

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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INVESTOR ADVISORY GROUP

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MEETING

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THURSDAY
NOVEMBER 8, 2018

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The Advisory Group met in the offices of the PCAOB, located at 1666 K Street, NW, Washington, D.C., at 9:30 a.m., Jay Brown, IAG Chair, presiding.

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GEORGE BOTIC, Director, Division of Registration and Inspections

LILLIAN CEYNOWA, Special Advisor to Board Member J. Robert Brown, Jr.

PATRICIA LEDESMA, Acting Director and Chief Economist, Research and Economic Tools, Office of Economic and Risk Analysis

LIZA McANDREW MOBERG, Director, Office of International Affairs

BARBARA VANICH, Acting Chief Auditor and Director of Professional Standards, Office of the Chief Auditor

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SECURITIES AND EXCHANGE COMMISSION STAFF

WES BRICKER, Chief Accountant

MARC A. PANUCCI, Deputy Chief Accountant

* Present via teleconference

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1 P-R-O-C-E-E-D-I-N-G-S

2 9:32 a.m.

3 MR. BROWN: All right, so shall we convene the
4 ninth meeting of the Investor Advisory Group. Let me
5 also ask, is anyone currently on the phone?

6 (No response.)

7 MR. BROWN: All right. We'll ask that question
8 again later. Let me also note here, this is our very
9 first IAG meeting inside the building.

10 And in my mind it's very symbolic. I think
11 metaphorically, your ideas and thoughts have less
12 distance to travel.

13 (Laughter.)

14 MR. BROWN: They're already in the building. And
15 hopefully will have even quicker effect since they're
16 here already.

17 Let me note that all of the Board Members are
18 present here today. And we have a couple of visitors
19 from the Securities and Exchange Commission.

20 And I want to welcome all of you here. At the
21 table we also have George -- some of our leadership here.
22 George Botic from Inspections, Barb Vanich from the

1 Office of the Chief Auditor, Liza McAndrew Moberg from
2 the Office of International Affairs, Mark Adler from
3 Enforcement, and Patricia Ledesma from the Economic and
4 Risk Analysis Office.

5 I also want to just take a minute here to thank
6 a couple of people here. Lillian Ceynowa to my left,
7 really knocked herself out to make this meeting happen.

8 With an assist from Uzma Wahhab back right behind
9 us there. And really did a great job putting this
10 together, I think, on relatively quick notice.

11 The other thing is, is trains don't just
12 automatically run on time. All of the many
13 administrative and security details that have to happen
14 to have a meeting like this happen, would not have taken
15 place without the extra effort of a few people.

16 So, let me just mention Jill Boocock, Lucia
17 Carromba, and JD Moore. They were extraordinary in their
18 help here.

19 So my last sort of housekeeping measure. Let me
20 give the usual disclaimer. Of course, the views that I
21 give here are my own, and not necessarily those of my
22 fellow Board Members and the staff of the PCAOB.

1 And by magic wave, I apply that to everyone from
2 the PCAOB. And after consultation with the General
3 Counsel's Office, I think I'm not allowed to apply it to
4 anybody else except someone from the PCAOB.

5 So, you guys from the SEC are on your own.

6 MR. BRICKER: We're on our own.

7 MR. BROWN: Yeah. And I do want to mention, to
8 my left is Wes Bricker, the Chief Accountant. And Mark
9 Panucci, Mark, where are you? Mark Panucci over here,
10 the Deputy Chief Accountant from the SEC.

11 So, let me go back in time a bit here. If you go
12 back to 2002, Enron, WorldCom, you know, all of those
13 massive failures, Congress confronted, quote, an
14 incredible loss of investor confidence, close quote, in
15 the financial markets.

16 I don't think it's an overstatement to say in
17 that time period trust in the auditing process, trust in
18 the financial disclosure process, was pretty much
19 shattered.

20 I think that on the Hill, Congress knew something
21 dramatic had to be done. Something dramatic to restore
22 investor confidence.

1 Something to send a message that the conditions
2 that led to Enron and WorldCom and those other failures,
3 would not be allowed to continue.

4 So of course the answer was what? Sarbanes-
5 Oxley. SOX had a lot of bold things in there.

6 But I think maybe the boldest was the creation of
7 the PCAOB. I think with a flick of the legislative
8 wrist, self-regulation was gone.

9 And in its place was the creation of a regulator,
10 one of the first in the world that had the authority to
11 set standards, inspect engagements, and enforce these
12 requirements.

13 But in doing that, we were -- but in setting us
14 up, we were also given, what I think is, a very clear
15 mission. A very clear mission.

16 Of course we were told to oversee audits of
17 public companies and ensure informative, accurate, and
18 independent audit reports.

19 But, we were told to do that in order to protect
20 the interest of investors and the public interest. Very
21 clear it seems to me.

22 Missions like that, they're not self-executing.

1 And neither is ours. We have the responsibility, the
2 obligation to ask ourselves constantly whether or actions
3 and operations in fact further the investor protection
4 mission set out in the statute.

