November 3, 2014

VIA E-MAIL comments@pcaobus.org

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Staff Consultation Paper, Auditing Accounting Estimates and Fair Value Measurements ("Staff Consultation Paper")

Dear Members of the Board and Staff:

WeiserMazars LLP ("WeiserMazars") welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") Staff Consultation Paper. WeiserMazars supports the PCAOB in its efforts to enhance audit quality in audits of issuers and broker-dealers in order to provide investors and other financial statement users increased transparency in financial reporting so they can make appropriately informed investment decisions. We also support the Board in its efforts to reexamine the existing standards relating to the auditing of accounting estimates and fair value measurements.

WeiserMazars is a firm with over 100 partners and 650 professionals in eight offices across the United States ("U.S."), an independent member firm of the Mazars Group, an organization with over 14,000 professionals in more than 70 countries around the world, and a member of Praxity, a global alliance of independent firms. Because we are a U.S. registered public accounting firm, and a member of an international network, our perspectives may differ from our international counterparts due to variations in the client population and litigation environment.

Our responses to the Staff Consultation Paper are driven primarily by our position in the U.S. marketplace as a medium-sized public accounting firm servicing mostly small business issuers and broker-dealers. Therefore, our focus is to address our concerns and challenges to companies with similar characteristics to our issuer client base as well as to similar accounting firms.

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Overall Views

We believe there should be a thorough reassessment of the existing requirements under PCAOB AU sec. 342, *Auditing Accounting Estimates*, PCAOB AU sec. 328, *Auditing Fair Value Measurements and Disclosures* and PCAOB AU sec. 332, *Auditing Derivative Instruments, Hedging Activities and Investments in Securities.*

We believe that the existing PCAOB auditing standards do not adequately address all of the risks and related audit responses to reduce such risks to an acceptable level due to the significant accounting and financial reporting changes that have occurred during the last decade. We believe it's essential for the Board to collectively align its suite of risk assessment standards, establish specific auditing guidance with respect to using third parties and create standards that promote greater consistency and effectiveness in application when auditing accounting estimates and fair value measurements.

1. Does the information presented above reflect aspects of current audit practice? Are there additional aspects of current practice, of both larger and smaller audit firms – including centralized testing, the use of third parties, or specific challenges to auditing accounting estimates and fair value measurements – that are relevant to the staff's consideration of the need for standard setting in this area?

Yes, we believe that the information presented in the Staff Consultation Paper reflects current practice of how many registered public accounting firms (auditing in the small business environment) use third-party sources in determining accounting estimates and fair value measurements when dealing with the pricing of financial instruments. Based on our experience, we have seen various combinations of audit procedures being executed based on the nature of observable versus unobservable inputs. The Staff should consider developing additional practical guidance for auditors on how to challenge, and make inquiry of third-party sources related to how they obtained the relevant information and whether such information is derived from observable or unobservable inputs. We believe auditors need to better understand the nature of how pricing of financial instruments is determined in order to effectively audit them.

4. Do accounting estimates and fair value measurements have sufficiently common attributes that the audit procedures should be included within a single standard? Are there limitations to the approach of having a single standard address both auditing accounting estimates and fair value measurements?

Yes, we believe there are sufficient common attributes to combine audit procedures relating to accounting estimates and fair value measurement into one overall standard. Commonalities include:

1) Obtaining and evaluating sufficient appropriate evidential matter to support or provide reasonable assurance that accounting estimates or fair value measurements are in conformity with an applicable financial reporting framework;
2) Management's responsibility for developing the accounting estimates or the fair value measurements, included in the financial statements;

3) Management's responsibility for establishing a process for preparing accounting estimates or determining fair value; and
4) Auditors' responsibility to evaluate the accounting estimate or fair value measurement.

As audit procedures are similar for establishing the reasonableness of accounting estimates and fair value measurements, combining them into one standard would be effective and efficient because many of the areas already have significant similarities as to objective, management responsibilities, auditor responsibilities, and evaluation and testing. While we believe it is significantly more complex to determine the reasonableness of a fair value measurement as compared to an accounting estimate, the overlap in the standards should not be ignored. Any new combined standard may need to elaborate on the additional work associated with evaluating a fair value measurement.

We do not see any significant limitations in having one comprehensive standard that addresses both accounting estimates and fair value measurements. We believe a fair value measurement is an accounting estimate, albeit one that may require more steps to adequately assess.

10. Should the requirements for identifying and assessing risks of material misstatement with respect to accounting estimates and fair value measurements – including risk assessment procedures – be included in Auditing Standard No. 12 or be separately set forth in a potential new standard on auditing accounting estimates?

We believe that certain aspects of the requirements relating to the identification and assessment of risks of material misstatement with respect to accounting estimates and fair value measurements; should be included in Auditing Standard No. 12 ("AS 12"). AS 12 is the primary authoritative literature related to identifying and assessing risks of material misstatement, so any such guidance should be included therein.

