MAZARS

August 30, 2017

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

Re: PCAOB Release No. 2017-002 Rulemaking Docket Matter No. 043 Proposed Auditing Standard − *Auditing Accounting Estimates, Including Fair Value Measurements and Proposed Amendments to PCAOB Auditing Standards*

Dear Members of the Board and Staff:

Mazars USA LLP ("Mazars") welcomes the opportunity to comment on PCAOB Release No. 2017-002 Rulemaking Docket Matter No. 043 Proposed Auditing Standard − *Auditing Accounting Estimates, Including Fair Value Measurements* and Proposed *Amendments to PCAOB Auditing Standards* ("Docket 043"). Mazars appreciates the PCAOB's efforts since the issuance of Staff Consultation Paper ("SCP"), *Auditing Accounting Estimates Including Fair Value Measurements*. We recognize the Board's considerations of the feedback received from the SCP, the numerous discussions with the members of the Standing Advisory Group of the PCAOB, and the data gathering and analysis from recent inspections and available economic information. We continue to support the PCAOB for the proposed combination of audit standards and amendments to certain other standards to enhance the overall quality of auditing accounting estimates, including fair value measurements.

Mazars is a firm with over 100 partners and 700 professionals across the United States ("U.S."), an independent member firm of the Mazars Group, an organization with over 18,000 professionals in more than 79 countries around the world, and a member of Praxity, a global alliance of independent firms. As a U.S. registered public accounting firm, and a member of an international network, Mazars holds a unique perspective that may differ from those of our international counterparts due to variations in the client population and in the regulatory and litigation environment.

Our views on Docket 043 are driven primarily by our position in the U.S. marketplace as a medium-sized public accounting firm servicing mostly small to mid-size business issuers (accelerated and non-accelerated filers) in a variety of industries, Form 11-K filers, registered investment companies, and broker-dealers. As such, our primary focus is to address our concerns and challenges as they relate to companies with similar characteristics to our current client base as well as to similar accounting firms.

We present our thoughts on Docket 043 in the following categories:

I. Proposed Audit Standard
II. Emerging Growth Companies and Broker-Dealers
III. Risks of Material Misstatements and Risk Assessment
IV. Audit Evidence
V. Estimates and Estimate Ranges
VI. Economic Considerations and Unintended Consequences

VII. Academic Studies
VIII. Effective Date
IX. Conclusion

I. Proposed Audit Standard

The introduction of the proposed auditing standard clearly outlines the scope and provides a clear definition of an accounting estimate. Accounting estimates are challenging to audit due to the subjectivity of the inputs, measurement uncertainty, and built-in management biases. We understand the Board's concerns regarding the application of professional skepticism in identifying and addressing the risk inherent in certain estimates. The current auditing guidance for professional skepticism is contained within multiple auditing standards. We agree with incorporating specific reminders of the auditor's responsibility to challenge managements' assertions with regard to estimates developed and respond with an appropriate audit plan. However, we do not agree that the objective of the proposed standard should include the requirement to assure management's estimates are "free from bias." The proposed auditing standard should adequately guide the auditor to design an audit response that appropriately challenges the accounting estimate and addresses obtaining reasonable assurance that the estimate in the context of the applicable financial reporting framework is not materially misstated.

II. Emerging Growth Companies and Broker-Dealers

The proposed standard should apply to the audits of Emerging Growth Companies ("EGCs") as it would be of particular benefit to audits of EGCs because accounting estimates are common in the financial statements of EGCs. Further, the reasonableness of accounting estimates for EGCs is critical because there is generally less comparable information available to investors regarding such companies.

Our Firm's broker-dealer clients are generally non-clearing introducing broker-dealers ("IBs"). With respect to accounting estimates at our broker-dealer clients, IBs generally have minimal estimates, or in many cases, estimates that do not affect net capital (i.e. estimated useful lives of assets; credit losses as credit is not extended by the IB). Areas addressed by the Board in the proposal that also relate to audits of broker-dealers are embedded elsewhere in this letter relating to different approaches to substantive audit procedures, third-party pricing sources, and estimation methodology.

III. Risks of Material Misstatements and Risk Assessment

Paragraph .10b in Appendix 1 of Docket 043 states that the auditor should evaluate whether the methods used by management to develop accounting estimates are "appropriate for the nature of the related account or disclosure and the business, industry, and environment in which the company operates." While we agree industry and environment should be considered in assessing risk of material misstatement, we do not agree auditors should be required to evaluate whether the method used is appropriate for the industry and environment in which the company operates. We believe that the Board should eliminate its reference to "business, industry, and environment."

Paragraphs .05 - .07 in Appendix 1 of Docket 043 reaffirms that the nature, timing and extent of substantive audit procedures are directly impacted as the risk of material misstatement increases. The audit procedures outlined in paragraph .07 and the additional referenced paragraphs are clear, and the potential for a combination of procedures needed as risk increases is also understandable. However, the guidance is unclear as to how an auditor would precisely apply the new guidance at different levels of risk along a given risk of material misstatement continuum. As a result, what may be deemed an acceptable combination of audit procedures based on the auditor's assessment of risk of material misstatement could lead to inconsistent application of paragraph .07. We believe additional guidance is needed in order for application to be more consistent among auditors as well as for enhanced audit quality.

