



International Federation of Accountants

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Agenda Item 13

Committee: IAASB
Meeting Location: New York
Meeting Date: March 10-14, 2008

Fair Value Audit Guidance Task Force

Objectives of Agenda Item

1. The objectives of this agenda item are:
 - (a) To report on the discussions of the Information Gathering Meeting¹ held on February 12, 2008; and
 - (b) To obtain the IAASB's views on topics that could warrant further IAASB attention.

Background

2. 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 ISA 540 (Revised and Redrafted)² was exposed.
3. 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, chaired by John Fogarty, will be comprised of interested parties with relevant perspectives and expertise.
4. The draft Terms of Reference was discussed at the December 2007 meeting. The IAASB agreed 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

5. 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 distributed in

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

² ISA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures."

advance of the meeting at Agenda Item 13-A and the list of meeting participants included as Agenda Item 13-B.)

6. 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.
7. 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.
8. 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.
 - Many were of the view that if additional guidance is developed, it would be aimed at addressing specific issues.
 - 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.
9. 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.
10. 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.

Action Requested**Material Presented**

Agenda Item 13-A (Pages 535 – 552)	Agenda Material distributed in advance of the IAASB Fair Value Audit Guidance Information Gathering Meeting
Agenda Item 13-B (Pages 553 – 554)	List of Participants – IAASB Fair Value Audit Guidance Information Gathering Meeting

Action Requested

11. The IAASB is asked for its views on the points above, in particular whether any guidance should be developed, and, if so, on what topic.

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