

## Agenda Item 1B



### Table of Comments: General, Questions 1 & 2

Topic	Respondent	Comment
General		General
General	01 TN State Audit	We generally agree with the board's proposals. Regarding the proposed revisions to AU-C Section 501 (pages 9–14), we support the board's amendments to various application material paragraphs proposed to provide guidance on applying SAS 143 when management has used the work of a specialist in making accounting estimates, as well as other proposed amendments to enhance guidance about evaluating the work of the management's specialist. We support the board's goal of enhancing audit quality and believe these amendments should enhance that
General	04 FMSB import	We generally agree with the ED and with the proposed implementation date.
General	05 CLA	CLA agrees with the ASB that the principles-based requirements in generally accepted auditing standards (GAAS) encompass all principles underlying the actions required by the PCAOB. CLA also agrees that the PCAOB requirements that are more detailed than the equivalent GAAS requirements are more prescriptive than appropriate for principles-based standards.
General	06 Jose Chacon	I would like to thank you for the opportunity to comment on this exposure draft. I have reviewed the suggested changes carefully and have concluded that these updates will indeed provide a better understanding in general. Also, eliminate misinterpretations that may have been arising currently. The proposed amendments to various application material paragraphs, are expected to provide better guidance when applying SAS No.143. The proposed addition of an appendix to section 540 also helpful. Finally, amendments to various application paragraphs in AU-C section 620 are proposed to enhance the guidance related to using the work of an auditor's specialist. The posted changes to take effect are believed to help the process in general and accommodate for the evolving needs of auditors' guidance. It is always challenging to adopt new changes but when the need is evident guidance is indispensable.
General	07 MI Auditor General	We generally agree with the ED and with the proposed effective date.
General	09 Deloitte	Consideration of PCAOB Release No. 2018-006  We are supportive of the ASB's proposed amendments to enhance guidance on evaluating the work of a management's specialist within AU-C section 501, <i>Audit Evidence — Specific Considerations for Selected Items</i> , which are based on material in PCAOB Release No. 2018-006, <i>Amendments to Auditing Standards for Auditor's Use of the Work of Specialists</i> . However, while we generally agree that the principles-based requirements in GAAS encompass all the principles underlying the procedures required by the PCAOB standard, we believe certain items in Appendix A of PCAOB AS 1105, <i>Audit Evidence</i> , should also be included in AU-C section 501. Refer to Appendix II below for more details on our specific suggestions.
General	13 BDO	We are supportive of the issuance of the proposed SAS and find the various enhancements to the application materials in the above standards to be helpful, particularly with respect to the auditor's use of pricing information obtained from external information sources including pricing services, as audit evidence.