5 And in doing that, we can't just rely on our own
6 intuition. We can't just rely on our experiences, no
7 matter how well our 401(k) plans have done.

8 To understand and protect the interest of
9 investors, we need to hear from them, from you directly.
10 Which brings me to the Investor Advisory Group.

11 I think this group has been instrumental in
12 helping the PCAOB stay investor focused. It was created
13 back in 2009 by the PCAOB under the leadership of then
14 Board Member Steve Harris.

15 And you guys met for the first time in the shadow
16 of the worst financial crisis since the Great Depression.

17 You know, when I think back on those times, you
18 know, what you realize is, investor confidence, something
19 that Congress struggled so hard to restore in Sarbanes-
20 Oxley, what that time period showed is investor
21 confidence, however hard earned, could just as quickly
22 be lost.

1 Your meetings over the next series of years, I
2 think, weighed in on some of the toughest issues
3 confronting the auditing space. You talked about audit
4 quality indicators.

5 You talked about non-GAAP and other information.
6 You talked about noncompliance with laws and regulations.

7 I think in the words of Steve Harris, you were
8 trying to answer the fundamental question, how do we make
9 audits more relevant to investors?

10 Nowhere though, in my opinion, when I look back
11 on this record, was your insight and contribution more
12 valuable than in connection with the audit report model
13 and expanded auditor disclosure.

14 You guys are not a shy bunch. And you raised
15 that in the very first meeting. And pretty much never
16 really stopped bringing it up.

17 The frequency, depth, and intensity of those
18 discussions made it very clear how important this issue
19 was to investors. When I look back on it, I think I --
20 I wonder, you know, whether you guys had to wonder how
21 often you had to bring this up, was the PCAOB listening?

22 And I think you know the answer to that now. We

1 were. The PCAOB adopted, and the SEC approved, enhanced
2 auditor disclosure.

3 So now there's disclosure of engagement partners.
4 There's disclosure of firm tenure. And soon to come,
5 critical auditing matters.

6 I think your role in this, the IAG's role in this
7 was essential, unmistakable, and necessary. I'd also say
8 this information, it sounds, you know, sort of a little
9 bit esoteric, but it's not.

10 And it's being used widely already. We have up
11 on the website an auditor search function. Where you can
12 search our Form AP that has some of this information in
13 it.

14 Since February 1, 2017, almost 30 thousand Form
15 APs have been filed. They've been filed by around 550
16 audit firms.

17 They identify more than 48 hundred engagement
18 partners. And auditor search shows that there have been
19 more than 730 thousand searches of this information.

20 We know this information is being used by
21 academics, investors, and other researchers. It's
22 important information. It's being used.

1 So what about the future? Our mission is no
2 different. It's unchanged. The need for input from
3 investors, if anything, is more important.

4 We are, as we'll talk about today, in the midst
5 of implementing a strategic plan with the goal of
6 creating PCAOB 2.0.

7 And as Chairman Duhnke has said in a recent
8 speech, we need to reexamine our oversight function with
9 the goal to, where necessary, quote, transform the manner
10 in which we conduct our oversight. We need investor
11 guidance and help. We need your help in that
12 transformation.

13 But PCAOB 2.0, it's not a static concept.
14 Protecting investors is a task that for us requires
15 continuous introspection and continuous interaction with
16 investors.

17 Introspection means that we have to constantly
18 ask what standards should we prioritize? What types of
19 usable information should we include in our report?

20 How should we conduct inspections and select the
21 engagements that we inspect? How can we become, as the
22 Chair has said, more agile?

1 And to answer those questions, we need investor
2 input on a constant basis. So the conversation today,
3 I fully expect will be robust and insightful.

4 Again, I don't think there are any shrinking
5 violets or silent types on this Committee.

6 But, I see this only as a beginning. As a
7 continuous process of helping us to execute our statutory
8 mission to protect the interest of investors and the
9 public interest.

10 So, with that, let me ask my fellow Board Members
11 if they'd like to make some remarks. And let me start
12 with Chairman Duhnke.

13 MR. DUHNKE: If you don't mind, might I suggest
14 go the other way. And then I'll pick up at the end with
15 a, sort of an overview.

16 MR. BROWN: Got you. All right. Board Member
17 Hamm?

18 MS. HAMM: Thank you. I too would like to thank
19 the IAG Members for your service. Those in the room and
20 those that will join us on the telephone.

21 As Board Member Brown stated, the PCAOB's mission
22 and our statutory mandate is to oversee audits of public

1 companies and SEC registered broker dealers to protect
2 the interest of investors, and further the public
3 interest in the preparation of informative, accurate, and
4 independent audit reports.

5 As Board Member Brown mentioned, we're driving
6 towards a new strategic plan. One of our strategic goals
7 is to enhance the PCAOB's transparency and accessibility
8 through proactive stakeholder engagement as we work to
9 improve the state of audit quality.