IV. Audit Evidence

We are appreciative that Docket 043 is responsive to comments received on the SCP about requesting separation of the use of specialists from third-party pricing services. We note, however, that the guidance in Appendix A does not appear to be clear enough about the relevance and reliability of audit evidence obtained from a third-pricing service deemed to be objective and not at all influenced by the issuer.

Paragraph .A2 in Appendix 2 of the Board's proposal states, "The auditor should read available financial statements of the investee to obtain an understanding of…[whether an]…investee's financial statements were audited, [and] whether the report of the investee's auditor indicates that audit was performed under PCAOB standards and expressed an unqualified opinion." The implication is that if the investee auditor audited its financial statements using a recognized standard other than that of the PCAOB that they would not be acceptable audit evidence. The Board should reconsider its intent because of the existence of other reliable recognized audit standards.

When an auditor assesses risk, it is necessary that the engagement team addresses management bias in its development of estimates. The Board proposes an amendment to AS 2110.52 that provides a new requirement for the auditor to include in its engagement team's brainstorming sessions, a discussion of how the financial statements could be manipulated through management bias in estimates of significant accounts and disclosures. Historically, many of our engagement team discussions have also addressed management bias and its potential for material misstatement due to fraud during the planning phase, and we fully agree that the Board's proposed amendment to AS 2110.52 will support improved assessment of risk material misstatement.

V. Estimates and Estimate Ranges

In general, estimates can be characterized in a range from simple to complex. Therefore the auditing of certain complex fair value estimates using an auditor's independently developed range may be significantly more difficult due to high estimation uncertainty than ascertaining the reasonableness of a simple accounting estimate. If a company's estimate falls within an auditor's independently developed range, the auditor should be able to make the determination that the company's estimate is reasonable. However, if the auditor's independently developed range falls outside of his or her established materiality level, the auditor's range should not automatically be rendered inappropriate as the development of independent expectations includes auditor judgment and subjectivity. Therefore, we ask the Board to reconsider its proposed guidance on "range of estimates," so that a range in certain circumstances is not automatically excluded from audit evidence.

Also, the Board proposes in Appendix 3 that the auditor obtain data and assumptions from a third party and to create assumptions independent of those of the company. This guidance is too restrictive and somewhat impractical. In all cases, it may not be possible or necessary to obtain data and assumptions from a third party and to create assumptions independent of those of the company. We ask the Board to maintain unchanged, the extant guidance allowing the auditor to use management's assumptions when developing independent expectations.

VI. Economic Considerations and Unintended Consequences

The implementation of any new auditing standard and amendments to certain other auditing standards will have a disproportionate impact on medium-sized accounting firms and their clients than on the larger firms and their clients. Incremental costs notwithstanding, we support an appropriate balance in the need for change in the current auditing standards for accounting estimates and the Board's continued consideration of our observations on Docket 043, specifically in circumstances where the standard implies onerous or impractical performance obligations.

As stated in Docket 043, the Board acknowledges that imposing new audit requirements may result in additional costs to auditors and their clients with the assumption that at least some of the auditor's costs could be passed on to the client. AS 1105 requires the auditor to obtain sufficient appropriate audit evidence to gain reasonable assurance, not absolute assurance, to support management's assertions presented in the financial statements and the related disclosures. The proposed standards could result in unnecessary, duplicative time and expense to the client and auditor. In addition, no matter the size of the accounting firm, training and implementation costs will be incurred to ensure compliance with the standards.

Further, an unintended consequence of the proposed standards could lead clients to direct their resources away from more complex areas, to avoid the duplication of time and expense, because they perceive that the auditor will spend the time anyway and potentially come up with a proposed adjusted estimate that management can record in the financial statements.

VII. Academic Studies

There is always a benefit from academic studies when considering new auditing standards. We believe the academic studies performed to date have provided meaningful information to consider in developing the proposed auditing standard.

VIII. Effective Date

Implementing a new standard such as the proposed standards in Docket 043 requires training, analysis of the implications on all audit engagements when auditing estimates, including fair value measurements and making adjustments to quality control procedures. We recommend an effective date of years ending at least two years after the SEC approves the final standards. The two year window should give medium-sized firms the ability to analyze, prepare, and implement the new standards.

IX. Conclusion

We applaud the Board and the Staff in its efforts in reassessing its existing standards relating to the audit of accounting estimates, including fair value measurements, which will lead to enhancements in audit quality and consistency in application of the standards. We remain committed to participating in future discussions with the Board and the Staff about how to best implement appropriate recommendations generated by the proposed auditing standard and amendments that would further enhance audit quality and improve transparency. Lastly, we fully support the mission of educating investors and other users of financial statements about the process of auditing accounting estimates, including fair value measurements, of issuers and broker-dealers.

We would be pleased to discuss our comments with you at your convenience. Please direct any questions to Wendy B. Stevens, Practice Leader, Quality & Risk Management, at (212) 375-6699 (wendy.stevens@mazarsusa.com) or David Bender, Quality & Risk Management, at (516) 620-8497 (david.bender@mazarsusa.com).

Very truly yours,

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