

**MEMO# 30838**

August 15, 2017

## **Draft Comment Letter on PCAOB Auditing Accounting Estimates Proposal; Member Comments Requested by August 28**

[30838]

August 15, 2017 TO: Accounting/Treasurers Committee  
Security Valuation Operations Committee RE: Draft Comment Letter on PCAOB Auditing  
Accounting Estimates Proposal; Member Comments Requested by August 28

The Public Company Accounting Oversight Board recently issued for public comment a proposal to amend its audit standards relating to auditing accounting estimates and fair value measurements.<sup>[1]</sup> The proposal would replace three auditing standards on accounting for estimates and fair value measurements with a single standard. The proposal includes an appendix that addresses auditing the fair value of financial instruments, including the use of information from pricing services. The proposal would also amend AS 1105, *Audit Evidence*, by adding an appendix that describes the auditor's responsibilities for obtaining sufficient appropriate audit evidence where the fair value measurement of an investment is based on the investee's financial condition or operating results. A draft comment letter on the proposal is attached and summarized below.

**Please provide any comments you may have on the draft comment letter to Greg Smith (202/326-5851 or [smith@ici.org](mailto:smith@ici.org)) no later than August 28.**

### **Audit Evidence**

Proposed Appendix A to AS 1105 would apply to situations in which the valuation of an investment selected for audit testing is based on the investee's financial condition or operating results. This could include, for example, investments in private placements where the fair value measurement is based on a multiple of revenue or earnings derived from the investee's financial statements. The appendix also addresses auditing investment company investments in other investment companies.

The draft comment letter makes several comments on the appendix and its application to investments in private placements. First, the draft letter notes that audits of private company financial statements may be performed under AICPA standards and recommends that any final standard acknowledge that such audits do not increase the risk of material

misstatement or necessitate additional procedures to be performed by the investor's auditor. Second, the draft letter observes that the proposal would require auditors to perform procedures on factors or multiples applied to revenues or earnings used to derive a fair value measurement. The draft letter recommends that any final standard specify the types of procedures auditors should perform on factors or multiples used in fair value measurements. Third, the draft comment letter expresses concern that it will be difficult for the investor's auditor to obtain access to the investee auditor's work papers as contemplated under the proposal, and that such requirement could add significantly to the work performed by the investor's auditor.

The draft letter then addresses the special note included in the appendix addressing fund investments in other funds. The letter supports the note, which would allow an auditor to review the investor fund's procedures for understanding and assessing the investee fund's valuation process, rather than obtaining information about the audit of the investee fund or reviewing documentation relating to the audit of the investee fund. The letter then recommends that the note indicate that it does not apply to investments in mutual funds where net asset value per share is published and is the basis for current transactions.

Gregory M. Smith  
Senior Director, Fund Accounting and Compliance

#### [Attachment](#)

#### **endnotes**

[1] See [ICI memorandum no. 30798](#), dated July 27, 2017.