



**International Federation of Accountants**

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**Agenda Item**

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**Committee:** IAASB

**Meeting Location:** Washington, D.C.

**Meeting Date:** December 10-14, 2007

**Working Group on Fair Value Auditing Guidance**

**Objective of Agenda Item**

1. To consider the draft Terms of Reference for the Working Group on Fair Value Auditing Guidance.

**Background**

2. At its September 2007 meeting, the IAASB agreed that draft Terms of Reference for a working group on fair value auditing 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.
3. The draft Terms of Reference were discussed with IAASB CAG Representatives from the Basel Committee on Banking Supervision and IOSCO. 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.
4. The IAASB Steering Committee also discussed the draft Terms of Reference at its November 2007 meeting.

**Points for Discussion**

5. The Appendix to this paper outlines the draft Terms of Reference for the Working Group.
6. Additional matters on which the IAASB's views are sought include the following:
  - The authority of such guidance, and the need for consideration of both timeliness and due process.
  - Membership – while it was agreed that the chair of the Working Group should be an IAASB member, there are a number of interested parties who have been suggested for membership on the working group. These include representatives from BASEL, IOSCO, the World Bank, the insurance industry, investors, actuaries, international finance, the IASB, firm experts and auditors themselves.
  - The possible need for initial consultation with key stakeholders in order to determine the appropriate membership, i.e., the size of the Working Group on an ongoing basis.

- The determination of the involvement of the IAASB CAG – when and in what form?
  - The form of guidance to be issued – It will need to be determined whether this would be a new form of guidance, or a form of guidance already in existence (i.e., a practice statement or a standard). There is also the question of whether such guidance will need to be comprehensive or whether guidance issued in a series on individual hot topics would be more relevant and timely.
7. Subject to the IAASB's views, it is anticipated that initial consultations to discuss the draft Terms of Reference with stakeholder groups who had expressed an interest in being involved in the projects would take place in early 2008. The Terms of Reference is not likely to be finalized until after these consultations.

### **Action Requested**

The IAASB is asked for its views on the points above and the draft Terms of Reference for the Working Group on Fair Value Auditing Guidance.

## **Appendix**

### **WORKING GROUP ON FAIR VALUE AUDITING GUIDANCE**

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

##### **Background**

The International Auditing and Assurance Standards Board (IAASB) [approved 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.

##### **Working Group Roles and Responsibilities**

As a result of the above, the IAASB has established a Working Group 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 is not intended that any such guidance would carry the authority of a standard, and so it would not establish requirements to be followed in an audit; it may, however, interpret the requirements of relevant standards in the context of specific instruments or circumstances.
- 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).

- Subject to approval of project proposal(s), to develop, or arrange for subject matter experts<sup>1</sup> to develop, proposed guidance for the particular project, for consideration by the IAASB

The Working Group 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.

### **Working Group Membership**

#### Chair

\_\_\_\_\_, [IAASB]

#### Members

TBD

### **Other Involvement**

IAASB Staff will provide administrative support to the Working Group.

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<sup>1</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.