12. Is the potential amendment to Auditing Standard No. 12 described above clear and appropriate for both accounting estimates and fair value measurements? Are there other matters relevant to understanding the process used to develop accounting estimates or fair value measurements that could be included in Auditing Standard No. 12?

Yes, the potential amendment to AS 12 is clear and appropriate for both accounting estimates and fair value measurements. We believe that there are other relevant matters to understand the processes used to develop accounting estimates or fair value measurements. For example:

1) entity controls over the processes to develop accounting estimates or fair value measurements; and

2) changes to controls over management processes (both to monitor the need for changes, as well as the process surrounding changes to the methods/models).

14. Is the potential amendment to Auditing Standard No. 12 described above clear and appropriate for both accounting estimates and fair value measurements? Are there other factors that would be relevant in the auditor's evaluation of the degree of complexity of judgment in the recognition or measurement of an accounting estimate or fair value measurement (e.g., the use of a third party for the determination of a price)?

Yes. The potential amendment to AS 12 is clear and appropriate for both accounting estimates and fair value measurements. We believe that there are other relevant matters to evaluate the degree of complexity of judgment in the recognition or measurement of an accounting estimate or fair value measurement. For example:

1) the degree of subjectivity associated with the selection of the model utilized; and
2) the involvement of a valuation specialist for the determination of price.

16. Are there certain types of accounting estimates or fair value measurements that should be presumed to be significant risks?

Yes. There are certain types of accounting estimates and fair value measurements that are presumed to be significant risks when an auditor relies upon significant input from another party which makes an estimate of fair value.

An example of this is where the auditor receives an estimable and probable opinion from legal counsel. The auditor is required to understand and make a determination of whether the conclusion by counsel is reasonable.

Another instance whereby a significant risk could occur is when an auditor assesses management's valuation of an investment, such as a Level 3 security. Although the auditor may be able to find a comparable investment to support management's valuation, there may still be significant contingent risk related to the investment which does not become evident nor is disclosed during the audit process.

19. Should a potential new standard include specific audit procedures related to auditing disclosures of accounting estimates (e.g., disclosures on levels within the fair value hierarchy)?

Yes. We believe it would be helpful for the potential new standard to include specific audit procedures related to auditing disclosures of accounting estimates. The current guidance (i.e. AU Sections 328, 332, and 342) was put in place prior to the issuance of SFAS No. 157 *Fair Value Measurements* (issued in September 2006 as the predecessor to ASC Topic 820), which significantly changed the disclosures required for fair value measurements. Ensuring that the potential new standard addresses disclosures clearly will lead to less inconsistent and inadequate audit procedures performed by audit firms related to the testing of disclosures, and a better understanding of the reporting requirements.

21. Should a potential new standard include specific audit procedures that would be applicable when the auditor identifies and assesses a risk related to accounting estimates as a significant risk? If so, are there factors regarding measurement uncertainties or any other characteristics relevant to staff considerations of potential audit requirements?

Yes. We believe a potential new standard should clearly include specific audit guidance for auditors to presume that accounting estimates and fair value measurements are deemed to be significant risks (and possible fraud risk factors).

These procedures may include the following:

1) Whether an analysis of historical data could be applied in the particular situation;
2) Whether trends in the particular industry and relationships amongst other related accounts are relevant;
3) Whether the auditor's knowledge of comparable companies can be applied to a particular situation to give comfort that assumptions provided are appropriate; and
4) Whether the entity's internal controls adequately address the development of an estimate and the assumptions made are consistent with industry practices.

22. Are there specific factors that affect the auditor's selection of approaches related to testing accounting estimates? What considerations would be appropriate for the auditor to take into account when determining which approach (or combination of approaches) for testing accounting estimates should be selected?

The nature of the accounting estimate has a direct impact on the audit approach required to test that estimate. In certain circumstances, re-performance/recalculation may be an appropriate means for testing the estimate, while in other cases, the need to understand and test assumptions incorporated into the model are more important to understand the estimate. As an example, for a fair value measurement, the valuation of an operating company would use a different approach (income based approach) and method than the valuation of a real estate holding company (asset based approach), which would be different than a publically traded security (market based approach). The nature of the data available to test the estimate will also have a direct impact on determining what approach to use. For example, if historical data is not available, the auditor may need to find alternative means for testing the estimate (i.e., obtain relevant industry data for comparison).

The nature of the assumptions incorporated into the accounting estimate will have a direct impact on determining the audit approach used.

30. Are the suggested factors described above appropriate for evaluating the reasonableness of significant assumptions? Are there other factors the auditor should assess when evaluating the reasonableness of significant assumptions relevant to accounting estimates?

The suggested factors described in the Staff Consultation Paper, are appropriate in evaluating the reasonableness of significant assumptions. In particular, relevant industry, regulatory and other external factors, including economic conditions can be extremely useful in determining the reasonableness of significant assumptions.

