

**IAASB Fair Value Audit Guidance  
Information Gathering Meeting  
New York and London, February 12, 2008**



**International Federation  
of Accountants**

**IAASB CAG REFERENCE PAPER**  
**IAASB CAG Agenda (March 2008)**  
**Agenda Item I.3.1**  
**Agenda Material—Fair Value Audit Guidance Information Gathering Meeting**

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### AGENDA

Time (EST)	Time (GMT)	Topic
	12:30-13:30	Lunch
08:00-08:30		Coffee
08:30-08:50	13:30-13:50	Opening Remarks
08:50-10:15	13:50-15:15	Fair Value Audit Issues – Background and Open Discussion
10:15-10:30	15:15-15:30	Coffee
10:30-12:00	15:30-17:00	Guidance Options – Background and Open Discussion
12:00-12:20	17:00-17:20	Recap of Highlights and Revisit of Task Force Terms of Reference
12:20-12:30	17:20-17:30	Closing Remarks
12:30-13:30		Lunch

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## **Section 1 Objective**

- 1.1 The objective of the meeting is to gather information and obtain views from interested parties with relevant perspectives and expertise to assist the International Auditing and Assurance Standards Board (IAASB) in determining whether and how it should supplement its International Standards on Auditing (ISAs) with implementation guidance on auditing fair value accounting estimates.
- 1.2 The IAASB has not yet considered what aspect(s) of auditing fair value requires 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. However, the IAASB sees it is essential to understand specifically the concerns facing the profession and those involved in overseeing it in this challenging area.
- 1.3 Should it be determined that it is appropriate for the IAASB to develop implementation guidance, any such project to be commenced will be subject to the approval of an appropriate project proposal by the IAASB.
- 1.4 This paper has been prepared to assist the meeting's discussion. In particular, it provides some background to, and discussion of, matters for consideration by participants at the meeting.

## **Section 2 Introduction**

- 2.1 Today's financial reporting regimes are such that the measurement and disclosure of fair values are of great importance, and in some respects, of considerable concern. Recent market experience has highlighted more clearly the significance of the difficulties that arise in valuing financial instruments. In this climate, auditors are expected to be well aware of the need to understand the accounting principles and rules relating to accounting on the basis of fair value, and to give appropriate consideration to their application.
- 2.2 Having regard to the challenges that have become apparent with respect to fair values based on complex valuation models or involving significant unobservable assumptions, the IAASB included the possibility of the development of implementation guidance for auditors on the audit of complex valuation models in its October 2007 Consultation Paper, *Proposed Strategy for 2009-2011*.
- 2.3 In light of the importance of the topic, the IAASB agreed nonetheless in December to establish a Task Force to explore how best to approach the development of possible further fair value auditing guidance, to take this idea further even though the responses to the Consultation Paper have yet to be fully analyzed. The draft Terms of Reference of this Task Force are included in Appendix I.
- 2.4 Other interested parties have recently issued guidance aimed at raising awareness of the challenges facing users, preparers and auditors in light of current market conditions of the

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“credit crunch” and reduced market liquidity, and drawing attention to the provisions of relevant national and international accounting and auditing standards. A summary of some such published guidance is included in Appendix II.

- 2.5 The IAASB is not seeking views on the merits of accounting on the basis of fair value. This debate will continue in the profession as the accounting rules evolve. Nevertheless, there is a relationship between the accounting standards and the auditing standards, particularly in relation to fair values. Understandably, therefore, it may be difficult to discern whether the issues of fair value are in fact best resolved through further accounting guidance and interpretation. The IAASB is not at liberty to address such matters nor does it view the role of auditing as being to address a real or perceived deficiency in an accounting framework.
- 2.6 The objective of the meeting’s discussion is to focus on whether there is something that should be done that would be of use to auditors when dealing with the application of the accounting rules and management’s estimation of fair value. The issues are underpinned by questions of what precisely is the need for additional guidance on auditing fair value accounting estimates, and whether it is possible for such additional auditing guidance to contribute to the audit of issues of measurement and valuation.

