



Agenda Item 2C

Auditing Accounting Estimates — Summary of Comment Letters Responses to Requests for Comment #1-#4 and General Comments (revised files 8A-8E from January 2020 ASB meeting)

The ASB received 30 comment letters. This file contains a summary of the comment letter responses for the following:

- [Request for comment #1](#) (Agenda item 8A from the January 2020 ASB meeting, updated for task force responses)
- [Request for comment #2](#) (Agenda item 8B from the January 2020 ASB, updated for task force responses)
- [Request for comment #3](#) (Agenda item 8C from the January 2020 ASB, updated for task force responses)
- [Request for comment #4](#) (Agenda item 8D from the January 2020 ASB, updated for task force responses)
- [General responses](#) (Agenda item 8E from the January 2020 ASB meeting, updated for task force responses)

<i>Letter No.</i>	<i>Affiliation</i>
1	Tennessee Division of State Audit
2	Ainsley Winterrowd
3	Jordon Londer
4	NASBA
5	CalCPA
6	Texas Society of CPAs (TXCPA)

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<i>Letter No.</i>	<i>Affiliation</i>
7	Office of the Washington State Auditor
8	Virginia Society of CPAs (VSCPAs)
9	Michigan Office of the Auditor General (MI OAG)
10	RSM US LLP
11	Deloitte & Touche LLP
12	U.S. Government Accountability Office (GAO)
13	WIPFLI/Mind the GAAP
14	NYSSCPA
15	Illinois CPA Society (ICPAS)
16	Commonwealth of Virginia
17	National State Auditors Association (NSAA)
18	GT
19	EY
20	Eide Bailly
21	Florida Institute of CPAs (FiCPA)
22	TIC
23	The Connecticut Society of CPAs (CT CPAs)
24	CohnReznick
25	CliftonLarsonAllen LLP (CLA)
26	BDO
27	Hunter College Graduate Program

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<i>Letter No.</i>	<i>Affiliation</i>
28	KPMG
29	American Bankers Association (ABA)
30	PWC

Responses to Request for Comment #1 (Agenda item 8A from the January 2020 ASB meeting, revised)

This file contains the responses received relating to question 1 in the Request for Comment. This file is organized by respondent and classified as to whether the response was supportive, supportive with comments, not supportive, or there was no response relating to the Estimates ED. Each comment is numbered sequentially.

Request for Comment #1

1. Given the approach by the ASB to draft the proposed SAS using a framework-neutral approach, are there any instances in which the use of certain examples or terminology in the proposed SAS would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States (for example, U.S. GAAP)?

Detailed Responses

	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
<i>Supportive</i>			
8A-1	01 - TN State Audit	We agree with the board that the principles-based requirements and guidance within this proposed SAS are appropriately characterized, and that the terminology used in the standard is appropriate. We agree with using a framework-neutral approach and found no examples that violated this principle.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8A-2	02 – Ainsley Winterrowd	In regard to the first request for comment I believe that terminology used does not result in a lack of clarity. I believe the terminology used would allow the users to effectively apply this to other frameworks.	Supportive
8A-3	05 Cal CPA	The Committee did not identify any examples or terminology in the proposed SAS that would lack clarity when applying the framework to U.S. GAAP.	Supportive
8A-4	06 – TXCPA PSC	Response: We approve of the framework-neutral approach exhibited in the proposed standard. It continues to be the responsibility of the auditor to determine audit procedures required according to the framework used by the client. We did not note any instances of lack of clarity in the examples or the terminology used in the proposed standard.	Supportive
8A-5	07- WA state auditors	No.	Supportive
8A-6	08- VSCPA	The VSCPA Committee agrees with the Board’s framework-neutral approach on drafting the SAS and does not identify any instances in which the use of certain examples or terminology in the proposed framework would result in lack of clarity in application.	Supportive
8A-7	09-MI OAG	Response: We considered the examples provided as appropriate. We expect auditors to use judgment and apply the standard to their respective financial reporting framework. While we have no objections to a framework-neutral approach, we are mindful of the	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		Board’s use of “considerations specific to governmental entities” in the extant standards and encourage the Board’s continued use of such guidance.	The ASB continues to include considerations specific to governmental entities
8A-8	10 – RSM US LLP	We are not aware of any instance in which the use of framework-neutral examples or terminology in the proposed SAS would result in a lack of clarity when applying the SAS in an audit of financial statements prepared in accordance with U.S. GAAP.	Supportive
8A-9	11 – Deloitte	We believe that the approach taken by the ASB is appropriate.	Supportive
8A-10	12 – GAO	We did not identify any instances in which the use of certain examples or terminology in the proposed Statement on Auditing Standards (SAS) would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States.	Supportive
8A-11	14 – NYSSCPA	Response: We noted no instances in which the use of certain examples or terminology in the proposed SAS would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States.	Supportive
8A-12	16 – Virginia	We believe the terminology and examples in the proposed SAS provide adequate clarity in applying the financial reporting frameworks commonly used in the United States.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8A-13	17 – NSAA	We did not identify any examples or terminology in the proposed SAS that would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States.	Supportive
8A-14	18 – GT	We agree with the Board’s approach to remain framework-neutral in the proposed SAS. We do not note any significant instances where this approach would cause a lack of clarity when considering the requirements and application material in the context of U.S. GAAP.	Supportive
8A-15	19 – EY	The examples and terminology in the proposed SAS would not result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States.	Supportive
8A-16	20 – Eide Bailly	Response: We did not notice any issues regarding the terminology, and believe it appears to be framework neutral.	Supportive
8A-17	21 – Florida Institute of CPAs Response	Request for Comment 1 – The Committee supports the framework-neutral approach and does not believe the examples or terminology used in the ED would result in a lack of clarity.	Supportive
8A-18	22 – TIC	TIC did not identify any instances where the use of examples or terminology created a lack of clarity when applying this standard in the US.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8A-19	23 – CT CPA	We did not identify any instances in which the use of certain examples or terminology in the proposed SAS would result in a lack of clarity when applying a financial reporting framework.	Supportive
8A-20	25 – CLA	Response: We did not identify any instances in which the use of certain examples or terminology in the proposed SAS would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States.	Supportive
8A-21	26 – BDO	We support the ASB’s framework-neutral approach in the proposed SAS. We did not identify any instances in which the examples or terminology presented would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States.	Supportive
8A-22	27 – Hunter college	No, the examples and terminology used in proposed SAS does not result in lack of clarity when applying financial reporting frameworks commonly used in the U.S, such as U.S GAAP. ASB used ISA 540 (revised) as a base to draft the proposed SAS using a framework-neutral approach, making it applicable to a variety of estimates. ASB made certain changes to the language used in ISA 540 (revised) when constructing the proposed revisions in order to use terms and phrases that are more commonly used in the U.S, making it more clear and understandable for users.	Supportive
<i>Supportive with Comments</i>			

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8A-24	04 – NASBA	<p>We support the ASB’s process to draft the proposed SAS using a framework-neutral approach.</p> <p>We believe that there might be a lack of clarity when applying the considerations of regulatory frameworks and the basis of measurement. There are situations in which statutory variables are possible, such as estimating tax liabilities. Not only is there a possibility of statutory differences, but also variables with other statutory regulations and international considerations. Providing examples of regulatory factors relevant to the entity’s accounting estimates, including, when applicable, regulatory frameworks would be helpful.</p>	<p>Supportive with comments</p> <p>The task force (TF) believes that paragraph 12c and related application material in paragraph A28 adequately address regulatory factors and do not support including examples. The task force believes that the SAS applies to special purpose frameworks.</p> <p>See proposed change to paragraph A1.</p>
8A-25	13 – Wipfli and Mind the GAAP	<p>We found one example in the Exposure Draft where more clarity would be helpful. The first sentence of paragraph A126 states “The size of the auditor’s range may be multiples of materiality for the financial statements as a whole, particularly when materiality is based on operating results (for example, pre-tax income), and this measure is relatively small in relation to assets or other balance sheet measures.” However, this paragraph provides no guidance around an appropriate auditor’s range when materiality is based on balance sheet measures or a blend of balance sheet measures and operating results.</p>	<p>Supportive with comments</p> <p>The TF believes that paragraph A126 contains a situation that may arise and therefore proposes to retain. The TF believes that this SAS is not the appropriate place to address questions relating to the determination of materiality or ranges of materiality.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		As written, we are unsure as to what auditor’s range would be appropriate when materiality is based on balance sheet measures or a blend of balance sheet measures and operating results. It would be helpful if the final guidance could provide additional commentary on this situation.	The TF is not proposing any changes to paragraph A126. Also see comment # A66 in agenda item 2B.
8A-26	15 – Ill Society CPAs (ICPAS)	Although we understand the ASB’s intent on the proposed SAS to be framework-neutral, we believe the proposed standard will likely be less relevant to common Special Purpose Frameworks, such as tax-basis, cash-basis, or modified cash basis, since these frameworks typically involve fewer estimates in reporting than U.S. generally accepted accounting principles.	Supportive with comments See clarification added to paragraph A1 relating to the interaction with AU-C 800. The proposed SAS applies when the financial statements are prepared in accordance with a special purpose framework.

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
	15 – Ill Society CPAs (con't)	We question the clarity of disclosure requirements in the proposed SAS, specifically as outlined in paragraphs 36 and A144. Both paragraphs require auditors to evaluate whether management has included disclosures “beyond those specifically required by the framework that are necessary to achieve the fair presentation of the financial statements as a whole.” We believe this language should be removed from the proposed standard, as the language is already included in AU-C 200.14a and does not need to be emphasized in individual auditing standards. In general, we believe a more effective approach to address this issue would be to encourage the FASB board to amend existing standards around disclosure of estimates, rather than requiring individual auditors and their clients to agree on what additional disclosures “beyond those specifically required by the framework” should be added. Requiring auditors and their clients to consider disclosures beyond those required in an existing framework also creates uncertainty as to the requirements for compilation, review and financial statement preparation engagements, since these engagements are not subject to auditing standards.	At the January 2020 ASB meeting the ASB directed the task force to add application material to paragraph 36 taken from AU-C 700.A16. See proposed changes to paragraph 36. [same as comment #70 in agenda item 2B)
8A-27	24 – CohnReznick	When US GAAS is used, typically, the financial reporting framework will be U.S. GAAP. We highly encourage the ASB to draft standards that focus on terminology in U.S. GAAP. While we encourage, where it is necessary, to include terminology and examples that are exclusive to IFRS, other national GAAPs, or special-purpose frameworks, we recommend such should generally be placed in application guidance and segregated in a manner similar to guidance specific to smaller, less complex entities.	Supportive with comments

