



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

Agenda Item

I.3

Committee: IAASB Consultative Advisory Group

Meeting Location: Basel

Meeting Date: March 3-4, 2008

Fair Value Audit Guidance Task Force

Objectives of Agenda Item

1. The objectives of this agenda item are:
 - (a) To report on the main outcomes of the September 2007 and December 2007 IAASB meetings;
 - (b) To report on the discussions of the Information Gathering Meeting¹ held on February 12, 2008; and
 - (c) To obtain the Representatives' views on topics that could warrant further IAASB attention.
2. **Agenda Item I.3.1, the agenda material that was distributed in advance of the IAASB Fair Value Audit Guidance Information Gathering Meeting, is provided as a CAG Reference Paper. It was not reviewed and commented upon by the IAASB.**
3. In agreeing to establish the task force, the IAASB is not taking a view on whether guidance is needed and is neutral as to whether something needs to be developed. It has not yet considered what aspect(s) of auditing fair value may require further attention, nor its options in terms of the methods and form(s) of vehicle(s) for purposes of the development and issue of auditing implementation guidance, if it is in fact determined that it is appropriate for the IAASB to do so.

Main Outcomes of September 2007 and December 2007 IAASB Discussions

4. At the September 2007 meeting, the IAASB agreed that draft Terms of Reference for a task force on fair value audit guidance would be developed, as a response to concerns expressed when proposed ISA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures," was exposed.
5. The purpose of the task force is to consider how best to approach the development of possible further fair value audit guidance, and consider aspects of the audit of financial statements measured at fair value, including current issues and practice, and make recommendations to the IAASB for matters that require priority attention. The task force,

¹ This meeting was held via videoconference at two locations, with participants physically meeting in London, England and New York, New York.

IAASB CAG PAPER

IAASB CAG Agenda (March 2008)

Agenda Item I.3

Fair Value Audit Guidance Task Force

chaired by John Fogarty of the IAASB, will be comprised of interested parties with relevant perspectives and expertise.

6. The draft Terms of Reference were circulated to those members of the IAASB CAG who had expressed interest at the September 2007 meeting prior to the IAASB's discussion at its December 2007 meeting. During the discussion, it was noted that some additional matters, as highlighted below, would provide perspective on the Terms of Reference and more clearly illustrate the complexity of the project and the level of interest. ***(See the draft Terms of Reference included as Appendix I of Agenda Item I.3.1)***
7. The IAASB agreed at its December 2007 meeting to move forward on the creation of the task force, and planned to hold a meeting in 2008 to bring interest parties together to develop a way forward.

Main Outcome of the IAASB's Fair Value Audit Guidance Information Gathering Meeting

8. An information gathering meeting was held on February 12, 2008 to obtain input at an early stage from a broad range of individuals familiar with the area of fair value who may have relevant experience and perspectives on the subject. ***(See the agenda material distribute in advance of the meeting at Agenda Item I.3.1 and the list of meeting participants included as Agenda Item I.3.2.)***
9. Matters on which input was sought included:
 - The type of auditing guidance that is needed for the profession (e.g., briefs on emerging issues, general implementation guidance, industry best practice guidance, guidance by specific type of asset or liability, further standards, etc.), and by when.
 - How meeting participants envision such guidance would be used in their environments, and
 - Fair value topics that warrant priority attention.
10. The meeting was an open forum for participants to share their views in general, and specifically on questions raised in the agenda material. Participants had varied perspectives and were representative of auditors, preparers, investors, regulators and users.
11. The following summarizes the views expressed by participants during the course of the discussions:
 - There was no clear consensus on whether there is a distinct need for additional audit guidance at this time, as ISA 540 (Revised and Redrafted) more fully addresses matters such as the auditor's evaluation of the effect of estimation uncertainty on risk assessments, management's methods for making estimates, the reasonableness of assumptions used by management, and the adequacy of disclosures.

IAASB CAG PAPER

IAASB CAG Agenda (March 2008)

Agenda Item I.3

Fair Value Audit Guidance Task Force

- Many were of the view that if additional guidance is developed, it would be aimed at addressing specific issues. Some argued that complex financial instruments required particular attention.
 - Mixed views were held on whether it is appropriate for a standards setter to develop implementation guidance, in light of the aim to develop principles-based standards.
 - It is difficult to ascertain whether the guidance that may be needed relates to a lack of understanding of fair value in general, and in particular the accounting standards, or whether there are specific audit issues that can be addressed. The IAASB can assist only with the latter.
 - The task force should consult with auditors and preparers to understand the challenges that have been encountered in practice to determine a) what specific challenges have arisen in the audit of fair value accounting estimates and b) whether the IAASB could have a role in addressing these challenges and, if so, what that role would be.
 - There is a need for further education and training for auditors, as well as preparers and users, in the area of fair value accounting estimates; however, it is not the remit of the IAASB or the International Accounting Education Standards Board. It was suggested that this may be a broader role for IFAC. The IAASB could, however, work to communicate information broadly to the marketplace on audit-related fair value topics similar to the alerts that have recently been issued by the US PCAOB and the UK APB in order to enhance awareness.
 - Possible topics for further development that were most supported were:
 - The audits of complex financial instruments.
 - The auditor's evaluation of processes and controls put in place by management in making fair value accounting estimates.
 - Models and unobservable inputs, including considerations when broker quotes are used as audit evidence, consensus pricing services, and proprietary models.
 - More broadly, actions auditors could take to obtain audit evidence in particular scenarios.
12. During the meeting, the IAASB Executive Director reported that the IAASB had received confirmation from the Public Interest Oversight Board that due process had been followed in developing ISA 540 (Revised and Redrafted). In reporting to them on how due process had been followed, the IAASB discussed the plans to form this task force. The PIOB discussed the formation of the task force, and expressed a keen interest in following the development of this project.
13. The task force intends to meet shortly after the CAG and IAASB meetings to discuss the views heard during the information gathering meeting, with plans to report back to the IAASB at its June 2008 meeting.

IAASB CAG PAPER

IAASB CAG Agenda (March 2008)

Agenda Item I.3

Fair Value Audit Guidance Task Force

Action Requested

The IAASB CAG is asked for its views on the points above, in particular whether any guidance should be developed, and, if so, on what topic. Comments are also welcome on the draft Terms of Reference for the task force on Fair Value Audit Guidance.

Material Presented – FOR CAG REFERENCE PURPOSES ONLY

- | | |
|-------------------|---|
| Agenda Item I.3.1 | Agenda Material distributed in advance of the IAASB Fair Value Audit Guidance Information Gathering Meeting |
| Agenda Item I.3.2 | List of Participants – IAASB Fair Value Audit Guidance Information Gathering Meeting |