### **Section 3 Auditing Fair Value**

#### **The Accounting Context**

- 3.1 Accounting on the basis of fair value in generally more complex situations is unique in certain respects, for example in terms of: its objective in respect of measurement; the need to incorporate judgments that may in effect be made by others, not solely by management; the availability (or lack thereof) of information or evidence and the range of its reliability; the scope of assets and liabilities to which fair value accounting may be, or is required to be, applied; and the range and sophistication of acceptable valuation techniques and models.
- 3.2 In the US, the principal accounting standard is SFAS 157,<sup>1</sup> effective for financial statements issued for years beginning after November 15, 2007. Internationally, IAS 39<sup>2</sup> and IFRS 7<sup>3</sup> are the most relevant standards issued by the IASB that pertain to fair values. However, IFRSs currently do not have a single hierarchy that applies to all fair values measures. Rather, individual standards indicate preferences for certain inputs and measures of fair value over others but this guidance is not consistent among all IFRSs. However, there has been much progress made between the IASB and FASB with respect to discussions on harmonizing standards on fair value accounting.<sup>4</sup>

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<sup>1</sup> Statement of Financial Accounting Standard No. 157, “Fair Value Measurements.”

<sup>2</sup> International Accounting Standard 39, “Financial Instruments.”

<sup>3</sup> International Financial Reporting Standard 7, “Financial Instruments: Disclosures.”

<sup>4</sup> The IASB currently has a project on its agenda and has issued a discussion paper on “Fair Value Measurements,” which set out the IASB’s preliminary views and was based on SFAS 157. The comment period on the discussion paper ended May 4, 2007, and the IASB has indicated it plans to publish an exposure draft in 2008.

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- 3.3 Both the US and International accounting standards specify conditions, prescribe treatments, and provide extensive guidance on the measurement of fair value. Equally, they contain provisions that require judgment by management in applying the accounting provisions to the entity's facts and circumstances.
- 3.4 SFAS 157 has introduced the terms “observable” and “unobservable” inputs,<sup>5</sup> and established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) (Level 2 inputs are inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly). In some cases, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. Valuation techniques should, where practicable, maximize the use of observable inputs.

#### The Auditing Context

- 3.5 In December 2007, the IAASB approved ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”<sup>6</sup> This ISA, if approved by the Public Interest Oversight Board, will be effective for audits of financial statements for periods beginning on or after December 15, 2009, and includes requirements and guidance, set at a level appropriate for an international standard, on auditing fair value accounting estimates that involve estimation uncertainty. Specifically, it expands on how risk assessment and other relevant standards are to be applied in this context.
- 3.6 The ISA will require the auditor to focus attention on areas of higher risk, accounting judgment, and possible bias, thereby assisting the auditor to form appropriate conclusions about the reasonableness of accounting estimates, including fair value accounting estimates, in the context of an entity's financial reporting framework. It adopts a risk-based approach, and 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.

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<sup>5</sup> “Observable inputs” are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. “Unobservable inputs” are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

<sup>6</sup> Contemporaneously, the IAASB approved the withdrawal of ISA 545, “Auditing Fair Value Measurements and Disclosures” when ISA 540 (Revised and Redrafted) becomes effective. These approvals are subject to approval by the Public Interest Oversight Board that due process has been applied in developing ISA 540 (Revised and Redrafted). The draft of ISA 540 (Revised and Redrafted) that was approved by the IAASB is available on the IAASB website at <http://www.ifac.org/IAASB/Meeting-Resource.php?MID=0093&type=Updated+Agenda>.

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- 3.7 The ISA also provides expanded guidance on auditing fair value accounting estimates, including audit considerations relating to the proper application of the relevant requirements of the financial reporting framework, for example the use of assumptions that reflect, or are consistent with, those that marketplace participants would use in determining fair value. It also addresses the use of models in valuations and ranges in obtaining sufficient appropriate audit evidence.
- 3.8 Irrespective of the applicable financial reporting framework, the nature and reliability of information available to management to support the making of a fair value accounting estimate varies widely, which thereby affects the degree of estimation uncertainty associated with that fair value. The degree of estimation uncertainty affects, in turn, the risks of material misstatement. Important, however, is the fact that there are limits to the information that management possesses or can obtain and that can therefore be made available to the auditor. The consequence of this becomes more pronounced the greater the need to incorporate inputs that are “unobservable.”