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		Overall, we did not believe the examples or terminology in the proposed SAS would result in a lack of clarity when applying the financial reporting frameworks commonly used in the United States. However, we do recommend the term “valuation of infrastructure assets” be clarified in .A1 as this can be read as physical structures and roadways, and also possibly as computer infrastructure, or possibly misunderstood altogether. We respectfully suggest a revision such as “valuation of infrastructure assets such as buildings and roads, that are assets of a governmental body.”	See proposed change to paragraph A1. [same as comment #A3 in agenda item 2B]
8A-28	28 – KPMG Comment	<p>Except for the topics discussed below, we believe the changes made to tailor terms, phrases and examples in ISA 540 (Revised) to the U.S. environment are appropriate and will not create substantive differences in application between ISA 540 (Revised), AS 2501, and the Proposed Standard.</p> <p><i>Impairment Considerations in the Application Material</i></p> <p>Paragraph A27 in the application material of the Proposed Standard focuses on evaluation of indicators of other than temporary impairment (OTTI) of financial instruments. We note that in U.S. GAAP, Accounting Standards Codification Topic 326, <i>Financial Instruments – Credit Losses</i> that was adopted by the Financial Accounting Standards Board (FASB) in June 2016 replaced the OTTI model with a credit loss model. As a result of this change, entities are now prohibited from avoiding the recording of credit losses by considering the length of time that the fair value of an</p>	<p>Supportive with comments</p> <p>The task force agrees that paragraph A27 should be removed from the proposed SAS because it will become outdated once the CECL standard becomes effective.</p> <p>Paragraph A27 removed.</p> <p>[Same as comment #19 in agenda item 2C]</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>available for sale debt security has been less than its amortized cost basis. Considering these changes to U.S. GAAP, we suggest that the Board reconsider the guidance included in the above-referenced paragraph in the application material of the Proposed Standard.</p> <p><i>Fair Value Measurements</i></p>	
		<p>While we appreciate the Board’s desire to closely align with ISA 540 (Revised), for enhanced clarity, we encourage the Board to more closely align and consistently use the U.S. general purpose frameworks terminology of <i>fair value measurement</i> rather than <i>fair value accounting estimate</i>. This change results in consistency with U.S. accounting standard setters (e.g., FASB and GASB) and other auditing standard setters (e.g., PCAOB).</p>	<p>Discussed at the January 2020 ASB meeting. ASB agreed to retain the use of fair value accounting estimate because this definition is broader than fair value measurement. No changes made.</p>
		<p>Further, because AU-C section 501 does not exist in the ISAs, we believe there is often confusion as to whether investment securities measured at fair value are accounting estimates. A careful read of the Proposed Standard makes it clear that, absent a specific transaction, using a published price is an estimation technique for exchange traded securities valued using level 1 inputs. To clarify the matter for all auditors, Appendix 1 includes our suggested edits to the Proposed Standard intended to improve understandability and consistency of application of the Proposed Standard and the resulting audit quality.</p>	

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8A-29	30 – PWC	We agree that the proposed SAS should endeavor to be framework-neutral. While we have not identified any specific terminology that would be of concern, we believe it would be helpful to provide additional context to certain requirements in the standard as follows.	Supportive with comments
		<p><i>Fair presentation</i></p> <p>Consistent with our feedback to SAS 134, we believe the ASB should ensure that any requirements to evaluate fair presentation in its standards are grounded in, rather than incremental or potentially inconsistent with, the applicable financial reporting framework. Any changes to AU-C section 540 should not result in the auditor’s responsibilities differing from what is required to evaluate whether the financial statements and related disclosures about accounting estimates are presented, in all material respects, in accordance with GAAP. The ASB cannot and should not establish disclosure requirements in auditing standards, so reference should be made more explicitly to US GAAP (in particular FASB and GASB standards), with guidance to explain what is expected to be achieved.</p>	See additional content added to paragraph 36.

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>We therefore suggest the following language from SAS 134 and an appropriate cross reference to AU-C section 700, <i>Forming an Opinion and Reporting on Financial Statements</i>, be added as application material to paragraph 36:</p> <p style="padding-left: 40px;">The auditor’s professional judgment concerning the fairness of the presentation of the financial statements is applied within the context of the financial reporting framework. Without that framework, the auditor would have no consistent standard for evaluating the presentation of financial position, results of operations, and cash flows in financial statements.</p>	
		<p><i>Management bias</i></p> <p>Consideration of potential management bias, and whether such bias results in a material misstatement, is an essential component of the auditor’s evaluation of accounting estimates. As noted in paragraph 7 of the proposed SAS, the exercise of professional skepticism is important when there is greater susceptibility to misstatement due to management bias or fraud.</p>	Supportive. No change proposed.
		<p>We believe the enhanced focus on judgments made by management in selecting the methods, assumptions, and data used in developing an accounting estimate is an appropriate way to prompt auditors to devote attention to addressing potential management bias in accounting estimates. However, it is important that the standard acknowledges that, given the subjective assumptions and measurement uncertainty inherent in many estimates, bias cannot be eliminated entirely.</p>	

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		Finally, we believe that the consideration of management bias is also relevant in the evaluation of information to be used as audit evidence. We encourage the ASB to consider whether any incremental changes are necessary to AU-C section 540 or its proposed revisions to AU-C section 500, <i>Audit Evidence</i> , to ensure the two standards take a consistent approach to considering whether there is a risk of bias in information to be used as audit evidence related to an accounting estimate.	TF to share with evidence TF to consider consistency between this proposed SAS and the evidence ED.
<i>No Response</i>			
8A-30	03 – Londer_JS_	No response	No response
8A-31	29 – ABA	No response	No Response

Responses to Request for Comment #2 (Agenda item 8B from the January 2020 ASB meeting, revised)

This file contains the responses received relating to question 2 in the Request for Comment. This file is organized by respondent and classified as to whether the response was supportive, supportive with comments, not supportive, or there was no response relating to the Estimates ED. Each comment is numbered sequentially.

Request for Comment #2

2. Are paragraphs 2–9 of the proposed SAS helpful in describing the key concepts of the proposed SAS, and do they adequately explain the interplay between the proposed SAS and other AU-C sections?

Detailed Responses

	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
<i>Supportive</i>			
8B-1	02 – Ainsley Winterrowd	In regard to the second request for comment I believe that paragraphs 2-9 do adequately describe the key concepts that apply to this proposed SAS and how they interplay with other AU-C sections. This is shown in paragraph 5 by relating these concepts to AU-C sections 315 and 330, where the importance of this new proposal of assessing the risk levels aid these sections.	Supportive
8B-2	03 - Londer_JS_	Paragraphs 2-9 of the proposed SAS are helpful in describing the key concepts of the proposed SAS and do adequately explain the interplay between the proposed SAS and other AU-C Sections.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>Specifically, paragraphs 2 and 3 clearly describe the nature of accounting estimates and how the proposed SAS applies to all estimates. Paragraphs 4 – 8 identify the key concepts of the proposed change and how individual sections will be impacted. Specifically, paragraph four identifies what standards are used to assess inherent and control risk in reference to the overall risk of material misstatement as well as how the proposed change will simplify assessing inherent risk. Paragraph five identifies the relevant requirements that will be modified as well as emphasizes the importance of accounting estimates. Paragraph six emphasizes what the proposed change will mean when the auditor’s further procedures need to be responsive to the risk of material misstatement at the relevant assertion level. Paragraph seven explains how professional skepticism should still be implemented with the proposed standard update. Paragraph nine clearly identifies the interplay between the proposed updated and the impacted AU-C sections and paragraph nine explicitly states the date said proposed change will become effective if approved.</p> <p>As a whole, paragraphs 2 – 9 of the proposed SAS updated are helpful in describing the concepts being proposed and do adequately explain the interplay between the proposed SAS and AU-C sections. Thank you for the opportunity to submit my opinion on section 2 of the request for comment of the proposed SAS change.</p>	
8B-3	04 - NASBA	<p>We believe that paragraphs 2-9 of the proposed SAS are helpful in describing the key concepts of the proposed SAS. We believe they adequately explain the interplay between the proposed SAS and other AU-C sections.</p>	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8B-4	05 Cal CPA-	Yes; we believe these paragraphs are helpful to explain the relationships between the proposed SAS and other AU-C sections.	Supportive
8B-5	08- VSCPA	The Committee agrees that the information provided in paragraphs 2-9 of the proposed SAS is helpful in relation to the key concepts.	Supportive
8B-6	09-MI OAG	Response: Yes, these paragraphs provide the Board’s concepts regarding estimates such that practitioners may apply the standards to their financial reporting framework. We consider the paragraphs informative and offer no suggested revisions.	Supportive
8B-7	12 - GAO	In our view, paragraphs 2 through 9 of the proposed SAS are helpful in describing the key concepts and adequately explain the interplay between the proposed SAS and other AU-C sections.	Supportive
8B-8	13 - Wipfli and Mind the GAAP	We found paragraph 2-9 of the proposed SAS to be helpful in describing the key concepts of the proposed SAS; they adequately explain the interplay between the proposed SAS and other AU-C sections.	Supportive
8B-9	16 - Virginia	We believe that paragraphs 2–9 of the proposed SAS are helpful in describing the key concepts of the proposed SAS and that they adequately explain the interplay between the proposed SAS and other AU-C sections.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8B-10	17 - NSAA	Yes, we believe the proposed SAS sufficiently describes the key concepts and adequately explains the interplay between the proposed SAS and other AU-C sections.	Supportive
8B-11	18 - GT	Because the proposed SAS is more robust than what exists in the current standard, we found paragraphs 2-9 to be helpful in summarizing the key concepts of the proposed SAS. We encourage the Board to retain these paragraphs in the final standard in order to assist auditors in navigating the new requirements.	Supportive
8B-12	21 - Florida Institute of CPAs	Request for Comment 2 – The Committee believes the information in paragraphs 2 – 9 of the ED adequately describe the key concepts as well as the interplay between the proposed SAS and other AU-C sections.	Supportive
8B-13	22 - TIC	TIC believes that paragraphs 2-9 of the ED appropriately describe the key concepts and their relationship to other AU-C sections. TIC is pleased that the concept of scalability is clearly addressed in the description of the nature of accounting estimates (paragraph 3) which provides important context to the discussion of the key concepts which follow.	Supportive
8B-14	23 - CT CPA	The paragraphs 2-9 of the proposed SAS adequately explain the key concepts and the interplay between this proposed SAS and other AU-C sections.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8B-15	25 - CLA	Response: We believe paragraphs 2–9 of the proposed SAS are helpful in describing the key concepts of the proposed SAS and that they adequately explain the interplay between the proposed SAS and other AU-C sections.	Supportive
8B-16	27 - Hunter college	<p>These paragraphs make a clear presentation of the susceptibility of accounting estimates to misstatement due to the complex nature of factors that affect the valuation of events or transactions that business environments are prone to in the normal course of business. The interplay of the key topics and concepts of material misstatements and the inherent risk of complex events is conveyed in a clear manner to aid the understanding of auditors in evaluating the relevant facts and circumstances of economic events. These paragraphs make clear the key role that relevant financial reporting standards play in providing guidance to accountants and auditors in faithfully presenting economic events free of bias and misstatements to aid the users of accounting information. Putting a big emphasis on scalability and how different kinds of processes are affected differently by inherent risk will allow auditors to focus on those aspects most susceptible to financial misstatements. Understanding complexity and providing guidance for the auditor to exercise professional skepticism, in all stages of the audit, will enhance the approach auditors take in carrying out their assessments. Using an analytical approach in evaluating the risk of subjectivity with respect to judgments, regarding the evaluation and valuation of events, will provide the auditor with some powerful conceptual tools in carrying out their duties and in challenging circumstances and conditions that may raise doubts about their validity.</p>	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		With respect to the interplay between this proposed SAS and other AU-C sections, the relationships and references pointed out do not give a complete picture of all the relevant sections mentioned from other AU-C. Such a task cannot be fulfilled in these opening paragraphs as those references and guidance are further connected to this SAS as the topics arise in the body of this proposed SAS. A minimal discussion avoids confusing the reader as the topics would be too varied and covered briefly if mentioned in these short paragraphs.	
8B-16A	30 - PWC	We believe that the ASB's inclusion of these paragraphs, which introduce the nature of accounting estimates and the key concepts of the proposed SAS, will be helpful to the auditor's understanding in applying the proposed SAS. We agree that providing this upfront context to facilitate the auditor's understanding of how the concepts within the proposed SAS build upon requirements in other AU-C sections can enhance the auditor's ability to effectively apply these new or amended requirements.	Supportive
<i>Supportive With Comments</i>			