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General	15 NSAA	Overall, we are in general agreement with the proposed amendments to AU-C Sections 501, 540, and 620.
General	16 EY	We believe the proposed SAS generally would align with the PCAOB's standards and, as a result, reduce the risk of different conclusions being reached in audits performed under the standards of the PCAOB and the American Institute of Certified Public Accountants.
General	17 KPMG	We were among the commenters to the exposure draft of SAS No. 143, Auditing Accounting Estimates and Related Disclosures (SAS No. 143 exposure draft) who urged the Board to further consider the PCAOB's requirements for auditors' use of pricing information from third parties as part of modernizing the auditing fair value measurement content that was previously based upon AU-C section 501, Audit Evidence—Specific Considerations for Selected Items. We agree with the Board's view that the risk of material misstatement of the valuation of the same financial instrument does not differ based on whether the entity is an issuer or nonissuer. We also observe that the use of pricing information from third parties, such as pricing services and brokers and dealers, has grown significantly in recent years. Therefore, as explained further below, we believe that the proposed amendments related to the use of pricing information will help auditors evaluate the relevance and reliability of such when auditing estimates related to the fair value of financial instruments.
General	19 VA	We agree with the proposed changes to the existing standards and believe the changes will improve consistency of audit practice regarding the use of specialists and pricing information used from external sources.
Agree	01 TN State Audit	We agree the incorporation of Appendix A is appropriate.  The Group agrees that the proposed amendments to incorporate Appendix A of AS 2501 are appropriate. Comment letters received during the exposure draft for SAS No. 143 "Auditing Accounting Estimates and Related Disclosures" suggested the ASB consider the need for more specific guidance related to the auditors' use of pricing information obtained from third party resources, citing the requirements of AS 2501. When SAS 143 was issued, it did not incorporate the comment letter suggestions to include specific guidance. It is our view that this guidance is needed and relevant in evaluating the relevance and reliability of that information.
Agree	02 NJSCPAs	
Agree	03 TIC	Yes, TIC believes the proposed requirements are consistent with procedures that would be performed by auditors to comply with the principles-based requirements in AU-C 540 when using pricing information from third parties as audit evidence for estimates related to the fair value of financial instruments.
Agree	04 FMSB import	Yes, we consider the proposed guidance as beneficial, as it informs auditors of factors to consider and procedures to complete when assessing the reliability of pricing information.
Agree	05 CLA	CLA agrees that the proposed amendments to incorporate appendix A, "Special Topics," of AS 2501 as guidance to AU-C section 540 is appropriate because such a format is consistent with principles-based standards.
Agree	06 Jose Chacon	Yes, The incorporation of Appendix A "Special Topics" is of much importance and extremely relevant. This is because of the increasing changes and the need to accommodate for the same. The amendments are indeed appropriate and provide a much clear guidance and with that eliminate any misconception of related topics.
Agree	07 MI Auditor General	Yes, we consider the proposed guidance as beneficial, as it informs auditors of factors to consider and procedures to complete when assessing the reliability of pricing information.
Agree	08 FICPA	The Committee agrees the proposed amendments to incorporate appendix A, "Special Topics," of AS 2501 as appendix guidance to AU-C section 540 are appropriate. The Committee agrees with the decision to include the guidance as an appendix.
Agree	09 Deloitte	Yes. We agree that the proposed amendments to incorporate appendix A, "Special Topics," of AS 2501 as guidance to AU-C section 540 is appropriate as we believe it would provide helpful

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		guidance for practitioners when using pricing information from third parties as audit evidence for estimates related to the fair value of financial instruments.
Agree	10 GT	We support the proposed amendments to incorporate appendix A of AS 2501 as guidance into AU-C section 540. The auditor’s use of pricing services historically has been a challenging audit area, and we believe this guidance would not only provide helpful direction to auditors, but also would enhance audit quality in this area. Nevertheless, we have paragraph-level recommendations in the next section of this letter that we believe can further improve the understandability of the proposed guidance.
Agree	11 CalCPA	Yes, the Committee believes the information in Appendix A of Topic AS 2501 provides more specific guidance to auditors and therefore, believe it should be incorporated into AU-C Section 540.
Agree	12 ALGA	We agree that the proposed amendments to incorporate appendix A, “Special Topics,” of AS 2501 as guidance to AU-C section 540 are appropriate.
Agree	13 BDO	We believe the proposed amendments to AU-C section 540 are appropriate.
Agree	14 RSM US	Yes. We agree that the proposed amendments to incorporate appendix A, “Special Topics,” of Public Company Accounting Oversight Board Auditing Standard (AS) 2501 as guidance to AU-C section 540 are appropriate. We believe the availability of this guidance on the use of pricing information from third parties as audit evidence will be helpful to auditors.
Agree	15 NSAA	We agree that the proposed amendments to incorporate appendix A, “Special Topics,” of AS 2501 as guidance to AU-C section 540 are appropriate. We consider the guidance on the use of pricing information obtained from external information sources as beneficial as it informs auditors of factors to consider and procedures to complete when assessing the reliability of pricing information.
Agree with comments	16 EY	We support the key concepts in the proposed amendments to incorporate Appendix A, “Special Topics,” of PCAOB Auditing Standard (AS) 2501 into AU-C guidance. However, we recommend that the proposed amendments be more appropriately incorporated into AU-C section 500, since the proposed changes to AU-C 540 would address evaluating the relevance and reliability of pricing information obtained from external information sources, which is also the objective of the guidance on external information services in AU-C 500. We believe it is unclear whether Appendix C to AU-C 540 incorporates all the necessary considerations or whether the guidance needs to be considered together with AU-C section 500. For example, each of the factors listed in paragraph 3 of the proposed Appendix C to AU-C 540 could be mapped to similar factors in paragraph 7 of Appendix A to AU-C 500. To avoid confusion over which guidance to apply and prevent diversity in practice, we recommend including the proposed amendments in Appendix C to AU-C 500.
Agree with comments	17 KPMG	We believe the Board’s two specific requests for comment are inter-related and, therefore, we are providing our perspective regarding the proposed incorporation of content from Appendix A, “Special Topics,” of AS 2501 (the PCAOB Content) into US GAAS as follows: <ul style="list-style-type: none"> <li>— The PCAOB performed extensive outreach to understand how pricing information from third parties such as pricing services and brokers or dealers is developed and disseminated, and determined that pricing services that provide a uniform product on a subscription basis are different than a specialist. We believe that the Board should leverage this outreach by incorporating the proposed Appendix D into its application material. The PCAOB Content does not impose requirements that are incremental to the requirements of AU-C section 540, rather it provides incremental guidance regarding the requirement to determine the relevance and reliability of third-party pricing information.</li> <li>— We recommend that additional references be added within AU-C section 500 and AU-C section 540 to the additional application material in the proposed Appendix D to AU-C section 540. We believe that our suggestions for such references between existing</li> </ul>