31. Is the potential requirement described above appropriate for all types of accounting estimates? Are there other considerations that should be taken into account in applying this requirement to accounting estimates?

Yes. Our experience with specialists, specifically as it relates to valuation is that underlying data include many of the assumptions provided by client management. As such, we believe the potential requirement that the auditor test the information as if it were produced by the client management would be an appropriate requirement when utilizing a specialist.

33. Are there additional considerations that should be addressed with respect to information obtained by the auditor from a third-party source?

We believe the new standard should clarify the requirements if an auditor obtains data and assumptions from a third-party source to be used in developing an independent estimate in auditing the pricing, the auditor should consider: (a) obtaining and documenting the understanding of how the data was obtained and assumptions were developed by the third-party, (b) evaluate whether the third-party source is competent and has no conflicts of interest with the audit client (and its affiliates), and (c) if accounting estimate or fair value measurement is complex, the auditor should collaborate with an in-house or external specialist to review the auditor's independent estimate.

34. Are there factors that the staff should consider when developing potential audit requirements for testing the reliability and relevance of data independently derived by the auditor or obtained from other sources?

Yes. We believe the staff should consider providing guidance that connects all relevant standards to address: (a) the source and development of the information obtained and to compare such information to existing reliable models, (b) level of sufficient competency, and (c) assessing the relationship of who developed the data to the audit client (and its affiliates) for potential conflicts of interest and independence.

40. Would the factors noted above help the auditor in evaluating the reliability and relevance of evidence obtained from third-party pricing sources? Are there other factors that are applicable in determining the reliability or relevance of evidence obtained from third-party pricing sources?

Yes. However, after evaluating the experience, expertise and qualifications of the third-party pricing services and then determining, whether the approaches and methods used by the third-party pricing service are generally accepted in the industry, one should be able to conclude on the relevance and reliability of the pricing services estimate of fair value. This should be sufficient to serve as appropriate evidence. If the third-party pricing service is reputable and the methods and approaches are acceptable industry practice, we do not see the need to obtain additional evidential matter.

42. How could a potential new standard differentiate between a third-party pricing source and a specialist?

The potential new standard should clarify the linkage with existing standards to differentiate between a third-party pricing source and a specialist. Generally, a specialist provides a report or analysis supporting his/her conclusion of fair value. A third-party pricing service generally provides only an estimated price. The new standard should limit the work associated with the third-party pricing service to gaining an understanding as to the experience, expertise and qualifications of the third-party pricing service and obtain an understanding as to the methods employed by the third-party pricing service to evaluate whether they are reasonable and generally accepted in the industry. No further work should be necessary. A specialist, however, generally provides a report or analysis supporting their conclusion. The report or analysis generally includes details as to the approach, method and assumptions incorporated into the model. As such, the standard should require the auditor to examine the model, the method, and the assumptions used to determine the appropriateness of the specialists work and the reasonableness of the specialists conclusion. In addition, as in the case of the pricing service, the standard should require assessing the experience expertise and qualifications of the specialist.

44. What are the likely economic impact, including benefits and costs, of the potential alternatives discussed in this consultation paper? Are there any unintended consequences that might result from the alternatives?

We believe that the best alternative is to issue a single standard that addresses the auditing of accounting estimates and fair value measurements and supersedes the existing standards. The weaknesses of the other alternatives have been alluded to by the PCAOB staff within the Staff Consultation Paper.

The benefits to having a potential new standard (which replaces PCAOB AU Sections 328, 332, and certain aspects of 342), along with targeted amendments to AS 12, would (a) reduce inconsistencies in procedures between audit firms, and (b) provide key required guidance that is in synchronization with the risk assessment standards, the complexity of the current financial reporting frameworks, and the complexity of the continuously evolving financial instruments market. We believe that the Board and its Staff investment of time, energy and resources in this project will enhance audit quality for both auditors and users of audited financial information.

The costs revolve around additional training for auditors, as well as targeted and appropriate communication to clients regarding additional required procedures.

In Summary

We applaud the Board in its efforts in reassessing its existing standards relating to the audit of accounting estimates and fair value measurements through solicitation of the public accounting profession, regulators, academia and others throughout our capital markets. We remain committed to participating in future discussions with the Board and its staff about how to best implement appropriate recommendations generated by the Staff Consultation Paper that would further enhance audit quality with respect to issuers and improve transparency. Lastly, we fully support the mission of educating investors and other users of financial statements about the process of auditing accounting estimates and fair value measurements of issuers and broker-dealers and the meaning behind the issuance of the independent auditor's report.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Wendy B. Stevens, Partner-in-Charge, Quality Assurance, at (212) 375-6699 wendy.stevens@weisermazars.com) or Salvatore A. Collemi, Director, Quality Assurance, at (212) 375-6552 (Salvatore.collemi@weisermazars.com).

Very truly yours,

WeiserMazars LLP

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