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8B-17	01 - TN State Audit	We agree that the proposed SAS is helpful in describing the key concepts of the proposed SAS and adequately explains the interplay between the proposed SAS and other AU-C sections. However, “point estimate” could be clarified in the definition of the auditor’s or management’s point estimate. How is this different than just an “estimate?” Why is the modifier needed?	Supportive with comments TF believes the definitions in paragraph 11 are clear and the point estimate definition should be well understood. No changes proposed [same as comment #22 in agenda item 2C]
8B-18	06 - TXCPA PSC	Response: With few exceptions, the committee did not have an issue with any of the concepts in paragraphs 2-9 of the proposed SAS. In paragraph 4, the use of the word “spectrum” in relation to inherent risk seems strange. The committee prefers the more common phrase of “range of inherent risk.” The standard does not appear to contain any new auditing requirements. The committee agrees with the framework neutral approach taken in the proposed SAS.	Supportive with comments TF believes the term should align with ISA 315 (Revised) terminology. The TF believes it would be confusing to use different words for the same concept. No changes proposed. [same as comment #8 in agenda item 2B]
8B-19	07- WA state auditors	We found some of this content to be helpful. However, we found that duplication of the requirements of other AU-C sections was confusing. For example, when paragraph 4 states “this proposed SAS requires inherent risk and control risk to be assessed separately” it calls into question whether AU-C 330.07 somehow	Supportive with comments The TF noted that the inclusion of general requirements from other AU-C sections in the proposed SAS was an intentional construct of

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>does not require this already. We believe this assessment is already required; therefore, its inclusion in this standard is unnecessary.</p> <p>It has not been the pattern of audit standards to fully duplicate general requirements for every application, but rather to expand on those requirements for certain specific applications (such as accounting estimates) and to use application guidance to identify examples of how the requirement should be applied. In this way, readers are not left guessing whether a particular requirement is the same as - or somehow different than - general requirements found elsewhere in standards.</p> <p>If the Board is intending to clarify or expand on general concepts (such as the discussion of the spectrum of inherent risk in paragraph 4), then we would encourage the Board to do so by amending these concepts as they are described in standards that apply generally, such as AU-C 315 or AU-C 330.</p>	<p>the proposed SAS to emphasize the link between the AU-C sections.</p> <p>No changes proposed.</p>
8B-20	10 - RSM	<p>We believe that, overall, paragraphs 2 through 9 are helpful in describing the key concepts of the proposed SAS and adequately explain the interplay between the proposed SAS and other AU-C sections. However, we suggest consideration be given to adding audit documentation as a key concept of the proposed SAS and to referencing AU-C section 230, Audit Documentation, and the Audit Evidence SAS after it is issued. This would further remind auditors that (a) audit documentation is a critical aspect of auditing</p>	<p>Supportive with comments</p> <p>The TF believes that paragraphs 2-9 relate to key concepts in the proposed SAS with a focus on execution. The requirement relating to audit documentation is not a new concept relating to estimates and is</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>estimates and (b) the proposed SAS should not be considered in isolation, but rather as part of the AU-C sections taken together.</p> <p>We believe paragraph 7 should be revised as follows to remind auditors that the exercise of professional skepticism is required in all circumstances (proposed additions are shown in bold font and proposed deletions are struck through):</p> <p style="padding-left: 40px;">The exercise of professional skepticism in relation to accounting estimates is affected by the auditor’s consideration of inherent risk factors, and its importance.</p> <p style="padding-left: 40px;">The extent to which professional skepticism is exercised increases when accounting estimates are subject to a greater degree of estimation uncertainty or are affected to a greater degree by complexity, subjectivity, or other inherent risk factors. Similarly, the exercise of professional skepticism, which always is required, is even more critical important when there is greater susceptibility to misstatement due to management bias or fraud. (Ref: par. A11)</p>	<p>not incremental content, therefore the TF proposes no changes.</p> <p>See response in comment #14 in agenda item 2B. No change made.</p>
8B-21	11 - Deloitte	<p>We believe these paragraphs are helpful to describe the key concepts of the proposed SAS.</p> <p>Further, we believe that the paragraphs explain the interplay between the proposed SAS and other AU-C sections in most cases;</p>	<p>Supportive with comments</p> <p>See proposed change to paragraph 4.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>however, we recommend the following edit noted in bold underline to paragraph 4 within the Key Concepts of This Proposed SAS section to emphasize from the outset that the assessment of the risk of material misstatement at the relevant assertion level is not separate to the requirements in AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AU-C section 315):</p> <p style="padding-left: 40px;">4. For purposes of assessing the risk of material misstatement at the relevant assertion level for accounting estimates, as required by AU-C section 315, this proposed SAS requires inherent risk and control risk to be assessed separately. . .</p>	Comment repeated at comment #10 in agenda item 2B
8B-22	14 - NYSSCPA	<p>Response: Generally, we noted synchronization between the proposed SAS and the other AU-C sections, except as set forth in (a)-(g) below where we offer suggestions to strengthen consistency.</p> <p>(a) The proposed SAS states in part in paragraph 3:</p> <p style="padding-left: 40px;">“For certain accounting estimates, estimation uncertainty may be very low, based on their nature, and the complexity and subjectivity involved in making them may also be very low. For such accounting estimates, the risk assessment procedures and further audit procedures required by this proposed SAS would not be expected to be extensive.”</p> <p>The proposed SAS suggests that the complexity and subjectivity of an estimate should be assessed separately to have a high or low</p>	<p>Supportive with comments</p> <p>The comment does not propose any changes to be made to the proposed</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>level of “<i>uncertainty</i>.” We believe that the degree of uncertainty versus reliability should be considered an integral component consideration in the assessment of inherent risk of material misstatement.</p> <p>For example, depreciation expense, which is based on an estimated useful life with a low degree of uncertainty might nevertheless be evaluated to have a high inherent risk. Contrast that with a complex derivative instrument, for which the valuation has a high level of uncertainty and ordinarily should be subject to multiple controls to assure management that the estimate is done properly, thus reducing the combined risk of material misstatement to low.</p>	<p>SAS and the TF believes no changes are necessary.</p>
		<p>(b) Paragraph 8 of the proposed SAS guides auditors with respect to the methodology that is applied by management to arrive at an accounting estimate states, in part:</p> <p>“For purposes of this proposed SAS, reasonable, in the context of the applicable financial reporting framework, means that the relevant requirements of the applicable financial reporting framework have been applied appropriately, including those that address the following: (Ref: paragraph A12–A13 and A140–A145)</p> <ul style="list-style-type: none"> - The development of the accounting estimate, including the <i>selection of the method</i>, assumptions, and data in view of the nature of the accounting estimate and the facts and circumstances of the entity [<i>emphasis added</i>] ...” 	<p>TF believes no change is necessary because the concept of consistency is embedded in the accounting</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>The selection of method is relevant to any evaluation of an estimate, and we suggest that the final standard indicate that once an entity selects a method, the auditor should determine whether the entity has applied that method consistently based on the applicable financial reporting framework.</p> <p>(c) Paragraph 3 of the proposed SAS refers auditors to paragraph A7 for guidance on scalability. We suggest that the proposed SAS provide enhanced guidance when discussing scalability in paragraph A7, A21, A22 and elsewhere in the proposed SAS wherever the term is mentioned.</p>	<p>framework. [same as comment #18 in agenda item 2B]</p> <p>The TF noted that examples contained in audit guides to aid in implementation may be a better option rather than included more in the proposed SAS. The proposed SAS creates the framework. No change proposed.</p> <p>[same as comment #5 in agenda item 2B]</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>(d) The subject of professional skepticism is particularly critical to auditing accounting estimates. We suggest that professional skepticism be more prominently placed directly in the body of the final standard and the discussion in paragraphs 7 and A11 be enhanced.</p> <p>(e) Paragraph 8 of the proposed SAS defines reasonable with words that appear to be synonymous with “materially correct” or “not materially misstated” but the term, as defined, and used in paragraph 10, is limited more appropriately to the applicability of the accounting method to the circumstances, and the judgments made, as explained in paragraph A13, but without regard to the accuracy of the underlying data.</p>	<p>.Discussed at the January 2020 ASB meeting. The ASB believes that much thought went into the crafting of the use of professional skepticism in ISA 540 (Revised) and directed to task force to retain the structure of the proposed SAS.</p> <p>See proposed changes to paragraph 7 from comments #14 and 20 that may help address these concerns. [Same as comment #15 of agenda item 2B]</p> <p>Discussed at the January ASB meeting. The ASB supported retaining the term “reasonable” because it is a term that is used in the standards. To introduce a new term may have unintended consequences in applying. No</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>We suggest that the proposed SAS be revised to replace the term “reasonable” in paragraph 8, along with related paragraphs, with a term that is more precise, such as “materially correct” or “not materially misstated.”</p>	<p>change proposed. [Same as comment #17 of agenda item 2B]</p>
			<p>TF noted that at the May 2019 ASB meeting, the ASB agreed that the proposed Estimates SAS should converge with ISA 540 (Revised) and the requirements and application material in ISA 540 (Revised) relating to risk assessment should be included in the proposed Estimates SAS rather than in AU-C section 315</p>
		<p>(f) Although the proposed requirement for a separate assessment of inherent and control risks is not specifically mentioned in paragraphs 2-9 of the proposed SAS, we believe this comment relates directly to the substance of Question 1. Both page 9 of the ED and paragraph 15 of the proposed SAS state that the proposed SAS would invariably require separate assessments of inherent and control risk for accounting estimates. In support of that proposed requirement, reference is made to AU-C 315.26-.27. However, separate assessments are not required under generally accepted auditing standards (GAAS) in any other audit application except to the extent necessary to identify</p>	<p>At the January 2020 ASB meeting, the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No changes proposed. [Same as comment #50 in agenda item 2B]</p>
			<p>TF does not believe this proposed SAS would preclude auditor judgment. No changes proposed.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>a "significant risk" as discussed in AU-C 315.28-.29, and effectively defined there as one that requires "special audit consideration." AU-C 315.28-.29 further states that an auditor should use professional judgment to determine if special audit consideration is warranted based on, among other things, "the degree of subjectivity in the measurement of financial information related to the risk, <i>especially those measurements involving a wide range of measurement uncertainty [emphasis added].</i>"</p> <p>The language on page 9 of the ED and the first sentence in paragraph 15 of the proposed SAS seem to have the effect of precluding auditor's judgment, without regard to their degree of subjectivity, by prejudging all estimates as possessing "significant risk," thereby being inconsistent with AU-C 315.28-.29, and with paragraphs 2, 3, 7, and 16 of the proposed SAS. We suggest that these inconsistencies be addressed before a final standard is issued.</p>	
		<p>(g) Auditors often establish point or range estimates by using variable sampling techniques. We believe the adjustment guidance in paragraph A140 of the proposed SAS (discussed above in part (f) of our response to this Question and under the caption "Other Comments" below) appears somewhat</p>	<p>TF believes that the reasonableness of a point estimate and sampling are different concepts. No change proposed. [Same as comment #78 in agenda item 2B]</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>inconsistent with paragraph A28 of AU-C 530, Audit Sampling, which provides, in part, as follows:</p> <p>“If the auditor concludes that audit sampling has not provided a reasonable basis for conclusions about the population being tested the auditor may;</p> <ul style="list-style-type: none"> - request management to investigate the misstatements that have been identified and the potential for further misstatement and to make any adjustments or - tailor the nature timing and extent of those further procedures to achieve the required assurance.” 	
		<p>Subject to our other comments in this letter about paragraph A140 of the proposed SAS, we believe the adjustment guidance in that paragraph is appropriate when the auditor believes its estimates are reliable and they differ materially from the clients’ estimates. However, we believe the paragraph should refer auditors to AU-C 530.A28 when their estimates are based on sampling and the Board should amend AU-C 530, accordingly, to indicate that one of the foregoing alternative courses of action should be taken before proposing any adjustment.</p>	<p>TF believes the considerations for estimates compared to those of sampling are different.</p> <p>No changes proposed. [Same as comment #78 in agenda item 2B]</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8B-23	15 - Ill Society CPAs	We believe the scope section of the exposure draft adequately explains the relationship between the proposed SAS and most other sections of existing auditing standards. However, paragraph 4 uses the term “spectrum of inherent risk,” and we believe it would be beneficial to provide more clarity as to application of this concept, including where different types of estimates fall within the spectrum. We would also like to see how this evaluation of risk is integrated into the existing risk assessment standards in Section 315.	Supportive with comments At the January 2020 ASB meeting, the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. [Same as comment #11 in agenda item 2B]

