



## **Guidance for Accounting Firms in Determining TALF Collateral Eligibility for Non-Mortgage-Backed ABS**

### **What are the accounting firms required to do?**

Before the Federal Reserve Bank of New York (“FRBNY”) will accept any ABS as collateral for a TALF loan, a nationally recognized independent Public Company Accounting Oversight Board (“PCAOB”) registered accounting firm must provide FRBNY with a [Form of Auditor Attestation](#) that opines that the issuer and sponsor certification contained in the prospectus with respect to certain collateral eligibility requirements is fairly stated in all material respects. In order to provide such an opinion, the accounting firm must conduct an engagement sufficient to provide a high level of assurance that the eligibility requirements are met.

### **Is an Auditor Attestation required for eligible small business loan ABS?**

No. The CUSIPs of TALF eligible small business loan ABS will be posted by the United States Small Business Administration at [www.sba.gov](http://www.sba.gov).

### **What are the professional standards to be applied in the examinations conducted by the accounting firms?**

The examinations may either be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (“AICPA”) or PCAOB standards. For further reference see SSAE No. 10. In accordance therewith, AICPA independence standards must be met. There is no expectation for auditors to comply with the Generally Accepted Government Auditing Standards.

Practitioners must also comply with applicable provisions of the public accountancy law and rules of the jurisdiction in which the practitioner is licensed and where the engagement is conducted.

### **Will FRBNY provide the accounting firms with specific procedures?**

The FRBNY will not prescribe specific procedures that each accounting firm must follow. Each accounting firm is expected to use its professional judgment in determining the nature, timing, and extent of procedures necessary to provide its opinion. In forming an opinion on appropriate procedures, the accounting firms should consider all procedures, including those that assess inherent risk and control risk and those that restrict detection risk.<sup>1</sup>

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<sup>1</sup> American Institute of Certified Public Accountants, AT 101, <http://www.aicpa.org/download/members/div/auditstd/AT-00101.PDF>

**What should an accounting firm do if it requires assistance in interpreting the eligibility criteria?**

Accounting firms should first reference the TALF Terms and Conditions and Frequently Asked Questions. If these sources do not provide sufficient guidance, the accounting firms should contact the FRBNY at [talf.compliance@ny.frb.org](mailto:talf.compliance@ny.frb.org) or (212) 720-2363.

**What source materials should auditors use to confirm eligibility criteria?**

Auditors may use statistical sampling and refer to data tapes provided by the issuer or sponsor. The FRBNY, however, expects that the accounting firm will examine loan level documentation to the extent deemed necessary by the accounting firm in its professional judgment. The loan level testing should include a review of original loan files or electronic versions thereof; however, it is not anticipated that the accounting firm will need to inspect the underlying collateral for a loan or confirm loan information with the original borrower.

In conducting loan level testing, it would be expected that the accounting firm would select loans using the following general guidelines:

- 1) an attribute sample should be used to estimate the frequency of occurrence of noncompliance with the specified eligibility requirements;
- 2) the sampling unit should be an individual loan; and
- 3) the sample size should be sufficiently large in the practitioner's professional judgment to render an opinion.

**If the accounting firm determines that it is appropriate to employ a statistical sampling methodology, what confidence level and error rate should the accounting firm use?<sup>2</sup>**

Because of different risks and controls that may apply to particular issuers, specification of a particular confidence level would be inappropriate. Consistent with commonly held views, it is anticipated that the accounting firm will design procedures sufficient to hold overall attestation risk to approximately 5%. The error rate will depend on the criteria being examined and the related requirements thereof.

**When must the Form of Auditor's Attestation and Issuer's Form of Indemnity Undertaking be delivered to FRBNY?**

As a condition to any TALF loan, FRBNY must receive an imaged copy of each of the Form of Auditor Attestation from the issuer's accounting firm and the Form of Indemnity Undertaking from the issuer in the [talf.compliance@ny.frb.org](mailto:talf.compliance@ny.frb.org) inbox, in the form posted on the TALF website, no later than 5 p.m. on the fourth business day prior to settlement of the TALF loan, however, we strongly recommend that the forms be submitted no later than 1 pm on that day to ensure FRBNY has adequate time to review and process the forms. The original copies of the Auditor Attestation and Indemnity Undertaking should be mailed to FRBNY and bear a postmark of a date on or before four days prior to settlement.

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<sup>2</sup> For the purpose of this guidance, an "error" is a loan considered to be non-compliant with one or more of the specified eligibility requirements. The sample's "error rate" is the number of errors divided by the sample size.

The original Form of Auditor Attestation and Form of Indemnity Undertaking should be mailed to:

The Federal Reserve Bank of New York  
TALF Compliance Office  
33 Liberty Street  
New York, NY 10045

**What constitutes a “nationally recognized independent PCAOB registered accounting firm” acceptable for purposes of the Auditor Attestation?**

National recognition is a highly factual determination that could be supported by information such as the firm’s presence in a particular market or its prominence across markets. An accounting firm that is subject to annual inspection by the PCAOB would certainly meet this requirement. Where an issuer or sponsor desires to engage an accounting firm not subject to annual inspection by PCAOB, or such an accounting firm would like to be considered for inclusion in the program as a nationally recognized PCAOB accounting firm, the sponsor or the accounting firm may submit a request in advance to [talf.compliance@ny.frb.org](mailto:talf.compliance@ny.frb.org) and a decision will be rendered on a case-by-case basis.

**Who may rely on the Auditor’s Attestation?**

The opinion contained in the Auditor’s Attestation is intended solely for the reliance of the FRB NY, the U.S. Department of the Treasury, and TALF LLC. It is not intended and should not be relied upon by anyone other than these specified parties. In this regard, participants in the TALF program, such as the primary dealers, who have an independent obligation to confirm that collateral is TALF eligible, and potential TALF borrowers, will not receive nor may they rely upon the Form of Auditor Attestation.

**What actions should an accounting firm take with respect to fraud or other illegal acts?**

If the auditor becomes aware of fraud related to the specific collateral eligibility requirements, the auditor should report the matter to the appropriate level of management, and follow applicable professional standards. If any fraud or any other illegal act is suspected the auditor must report it immediately to the TALF Compliance fraud hotline at 1-866-976-TALF (8253) or [www.TALFhotline.com](http://www.TALFhotline.com).

To the extent permissible by law, the auditor must also report any fraud or other illegal act to the Special Inspector General of the Troubled Assets Relief Program (“SIGTARP”) fraud hotline at 1-877-SIG-2009 or [www.sig tarp.gov](http://www.sig tarp.gov).

**How should an accounting firm incorporate third party servicer records or functions?**

Sponsors, lenders or custodians may contract with third-party servicers to perform functions and/or maintain records for which they are responsible. Consequently, auditors may need to gain an understanding of the services provided by third-party service providers, and/or obtain access to third-party servicers in order to perform their examination. In performing examinations, practitioners should consider the nature of the services provided by such third-party service providers in determining the procedures to be performed relating to specific collateral eligibility requirements