
**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. 044 – *Proposed Amendments to Auditing Standards for Auditor’s Use of the Work of Specialists*

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 Amendments to Auditing Standards for Auditor’s Use of the Work of Specialists* (the Proposed Amendments). The agencies support the PCAOB’s efforts to strengthen the existing auditing standards on the auditor’s use of the work of specialists. We believe the Proposed Amendments, along with the PCAOB’s *Proposed Auditing Standard – Auditing Accounting Estimates, Including Fair Value Measurements, and Proposed Amendments to PCAOB Auditing Standards*, will improve the quality and the consistency of audits, reinforce the need for professional skepticism, and enhance market discipline.

The one aspect of the Proposed Amendments with which the agencies do not agree is the PCAOB’s proposal to rescind *Auditing Interpretation 11: Using the Work of a Specialist: Auditing Interpretations of AS 1210* (AI 11). We strongly recommend the PCAOB update and retain, rather than rescind, AI 11 because the concepts set forth in AI 11 continue to be relevant, and their proper application is critical when evaluating legal isolation related to transfers of financial assets.

The agencies note the importance of legal opinions as audit evidence for determining legal isolation in connection with transfers of financial assets. Financial Accounting Standards Board Accounting Standards Codification (ASC) paragraph 860-10-40-5 requires that a transferor of financial assets surrender control over the financial assets in order to account for the transfer as a sale, and sets forth three conditions that must be met

to provide evidence of surrender of control. One of these conditions is a legal isolation test. In this regard, ASC paragraph 860-10-40-5a requires that “[t]he transferred financial assets have been isolated from the transferor – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership.” This requirement covers entities subject to bankruptcy, conservatorship, or other receivership procedures in the United States and other jurisdictions, including FDIC receivership and conservatorship.

AI 11 includes sample language that should be included in legal opinions to provide audit evidence to support management’s assertion that a transfer of financial assets has met the legal isolation requirement of ASC paragraph 860-10-40-5a, as well as examples of language that would not be acceptable. Although the Proposed Amendments include high-level general statements about inadequate language (e.g., restrictions, disclaimers, or limitations that affect the auditor’s use of a specialist’s report), the valuable sample paragraphs of acceptable and unacceptable language in legal opinions that are included in AI 11 would be lost if the interpretation is rescinded. Therefore, we strongly recommend that the PCAOB not rescind AI 11, but rather update and retain it. The agencies would be pleased to assist in updating AI 11. Also, since the guidance in the updated AI 11 would be applicable to the auditor’s use of the work of a company-employed or -engaged specialist and an auditor-employed or -engaged specialist, we recommend that updated AI 11 be explicitly identified as auditing interpretations of proposed Appendix B to Auditing Standard (AS) 1105, *Audit Evidence*; proposed Appendix C to AS 1201, *Supervision of the Audit Engagement*; and proposed replaced and retitled AS 1210, *Using the Work of an Auditor-Engaged Specialist*.

As for the other aspects of the Proposed Amendments, we believe they clearly articulate the objectives and responsibilities of the auditor with regard to the use of specialists, thereby complementing the agencies’ supervision of public financial institutions. In particular, we support (1) adding a new Appendix B to AS 1105 that would supplement the requirements of AS 1105 when the auditor uses the work of a company-employed or -engaged specialist as audit evidence; (2) adding a new Appendix C to AS 1201 that would supplement the requirements of AS 1201 when using the work of an auditor-employed specialist to assist the auditor in obtaining or evaluating audit evidence; and (3) replacing existing AS 1210 with proposed AS 1210, which would establish requirements for using the work of an auditor-engaged specialist to assist the auditor in obtaining or evaluating audit evidence.

The agencies believe the PCAOB’s outreach efforts and public discussions on the Proposed Amendments 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 the standards governing the auditor’s use of the work of specialists.

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

Sincerely,

Robert F. Storch
Chief Accountant
Federal Deposit Insurance Corporation

Joanne Wakim
Assistant Director and
Chief Accountant – Supervision
Board of Governors of
the Federal Reserve System

Louis A. (Rusty) Thompson, Jr.
Deputy Comptroller and Chief Accountant
Office of the Comptroller of the Currency