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8B-24	19 - EY	<p>We support the key concepts of the proposed SAS as outlined in paragraphs 2-9. To effectively audit estimates, including fair value measurements, auditors refer to many of the significant concepts of other AU-C sections. The complexity of auditing estimates may make the application of those AU-C sections more challenging and highlighting the nature of accounting estimates and key concepts of the proposed SAS is helpful to the reader.</p> <p>We believe that the key concepts of the proposed SAS could be further enhanced by reiterating the point made in paragraph 1 that a fair value measurement is a form of accounting estimate. This could be accomplished by making the following amendment to the first sentence of proposed paragraph 3:</p> <p style="padding-left: 40px;">“Although this proposed SAS applies to all accounting estimates, <i>including fair value measurements</i>, the degree to which an accounting estimate is subject to estimation uncertainty will vary substantially.”</p> <p>Consistent with the PCAOB’s definition of an accounting estimate, we also recommend the following addition to the proposed definition of an accounting estimate in paragraph 11:</p> <p style="padding-left: 40px;">“Accounting estimate. A monetary amount for which the measurement, in accordance with the requirements of the applicable financial reporting framework, is subject to estimation uncertainty. <i>A fair value measurement is a form of accounting estimate.</i>”</p>	<p>Supportive with comments</p> <p>At the January 2020 ASB meeting the ASB directed the task force to retain the title as proposed.</p> <p>Task force to continue to discuss whether the definition of accounting estimate should call out fair value measurements by bringing some of the content from paragraph A14 into the definition.</p> <p>The ASB agreed that the proposed SAS should be framework neutral and retain the references to “fair value accounting estimates” rather than “fair value measurement” because the latter term may imply a narrower view of what is intended to be included. No changes proposed.</p> <p>(same as comment #23 in agenda item 2C)</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		We also recommend that the definition of an accounting estimate should be clarified to explain that an estimate may drive a decision not to recognize amounts in the financial statements. That is, we believe the definition should explicitly address estimates an entity uses in an analysis such as an asset impairment analysis, even if the entity does not recognize an impairment charge that relates to the estimates.	TF believes this is covered sufficiently in paragraph A14. (see above response)
8B-25	20 - Eide Bailly	Response: In paragraphs .04, .A66, .A67, the conforming amendments to AU-C 200 on page 83, and other places throughout the proposal the concept of risk assessment is discussed. Generally, we believe it is confusing to include new risk assessment requirements, such as the requirement to separately assess inherent risk and control risk and introducing the concept of “a spectrum of inherent risk”, outside of the existing risk assessment standards. We believe that if there are specific risk assessment concepts that need to be addressed or updated, such concepts should be addressed with amendments to the risk assessment standards.	Supportive with comments At the January 2020 ASB meeting the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No changes proposed.
8B-26	24 - CohnReznick	We believe paragraphs 2–9 of the proposed SAS are helpful in describing the key concepts of the proposed SAS. While paragraphs 2-9 do adequately explain the interplay between the proposed SAS and other AU-C sections, we recommend the	Supportive with comments

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>flowchart from “Linkages Between Proposed 540 and Other AU-C Sections” which was included with the exposure draft, be included as an appendix.</p> <p>Regarding the concept of “spectrum of inherent risk,” while the concept appears valid, we have concerns that in practice two occurrences may result:</p> <p>(1) auditors keep assessing risk as “low, high” or “low, moderate, high,” etc. due to the proposed standard discussing assessing inherent risk at the “...lower end of the spectrum of inherent risk” or</p> <p>(2) driving auditors to spend time weighing various risks against one another on an unnecessarily granular scale (80% vs. 90% or even 80% vs. 85%). Such would drive auditor focus in a manner that may not result in an improvement in audit quality.</p> <p>Given the factors above, we question as to what the intended effect the ASB has in specifying the concept of a “spectrum of inherent risk” and wonder if the concept will actually improve audit quality.</p>	<p>TF believes flowchart does not belong in the standards. Consider for inclusion in a revised risk assessment guide.</p> <p>At the January 2020 ASB meeting the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No changes proposed.</p>
8B-27	26 - BDO	We find paragraphs 2-9 of the proposed SAS to be helpful in describing the key concepts of the proposed SAS; however, we believe that additional explanations are necessary to emphasize the incremental requirements in the proposed SAS over the other	Supportive with comments

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>foundational auditing standards that are to be considered in conjunction with one another.</p> <p>For example, the auditor’s risk assessment procedures is a critical element of the proposed SAS, and builds on extant AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, by establishing additional requirements in the context of accounting estimates. We recommend that the Board add additional emphasis in the introductory paragraphs of the proposed SAS to draw the reader’s attention towards these additional requirements that are to be applied in conjunction with extant AU-C section 315.</p>	<p>At the January 2020 ASB meeting the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No changes proposed.</p>
8B-28	28 - KPMG	<p>We appreciate that paragraphs 2-9 of the Proposed Standard may be helpful to some auditors. However, specifically with reference to the risk assessment procedures in paragraphs 12-14 of the Proposed Standard and their interplay with AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i> (AU-C section 315), we are concerned that the more risk assessment requirements are included in various stand-alone standards, the greater the risk that they will not be applied consistently. We agree with the Board’s decisions to retain topics such as management’s representations and communications with those charge with governance in the respective AU-C sections. We think that construct enhances both understanding and compliance. For this reason, we think audit</p>	<p>Supportive with comments</p> <p>At the January 2020 ASB meeting the ASB continued to support the retention of the risk assessment guidance within the proposed SAS. No changes proposed.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		execution would be better if the requirements for risk assessment from this Exposure Draft were ultimately integrated into AU-C section 315.	

Responses to Request for Comment #3 (Agenda item 8C from the January 2020 ASB meeting, revised)

This file contains the responses received relating to question 3 in the Request for Comment. This file is organized by respondent and classified as to whether the response was supportive, supportive with comments, not supportive, or there was no response relating to the Estimates ED. Each comment is numbered sequentially.

Request for Comment #3

3. Do you agree with the approach to the proposed changes to AU-C section 501? If not, please provide suggestions on a way forward.

Detailed Responses

	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8C-1	01 - TN State Audit	We agree with the board’s proposal to remove paragraphs .06–.10 from AU-C section 501 because those paragraphs were mainly related to performing audit procedures and not related to evaluating audit evidence.	Supportive
8C-2	02 – Ainsley Winterrowd	In regard to the third request for comment I agree with the approach to the proposed changes to AU-C section 501.	Supportive
8C-3	04 - NASBA	We agree with the approach to the proposed changes to AU-C section 501.	Supportive
8C-4	05 Cal CPA	Yes; the Committee agrees with approach to the proposed changes.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8C-5	06 - TXCPA PSC	Response: The committee agrees with the approach used in the changes to AU-C section 501 and has no suggestions for changes.	Supportive
8C-6	07- WA state auditors	Yes.	Supportive
8C-7	08- VSCPA	The Committee agrees with the approach to the changes to AU-C section 501, specifically the removal of paragraphs .01-.10 because the requirements in those paragraphs, related to investments in derivative instruments and securities measured at fair value, were related to the performance of audit procedures rather than related to evaluating audit evidence.	Supportive
8C-8	09-MI OAG	Response: Yes, we support the removal of paragraphs AU-C 501.06-501.10 as we agree they are duplicative to the standards in the proposed SAS.	Supportive
8C-9	12 - GAO	Yes, we agree with removing paragraphs 6 through 10 of AU-C section 501. We agree that the requirements in those paragraphs are duplicative of the requirements in the proposed SAS.	Supportive
8C-10	13 - Wipfli and Mind the GAAP	We do not have any comments regarding the approach to the proposed changes to AU-C section 501.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8C-11	14 - NYSSCPA	Response: We agree with the approach to the proposed changes to AU-C section 501.	Supportive
8C-12	16 - Virginia	We agree with the approach to the proposed changes to AU-C section 501.	Supportive
8C-13	17 - NSAA	We agree with the approach to the proposed changes to AU-C 501.	Supportive
8C-14	18 - GT	We support the approach taken by the Board regarding changes to AU-C section 501, <i>Audit Evidence—Specific Considerations for Selected Items</i> . We believe it would provide greater clarity to auditors and eliminate the need to traverse multiple standards when auditing accounting estimates, particularly fair value measurements. We also support taking the requirements from AU-C section 501 and, in general, adding them as application guidance in the proposed SAS. We believe this approach is appropriate because it makes the standards more principles-based, particularly because the notion of fair value measurements in the accounting standards is no longer considered a new or emerging topic.	Supportive
8C-15	19 - EY	We believe the proposed changes to AU-C section 501 are appropriate and would remove guidance that would be duplicative after the proposed SAS is finalized.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8C-16	20 - Eide Bailly	Response: We believe the approach seems reasonable.	Supportive
8C-17	21 - Florida Institute of CPAs	Request for Comment 3 – The Committee agrees with the approach to the proposed changes to AU-C section 501.	Supportive
8C-18	22 - TIC	TIC has no objections to the approach regarding changes to AU-C section 501.	Supportive
8C-19	23 - CT CPA	The proposed changes AU-C section 501 appear to be reasonable.	Supportive
8C-20	24 - CohnReznick	We agree with the approach to the proposed changes to AU-C section 501.	Supportive
8C-21	25 - CLA	Response: We agree with the approach to the proposed changes to AU-C section 501.	Supportive
8C-22	26 - BDO	We agree with the Board’s rationale and approach to removing the duplicative requirements in AU-C section 501 based on the inclusion of these requirements in the proposed SAS.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8C-23	27 - Hunter college	This part of the AU-C section 501 refers to investments in derivative instruments and securities measured or disclosed at fair value as well as impairment losses. Referring to these topics, I agree with the proposed changed to AU-C that paragraphs .06-.10 should be eliminated because it is true that keeping the section would first copy what will be stated in the proposed SAS. Also, the guidance also refers to how to perform certain audit procedures instead of what AU-C is trying to explain, which is evaluating audit evidence. The paragraphs in question do not weigh in on audit evidence but only talk about what audit procedures to use which makes the information out of place.	Supportive
Agree with Comments			
8C-24	10 - RSM US LLP	<p>We agree that AU-C section 501, <i>Audit Evidence – Specific Considerations for Selected Items</i>, is designed to address considerations related to evaluating audit evidence and that the requirements in paragraphs .06 through .10 of AU-C section 501 primarily relate to performing audit procedures. Therefore, we agree that paragraphs .06 through .10 should be removed from AU-C section 501.</p> <p>We agree that the guidance from application paragraphs .A11, .A12 and .A14 through .A19 of AU-C section 501 has been</p>	<p>Supportive with comments</p> <p>TF intentionally did not include the sentence proposed in this comment because the terminology is outdated.</p> <p>No change proposed.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>encompassed by the relevant requirements and guidance in the proposed SAS and are therefore duplicative.</p>	Supportive
		<ul style="list-style-type: none"> • We believe that one of the application paragraphs in AU-C section 501 (paragraph A12) implies that there may be some fair value determinations that are not accounting estimates, which is inconsistent with the proposed SAS. Therefore, we believe deletion is acceptable in this case to be consistent with the proposed SAS. 	
		<ul style="list-style-type: none"> • We believe the last bullet included within application paragraph A128, which was moved to the proposed SAS from application paragraph A15 of AU-C section 501, should be reworded. If a valuation of derivative instruments or securities is based on assumptions that are highly subjective or sensitive in nature, it is likely that there will only be one reliable pricing source. In these cases, we may expect the auditor to test how management made the valuation rather than obtain estimates from more than one pricing source. We propose the following edit as a result: 	See proposed edit to paragraph A128 to remove second sub-bullet.
		<p style="padding-left: 40px;">A128. . . When, for derivative instruments or securities,</p>	
		<p style="padding-left: 80px;">— a pricing source has a relationship with an entity that might impair its objectivity, such as an affiliate or a counterparty involved in selling or structuring the product,</p>	
		<p style="padding-left: 80px;">or</p>	

