues lost, an independent valuation firm would feel pressure to accept internal engagements for which it did not have as deep an expertise. As an independent valuation firm serving nearly 400 clients located across the country, we can afford to offer niche valuation products that we understand extremely well. We can also afford to offer new valuation services only after we have developed extensive expertise, recognizing that we can again offer them widely. The depth of our client base also allows us to decline engagements when we are not comfortable with the potential client or when we believe we do not have sufficient expertise to meet our internal quality standards.

We thus caution against a rule change believing it could lead to diminished expertise.

15. How do auditors currently obtain an understanding of the assumptions and methods used by a specialist under AU sec. 336?

We have experienced differing levels of due diligence among the auditing firms with which we work. At the one extreme, we have spent hours and hours reviewing our cash flow results and input assumptions with firms that had not previously engaged us before. Others largely rely on the fact that we have been engaged by their peers to perform valuation work and spend less time understanding our models and assumptions. As we indicated earlier, we believe the key here is transparency. We believe a specialist should be willing to detail its model methodologies and walk its clients through the process and not treat the model as a “black box”. We further believe that specialists should be willing to share their specific input assumptions, detail how they were developed, and provide corroboration for their use, including the results of back-testing.

16. Should the work of a company's specialist be treated as audit evidence the same way as other information provided by the company? Are there concerns associated with more rigorous testing of the

work of a company's specialist that may result from this approach? For example, would auditors increasing need to employ or engage specialists to perform work to assist the auditor with such testing?

We believe a concern here is that the external audit firm may not have sufficient internal expertise to thoroughly understand a company's engaged specialist's results. This would require the audit firm to engage its own specialist. We believe many companies would not want to pay for the same work twice and would disengage their specialist, relying instead on the auditor's engaged specialist. We believe this would deprive the company of the benefit of having a specialist with which it can develop an ongoing relationship. We believe this in turn could deprive the company of the opportunity to discuss and better understand financial issues which are not directly related to audit results. For example, our clients routinely ask us for our opinion about matters not directly related to their valuations.

22. Are the potential requirements to evaluate the knowledge and skill of an auditor's specialist clear and appropriate? Are there other alternatives to accomplish the objectives? Are there other factors that the auditor should consider?

We were surprised to learn that the smaller firms used the work of a company's specialist only 14 percent of the time and an engaged specialist just 5 percent of the time. We believe the PCAOB should consider providing additional guidance as to the circumstances in which a specialist should be used.

We have been engaged after the fact to assess and correct the work performed by an accounting firm's employed specialist. We believe the PCAOB should consider providing guidance as to the circumstances in which an accounting firm must consider engaging an outside specialist as opposed to using an employed specialist.

23. Are the matters described in the potential requirements on which the auditor and auditor's specialist should reach an agreement sufficient and appropriate? If not, what other matters should be required to be specified in the agreement before the auditor's specialist performs work to assist the auditor?

In our work, we always lay out our objectives and procedures, including their nature, timing and extent in the form of an engagement letter before we commence work. In addition, we have found that the external auditors generally provide context for the engagement when we work directly for them. We have found this to be particularly true when the engagement involved sensitive or high-risk issues and/or when the audit firm's client is in a difficult situation.

Much of our work is related to fair value. Our engagement letter sets forth our approach to estimating fair value, while our reports detail our methods and assumptions, including our information sources. We have provided hundreds of valuations under the fair value rules and are not aware of a single incidence when our valuation was considered to be unreasonable.

41. What are the likely economic impacts, including benefits and costs, of the potential alternatives discussed in this staff consultation paper? Are there any unintended consequences not already identified that might result from the alternatives?

42. To what extent would the potential alternatives help to improve audit quality or reduce the incidence of undetected misstatements, audit deficiencies and fraud?

As we indicated earlier, we believe the alternatives could result in the following adverse unintended consequences:

We believe smaller firms could be deprived of needed objective expert advice as valuation firms are acquired by the larger firms, resulting in diminished audit quality for the industry as a whole.

We believe the alternatives could lead to diminished expertise as acquired valuation firms would be unable to spread their research costs across multiple clients.

We believe that if audit firms are forced to use a specialist to review the work of the company's engaged specialist, fewer companies would retain their own specialists and would instead rely on the auditor's engaged specialist in order to avoid paying for the same work twice. We believe this would deprive companies of the ability to discuss complex financial issues unrelated to the audit with objective experts.

We thank the PCAOB for the opportunity to share our views on these matters and would be happy to provide additional insight.

Sincerely,

A handwritten signature in blue ink, appearing to read 'DM', with a long, sweeping horizontal line extending to the right.

Douglas M. Winn, President and Co-Founder

A handwritten signature in blue ink, appearing to read 'Frank J. Wilary', written in a cursive style.

Frank Wilary, Principal and Co-Founder