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		<p>requirements and the revised application material, as shown in the tables below, sufficiently enhance the expectations of practitioners and obviate the need for additional requirements.</p> <ul style="list-style-type: none"> <li>— Referring to more detailed requirements in application material is a style of drafting used elsewhere in US GAAS. For example, AU-C section 505, <i>External Confirmations</i>, specifies requirements in paragraph 7 for the auditor to maintain control. Although the requirements do not say the auditor verifies the address, the related application paragraph A7 provides that explicit instruction.</li> <li>— Pricing services and brokers or dealers are external information sources as contemplated by AU-C section 500. The auditor is not the primary customer of pricing services. For example, the SEC’s December 2020 Final Rule under the Investment Company Act of 1940, “Good Faith Determinations of Fair Value,” acknowledges the important role played by pricing services and requires the board or valuation designee of a mutual fund to provide oversight. The proposed content for Appendix D to AU-C section 540 directs an auditor as to “how” to evaluate the relevance and reliability of the information when auditing accounting estimates related to the fair value of financial instruments.</li> </ul>
Agree with comments	18 PwC	In principle, yes. In accordance with paragraph 7 of the recently revised AU-C section 500, Audit Evidence, in evaluating information to be used as audit evidence, the auditor is required to take into account the relevance and reliability of that information, including its source. New Appendix A of AU-C section 500 is clear that pricing services are included in the definition of an external information source, and provides specific considerations regarding the use of external information sources to assist the auditor in applying the requirement in paragraph 7. We believe the ASB’s intent in proposing Appendix C to AU-C section 540 is to provide additional guidance specific to using information from third parties, including pricing services. Accordingly, it is important that any new material in AU-C section 540 addressing pricing services and brokers or dealers does not conflict with AU-C section 500, and that users of the standards understand all requirements and guidance that may be relevant when considering pricing information obtained from external information sources.
Keep as AM	01 TN State Audit	We do not believe additional requirements are necessary.
Keep as AM	03 TIC	TIC did not see any information included in appendix A that should be included as a requirement but, rather, as an Appendix with implementation guidance for auditors.
Keep as AM	04 FMSB import	No. We consider the existing requirements of standards as sufficient and that the appendix is most appropriately provided as application guidance.
Keep as AM	05 CLA	CLA agrees with the ASB that improvements to audit quality can be achieved with these proposed amendments as additional guidance and that such approach is more consistent with principles-based standards.
Keep as AM	07 MI Auditor General	No. We consider the proposed provision of paragraph 2 of Appendix C which states “...the auditor is required, in accordance with AU-C Section 500, to evaluate whether the pricing information provides sufficient appropriate evidence to respond to the risks of material misstatement taking into account the relevance and reliability of the information including its source” as sufficient such that no further requirement from AS 2501 should be incorporated into the proposed amendments. The remaining portions of the proposed Appendix C provide the necessary factors to consider in evaluating whether the pricing information provides sufficient appropriate evidence.
Keep as AM	08 FICPA	The Committee does not believe any of the paragraphs of appendix A, “Special Topics,” of AS 2501 should be implemented as requirements. The Committee agrees with the conclusion of the ASB that the principles-based requirements of Generally Accepted Auditing Standards (GAAS) encompass all the principles underlying actions required by the Public Company Accounting Oversight Board (PCAOB). Additionally, the Committee concurs with the ASB that the more