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p style="text-align: center;">— a valuation is based on assumptions that are highly subjective or particularly sensitive to changes in the underlying circumstances</p> <p>the auditor may determine that it is necessary to obtain estimates from more than one pricing source.</p>	
		<ul style="list-style-type: none"> • We believe that the movement of application paragraph A17 from AU-C section 501 to application paragraph A27 of the proposed SAS is not appropriate, as the inclusion of this paragraph within this respective section is out of place. This section (i.e., the application material to paragraph 12b of the proposed SAS) is intended to provide guidance on how the auditor understands the requirements of the applicable financial reporting framework as part of its understanding of the entity and its environment. The example appears too granular for this section as it discusses the nature of the significant judgments involved in estimating an impairment loss for a decline in fair value that is other than temporary, in addition to the level of subjectivity of the assumptions used to develop the accounting estimate. <p>In addition, D&T believes that this paragraph may be outdated upon the adoption of the Current Expected Credit Loss (CECL) accounting standard. As such, we recommend removing this paragraph entirely from the proposed SAS. However, if the ASB chooses to maintain this example within</p>	<p>ASB agreed (Jan 2020 ASB meeting) to remove paragraph A27 from proposed SAS.</p> <p>See removal of paragraph A27</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>the proposed SAS, we recommend that the example be integrated into paragraph A68 as follows:</p> <p>A68. The reasons for the auditor’s assessment of inherent risk at the relevant assertion level may result from one or more of the inherent risk factors of estimation uncertainty, complexity, subjectivity, or other inherent risk factors. Examples follow:</p> <ul style="list-style-type: none"> • Accounting estimates of expected credit losses are likely to be complex because the expected credit losses cannot be directly observed and may require the use of a complex model. The model may use a complex set of historical data and assumptions about future developments in a variety of entity-specific scenarios that may be difficult to predict. Accounting estimates for expected credit losses are also likely to be subject to high estimation uncertainty and significant subjectivity in making judgments about future events or conditions. Similar considerations apply to insurance contract liabilities. 	
		<ul style="list-style-type: none"> • An accounting estimate for an impairment loss for a decline in fair value that is other than temporary may involve estimating the outcome of future events and making judgments in 	

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>determining whether factors exist that indicate that an impairment loss has been incurred at the end of the reporting period. These judgments are based on subjective as well as objective factors, including knowledge and experience about past and current events and assumptions about future events. The following are examples of such factors: fair value is significantly below cost or carrying value and the decline has existed for an extended period of time, the security has been downgraded by a rating agency, the financial condition of the issuer of those securities has deteriorated, dividends have been reduced or eliminated or scheduled interest payments have not been made, and/or the entity recorded losses from the security subsequent to the end of the reporting period. The degree of estimation uncertainty for these accounting estimates may be high given the significant subjectivity involved in determining the impairment loss. . .</p>	
8C-26	15 - Ill Society CPAs	We believe that the removal of paragraphs .06 - .10 from AU-C section 501 is appropriate, as the requirements related to investments in derivative instruments and securities measured at fair value within this section are more related to performing audit	Supportive with comments ASB is considering a project that will look at AU-C section 501. At the January 2020 ASB meeting it was

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>procedures and not related to evaluating audit evidence, as AU-C section 501 requires. However, we question why requirements of other areas cited in this section, specifically the existence and condition of inventory (paragraphs .11 - .15) and completeness of litigation, claims, and assessments (paragraph .16) are also not designated for removal from AU-C section 501, as the requirements for these areas also involve performing audit procedures, that appear to be duplicated in the proposed SAS.</p>	<p>noted that paragraphs .11-.16 of AU-C 501 correspond to ISA 501 and therefore may not be within the scope of the project being considered. Comments provided to 501 task force.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8C-27	28 - KPMG	<p>We generally agree with the proposed changes to AU-C section 501, relocating the specific content for investments and derivatives originally sourced from AU 332. These changes bring the Proposed Standard closer to the ISAs where AU-C section 501 does not exist. We encourage the Board to recognize that moving the content into the Proposed Standard is only the first step.</p> <p><i>Investments in Derivative Instruments and Securities Measured or Disclosed at Fair Value</i></p> <p>In the U.S., capital market regulations dictate how transactions in derivative instruments and securities measured or disclosed at fair value are processed and U.S. GAAP dictates valuation. The inherent risk associated with subjectivity, complexity and uncertainty of these securities is not affected by the status of an entity as either public or private. The risk associated with using information sourced from third party pricing services also should not be fundamentally different. And yet, if the Proposed Standard and related amendments are adopted as exposed, the auditing standards related to evaluation of pricing information provided by third parties would be different for public and private entities and the Board’s requirements would arguably be out of sync with both the financial reporting frameworks and how these instruments are transacted. We recognize that ISA 540 (Revised) acknowledges pricing services as external information sources and that the Proposed Standard integrates the requirements and related application material moved from AU-C section 501.06-.10 as an</p>	<p>Supportive with comments</p> <p>To be considered as part of separate project to address AU-C section 501. Comments provided to 501 task force.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>intermediary step. However, the integration of specific content that has not been reconsidered in many years with the ISA content is detracting from the usefulness of the new requirements and application guidance in the Proposed Standard. The following paragraphs provide examples of integration of content from the extant AU-C section 501 into the Proposed Standard that we believe require further consideration and modernization:</p> <ul style="list-style-type: none"> • Extant paragraphs A13 and A14 of AU-C section 501 are now in paragraph A129 of the Proposed Standard – The content is accurate in that estimates of fair value [for market prices] may be obtained from other sources and that “using such a price quote to test valuation assertions may require special knowledge to understand the circumstances in which the quote was developed”. However, unlike the PCAOB’s special topics appendix to AS 2501, the Proposed Standard does not provide guidance on how such knowledge may be obtained. Further, it is not clear how the content of this application paragraph regarding the relevance and reliability of fair value of trades relates to the content in paragraph A128 regarding alternative sources, using multiple sources and evaluating an entity’s relationship with the third party source in determining whether it is necessary to obtain information from more than one pricing source. 	

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>Extant paragraph A15 of AU-C section 501 is now in paragraph A128 of the Proposed Standard – We are unclear as to how “Proposed SAS Audit Evidence” is relevant when the external information source uses its own models. We also note that the wording of paragraph A128 is different than paragraph A132 such that we are unclear as to whether execution is intended to be different as well.</p>	
		<p>The PCAOB’s significant efforts to understand the valuation methodologies used by third party pricing services and how management uses the information resulted in the special topics appendix to AS 2501 for financial instruments that we believe is generally responsive to current practices of pricing services and the underlying risks. Therefore, we believe that the Board should further consider the PCAOB’s guidance to revise and modernize the application material on the use of pricing services as audit evidence.</p>	<p>To be considered as part of separate 501 project. Comments provided to 501 task force.</p>
		<p><i>Investments in Securities When Valuations are Based on the Investee’s Financial Results (Excluding Equity Method)</i></p>	
		<p>The content retained in extant AU-C section 501.04-.05, and related application material in paragraphs A4-A6 is generally consistent with the PCAOB’s Appendix B to AS 1105, <i>Audit Evidence Regarding Valuation of Investments Based on Investee Financial Results</i>. The PCAOB largely retained the extant requirements with only limited conforming changes to better align the required procedures with the risk assessment standards when neither AS 1201 (supervision) nor AS 1205 (other independent</p>	

