

SFO Alert (September 25, 2014)

NAREIT's Accounting & Financial Standards Hot Topics



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PCAOB SEEKS INPUT ON AUDITING ESTIMATES AND FAIR VALUE MEASUREMENTS STAFF CONSULTATION PAPER

On August 19, the Public Company Accounting Oversight Board (PCAOB) issued *Staff Consultation Paper Auditing Estimates and Fair Value Measurements* (Staff Consultation Paper) for public comment. The Staff Consultation Paper solicits stakeholder input on whether the PCAOB should revise existing audit guidance on accounting estimates and fair value measurements. The Staff Consultation Paper cites management's use of specialists and third party pricing services as areas where additional audit requirements could be added. The Staff Consultation Paper could impact NAREIT member companies based on the initial measurement of typical transactions at fair value (e.g., acquisitions of real estate) and subsequent measurement (e.g., fair value measurement of debt and equity securities). If you are interested in participating on a NAREIT Task Force that will evaluate the Staff Consultation Paper and consider whether NAREIT should develop a response, please contact **Christopher Drula** by October 3. Comments are due to the PCAOB by November 3.

The areas of accounting estimates and fair value measurements are consistently cited in PCAOB inspection reports as significant audit deficiencies. The Staff Consultation Paper seeks input on the following:

- › The potential need for changes to the PCAOB's existing auditing standards to better address changes in the financial reporting

frameworks related to accounting estimates and fair value measurements;

- › Current audit practices that have evolved to address issues relating to auditing accounting estimates and fair value measurements (e.g., the use of centralized pricing desks or groups by accounting firms, and the use of third parties);
- › A possible approach to changing existing standards, and the requirements of a potential new standard; and,
- › Relevant economic data about potential economic impacts of standard setting in this area, including data to inform the PCAOB's economic analysis associated with standard setting in this area.

The potential new auditing standard that is discussed in the Staff Consultation Paper could be designed to:

- › Align with the PCAOB's risk assessments standards;
- › Generally retain the approaches to substantive testing in existing auditing guidance, but include requirements that apply to both accounting estimates and fair value measurements;
- › Establish more specific audit requirements relating to the use of third parties in developing accounting estimates and fair value measurements; and,
- › Create a more comprehensive standard relating to auditing accounting estimates and fair value measurements to promote greater consistency and effectiveness in application.

CONTACT

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