10 That's why I believe it is essential for us as a
11 Board, to hear directly from you, on how we can most
12 effectively protect your interests as investors.

13 I look forward to hearing your feedback on our
14 draft strategic plan, as well as your perspectives during
15 the breakout sessions on the implementation of the new
16 auditor reporting model. And your views on the PCAOB's
17 quality control standards.

18 Just a couple of words on the topic of quality
19 control. I am very interested in hearing your thoughts
20 on our quality control standards and the audit firm
21 systems around quality control.

22 In my mind, if appropriately designed and

1 implemented, effective quality control systems can be a
2 game changer in improving audit quality.

3 They offer the potential for audit firms
4 themselves to self-identify, self-correct, and self-
5 report deficiencies before audit opinions are issued.
6 As a result, they can be a powerful tool to drive audit
7 quality forward.

8 Thank you again for your service. And I look
9 forward to today's discussion.

10 MR. BROWN: Thank you. Please don't anyone else
11 do that. Press the middle.

12 Board Member Kaiser?

13 MR. KAISER: Thanks Jay. Thanks for joining us
14 today. For me as one of the two CPAs on the Board, this
15 is a unique opportunity.

16 In my 39 years, it was very difficult for me to
17 have direct access to investors. So, I look forward to
18 your feedback today, and the dialog and discussion.

19 And particularly feedback in the three areas, our
20 strategy, the quality control standards, as well as the
21 implementation of the new audit reporting model.

22 And I also look forward to this as just the

1 beginning of a dialog that we have during our tenure with
2 the PCAOB as Board Members. Thank you.

3 MR. BROWN: Thank you Jim. Board Member
4 DesParte?

5 MR. DESPARTE: Yeah. Good morning everybody.
6 And I echo my fellow Board Members' comments and a thanks
7 to all of you for being here.

8 I know it's a significant investment of time.
9 And it's very important to us.

10 I share the passion for high quality financial
11 reporting that all of you do.

12 MS. HAMM: Can you talk closer to the microphone?
13 Sorry.

14 MR. DESPARTE: Sure. Is that better?

15 (Laughter.)

16 MR. DESPARTE: But again, thanks to everybody for
17 being here. And you know, I share the passion that we
18 all have for high quality financial reporting.

19 And of course that reporting is for the benefit
20 of the investors. So, your input to us here today is
21 really crucial as the foundation of what we do.

22 And you know, I've been an auditor. I've been

1 the past ten years I was a chief accounting officer doing
2 preparation of financial reporting, and had some
3 engagement with investors.

4 But it was, you know, limited to one industry in
5 my company. And I think getting the perspectives from
6 all of you on a broader basis is going to be very
7 helpful.

8 So, thanks for being here.

9 MR. BROWN: Thanks Duane. Bill, before I come
10 back to you, let me ask Wes if he'd like to make some
11 comments?

12 MR. BRICKER: With the microphone on. Thank you.
13 Thank you very much Board Member Jay Brown.

14 Good morning everyone. I know I also speak for
15 Mark Panucci, who is also here today, in welcoming the
16 Members of the PCAOB's Investor Advisory Group as well
17 as the PCAOB Board, its staff, and others who have joined
18 together in convening today's meeting.

19 Before I go further, let me also give the usual
20 disclaimer for Mark and I. And I'll do the Jay Brown
21 wave.

22 Which is that our remarks reflect solely our

1 personal views. Do not necessarily reflect the views of
2 the Securities and Exchange Commission, the individual
3 members of the Commission, or its staff.

4 So, continuing on, as Jay described, you
5 certainly have an interesting and a very packed agenda
6 ahead of you for today's discussion.

7 Before I let you get on with that discussion, I
8 wanted to thank all of you. Including the members of the
9 PCAOB staff for your public service.

10 To also the service of this Investor Advisory
11 Group. As members of the Investor Advisory Group, you
12 have very busy schedules. Yet you take a substantial
13 amount of time to share your knowledge, and your
14 expertise, for the betterment ultimately of investors and
15 our markets.

16 On the agenda, I'm certainly delighted that the
17 group will focus this morning on a discussion of the
18 implementation of the goals and the priorities of the
19 draft 2018 to 2022 strategic plan.

20 Also, a discussion about the potential
21 improvement in quality control standards, and experiences
22 with and understanding of the auditor's reporting model,

1 as well as the auditor's search database, which provides
2 transparency of audit participants.

3 Jay has done a very thorough and useful job of
4 providing a summary of the statutory mission of the
5 PCAOB, the important role of standard setting, the
6 primacy of the investor and trust, as well as looking
7 forward to the PCAOB, however it's described.

8 Whether 2.0 or a continuation of relentless focus
9 on the PCAOB mission, our support is with this work.
10 That is, we support the PCAOB's outreach efforts engaging
11 with a range of stakeholders as demonstrated by the
12 approach taken with the draft strategic plan.

13 The Board's outreach activities in this regard
14 will pay dividends for investors, preparers, auditors,
15 audit committees, and others who depend upon the
16 essential role of informative, accurate, and independent
17 audit reports.