#### Possible Topics for Additional Auditing Guidance

- 3.9 In principle, there are a variety of ways to analyze possible topics for additional auditing guidance on fair value. For purposes of discussion, the options are presented under the following four broad, alternative (though not mutually exclusive) categories:
- *Measurement issues*
  - *Risk and evidence considerations*
  - *Fair value topic-specific*
  - *Industry-specific.*

#### MEASUREMENT ISSUES

- 3.10 One approach to considering what might be the focus of additional guidance relates to aspects of auditing the fair value measurement process. The principal areas where audit challenges may exist possibly relate to the following:

##### *Evaluations of judgment*

Fair value accounting requires judgment by management in applying the accounting rules to the entity’s facts and circumstances. Accordingly, one or more of the following may represent a matter requiring further auditing guidance:

- Assessments of management’s determination of whether an active market or observable inputs do, or do not, exist.
- Assessments of management’s determination of the approach and general valuation techniques, in particular decisions between the market, income and cost approach.

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- Assessments of management's determination of the principal (or most advantageous) market, where multiple markets exist (where market participants trade the same type of asset in different markets).
- Assessments of management's determination of what assumptions a market participant would make in determine the fair value of an asset or liability, including how management has identified characteristics that are relevant to market participant considerations.
- Assessments of management's consideration of nonperformance (including credit risk) in measuring fair value.
- Assessment of management's judgments relating to the reliability of the fair value measurement.

#### *Complex valuation models*

In the absence of unadjusted quoted prices in active markets for identical assets or liabilities and direct or indirect observable inputs for the asset or liability (Level 1 and 2 inputs), management uses unobservable inputs. Such inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed on the basis of the best information available in the circumstances. They are, ordinarily, used together with an appropriate valuation technique or model. Models can range significantly in complexity and reliability. Accordingly, one or more of the following may represent a matter requiring further auditing guidance:

- Assessments of management's choice of model, where the valuation model is not prescribed, including whether it results in the most representative fair value.
- Assessments of proprietary models.
- Assessment of management's validation and periodic calibration of the model.
- Assessment of management's sensitivity analysis.
- Assessment of adjustments made to the output of the model.

#### RISK AND EVIDENCE CONSIDERATIONS

3.11 Equally, it may be appropriate to approach the question by considering aspects of the auditor's risk assessment and evidence gathering process. The principal areas where audit challenges may exist possibly relate to the following:

- Risk factors to be considered in identifying and assessing risks of material misstatements.
- Decisions with respect to the use of experts or specialists, their deployment, and the consideration of their work for purposes of the audit.



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- Assessment of whether observable inputs have been maximized and unobservable inputs minimized.
- Assessments of management's decision to change the valuation approach on the basis that it represents a more representative measure of fair value.
- Auditing procedures with respect to testing and evaluating monitoring and other controls directed at areas requiring judgment.
- Evidence issues with respect to broker quotes, for example where information about the valuation method and inputs and assumptions used by the broker in developing the quote are not capable of being obtained by management or the auditor.

#### **FAIR VALUE TOPIC-SPECIFIC**

3.12 Alternatively, it may be appropriate to consider whether there are specific topics or assets or liabilities that require special consideration, particularly in areas where it is difficult to identify the right factors to apply and where small changes in those factors can make very significant differences to the resultant valuations. For example, there may be a need for further guidance with respect to one or more of the following:

- Specific assets or liabilities (e.g., construction contracts, leases, assets held for sale).
- Hybrid instruments.
- Derivative financial instruments.
- Actuarial valuations.
- Disclosures, including for example management's determination with respect to the significance of lowest level input for purposes of disclosures as well as adequacy in general such that users can evaluate the significance of financial instruments, the nature and extent of risks arising from financial instruments to which the entity is exposed, and how the entity manages that risk.

#### **INDUSTRY-SPECIFIC**

3.13 Finally, it may be appropriate to consider whether there are industries with unique characteristics that make valuation issues particularly significant. For example, there may be a need for further guidance with respect to one or more of the following industries:

- Banking
- Insurance
- Broker-Dealer
- Extractive / Natural resources (including agriculture)
- Real-estate.