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>auditors) applies. The PCAOB did not intend to substantively change audit practice in this area.</p> <p>We are supportive of the limited amendments made to these paragraphs as a beginning. Since the guidance on alternative investments was first issued in 2005, there have been changes to U.S. GAAP (e.g., introduction of NAV as a practical expedient of fair value), inconsistencies in describing relevant audit procedures in a number of AICPA Audit and Accounting Guides and non-authoritative technical questions and answers. Because we believe that practice is mixed as to how entities use and auditors evaluate investee financial results as an input into a fair value measurement, we believe the time is appropriate to revisit the existing requirements and provide updated and more consistent guidance on how to use and evaluate investee financial results as an input to an accounting estimate. This relates in particular to the following matters:</p>	
		<ul style="list-style-type: none"> • Procedures to be performed to obtain sufficient and appropriate audit evidence for the period between the investee’s financial reporting date and the investor’s measurement date; • Alternative procedures to be performed when the available financial information of the investee has not been audited; and • Differences in the auditing standards applied in the audit of the investee’s financial statements and those used in the audit of the investor’s financial statements. 	<p>To be considered as part of separate 501 project.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		<p>In addition, we note that the PCAOB included a note in the new appendix B to AS 1105 which indicates that to the extent the audited item “reflects factors that are not recognized in the investee’s financial statements or fair values of assets that are materially different from the investee’s carrying amounts”, the auditor should look to the requirements of AS 2501 on auditing accounting estimates for further guidance. We believe that a similar note explaining the applicability of various requirements to auditing valuations based on the investee’s financial results that also reflect other factors would benefit the users of the Proposed Standard and the amended AU-C section 501.</p>	
		<p><i>Additional cross-references between standards would be beneficial</i></p>	
		<p>To aid in application of the Proposed Standard, we recommend additional cross-referencing. Specifically, we suggest the following edit.</p>	
		<p><i>Other Considerations Relating to Audit Evidence</i> (additions <u>underscored</u>)</p>	
		<p>29. In obtaining audit evidence regarding the risks of material misstatement relating to accounting estimates, irrespective of the sources of information to be used as audit evidence, the auditor should comply with the relevant requirements in AU-C sections 500 and <u>501</u>.</p>	<p>See proposed edit to paragraph 29.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8C-28	30 - PWC	We support the ASB’s decision to relocate material in AU-C section 501 related to obtaining sufficient appropriate audit evidence about the valuation of securities and derivative instruments to the proposed SAS. The ASB should consider whether the remaining material in AU-C section 501 remains relevant or if updates are necessary in light of its current projects to revise AU-C section 500 and AU-C section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i> .	Supportive with comments To be considered as part of a separate 501 project. Comment provided to 501 task force.
<i>No response</i>			
	03 - Londer_JS_	Jordan S. Londer	

Responses to Request for Comment #4 (Agenda item 8D from the January 2020 ASB meeting, revised)

This file contains the responses received relating to question 4 in the Request for Comment. This file is organized by respondent and classified as to whether the response was supportive, supportive with comments, not supportive, or there was no response relating to the Estimates ED. Each comment is numbered sequentially.

Request for Comment #4

4. Does the proposed effective date provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments?

Detailed Responses

	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8D-1	01 - TN State Audit	We agree with the proposed effective date and believe it provides adequate time to prepare for implementation.	Supportive
8D-2	02 - Ainsley Winterrowd	In regard to the fourth request for comment I believe the effective date provides for sufficient time for preparers, auditors, and others to adopt and conform to the proposed changes.	Supportive
8D-3	05 Cal CPA	Yes; the Committee believes there is sufficient time between now and audits for the years ending after December 15, 2022 to adopt the new standard.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8D-4	07- WA state auditors	Yes.	Supportive
8D-5	08- VSCPA	The VSCPA Committee agrees that the effective date for audits of financial statements for periods ending on or after Dec. 15, 2022, is sufficient time for preparers, auditors and others to adopt the new standard.	Supportive
8D-6	09-MI OAG	Response: Yes, the proposed effective date of “periods ending on or after December 15, 2022” is sufficient for education and training to occur necessary for the proper implementation of the proposed standard.	Supportive
8D-7	10 - RSM US LLP Estimates and Related Disclosures	We believe the proposed effective date provides sufficient time for auditors to adopt the new standard and related conforming amendments.	Supportive
8D-8	11 - Deloitte	We believe that the effective date as stated in this proposed SAS allows sufficient time for the auditor to adequately prepare for the implementation of the proposed SAS. Furthermore, we believe that the proposed SAS should be implemented prior to or in accordance	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		with the CECL accounting standard effective date for nonpublic business companies, which is January 2023. The proposed SAS will be critical to effectively auditing credit loss models for loan loss provisions.	
8D-9	12 - GAO	We believe that the proposed effective date for audits of financial statements for periods ending on or after December 15, 2022, would provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.	Supportive
8D-10	13 - Wipfli and Mind the GAAP	We believe the proposed effective date for audits of financial statements for periods ending after December 15, 2022 would provide sufficient time for preparers, auditors, and other to adopt the new standard and related conforming amendments.	Supportive
8D-11	14 - NYSSCPA	Response: We believe that the proposed effective date provides sufficient time for preparers, auditors, and others and suggest that early adoption be permissible.	Supportive
8D-12	15 - Ill Society CPAs	As the proposed SAS appears to be an enhancement to existing standards, we believe the effective date will provide sufficient time	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
		for all relevant parties to adopt the new standard and related amendments.	
8D-13	16 - Virginia	We believe that the proposed effective date provides sufficient time for auditors to adopt the new standard and related conforming amendments.	Supportive
8D-14	17 - NSAA	Yes, we believe the proposed effective date provides sufficient time for the adoption and implementation of the new standard and related conforming amendments.	Supportive
8D-15	21 - Florida Institute of CPAs	Request for Comment 4 – The Committee believes the proposed effective date will likely provide preparers, auditors, and others sufficient time to adopt the new standard and related conforming amendments.	Supportive
8D-16	22 - TIC	TIC believes the proposed effective date allows for adequate time to adopt the new standard.	Supportive
8D-17	23 - CT CPA	Yes, the proposed effective date should provide sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8D-18	24 - CohnReznick	We believe the proposed effective date provides sufficient time for preparers, auditors, and others to adopt the new standard and related conforming amendments.	Supportive
8D-19	25 - CLA	Response: We believe the proposed effective date provides sufficient time to adopt the new standard and related conforming amendments.	Supportive
8D-20	27 - Hunter college	Yes, the proposed date provides sufficient time for all affected parties to adopt the new standard. The effective date set for financial statements for periods ending on or after December 15, 2022 provides at least two full years for professionals to learn the new standard before they are required to begin implementing them into practice on the start of the third fiscal year. The lengthy allotted time is appropriate, as the material is complex and extensive in nature.	Supportive
8D-21	28 - KPMG	As both ISA 540 (Revised) and AS 2501 will be effective for most financial statement audits for periods ending on or after December 15, 2020, many firms will already be amending methodology for compliance with those standards. Therefore, we believe there will not be incremental difficulty to implement this Proposed Standard by the effective date exposed. Moreover, because this Proposed Standard is substantially similar to the above-referenced standards of other standard setters, we believe early implementation of the Proposed Standard should be permitted.	Supportive because early implementation is permitted

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
<i>Supportive with comments</i>			
8D-22	04 - NASBA	While we believe that the proposed effective date would provide sufficient time for preparers, auditors and others to adopt the new standard, we would welcome the opportunity to move up the effective date, given the nature of the subject matter and the fact that the PCAOB has already issued Auditing Standard 2501 (Revised) with an effective date for audits of fiscal years ending on or after December 15, 2020.	Early implementation is permitted
8D-23	18 - GT	We believe the proposed effective date provides sufficient time for stakeholders to adopt the new standard and related conforming amendments. Because the Board has proposed the approach of full convergence with the international standards, we believe some efficiencies will be gained for those firms that have already incorporated International Standard on Auditing (ISA) 540 (Revised), <i>Auditing Accounting Estimates and Related Disclosures</i> , into their methodologies. Further, we believe the proposed changes would not create a fundamental shift in auditing accounting estimates thereby being overly burdensome for firms that have not yet adopted ISA 540 (Revised).	Supportive

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
	18 - GT	<p>Risk assessment/effective date</p> <p>We support the changes related to risk assessment in the proposed SAS. We also note that the Board’s proposal to converge the U.S. auditing standards with ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement, is quickly forthcoming. We believe that the changes in the proposed standard, when considered with extant AU-C section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, could be perceived as disjointed given that some of the new concepts in the proposed standard are not also covered in extant AU-C section 315. In order for auditors to appropriately implement the potential requirements related to risk assessment, which are likely to be substantial, we strongly recommend that the Board align the effective dates of this proposed standard and the standard that results from the ISA 315 (Revised) project. We believe this approach would also provide efficiencies for audit firms updating their methodologies in order to avoid multiple revisions to the auditor’s approach to risk assessment over different periods.</p>	<p>Supportive with comments – TF proposes to change to “beginning of year” See proposed change to paragraph .09.</p>
8D-24	19 - EY	<p>The proposed SAS and conforming amendments would enhance the risk assessment process for accounting estimates, which may be performed by auditors early in the financial period (e.g., in the first six months of the financial period for many audits). Therefore, the effective date should be no less than 18 months after the approval of the final standard so auditors have sufficient time to implement it.</p>	<p>Supportive with comments</p> <p>TF proposes to change to “beginning of year” See proposed change to paragraph .09.</p>

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8D-25	20 - Eide Bailly	Response: Yes, we believe the effective date appears reasonable depending on when the final standard is issued. It normally takes up to 18 months after a standard is issued to update practice guidance and develop training materials.	Supportive with comments TF proposes to change to “beginning of year” See proposed change to paragraph .09.
8D-26	26 - BDO	Yes, we believe that the proposed effective date would provide sufficient time to implement the new standard. Notwithstanding that early adoption may be permitted, we encourage the ASB to continue monitoring the IAASB’s project to revise ISA 315, <i>Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment</i> , which may result in further conforming amendments to ISA 540 (Revised), and to consider the merits of applying an effective date that is proximate to that of the revised risk assessment standard, which is foundational to the proposed SAS. Such an approach may reduce the practical challenges associated with implementing the proposed SAS prior to the forthcoming revisions to the risk assessment standard.	Supportive with comments TF proposes to change to “beginning of year” See proposed change to paragraph .09.

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8D-27	30 - PWC	The proposed SAS indicated that, if issued as final, it would be effective for audits of financial statements for periods ending on or after December 15, 2022. We believe that this effective date provides sufficient time for auditors to prepare for the adoption of the proposed SAS. We also believe it would be helpful to align the effective dates of the proposed SAS with the proposed changes to AU-C section 500. Doing so has the benefit of enabling firms to consider how best to update their methodologies and tools to take into account enhanced performance requirements related to auditing estimates and evaluating the results of those procedures and other information that may be used as audit evidence.	
<i>Not supportive</i>			
8D-28	06 - TXCPA PSC	Response: The committee thinks that the use of “ending on or after December 15, 2022” may result in practitioners not adequately considering the proposed standard when conducting audit planning for the year ending December 31, 2022. The committee thinks that the effective date should be “ending on or after December 15, 2021.”	Not supportive TF proposes to change to “beginning of year” See proposed change to paragraph .09. (Same as comment #19 in agenda item 2B).
<i>No Response</i>			

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	<i>Commenter</i>	<i>Comment</i>	<i>Task Force Response</i>
8D-29	03 - Londer	Jordan S. Londer – Student	
8D-30	ABA	No response	

Summary of General Comment Letter Responses (Agenda item 8E from the January 2020 ASB meeting, revised)

This file contains general comments from the comment letters received.