18 It's also clear to me that the PCAOB Board and
19 staff are working diligently and collaboratively in
20 advancing the important mission of the PCAOB.

21 The work of this Investor Advisory Group is
22 beneficial to informing and advancing the Board's work.

1 Mark and I look forward to hearing your perspectives on
2 the topics discussed today, and any recommendations that
3 you may have.

4 Finally, I'll provide a full debrief of today's
5 discussion with our own Chairman, Jay Clayton. Who is
6 unavoidably unable to be with you today. But certainly
7 sends his appreciation for your service.

8 Thank you.

9 MR. BROWN: Thanks Wes. Chairman?

10 MR. DUHNKE: As you sort of observed already,
11 these microphones need to be pulled in pretty close when
12 you use them. Hit the green button and pull it in close
13 and speak up.

14 First of all, an advance apology to Linda and
15 Larry. If you find yourself visiting your general
16 practitioner, tell them it's probably bronchitis the next
17 couple of weeks.

18 But first of all, I want to thank Jay, obviously
19 in his career. Lillian and Uzma, and everybody else who
20 pulled this together pretty rapidly. This isn't easy to
21 do. And we really appreciate the work they did.

22 And we appreciate your presence here, because we

1 definitely want to hear from you, and hear your views,
2 and continuing views, because some of you have already
3 participated in this process with us on the strategic
4 plan and sort of our -- the direction that we're headed
5 in the future. So, we appreciate that.

6 So, my question to you Jay, is, do you want me to
7 move right in? Or do you want to --

8 MR. BROWN: I would say, move right in.

9 MR. DUHNKE: Okay. So, I've been tasked with
10 sort of doing the overview of how we approached this
11 strategic plan, the process.

12 Some of you are already pretty familiar with it,
13 because you participated in it. But, when we got
14 together to discuss this, it was a very quick consensus
15 that we wanted to open this process up.

16 We wanted to hear from as many people as
17 possible, externally and internally. So, we went outside
18 and we went inside.

19 We asked all of our internal employees for their
20 feedback. We asked as many of the interested parties of
21 stakeholders on the outside for their input as well.

22 We engaged the services of NAPA, the National

1 Academy of Public Administration, to help us go through
2 this process, because we did a number of surveys. We did
3 a number of interviews.

4 And they helped facilitate our process as we came
5 up with this strategic plan. We got, I would imagine,
6 relatively speaking it's a huge response.

7 Mostly, and I would say almost a vast majority
8 were very positive about the direction that we're headed
9 in. And we got a very good response from inside the
10 organization as well to our invitation to participate in
11 this process.

12 It's something we've all stressed with our own
13 people inside the PCAOB, is that we see this as a group
14 activity. And we're looking inside for their expertise.

15 And we want to hear from them about what they
16 think is the best way of going about this process. And
17 not only reexamining ourselves, but also fulfilling our
18 mission as well.

19 We feel like the expertise is here. We're
20 looking for the best ideas from inside the building. The
21 multiple buildings that we have.

22 And then we took it to the next level when we

1 finally completed a draft of it. Then we put it out for
2 public comment.

3 And we asked the world to tell us what they
4 thought. And we got a decent response. I think 31 is
5 the count of actual comment letters that we received.

6 And it was almost unanimously positive. And we
7 received quite a bit of implementation advice as well.
8 Which is a lot of what we expect to hear today. And we
9 welcome that.

10 The next step for us, after this conversation,
11 will be, I think it's next week, we'll have a formal and
12 a public meeting. And we will adopt the strategic plan
13 along with our own budget. That's part of our process.

14 And I would just say that there's probably four
15 or five thematics that came out of this process that we
16 agreed on addressing that you'll see in the plan and
17 we'll discuss today.

18 And that is first and foremost, focusing on our
19 primary mission. And that's we want to make sure that
20 we are conducting the most effective oversight we can.

21 We want to make sure that we have -- we are
22 continuing the process of improving the provision of the

1 quality of audit services, first and foremost.

2 And part of what you'll see in that, and we'll
3 discuss today, is also a focus on prevention. We want
4 to make sure that we're doing everything we can to make
5 sure that we're not only identifying deficiencies, but
6 we're doing everything we can to make sure the
7 deficiencies don't even happen.

8 The other side of the equation too, is
9 innovation. And that's both internal and external
10 looking. We have our own challenges internally on the
11 innovation front.

12 And that just happens to be with just the basic
13 IT systems and the use of technology inside the
14 organization. But also our focus about the use of
15 different tools like data analytics and artificial
16 intelligence and so forth.

17 You've all heard the speeches before. But we
18 want to make sure that not only are we on top of what's
19 happening in industry, but that we're doing two things.

20 One, we're not impeding that innovation. But we
21 also, first and foremost, want to make sure that that
22 innovation is not also impeding audit quality as our

1 primary mission of course.