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#### Matters for Consideration by Meeting Participants

- 3.14 Participants are asked to consider the following as they formulate and discuss their views on what aspects of auditing fair value measurements and disclosures warrant priority attention:
- (a) **Are there certain auditing issues on which additional guidance would be useful? Are there other examples of issues encountered in practice that may be relevant to the discussion?**
  - (b) **How should these specific auditing issues be prioritized?**
  - (c) **Given the extent of guidance provided in the accounting literature, what focus should further guidance take – should it approach the auditing issues in a general sense having broad application, or is there a need for emphasis on a particular issue?**
  - (d) **Are there specific industry concerns that need to be addressed and if so, how could this be done?**

## Section 4 Guidance Options

### General Considerations

- 4.1 There is in principle a range of options that exist in terms of the nature and form of any guidance to be issued. However, there are also several important considerations that influence, and possibly constrain, their appropriateness in the circumstances.
- 4.2 Of primary relevance is the nature of the topic(s) on which guidance is sought and its scope, including what would be most effective to enhance audit quality, effectiveness and consistency. For example, whether demand is for guidance on auditing fair values in general that provides a comprehensive review of relevant ISAs in that context, or something more specific, either by subject, issue or industry, or aspects thereof, influences the appropriate form to be considered.
- 4.3 There is also the inherent matter of the trade-off between timeliness and the authority and due process required, or expected, to attach to such guidance. A non-authoritative staff ‘alert’ or ‘bulletin’ might be issued in as little as two months; an authoritative document that has been developed subject to consultation and due process may require two years for development.
- 4.4 Equally, there is the question of what would be most effective to enhance audit quality, having regard to the public interest. The requisite timeliness and authority have bearing on this consideration. There are also different needs and expectations: some may view that audit quality would be enhanced by raising awareness and stimulating appropriate professional judgment in response to emerging issues; others may view the need for greater educational material in light of the complexity of the subject; equally, it may be that what is necessary is that which facilitates monitoring or prescribes expectations regarding what is expected in order to comply with applicable standards.

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- 4.5 Further, there may be matters of a nature such that they relate to the application of standards to, and may be circumscribed by, national circumstances. Consequently, national standard setting bodies or firms, rather than the IAASB, may best be positioned to address such matters.
- 4.6 Finally, the concepts and requirements relating to financial accounting on the basis of fair value, and the approaches being taken to valuation and auditing such measurements, are evolving. New issues and challenges, and new solutions, rapidly develop. Accordingly, auditors may need the ability to evaluate what the most effective audit procedures are in the given circumstances of an engagement. That which is best practice in regards to a particular topic or industry may not be so in other cases.

#### Possible Forms of Auditing Guidance

- 4.7 One approach to considering the options available is based on two simple variables: (i) what precisely is required; and (ii) by when it is needed. In this regard, there are three main objectives that could serve as the basis for decisions on guidance options, as follows:
- *Enhancing awareness*
  - *Building/Expanding knowledge, including promulgating best practice and guidance*
  - *Influencing practice*

The following discusses briefly each of these. They are not necessarily mutually exclusive and there may be some overlap. In addition, assumptions about the requisite authority and due process that have been made may not be consistent with participants' views.

#### ENHANCING AWARENESS

- 4.8 Guidance with this objective would have the aim of communicating current issues and matters requiring auditor attention, and directing auditors to the provisions of relevant existing literature. Such guidance would be in contrast to situations resulting in a need for additional interpretive or application guidance on an IAASB Standard(s).
- 4.9 The form such guidance could take may include:
- *Staff or Board Alert(s) or Bulletin(s)*. As indicated in Appendix II, this has been generally the form of non-authoritative guidance issued by other standards-setters or their staff on this topic.
  - *Staff or Board Discussion Paper(s)*, to promote discussion or debate on specific auditing issues, present findings, or describe matters of interest.
- 4.10 This type of guidance may require no formal consultation and, accordingly, may be the most expedient.

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#### BUILDING/EXPANDING KNOWLEDGE, INCLUDING PROMULGATING BEST PRACTICE AND GUIDANCE

- 4.11 Guidance with this objective would have the aim of sharing guidance and practice that already exists nationally, either in terms of best practice in certain industries or practice that is currently being followed (and considered effective) in relation to a specific aspect of auditing fair value.<sup>7</sup>
- 4.12 Equally, such guidance could articulate specific matters for consideration in the application of relevant auditing requirements, for example, specific factors that may affect risk assessments, or by providing illustrative auditing procedures. It could also disseminate best practice by preparers – for example, in terms of the modeling techniques and control processes considered necessary in the banking sector.
- 4.13 The form such guidance could take may include:
- *Industry best practices guide(s).*
  - *Research report(s),* either commissioned or internally prepared.
- 4.14 This type of guidance may require some form of consultation and, accordingly, may take longer to develop.

