



Auditing and Assurance Standards Council

February 2, 2011

TO : Philippine Institute of Certified Public Accountants
Association of CPAs in Public Practice
Organizations Interested in Auditing Standards

The **Auditing and Assurance Standards Council (AASC)** is the body authorized to establish and promulgate generally accepted auditing standards in the Philippines. The AASC pronouncements are adopted from the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and International Practice Statements issued by the International Auditing and Assurance Standards Board (IAASB). The IAASB was established by the International Federation of Accountants (IFAC) to develop and issue such pronouncements, collectively referred to as "IAASB's International Standards and Practice Statements."

The main objective of the AASC in adopting IAASB's International Standards and Practice Statements is to attain uniformity of the local auditing standards and other pronouncements with the IAASB's pronouncements. This harmonization is expected to enhance the reliability and acceptability of audited financial statements of Philippine companies.

In connection with its standard-setting function, the AASC has approved the distribution for comment of the following exposure draft (ED):

ED No. 118: Proposals Relating to Philippine Auditing Practice Statements (PAPs)

Withdrawal of Existing PAPs

Clarification of the Status and Authority of New PAPs

Proposed Amendments to the Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements

and

Proposed Amendments to the Preface to the Philippine Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements

and

**Proposed Philippine Auditing Practice Statement
PAPS 1000, Special Considerations in Auditing Complex Financial Instruments**

The above ED is based on the proposals on International Auditing Practice Statements (IAPs) which are largely now out-of-date and inconsistent with the text of the clarified International Standards on Auditing (ISAs).



Please note that the ED also includes the proposed PAPS 1000, Special Considerations in Auditing Complex Financial Instruments. The purpose of the proposed PAPS is to provide background information and guidance to the auditor regarding special considerations when auditing complex financial instruments. Complex financial instruments may be used by financial and non-financial entities of all sizes for a variety of purposes. Some entities have large holdings and transaction volumes while other entities may only engage in a few complex financial instrument transactions. This PAPS is relevant to all of these situations.

The Explanatory Memorandum attached to the ED is the exact version of what is included in the ED prepared by the IAASB and has been retained in its entirety to provide readers with the necessary background in the issuance of the proposals.

The AASC wishes to obtain your comments on the above ED, as well as the views of the members of your organization and other interested parties. In order to achieve maximum exposure and feedback, the AASC encourages the reproduction of the ED.

Comments should be submitted so as to be received by **February 10, 2011**, preferably by email or in writing. Comments should be addressed to:

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Chairman
Auditing and Assurance Standards Council
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The comments obtained will be considered in developing AASC's comments on the original ED to be submitted to the IAASB on February 11, 2011.

We thank you for your cooperation in this effort to establish and improve generally accepted auditing standards in the Philippines. We look forward to receiving your comments.

Very truly yours,



Judith V. Lopez
Chairman