2 The other side of the equation is engagement. We
3 feel like we have a lot of work to do. And part of --
4 this is obviously part of the process, of improving our
5 engagement outside the organization.

6 And you saw that in this -- in the strategic plan
7 process. By reaching out to anybody who wanted to
8 participate in the process with us.

9 We want to expand our engagement with every other
10 interested stakeholder, with audit committees, issuers,
11 preparers and so forth. So that that -- you're going to
12 see that a lot.

13 You'll probably see relatively soon we're going
14 to institutionalize a greater outreach process. So that
15 we are more interactive with the people who want to talk
16 to us, including this group here and your colleagues.

17 And I'd say lastly it was about process in our
18 own culture inside the organization. We want to make
19 sure that we are being collaborative.

20 That we're being innovative. That we're giving
21 our own best talent the ability to shine. And that's
22 what we're looking for inside this organization.

1 And we want to make sure that we're rewarding
2 that process so that we keep the -- we keep it going.

3 And I think that's probably the summary of it
4 all. And I'll turn it back over to Jay. Thank you.

5 MR. BROWN: Thanks Bill. Let me just do a couple
6 of housekeeping things.

7 So first of all of course, tent cards up if you
8 want to speak. Remember, this is all being webcast. So,
9 speak into the mic so that it can be -- the people that
10 are listening in can hear you.

11 We'll take a break, I think at 10:45? We'll take
12 a break at 10:45. We're going to discuss all of these
13 different sorts of goals and topics that we have.

14 What I'd like to say though is, at the end, sort
15 of before lunch and before we go into the breakout
16 sessions, what I really will ask is, what you think our
17 priorities should be?

18 You know, I sort of think about takeaways. And
19 of course we're going to listen to everything that you
20 say and assimilate all of the thoughts and ideas.

21 But, you know, at the end of the day, we're not
22 -- you know, we have to also prioritize what we do and

1 how we implement the strategic plan.

2 So, I will ask you at the end to give us your
3 thoughts on what you think our priorities should be. It
4 maybe things you've said in the course of the discussion
5 so that we understand they're important to you.

6 But, if you could sort of think in the -- in
7 terms of priorities. You know, I think we'd like to do
8 that at the very end of the meeting.

9 So, sort of know where -- no matter where we are
10 in the discussion, you know, at least a little bit before
11 the end, we'll bring it around to priorities.

12 So, having said that, is there any other --
13 anything else I'm missing on the housekeeping?

14 MS. CEYNOWA: No.

15 MR. BROWN: Okay. All right. Well, let's go
16 ahead and begin. So, you know, we as you know from the
17 agenda, we are talking about implementation of the
18 strategic plan.

19 I mean, we're really now, this is not a focus on
20 what should be in the strategic plan, this is a focus on,
21 how should we implement what's in the strategic plan?

22 And so, you know, let's open it with, you know,

1 the very first goal. So, the strategic plan in it has
2 five goals essentially. Five sort of broad thoughts and
3 approaches to this.

4 And the first one is, to drive improvement in the
5 quality of audit services through a combination of
6 prevention, detection, deterrence, and remediation. So,
7 let's start there.

8 What thoughts do we have on how we should
9 implement that goal?

10 MR. DUHNKE: Can I just add in there too, Jay
11 that and obviously one of the things that we highlighted
12 here was the idea of the prevention that we want to focus
13 on.

14 And the -- and as a part of the internal
15 conversation is the focus on quality control systems and
16 our sort of turn towards that.

17 So that's -- something specific in that area
18 would be very helpful as well.

19 MR. BROWN: Pete?

20 MR. NACHTWEY: Well, I guess somebody has to go
21 first. So, Pete Nachtwey, CFO at Legg Mason.

22 I'll first of all congratulate the Board and all

1 the staff that are in the room. And probably those that
2 aren't in the room in terms of putting this together.

3 Because it really is, I think, a very thoughtful
4 document. And I appreciate all the hard work that went
5 into it.

6 Just from a -- and I'll make the same disclaimer.
7 I'm the only Legg Mason person in the room. So I don't
8 have to do the magic wave.

9 But, I am just representing Pete Nachtwey. But,
10 when I'm representing Pete Nachtwey, it comes from being
11 the CFO of an investment platform.

12 And I always remind people there's an F in my
13 title, not an I. So, when my family asks for investment
14 advice. But, I know enough to be dangerous on that
15 front.

16 I probably learn more about what investors want
17 interacting with the buy side and the sell side in my CFO
18 role, which I probably spend a thousand hours a year
19 doing.

20 But, I think in terms of what I would encourage,
21 as you think about implementation, is not just -- you
22 know, maybe it's a carrot and stick type thing.

1 I think that certainly the firms are used to, you
2 know, feeling the stick from the PCAOB. And that's not
3 inappropriate.

4 On the other hand, you know, what are the
5 carrots? What are the things that, you all can do to
6 help make the audit profession better and make these
7 firms better?

8 And I think number one, sharing best practices.
9 Which I, you know, is kind of in here. But really making
10 sure that that's done in an appropriate way.