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		detailed PCAOB requirements are more prescriptive than appropriate for principles-based auditing standards.
Keep as AM	09 Deloitte	No. We do not believe the amendments to incorporate appendix A, “Special Topics,” of AS 2501 into AU-C section 540 should be included as requirements. We support including this content as application material rather than as requirements because (1) doing so would avoid creating a divergence from the requirements of ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures; and (2) we believe the prescriptive requirements of appendix A, “Special Topics,” of AS 2501 are consistent with what a practitioner would perform for audits of a nonissuer under the principles-based requirements of AU-C section 540—therefore, including additional requirements in AU-C section 540 is not necessary.
Keep as AM	10 GT	We do not agree with incorporating any paragraphs from appendix A into AU-C section 540 as requirements. We believe that the guidance is sufficient and that specific requirements would be too prescriptive for the principles-based approach that is currently set forth in AU-C section 540.
Keep as AM	11 CalCPA	We agree with the ASB that incorporating additional requirements into AU-C would be redundant and inconsistent with a principles based auditing standard.
Keep as AM	13 BDO	We find the amendments to incorporate appendix A, “Special Topics”, of AS 2501 into AU-C section 540 to be appropriately designated as application material. We do not believe that any of the content introduced in this appendix should be included as requirements No. We do not believe the amendments to incorporate appendix A, “Special Topics,” of AS 2501 into AU-C section 540 should include requirements. We believe that, because AU-C section 540 is a principles-based standard, it is appropriate to include the appendix, “Use of Pricing Information From Third Parties as Audit Evidence,” as application guidance for auditor consideration, leaving latitude for each firm or engagement team to use professional judgment in deciding how to most appropriately use pricing information from third parties as audit evidence for the particular estimate or disclosure being audited. For example, many audit firms conduct due diligence on the pricing services they use, including by gaining an understanding of how the service prices each type of security. However, other firms may deem it more appropriate to obtain pricing information from multiple pricing services when the conditions within the guidance are met, without performing additional audit procedures, including evaluating the appropriateness of the valuation method and the reasonableness of observable and unobservable inputs for a representative price for the type of financial instrument being valued. Therefore, it is helpful that the appendix provides direction, but not requirements, for: <ul style="list-style-type: none"> <li>• Situations in which pricing information is obtained from one pricing service, and the auditor performs certain audit procedures, including, but not limited to, evaluating the appropriateness of the valuation method and the reasonableness of observable and unobservable inputs for a representative price for the type of financial instrument being valued;</li> <li>• Situations in which there is reasonably consistent recent pricing information available from several (that is, more than two) sources with observable inputs, and pricing information is obtained from multiple pricing services (that is, more than one);</li> <li>• Using pricing information from a broker or dealer; and</li> <li>• Obtaining an understanding of how unobservable inputs were determined, and evaluating the reasonableness of unobservable inputs, when the valuation of a financial instrument includes unobservable inputs that are significant to the valuation.</li> </ul>
Keep as AM	14 RSM US	
Keep as AM	15 NSAA	We agree with the Board that the existing requirements of standards are sufficient, and that the appendix is most appropriately provided as application guidance. We do not believe the amendments to incorporate Appendix A, “Special Topics,” of AS 2501 into AU-C guidance should include requirements. However, we believe the proposed concepts outlined in Appendix A to AU-C section 540 paragraphs 10-11, “Using Pricing Information from Multiple Sources,” could have a meaningful impact on practice.
Keep as AM	16 EY	