General Comments

	<i>Paragraph Reference</i>	<i>Commenter</i>	<i>Comment</i>	<i>Task force response</i>
8E-1	Nodes\general	10 - RSM US LLP	<p>Consideration of PCAOB Release 2018-005 Appendix A, “Special Topics”</p> <p>We encourage the ASB to undertake a project to evaluate the guidance in Appendix A, “Special Topics,” of PCAOB Release 2018-005 and incorporate relevant policies and guidance from this appendix into AU-C 540. Topics considered in this appendix include (a) identifying and assessing the risks of material misstatement related to the fair value of financial instruments, (b) use of pricing information from third parties as audit evidence, (c) using pricing information from pricing services, (d) using pricing information from multiple services, (e) using pricing information from a broker or dealer and (f) unobservable inputs. Additional standards and guidance on these topics will better enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include estimates and related disclosures.</p>	<p>At the January 2020 ASB meeting the ASB acknowledged that a separate project relating to AU-C 501 would be considered that will take into consideration the guidance in appendix A, “Special Topics” of PCAOB Release 2018-005 as well as the use of management specialists.</p>

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	<i>Paragraph Reference</i>	<i>Commenter</i>	<i>Comment</i>	<i>Task force response</i>
			<p>Consideration of PCAOB Release No. 2018-006</p> <p>Because the auditor often uses the work of specialists when auditing accounting estimates, we believe it is important for the ASB to also consider the content of PCAOB Release No. 2018-006, Amendments to Auditing Standards for Auditor’s Use of the Work of Specialists, to discern whether any of those amendments may also be appropriate for an audit conducted in accordance with U.S. generally accepted auditing principles (U.S. GAAS). We believe the timely completion of the evaluation of the elimination of unnecessary differences between PCAOB Standards and U.S. GAAS in the use of the work of specialists is highly relevant to practitioners.</p>	
8E-2	Nodes\\general	11 - Deloitte	<p>We substantially agree with the approach to the proposed changes to AU-C section 501. However, overall, we recommend the ASB develop a holistic plan to clearly identify the scope and purpose of this AU-C section and in doing so consider whether a project should be undertaken by the Board to address the requirements and application material in AU-C section 501 to verify the special considerations that remain unique and specific to our jurisdiction.</p>	<p>At the January 2020 ASB meeting the ASB acknowledged that a separate project relating to AU-C 501 would be considered that will take into consideration the guidance in appendix A, “Special Topics” of PCAOB Release 2018-005 as well as the use of management specialists.</p>

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	<i>Paragraph Reference</i>	<i>Commenter</i>	<i>Comment</i>	<i>Task force response</i>
8E-3	Nodes\\general	21 - Florida Institute of CPAs	<p><i>Application Material</i></p> <p>After reviewing the ED and discussing the proposed standard, the Committee believes the proposed standard may require modifications to the management representation letter. In some cases, the Committee believes certain representations relating to estimates may need to be bifurcated and attested to by different members of management. For example, estimates relating to asset retirement obligations are not typically measured by accounting and finance personnel because engineers play a major role in these measurements. The Committee believes it would be appropriate to include a discussion of this in the Application Material.</p>	In accordance with AU-C 580 management is expected to have sufficient knowledge in which to base the representations – and may decide to make inquiries of others who participate in preparing the financial statements. (Paragraphs ..A3-.A4). Ultimately, management is responsible. No change proposed.
8E-4	Nodes\\general	21 - Florida Institute of CPAs	<p><i>Audits of Governmental Organizations and Small Entities</i></p> <p>While the Committee agrees with the proposed requirements outlined in the ED, some concerns exist relating to the audits of governmental organizations and relatively small entities. Based on their experience, Committee members believe it is highly likely the financial statement auditor for a government or small entity provides various nonattest services. Frequently these nonattest services involve assistance in developing estimates relating to fair value, uncollectible receivables, future cash flows, discount rates, depreciable lives and salvage values of capital assets, et al. The Committee is concerned the proposed requirement in paragraph 4 to separately assess inherent risk and control risk</p>	<p>The proposed SAS applies to all entities. No change made.</p> <p>Same as comment #51 in agenda item 2B</p>

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	<i>Paragraph Reference</i>	<i>Commenter</i>	<i>Comment</i>	<i>Task force response</i>
			may prove problematic in audits of some governmental organizations and smaller entities. For example, the auditor might not conclude an estimate of future cash flows and the related discount rate is a significant risk because he/she assists management in developing this information. This type of a situation could also have an effect on implementing the requirements in paragraphs 21 – 26 relating to responding to the assessed risk of material misstatement in “management’s” estimates. Therefore, the Committee believes the Application Material relating to paragraph 4, as well as paragraphs 21 – 26, should include guidance for audits of governmental organizations and smaller entities.	
8E-5	Nodes\\general\\general supportive	04 - NASBA	<p>Overall Comment</p> <p>We support the ASB’s efforts in developing revisions to generally accepted auditing standards for auditing accounting estimates using ISA 540 (Revised) as the base and aligning with the PCAOB’s Auditing Standard 2501 (Revised) as much as possible.</p> <p>From the State Board’s charge to be regulators protecting the public interest, the consistency among the standards is beneficial in regulatory and enforcement matters involving CPAs and firms. We believe the best way to avoid public confusion is to limit the differences in the three standards.</p>	Supportive

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	<i>Paragraph Reference</i>	<i>Commenter</i>	<i>Comment</i>	<i>Task force response</i>
8E-6	Nodes\\general\general supportive	06 - TXCPA PSC	In general, we did not note any substantive changes to the current requirements regarding auditing accounting estimates and the related disclosures. The proposed standard appears to focus on alterations to the wording of the current standard to align with the IAASB.	Supportive
8E-7	Nodes\\general\general supportive	08- VSCPA	In general, the Committee supports the Board's objectives to enhance the auditing standards relating to auditing accounting estimates in a manner that will enable auditors to appropriately address the complexity of scenarios from new accounting standards that include estimates and related disclosures. Overall, we agree with the Board's approach to enhance the auditor's focus on factors driving the uncertainty of estimates and potential management bias.	Supportive
8E-8	Nodes\\general\general supportive	09-MI OAG	We have reviewed the AICPA Auditing Standards Board's proposed statement on auditing standards entitled Auditing Accounting Estimates and Related Disclosures and generally agree with the proposed standards.	Supportive
8E-9	Nodes\\general\general supportive	10 - RSM US LLP	We understand the proposed SAS was drafted by the Auditing Standards Board (ASB) primarily to (a) better enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards	Supportive

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	<i>Paragraph Reference</i>	<i>Commenter</i>	<i>Comment</i>	<i>Task force response</i>
			<p>that include estimates and related disclosures, (b) consider implications of the International Auditing and Assurance Standards Board’s (IAASB) and Public Company Accounting Oversight Board’s (PCAOB) estimates projects when auditing accounting estimates for audits of nonissuers, (c) enhance the auditor’s focus on factors driving estimation uncertainty and potential management bias, (d) help auditors perform appropriate audit procedures when auditing accounting estimates and (e) drive auditors to exercise professional skepticism when auditing accounting estimates.</p>	
			<p>Overall, we believe the proposed changes will help auditors better perform appropriate audit procedures relating to auditing accounting estimates and related disclosures and will encourage the use of professional skepticism in auditing estimates. We found the requirements in the proposed SAS understandable and the related examples and references to other standards helpful. We support the ASB’s strategy to converge with the IAASB’s standards and applaud the additional consideration of the requirements in PCAOB Release No 2018-005, Auditing Accounting Estimates, Including Fair Value Measurements, and Amendments to PCAOB Auditing Standards. Those considerations strengthen this exposure draft.</p>	

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8E-10	Nodes\\general\\general supportive	11 - Deloitte	<p>Overall Comments</p> <p>We are supportive of the objectives of the ASB’s proposal to converge with the recently released International Standard on Auditing (ISA) 540 (Revised), <i>Auditing Accounting Estimates and Related Disclosures</i> (ISA 540 (Revised)), and are also supportive of the ASB’s efforts to consider the Public Company Accounting Oversight Board’s (PCAOB) recently adopted Auditing Standard (AS) No. 2501 (Revised), <i>Auditing Accounting Estimates, Including Fair Value Measurements, and Amendments to PCAOB Auditing Standards</i> (PCAOB Release No. 2018-005), and whether the requirements and guidance in this PCAOB standard could or should also be incorporated into the ASB’s proposed SAS to enhance audit quality for audits of nonissuers. Convergence to ISA 540 (Revised) brings the following integral concepts to the proposed SAS:</p> <ul style="list-style-type: none"> • The enhancement and ability to provide for a more granular risk assessment process over accounting estimates, which will support the auditor’s efforts to drive targeted procedures that are responsive to the granular risk assessment, leading to improvements in the quality of our audit. This includes more focus on identifying the factors driving estimation uncertainty, complexity, and subjectivity and potential 	Supportive

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			management bias, in addition to added emphasis for an auditor to understand the entity and its environment and internal control in relation to accounting estimates. Targeting the auditor’s work efforts based on their risk assessment, in particular focusing the auditor’s attention on those matters that are the most difficult to audit and particularly unique to the auditing of accounting estimates, is the appropriate way forward.	
			<ul style="list-style-type: none"> The incorporation of scalability, specifically as it relates to how the requirements of the proposed SAS can be achieved depending on whether the accounting estimate is relatively simple or complex. Tailoring the extent of procedures will enable auditors to appropriately address the increasingly complex scenarios that arise from new accounting standards that include accounting estimates while also considering those more simplistic scenarios that exist for certain other accounting estimates. This will allow the auditor to appropriately execute on the requirements of the proposed SAS while also considering the nature and circumstances relevant to each individual accounting estimate. Demonstrating how auditors can achieve this level of scalability in the U.S. environment, particularly for simpler accounting estimates, through supplemental materials 	

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			<p style="text-align: center;">that include specific examples will be useful in the effective implementation of the proposed SAS.</p> <p>Considerations Regarding Audit Evidence</p>	
			<p>As highlighted in the Explanatory Memorandum to the proposed SAS, in finalizing ISA 540 (Revised), the International Auditing and Assurance Standards Board (IAASB) issued a series of conforming amendments to other ISAs, including conforming amendments to ISA 500, Audit Evidence (ISA 500). The ASB determined that rather than proposing amendments to AU-C section 500, Audit Evidence (AU-C section 500) as part of this proposed SAS, the conforming amendments would be made as part of the proposed SAS, Audit Evidence. While the proposed SAS, Audit Evidence, includes substantially all the IAASB's conforming amendments to ISA 500, there are differences, as well as certain changes, that have been made to the ISA 500 conforming amendments. D&T provided comments and recommendations pertaining to these conforming</p>	<p>Provide comments to Evidence task force</p>
			<p>amendments in our September 18, 2019, comment letter to</p>	

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			the ASB for the proposed SAS, Audit Evidence, as in certain instances wording changes were made that we believe are unnecessary, alter the intended meaning of the requirements and guidance, and will have unintended consequences when contemplated in the context of this proposed SAS. These are summarized in Appendix III. We recommend these be addressed as part of finalizing the proposed SAS, Audit Evidence, or if not, be addressed as part of this proposed SAS.	
8E-11	Nodes\general\general supportive	12 - GAO Comments on Estimates	We support the American Institute of Certified Public Accountants' Auditing Standards Board's (ASB) efforts to converge the standards for auditing accounting estimates with those of the International Auditing and Assurance Standards Board (IAASB). We agree that the differences between the ASB's proposed standard and the IAASB's standard will not result in substantive differences in application. We are responding to the ASB's questions included in the explanatory memorandum accompanying the exposure draft.	Supportive