11 You know, obviously nothing that's propriety or
12 a business advantage, et cetera. But, I think that ought
13 to be trumped by their duty to the capital markets and
14 to our society.

15 So, I think sharing best practices would be one
16 thing. Second, making sure the right expertise is
17 getting involved.

18 So, I've had the pleasure of sitting next to Jay
19 and at Kathleen's table last night. And we talked quite
20 a bit about the fact that the world changed about 15
21 years ago for accountants.

22 We all, those of us who are dinosaurs who got

1 trained back in the '70s, it was all about historical
2 cost accounting. Because that's very objective. And you
3 could actually audit that and measure it in very
4 objective ways.

5 Fair value is a whole different beast. And
6 making sure that the firms are, you know, staffing, have
7 the right resources. And actually Tony, I'm sure, will
8 have thoughts on this, because this is his world.

9 But in making sure they have the right expertise
10 overseeing what managements are doing. And then staying
11 current.

12 The technological change that's going on out
13 there is massive. I just know what we're doing at our
14 own firm at the moment around blockchain.

15 Or -- actually I had the chance to read the paper
16 this morning since you were kind enough to not start at
17 zero-dark hundred.

18 But I now learned that blockchain is going to be
19 called distributed ledger technology. Which makes it all
20 of a sudden much more closer to thinking about how does
21 that have accounting implications?

22 But that's going to be a game changer. Robotics

1 is going to be a game changer. Cloud-based accounting
2 systems and so forth, game changing.

3 And how are the firms and how is the profession
4 staying up with that? And then last but not least, I
5 think governance is really important.

6 I think the -- again, being a former partner at
7 Deloitte, and since I just signed my ethics form, I'll
8 point out that I no longer have any financial interest
9 at Deloitte.

10 But I certainly am formed by the 30 years that I
11 spent there. And, you know, figuring out how the
12 governance of these firms should work.

13 Right now the governance is all about the people
14 that are on their boards represent the partners. Because
15 those are the owners of the business.

16 But, they're in -- they've been given a franchise
17 by the public in the U.S. So, you know, what level of
18 independent involvement should these firms have on their
19 boards?

20 So, those would be my thoughts. Thanks for
21 listening.

22 MR. BROWN: Thank you Pete. Well, let me sort of

1 phrase the questions, you know, maybe a slightly
2 different way.

3 You know, I hear all of the time that people will
4 say, since 2003, audit quality is better. And I hear
5 that from a lot of different sources.

6 And I think so, you know, at least based on a
7 quantitative discussion with me, it's true. But, I think
8 we talk about inside, right?

9 And I think the strategic plan tees up, what's
10 the next level for us? How do we get audit quality up
11 to the next level?

12 You know, what steps should we be taking to do
13 that? What should the firms be doing and what role
14 should we play in that?

15 I think Pete touched on some of them. You know,
16 what we know is coming or it's here, it's technology.
17 You know, and a lot of changes to the profession.

18 But, you know, I mean, should we just keep doing
19 what we've been doing? Or should we -- or are there ways
20 in which -- or you should help us come up with ways that
21 we can continue to think about driving audit quality to
22 the next level.

1 Bob?

2 MR. TAROLA: Thanks Jay. Good morning everyone.
3 I'm Robert Tarola, Bob Tarola. I've been a former audit
4 partner as well. A CFO of a few public reporting
5 companies.

6 And now I'm on the board of two public reporting
7 companies, including an operating company and a mutual
8 fund company. And sit on the audit committee.

9 First of all, thank you for pulling this
10 together. And we appreciate being involved. We've been
11 -- most of us around the table have been involved for a
12 number of years now.

13 When it -- my view is that you have an
14 opportunity as a fresh board to refine what came before
15 you. Which was a lot of good work.

16 But, you -- but everything can be improved. So,
17 the opportunity to refine how you do your work and how
18 you interrelate with auditing firms as well as the
19 constituents of investors and overseers of financial
20 reporting.

21 I'd also like you to think about expanding how
22 auditors get involved with the public reporting system.

1 And I think, in terms of quality of audits, it
2 can't just be an internal view of how does the firm
3 monitor its quality. It also has to be an external view
4 of how does the firm relate to the investors and the
5 governing bodies of their clients.

6 And to be involved more with the entire financial
7 reporting framework, not just the annual financial
8 statements. But the quarterly reports, the earnings
9 releases, the metrics that drive the business.

10 Anything that can be validated, would be nice to
11 have the auditors involved. So, from the perspective of
12 a board member and an audit committee member, when the
13 auditors come into the room and talk about the audit work
14 on the financial statements, that's wonderful.

15 But what we really want to know is, do you
16 understand the business? Do you understand what's really
17 driving? What's going on here?

18 And can you indeed provide some satisfaction to
19 the governing bodies? All of that is working as it
20 should. Not just the debts and credits.

21 So, I ask you to think about refinement, but also
22 expanding the auditor's role in the financial reporting

1 framework.