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		Specifically, the proposed amendments would include several factors, whereas AS 2501 includes these factors as <i>conditions</i> that are required before the auditor could consider obtaining less information about the particular methods and inputs used by the individual pricing services. To avoid confusion and prevent diversity in practice, further guidance may be needed to clarify how auditors could apply these proposed factors to scale their procedures when pricing information is obtained from multiple pricing services.
Keep as AM	17 KPMG	The PCAOB performed extensive outreach to understand how pricing information from third parties such as pricing services and brokers or dealers is developed and disseminated, and determined that pricing services that provide a uniform product on a subscription basis are different than a specialist. We believe that the Board should leverage this outreach by incorporating the proposed Appendix D into its application material. The PCAOB Content does not impose requirements that are incremental to the requirements of AU-C section 540, rather it provides incremental guidance regarding the requirement to determine the relevance and reliability of third-party pricing information.
Keep as AM	18 PwC	<p>No, we do not believe requirements based on AS 2501 should be included in AU-C section 540. In practice, we believe that the auditor’s efforts to evaluate information to be used as audit evidence from third-party pricing sources likely would not fundamentally differ between audits of public companies and private companies. However, we are cognizant that proposed Appendix C in AU-C section 500 related to evaluating information from external information sources does not establish specific requirements and instead provides flexibility for auditors to consider the nature and extent of work necessary in the circumstances to comply with the requirement in paragraph 7 of AU-C section 500 to evaluate information to be used as audit evidence. Additionally, paragraph A17 of AU-C section 500 specifically notes that “taking into account the reliability of such information in accordance with paragraph 7 of AU-C section 500 is influenced by the nature and credibility of the source of the external information, the assessed risk of material misstatement to which that external information is relevant, and the degree to which the use of that external information is relevant to the reasons for the assessed risk of material misstatement.” Paragraph A22 of AU-C section 500 also specifies that the reliability of audit evidence depends on the source of the audit evidence, and paragraph A27 provides guidance that the auditor’s evaluation of the reliability of evidence depends on several attributes, including the auditor’s assessment of the accuracy, completeness, authenticity, and susceptibility to management bias. In our view, this sets out an appropriate principles-based framework related to evaluating information to be used as audit evidence.</p> <p>Accordingly, we believe it would be inappropriate to establish specific requirements relating to evaluating information from pricing services. However, proposed Appendix C should be clear that the requirement in paragraph 7 of AU-C section 500 applies. See our proposed edits in Section A of the appendix to this letter.</p>
Make requirements	02 NJSCPAs	The Group believes that all the requirements in Appendix A of AS 2501 should be included as part of AU-C section 540, as they are equally applicable to non-filers. Paragraphs A4 through A10 of AS 2501 should be included as they will enable the auditor to assess the terms and characteristics of the financial instruments, evaluate the extent to which fair value is based on inputs that are observable directly or indirectly, and analyze other factors affecting the valuation
Make requirements	06 Jose Chacon	<p>Yes, The amendments to incorporate Appendix A, “Special Topics” of As2501 into AU-C section 540 should include requirements. The paragraph below is recommended to be included.</p> <p>“.A1 To identify and assess risks of material misstatement related to the fair value of financial instruments, the auditor should obtain an understanding of the nature of the financial instruments being valued. Matters that the auditor should take into account include:</p> <p>The terms and characteristics of the financial instruments; The extent to which the fair value of the type of financial instruments is based on inputs that are observable directly or indirectly; and Other factors affecting the valuation of the financial instruments, such as credit or counterparty risk, market risk, and liquidity risk.”</p>

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Make requirements	12 ALGA	We agree with mirroring the language of AU-C section 540 to that of AS 2501. As currently proposed, paragraphs of AU-C section 540 are documented as areas for auditors to consider, but in AS 2501 are documented as presumptively mandatory requirements (use of the word “should”). We believe that strengthening the following paragraphs to reflect presumptively mandatory requirements will improve auditors’ ability to assess the reliability of audit evidence obtained from external information sources: Paragraphs 4, 5, 7, 9, 11, 13, 14, 15