

Meeting: IAASB
Meeting Location: New York
Meeting Dates: December 5–9, 2016

Agenda Item 2

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

Objective of Agenda Item

1. The objectives of this agenda item are to obtain the Board's views on the issues paper (**Agenda Item 2-A**) regarding the revision of International Standard on Auditing (ISA) 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and the draft of ISA 540 (Revised) (**Agenda Item 2-B**).

ISA 540 Task Force

2. The Task Force comprises the following members:
 - Rich Sharko (Task Force Chair, IAASB Member) (supported by Jamie Shannon, IAASB Technical Advisor)
 - Marc Pickeur (Task Force Co-Chair, IAASB Member)
 - Abhijit Bandyopadhyay (IAASB Member)
 - Jean Blascos (IAASB Member)
 - Marek Grabowski (IAASB Member) (supported by Keith Billing)
 - Ron Salole (IAASB Member)
 - Dora Burzenski, (IAASB Technical Advisor)
 - Jean-Jacques Dussutour (Insurance Regulator)
 - Emilio Pera (Practitioner)

Barbara Vanich, who is representing the United States Public Company Accounting Oversight Board (PCAOB), and Claire Stone, who is representing the Basel Committee on Banking Supervision's Accounting Experts Group, are official observers to the Task Force.

Activities since November 2016 IAASB Meeting

3. Since the November 2016 Board teleconference, the Task Force met once physically and three times by teleconference.
4. Since the September Board meeting the Task Force Task Force and IAASB leadership participated in, or presented, at the following events:

- Presentation Fédération des Experts Comptables Européens – Brussels, Belgium (Pickeur, Sharko (by teleconference))
 - Presentation at International Federation of Accountants Small and Medium Practices Committee meeting – New York, United States of America (Murtagh, Sharko, Zietsman)
 - Meeting with representatives of the PCAOB – Washington D.C., United States of America (Sharko, Shannon, James, van den Hout)
 - Meeting with International Organization of Securities Commissions Committee 1, Auditing Subcommittee (by teleconference) (Sharko, James)
 - Meeting with representatives of the Royal Netherlands Institute of Chartered Accountants' Standard Setters Board, Assurance Sub-Group, Committee on Banking and Committee on Insurance – Amsterdam, Netherlands (Sharko, van den Hout)
 - Panelist at the Central Bank of Russian Federation's International Audit Conference – Moscow, Russia (Sharko, Zietsman)
 - Presentation to Russian government officials, practitioners and academics – Moscow, Russia (Sharko, Zietsman)
5. As the project to revise ISA 540 has progressed, the need to take time to deliberate and develop different approaches has become apparent. Some of the approaches explored by the Task Force, such as the approach of emphasizing the risk factors and developing a more granular, risk-responsive work effort have needed time to mature. Equally, the Board has provided valuable input on those ideas that required adequate time to digest and develop further.
6. At this time, the Chair and Co-Chair of the Task Force are not ready to recommend that an exposure draft (ED) of ISA 540 be approved. The Task Force will continue to develop the proposed ED with a view to seeking approval of a draft ED at the March 2017 IAASB meeting.
7. The Board's and Task Force's work thus far on ISA 540 has resulted in agreement on some paragraphs in the draft ISA. Accordingly, during the course of the Board meeting, the Board will be asked to "close-off" on certain paragraphs dealing with matters that are, largely, settled (recognizing that there may be particular aspects of those paragraphs which will be noted as requiring further amendment or discussion, and that there may be consequential changes as a result of changes in the paragraphs still being developed).
8. The implication of a March 2017 approval of the ED is that a final ISA 540 (Revised) would likely only be approved in March 2018, compared to December 2017 under the original plan.
- This means that the short period in which the IFRS 9¹ is effective (1 January 2018) but ISA 540 (Revised) is not available goes from 3 months to 6 months, taking into account the need for approval of the final standards by the Public Interest Oversight Board.
 - It is important to recognize that IFRS 9 was released in July 2014 and a number of entities have early adopted it, so audits of these entities are being conducted under the extant ISA 540. This does not negate the need for a revised ISA 540, but does show the importance of the

¹ International Financial Reporting Standard (IFRS) 9, Financial Instruments

IAASB's Project Update that gave firms, regulators, preparers, and users a signal of the IAASB's direction of travel.

Action Requested

9. The IAASB is asked to provide views on the proposals presented in **Agenda Item 2-A**, the proposed revised ISA 540 presented in **Agenda Item 2-B**, and the proposed conforming amendments in **Agenda Item 2-D**.

Material Presented

Agenda Item 2-A	ISA 540 – Issues and Recommendations
Agenda Item 2-B	Draft ISA 540 (Revised) (Marked)
Agenda Item 2-C	Draft ISA 540 (Revised) (Clean)
Agenda Item 2-D	Consequential and Conforming Amendments to Other ISAs