2 MR. BROWN: So Bob, can you -- let me ask, can
3 you be a little bit more specific? As somebody who's
4 sitting and listening to the auditor, what are some
5 specific examples or things that you would like the
6 auditor to have maybe looked at or discussed or whatever.

7 MR. TAROLA: Well, the investment world is making
8 decisions on literally day to day, maybe even, you know,
9 minute to minute information.

10 But the public companies are reporting in a
11 fairly structured way. Generally quarterly earnings
12 releases, quarterly filings with the SEC. Sometimes more
13 frequent information about operating statistics.

14 All of that can be validated. In addition, how
15 information is consumed. So, XBRL, Inline XBRL is now
16 the format of reporting.

17 The consumption of financial information is now
18 digitized. But there's no -- there's no indication that
19 the auditor looked at that.

20 So there's ways to connect the audit with the
21 investor and with the governing bodies by focusing it not
22 just on the annual financial statements, but on all the

1 other information that impacts investor decisions. And
2 how they consume it.

3 MR. BROWN: All right. And before I call on the
4 next two people, let me put you on the spot one more
5 time.

6 So of course, we cannot expand the scope of the
7 audit. Right. That's not within the jurisdiction of the
8 PCAOB.

9 So, how would you recommend, if you were advising
10 us, how would you recommend we go about this?

11 MR. TAROLA: Well, we understand that. And we,
12 I think in the past some of us in the room thought one
13 of our roles here was to try to connect the auditing and
14 the reporting by way of having Wes and Mark in the room.

15 They can hear also what we have to say.

16 (Laughter.)

17 MR. TAROLA: Because we're here to try to give
18 you what we believe investors want to know. We're trying
19 to represent investor interests.

20 So, it's granted that your mission might be
21 defined in a limited way. But the role of the -- of
22 these oversight bodies is to protect the investor.

1 And we think it could be collaborative.

2 MR. BROWN: Linda?

3 MS. DE BEER: Thank you. And maybe just first to
4 comment on the strategic plan in general. And I know
5 we're not debating that, but more the implementation.

6 I think the goals that you have are right. I
7 think it's focusing on all the right aspects.

8 The challenge of any strategic plan whether it's
9 something like this or implementing a strategic plan in
10 the business, is whether you get it right. The
11 implementation, the how to.

12 And I think that is therefore a very important
13 debate to be had. So, maybe one or two comments from our
14 side for now.

15 You've alluded to that. And I think it's really
16 important that these greater engagements with the, let's
17 call them the recipients of the audit service, which are
18 the investors and a much broader community.

19 I've seen from some of the experiences that we've
20 had in South Africa over the past two years or so,
21 ultimately the public out there is the judge of what they
22 believe the auditor should and shouldn't be doing.

1 So, it's -- yes, it's not so much about how you
2 expand the scope of the audit, which is not the debate.
3 But how do you engage to ensure that there is sufficient
4 understanding of what the auditor can and can't do.

5 But also understanding the underlying needs. I
6 think there are so many things happening in business.

7 If you talk about the institutional investor
8 community and what they expect of an auditor and don't
9 necessarily see. I think it's important for the PCAOB
10 to have that engagement with investors more broadly, with
11 audit committees.

12 Because they -- in a large way, they're the first
13 recipients of that service. And they see where things
14 go right, and where things go wrong.

15 I get very nervous with IG audit committees. And
16 I feel I'm the one that's flagging concerns for the
17 auditors.

18 It means that they don't necessarily fully
19 understand that I'm managing the business or things like
20 that. So, I think that engagement with key stakeholders,
21 which are potentially beyond just in business.

22 But also, I would say the audit committee

1 community is really important. And yes, maybe some of
2 what you will hear would go beyond the scope of an audit.

3 But I think a big element of that is within the
4 scope of how do you align the standards? And how do you
5 just make sure that the standards actually very clearly
6 address what is needed for the auditor to do their job
7 properly.

8 And certainly in my experience, some of the
9 things that go wrong are not on the complex difficult
10 areas. It's sometimes more the basics of the audit that
11 go wrong.

12 Understanding the business. The engagement and
13 interaction with other auditors. How do auditors
14 consider the views of experts.

15 And so I really think that much broader talking,
16 which is part of selling the audit. But also listening,
17 and how do you improve standards, inspections, and things
18 like that. That is really, really important through the
19 cycle of the engagement.

20 The second point I think is also just around
21 prioritizing. And we had a little bit of a discussion
22 over dinner last night.

1 I am a strong believer that if you try to cover
2 everything, you suffer from mile wide, inch deep. You
3 know, you don't really focus on the important aspects.

4 And there are probably a couple of key aspects.
5 And maybe as we talk about the rest of the agenda today,
6 we can drill into that too.

7 But a couple of really important topics where
8 it's necessary to drill deeper. And to make sure that
9 those are sufficiently covered in your oversight and
10 inspection.