#### INFLUENCING PRACTICE

- 4.15 Guidance with this objective could conceivably address, through formal consensus building, matters on which no guidance currently exists, or provide interpretation of existing requirements or guidance in ISAs where there is inconsistency in practice.
- 4.16 The form such guidance could take may include:
- *An ISA “Interpretation” or an IAASB “Statement(s) of Position.”*
  - *International Auditing Practice Statement(s),* either specific to a particular fair value topic or industry-specific.
  - *A topic-specific ISA.*
- 4.17 This type of guidance would involve the application of appropriate due process and, accordingly, would take the longest to develop. Typically, the development of a Practice Statement or Standard by the IAASB spans 24-36 months.

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<sup>7</sup> There has been a call for this type of knowledge-sharing in the IAASB’s consultation process to develop its future strategy and work program, and doing so would enable those who may not have access to this type of information, such as SMEs and SMPs, to benefit from the undertaking of others while allowing the IAASB to leverage the good work of others.

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##### A Responsive, Relevant and Flexible Solution

4.18 There are likely to be several fair value topics, in both the general and specific senses, for which it would be worth exploring the development of guidance. No one of the above options may on its own provide the necessary response in terms of the relevance to the variety of needs or expectations. In addition, the timeliness of any guidance is likely to be important, and this would depend on the scope or coverage of any such guidance. The central question therefore is which option should be considered first, such that the knowledge and experience gained can be leveraged effectively.

4.19 It may be that some combination of the above is appropriate. This could take the form, for example, of a series of guidance, whereby, under an appropriate umbrella document:

- Individual guides are developed, or commissioned, addressing a variety of relevant topics: evidence considerations; the auditing of specific types of instruments; modeling techniques and related auditing considerations; or industry practice.
- The scope or depth of the material could vary appropriately, from a relatively brief alert, to a more comprehensive discussion on valuation and disclosure issues.
- Conceivably, each publication could stand alone and could be developed independently with the involvement of those with subject matter expertise.

Such a series would be flexible, addressing new topics as the need arises. The experience gained by the IAASB through the development of such documents could serve as an appropriate basis for any future standards-setting activity.

#### Matters for Consideration by Meeting Participants

4.20 Participants are asked to consider the following as they formulate and discuss their views on the form any guidance to be developed should take:

- In light of the discussion under Section 3 on possible priority topics, what form of guidance would be most appropriate? If any of the proposed forms would not be appropriate in your jurisdiction, why is this the case?**
- For your particular stakeholder group, which is more important – the authority of the guidance or the timeliness in which it is issued, and why? Would a non-authoritative document be appropriate or relevant for your purposes?**
- How do you envision such guidance – a comprehensive review of all issues? A brief but instructive guidance document? A singular document or a series? Irrespective of the form, is there a minimum consultation required?**
- Is there a pressing need to focus on a particular industry?**

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### **Section 5 Way Forward**

- 5.1 It is anticipated that the meeting's discussion will be stimulating and of great assistance to task force in formulating recommendations to the IAASB for matters that require priority attention and the type of guidance that might be appropriate. It will also as a matter of course consider whether its draft Terms of Reference are appropriate in light of the input obtained.

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## **Appendix I**

### **TASK FORCE ON FAIR VALUE AUDITING GUIDANCE**

#### **Draft Terms of Reference**

##### **Background**

The International Auditing and Assurance Standards Board (IAASB) approved<sup>8</sup> in December 2007 ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.” The ISA, effective for audits of financial statements for periods beginning on or after December 15, 2009, includes requirements and guidance, set at a level appropriate for an international standard, on auditing fair value accounting estimates that involve estimation uncertainty.

In developing the ISA, the IAASB received requests from stakeholders that it supplement the ISAs as soon as practicable with implementation guidance on auditing fair value accounting estimates, particularly those based on complex valuation models or involving significant unobservable assumptions. Recent market experience has shown the difficulties the markets can face in valuing instruments, and this has highlighted the importance in the public interest for the IAASB to provide guidance on this complex and challenging audit topic.

The IAASB Consultation Paper, “Proposed Strategy for 2009-2011,” includes, as a possible action, the development of guidance for auditors on the audit of complex valuation models, in consultation with relevant parties.