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			In addition, we have noted other revisions and edits that we believe will improve the final standard.	
8E-12	Nodes\general\general supportive	13 - - Wipfli and Mind the GAAP	<p>We support the AICPA’s efforts to converge U.S. auditing standards with those promulgated by the International Auditing and Assurance Standards Board (IAASB) and understand the reasons for using the IAASB’s ISA 540 (Revised) as the starting point for Exposure Draft. However, this approach made it difficult for us to understand clearly what the Auditing Standards Board is proposing to change from current U.S. auditing standards. In the future, we would recommend that the Auditing Standards Board prepare a redlined document comparing the current and proposed auditing guidelines and/or a summary document identifying any significant changes from the current auditing guidance to that being proposed in the Exposure Draft.</p> <p>In addition, the background to the Exposure Draft indicates that the Auditing Standards Board monitored recent Public Company Accounting Oversight Board (PCAOB) projects in the area of auditing estimates. However, it is unclear to us how the Exposure Draft considered those recent PCAOB activities and what, if any, differences will remain with PCAOB auditing standards if the Exposure Draft is adopted in its proposed form. Again, in future standard setting activities, we urge the Auditing Standards Board to include as part of the materials made available for comment a summary</p>	Supportive

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			of any remaining differences between its proposals and extant PCAOB auditing standards.	
8E-13	Nodes\\general\\general supportive	14 - NYSSCPA	General Comments We are generally supportive of the proposed SAS.	Supportive
8E-14	Nodes\\general\\general supportive	18 - GT	We support the Board’s undertaking to enhance the auditing standard related o accounting estimates, and we agree with the Board’s approach to converge this standard with the corresponding international auditing standard. As accounting estimates become more prevalent and complex in financial statements, we believe it is important to have a generally consistent approach to auditing across various jurisdictions so that auditors are not challenged by different requirements for a single, global audit.	Supportive
8E-15	Nodes\\general\\general supportive	19 - EY	As part of a global network of firms that uses one Global Audit Methodology (GAM) that is based on the International Standards on Auditing (ISAs), we support the ASBs efforts	Supportive

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			<p>to converge its standards with those of the International Auditing and Assurance Standards Board (IAASB).</p> <p>We believe the proposed SAS is generally in alignment with the Public Accounting Oversight Board (PCAOB) standards, which would reduce the risk of different conclusions being reached when audits are performed under PCAOB and AICPA standards. However, we recommend that the Board consider providing more guidance to address the use of specialists and third-party pricing information in auditing estimates.</p>	<p>At the January 2020 ASB meeting the ASB acknowledged that a separate project relating to AU-C 501 would be considered that will take into consideration the guidance in appendix A, “Special Topics” of PCAOB Release 2018-005 as well as the use of management specialists.</p>
8E-16	Nodes\\general\general supportive	22 - TIC	<p>TIC appreciates the effort of the Auditing Standards Board (ASB) to consider the revisions to auditing accounting estimates resulting from the IAASB and PCAOB projects in developing the changes to generally accepted auditing standards (GAAS) described in this ED. Generally, TIC agrees that the proposed changes will help auditors to perform appropriate audit procedures relating to auditing accounting estimates and related disclosures and will drive auditors to exercise professional skepticism, thereby improving audit quality.</p>	Supportive

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8E-17	Nodes\\general\general supportive	26 - BDO	We support of the Board’s overall strategy to converge AU-C section 540 with the International Auditing and Assurance Standards Board (IAASB) issued International Standard on Auditing (ISA) 540 (Revised), Auditing Accounting Estimates and Related Disclosures, and we appreciate the Board’s considerations of the amendments by the Public Company Accounting Oversight Board (PCAOB) to its standards for auditing accounting estimates and fair value measurements.	Supportive
8E-18	Nodes\\general\general supportive with comments	01 - TN State	On behalf of the Tennessee Department of Audit, Division of State Audit, we thank the Auditing Standards Board for the opportunity to comment on the Exposure Draft (ED), Auditing Accounting Estimates and Related Disclosures. We generally agree with the board’s proposals. In regard to the specific request for comments, our responses follow:	Supportive
8E-19	Nodes\\general\general supportive	28 - KPMG	Further Consideration of Convergence with PCAOB AS 2501 Both the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting	At the January 2020 ASB meeting the ASB acknowledged that a separate

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	with comments		<p>Oversight Board (PCAOB) recently adopted new standards on auditing accounting estimates. Throughout their standard setting processes, both boards recognized that auditor challenges in this area are tied to inherent risk factors such as subjectivity, complexity and uncertainty and that audit response is to be appropriately designed depending on the assessed risk of material misstatement. We agree and further believe that the above-referenced inherent risk factors are not driven by the size of the entity or its status as a public or private company. For this reason, not only is convergence with the IAASB’s ISA 540 (Revised) important but further consideration of the PCAOB’s AS 2501 appears both necessary and desirable. Our specific suggestions in this regard are discussed throughout this letter.</p> <p>Further Consideration of Impact of the Proposed Audit Evidence Standard on This Proposed Standard</p> <p>Our comment letter on the Audit Evidence Exposure Draft provided our thoughts regarding how information, both internal and external, should be evaluated. While we did not object to the proposed definition of external information sources, including the related application material included in Appendix A, a number of our other comments on the proposed standard on audit evidence will likely affect the application material of this Exposure Draft. In particular, in our response to question 3 of the specific request for</p>	<p>project relating to AU-C 501 would be considered that will take into consideration the guidance in appendix A, “Special Topics” of PCAOB Release 2018-005 as well as the use of management specialists.</p>

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			comment below, we provide our reasons for requesting that the Board evaluate the need for more specific guidance related to auditors’ use as audit evidence of pricing information from third-party sources, considering the guidance in Appendix A – Special Topics of AS 2501.	
			In addition, the Audit Evidence Exposure Draft indicates that the Board is considering whether to relocate content related to the auditor’s use of the work of management’s specialists to another AU-C section. While a specific section and amendments, if any, have not yet been exposed, we have identified certain requirements and application material regarding the work of management’s specialists in this Exposure Draft that we believe require further consideration as part of the Board’s work on both the Exposure Draft and the Audit Evidence Exposure Draft.	At the January 2020 ASB meeting the ASB acknowledged that a separate project relating to AU-C 501 would be considered that will take into consideration the guidance in appendix A, “Special Topics” of PCAOB Release 2018-005 as well as the use of management specialists.
8E-20	Nodes\\general\\general supportive	28 - KPMG	While we are generally supportive of the Proposed Standard as exposed, in addition to our responses to those questions posed by the Board, we respectfully request the Board’s further consideration of whether further convergence with	At the January 2020 ASB meeting the ASB acknowledged that a separate

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	with comments		PCAOB Auditing Standards (AS) would benefit practitioners, and the interrelationship of this Exposure Draft with the Board’s Exposure Draft of the Proposed Standard, Audit Evidence (Audit Evidence Exposure Draft).	project relating to AU-C 501 would be considered that will take into consideration the guidance in appendix A, “Special Topics” of PCAOB Release 2018-005 as well as the use of management specialists.
8E-21	Nodes\\Title	19 - EY	We recommend the following edit to the title of the SAS: <u>Auditing Accounting Estimates, Including Fair Value Measurements</u> , and Related Disclosures	Discussed at the January 2020 ASB meeting. The ASB concluded that the title to align with ISA 540 (Revised) and not to include fair value measurements in the title. The ASB believes it is adequately addressed in the scope section. No change made.

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8E-22	General	29 - ABA	<p>We are commenting on this Proposal due to the potential implications the final standard may have on audits of banks. Along with the recent auditing proposed auditing standard on audit evidence, the Proposal addresses key issues that banks will face from auditors as a result of the Current Expected Credit Loss (CECL) accounting standard for the measurement of credit losses.^{1 2} Along with its impact on audit evidence, CECL changes the nature of the accounting estimate – now one that forecasts future credit events that do not conform to any market consensus – and will put to the test many of the estimation concepts discussed in the Proposal. The CECL allowance is expected to often be highly subjective and, therefore, subject to significant possible management bias. The range of reasonably possible CECL estimation outcomes will normally be multiples of materiality. It is through this lens that ABA views this Proposal</p>	

¹ The Financial Accounting Standards Board (FASB) issued the “Current Expected Credit Loss” accounting standard (Accounting Standards Update 2016-13) in June 2016 and is effective for SEC registrants on January 1, 2020.

² See the ABA comment letter to the Proposed Statement on Auditing Standards – Audit Evidence at <https://www.aba.com/advocacy/policy-analysis/comment-letter-to-aicpa-on-audit-evidence>

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			<p>Based on the recent delay of the effective date of CECL for most companies, ABA believes this standard will apply mainly to audits starting in 2023. With that in mind, however, CECL implementation will be a long and costly process for smaller institutions, many of whom are in the midst of making investment decisions related to systems needed to support CECL processes. Conflicting messages coming from FASB, the banking agencies, and auditing and consulting firms, have many institutions hesitating in their implementation decisions. The final standard should provide some clarity on auditing expectations.</p>	
			<p>Specifically, the ASB should address how the final standard would address audits of smaller institutions. The nature and extent of the evidence smaller banks believe they will need to provide to their auditors will highly influence how they will configure not only their CECL estimate models but also the operational systems that feed into their models. Addressing smaller banks, therefore, should be a priority in an Accounting and Auditing Guide. However, just as with what has been proposed regarding “professional skepticism,” we believe this issue should also be directly integrated into future auditing standards, such as this one. This is a major point that was made in our comment letter related to the Audit Evidence proposal.</p>	<p>Task force to share comment with evidence task force. Proposed SAS is scalable based on complexity of estimate and not the size of the entity.</p>

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8E-23	General	30 - PWC	We support the Auditing Standards Board’s (ASB) objective of convergence with the International Auditing and Assurance Standards Board (IAASB)’s revised ISA 540, <i>Auditing Accounting Estimates</i> . In determining what revisions to AU-C section 540 are necessary in the context of the US environment, we also support the ASB’s consideration of the Public Company Accounting Oversight Board (PCAOB)’s AS 2501 (Revised), <i>Auditing Accounting Estimates, Including Fair Value Measurements</i> . These standards are intended to improve audit quality by strengthening how auditors evaluate the methods, assumptions, and data used by management in developing accounting estimates.	Supportive
			The proposed SAS will be applicable to a wide range of accounting estimates. We appreciate the ASB’s efforts to embed concepts related to scalability within the proposed SAS. We encourage the ASB to consider, based on feedback to the exposure draft, whether additional guidance is necessary to demonstrate how the proposed SAS would be expected to apply to less complex estimates.	Supportive with comments Noted.
			We also believe it will be important for the AICPA to develop a process to make timely updates to the various Accounting and Auditing Guides that contain incremental guidance on accounting estimates to ensure the guides are consistent with the proposed SAS.	Supportive with comments Noted.

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			<p><i>Consideration of PCAOB standard-setting activities</i></p> <p>We appreciate the ASB’s consideration of the PCAOB’s changes to its standard addressing estimates in developing the proposed SAS. In revising its estimates standard, the PCAOB concurrently amended other standards to better address the use of the work of company specialists and auditor specialists. We encourage the ASB to consider whether similar enhancements to its suite of standards would be appropriate.</p>	<p>At the January 2020 ASB meeting the ASB acknowledged that a separate project relating to AU-C 501 would be considered that will take into consideration the guidance in appendix A, “Special Topics” of PCAOB Release 2018-005 as well as the use of management specialists.</p>

