Federal Deposit Insurance Corporation
Board of Governors of the Federal Reserve System
Office of the Comptroller of the Currency

September 20, 2017

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

RE: PCAOB Rulemaking Docket Matter No. 043 – *Proposed Auditing Standard – Auditing Accounting Estimates, Including Fair Value Measurements, and Proposed Amendments to PCAOB Auditing Standards*

Dear Office of the Secretary:

The staffs of the federal banking agencies (the agencies) appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) *Proposed Auditing Standard – Auditing Accounting Estimates, Including Fair Value Measurements, and Proposed Amendments to PCAOB Auditing Standards*. We believe proposed Auditing Standard (AS) 2501 on auditing estimates (Proposed Standard) and related proposed amendments to other auditing standards will improve the quality and the consistency of audits in this important area, reinforce the need for auditors to apply professional skepticism, and enhance market discipline.

The agencies support the PCAOB's efforts to enhance the existing auditing standards on accounting estimates, including fair value measurements. Accounting estimates, particularly those regarding the allowance for loan losses and fair value measurements, have a significant impact on the financial positions and results of operations of financial institutions. High-quality external audits play an important role in ensuring the reliability of institutions' financial information and contribute to financial stability.

The Proposed Standard clearly articulates the objectives and responsibilities of the auditor with regard to estimates, and we believe it will heighten the quality of audits. In particular, we support the explicit reference in AS 2501.04 of the Proposed Standard to proposed amended AS 2110, *Identifying and Assessing Risks of Material Misstatement*, and its requirement for auditors to obtain an understanding of the company's processes by which accounting estimates are developed. We also support the proposed changes to

AS 2110.28, which specifically reference obtaining an understanding of the methods, data, and assumptions a company used to develop accounting estimates as well as the extent of the company's use of specialists or other third parties. Obtaining this understanding promotes a robust risk assessment, which is critical to sound auditing of accounting estimates.

The agencies note that the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, in June 2016. This new accounting standard introduces the current expected credit losses methodology (CECL) for estimating allowances for credit losses, replacing today's incurred loss methodology when the new standard takes effect. The FASB's new standard can be adopted as early as the first quarter of 2019. Therefore, we encourage the PCAOB to finalize and issue the Proposed Standard as expeditiously as possible so it is available to auditors when planning audits of financial statements in which ASU 2016-13 has been implemented.

The modeling of many estimates, including CECL, requires management to consider forward-looking information. In this regard, we recommend that AS 2501.16 and .17 of the Proposed Standard be augmented with supplemental guidance, such as in a second appendix to AS 2501, to address the factors the auditor should consider when evaluating the reasonableness of forward-looking information, including forecasts.

The agencies recognize that the Proposed Standard on auditing accounting estimates is applicable to all accounting estimates, not solely the allowances for credit losses to be estimated under CECL. However, given the significance of allowances for credit losses to the financial statements of financial institutions, the agencies strongly encourage the PCAOB to consider issuing additional guidance specifically addressing auditing CECL estimates to support the initial audits of these estimates at public companies. This guidance could then be reviewed and, to the extent appropriate, updated after preparers, auditors, and inspectors have gained some experience with the new accounting standard. We believe such additional guidance is needed because of the subjective assumptions, measurement uncertainty, and management judgment necessary to estimate expected credit losses.

The agencies believe the PCAOB's outreach efforts and public discussions on the Proposed Standard have been beneficial. We encourage the PCAOB to continue to coordinate with other standard setters, particularly the American Institute of Certified Public Accountants' Auditing Standards Board and the International Auditing and Assurance Standards Board, to promote international consistency in auditing accounting estimates.

We would be pleased to discuss in more detail our views on the Proposed Standard.

Sincerely,

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