##### **Task Force Roles and Responsibilities**

As a result of the above, the IAASB has established a Task Force on fair value implementation guidance, chaired by an IAASB member and comprising interested parties with relevant perspectives and expertise, with the following mandate:

- To consider and make recommendations on the form and scope such guidance should take, the authority of such guidance, and the due process to be applied, taking account of the need to raise awareness of issues and best practice on a timely basis and the continuing evolution of relevant fair value accounting literature. It may be that such guidance will not carry the authority of a standard, and so it would not establish requirements to be followed in an audit.
- To identify priority topics for fair value implementation guidance, taking account of the needs of users of the ISAs.
- To develop a project proposal or proposals for development of implementation guidance on a particular topic(s), including determining appropriate resources necessary for that project(s).

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<sup>8</sup> Subject to confirmation by the Public Interest Oversight Board that due process was followed in the development of the ISA.

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- Subject to approval of project proposal(s), to develop, or arrange for subject matter experts<sup>9</sup> to develop, proposed guidance for the particular project, for consideration by the IAASB

The Task Force will report its recommendations on the form, authority, and due process for such guidance to the IAASB for approval.

The IAASB is responsible for approving all project proposals.

#### **Task Force Membership**

##### Chair

John Fogarty, IAASB

##### Members

TBD

#### **Other Involvement**

IAASB Staff will provide administrative support to the Task Force.

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<sup>9</sup> It is recognised that, whatever the composition of the Working Group, it may be necessary to commission some input from experts in particular fields. The Working Group would remain responsible for the appropriateness and consistency of the guidance.



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## **Appendix II**

### **Recently Issued Fair Value Guidance**

October 2007

- The US Center for Audit Quality White Papers: “Measurements of Fair Value in Illiquid (or Less Liquid) Markets;” “Consolidation of Commercial Paper Conduits;” and “Accounting for Underwriting and Loan Commitments.” These papers discuss accounting issued related to current market conditions.

November 2007

- International Organization of Securities Commissions Final Report, “Principles for the Valuation of Hedge Fund Portfolios.” This paper, which represents a collaborative effort among IOSCO’s Standing Committee on Investment Management and representatives from the European and United States hedge fund industry, presents a set of principles for valuing the portfolios of hedge funds. The chief aim of the principles is to promote consistency in the valuation of a hedge fund’s financial instruments, and ensure that values of such instruments are not distorted to the disadvantage of fund investors.

December 2007

- The U.S. Public Company Accounting Oversight Board Staff Audit Practice Alert<sup>10</sup> No. 2, “Matters Related to Auditing Fair Value Measurements of Financial Instruments and the Use of Specialists.” This non-authoritative guidance focuses auditors’ attention on specific matters that are likely to increase audit risk related to the fair value of financial instruments in the current environment; it points auditors to their responsibilities in this area under the existing PCAOB standards.
- The Global Public Policy Committee (GPPC)<sup>11</sup> paper, “Determining Fair Value of Financial Instruments under IFRS in Current Market Conditions.” This non-authoritative paper highlights aspects of existing IFRS accounting literature that are most likely to be relevant when establishing the fair value of financial assets and financial liabilities and related disclosures in the context of current market conditions.

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<sup>10</sup> As per the PCAOB: “Staff Audit Practice Alerts highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws. The practice alerts generally are prepared by the staff of the PCAOB’s Office of Research and Analysis, working in conjunction with the staff of the Office of the Chief Auditor.” Additionally, these alerts explicitly state: “Auditors should determine whether and how to respond to these circumstances based on the specific facts presented. The statements contained in Audit Practice Alerts are not rules of the Board...”

<sup>11</sup> The GPPC focuses on public policy issues for the accounting profession, and is comprised of representatives from the six largest international accounting networks (BDO International, Deloitte, Ernst & Young, Grant Thornton International, KPMG and PricewaterhouseCoopers).

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January 2008

- The UK Auditing Practices Board (APB) Bulletin<sup>12</sup> 2008/01, “Audit Issues when Financial Market Conditions are Difficult and Credit Facilities may be Restricted.” This Bulletin was issued to provide auditors with matters that may need to be considered during audits conducted during the “credit crunch.”

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<sup>12</sup> As per the APB: “The Purpose of Bulletins issued by the APB is to provide auditors, and where relevant, reporting accountants with timely guidance on new and emerging issues. They are persuasive rather than prescriptive. However, they are indicative of good practice, even though they may be developed without the full process of consultation and exposure used for Auditing Standards.”