11 But also in the way in which the standards are
12 recorded and clarified.

13 MR. BROWN: So, before I turn to Lynn, let me ask
14 on the phone. I understand Amy and Gary are on the
15 phone?

16 MR. WALSH: Yes. I'm here. This is Gary.

17 MS. MCGARRITY: I'm here too. Thank you.

18 MR. BROWN: Hi both of you. Don't hesitate if
19 you have -- if you want to make comments, just sort of
20 jump in whenever you hear a momentary break in the
21 conversation.

22 MS. MCGARRITY: Will do. Thank you.

1 MR. WALSH: Okay. Thank you.

2 MR. BROWN: Thanks. Lynn?

3 MR. TURNER: During the process I know Chairman
4 Duhnke was open and willing and met with Jeff Mahone at
5 CII and myself on it. And we certainly -- we certainly
6 appreciated --

7 MR. BROWN: Yeah. You're still not aiming
8 forward. Get a little bit closer.

9 MR. TURNER: You need to give us all head mics.

10 (Laughter.)

11 MR. TURNER: So, Jeff and I did appreciate that.
12 And Jeff did on about the CII, sent in a comment letter
13 on the strategy.

14 Which I think was actually very good. And it had
15 a number of comments that I think would be useful if
16 implemented and considered.

17 So, I urge you to take a look at that. The ICGN
18 also sent in a very good letter. They said they weren't
19 in position to support the strategy at this point in time
20 because there wasn't enough in essence meat around the
21 bones.

22 So, they didn't really know where you were going

1 with the strategy. And I think there's some truth to
2 what they said on that.

3 And I think CalPERS weighed in on that somewhat
4 too. So, I'd encourage you to take into careful
5 consideration the comments that those investor and
6 investor groups made.

7 As far as the strategic goals, I think they're
8 all fine. They're all what I call motherhood and apple
9 pie.

10 Increase audit quality. Who can argue about
11 that? I'd be remiss though if I didn't mention the U.S.
12 Treasury Advisory Committee from 2008.

13 And they made a number of recommendations in this
14 area as well. Some of which have been implemented. But
15 for the most part, most of those have not been acted upon
16 yet.

17 So, I'd certainly encourage you to consider
18 those. Because I think, those would have a profound and
19 positive impact on audit quality. Including on
20 governance.

21 I know that was one of the areas that Pete
22 mentioned. And certainly there were some strong

1 recommendations out of U.S. Treasury Committee on that.

2 As far as going through each of the objectives on
3 your strategic goals, I think it's important to keep in
4 mind that SOX is built on the notion of you'd have the
5 ability to do inspections.

6 And then use the data from those inspections to
7 take a look at standards and where standards needed to
8 be improved, weren't sufficient. And then go into the
9 standard setting process based upon what you learned from
10 the inspections.

11 And also at the same time then, where necessary,
12 undertake enforcement actions. And I think one of the
13 concerns on the enforcement side to date has been you
14 tend to take on the small firms who really don't have
15 much in the way of resources.

16 And you very seldom bring actions against the
17 large firms. And so, that perception and perceptions
18 become reality.

19 I think that's something to seriously consider as
20 well. As far as the inspection activities and the
21 timeliness, I think it's something that needs some
22 attention both in the context of the timeliness of

1 feedback to the firms and to the audit committees.

2 I've gotten a number of calls and brought into
3 situations where the PCAOB has issued inspection reports
4 to the firm that requires remediation.

5 But, the audit committee really, at least from
6 what they've passed on to me, communicated to me, they
7 aren't getting firsthand, real good communication from
8 the Board about what's going on.

9 So, it's difficult for them to understand how to
10 react to the situation. Most of what they hear is from
11 the firms.

12 And the firms tend to say it's the PCAOB beating
13 up on us. And understand that. But there's usually more
14 to it than that.

15 So, I think direct --- more direct communication
16 to the audit committees on a timely basis would be good.

17 And then one of the things I've seen, and I've
18 actually watched it happen, as you exit out of the
19 inspections in the various offices, it seems to take an
20 extraordinary amount of time to really nail that down and
21 provide a closure on that.

22 On a more timely basis to the firm so they can

1 act on that. I've seen where it's taken a long time
2 going back and forth.

3 And I remember when I was a partner and we did
4 the inspections and had the peer on peer review
5 inspections. We'd have closure to a large degree, not
6 totally, but we'd have closure as the inspection team
7 walked out of the office.

8 And I think you've got to figure out how to
9 expedite that so that then you can get those inspection
10 reports out quicker. And get them out to us as investors
11 on a more timely basis.

12 Just coming out as long as they have at times,
13 including this last year, is just -- it turns into being
14 old news. And people don't pay attention to it as much
15 as I think they probably should.

16 As far as objective two, leveraging economic and
17 risk analysis, couldn't agree more with you on that. And
18 it ties into the technology issue that again, Pete and
19 I think Bob both mentioned.

20 We hear the firms talk a lot about big data.
21 However, as I've seen audits, what concerns me is either
22 there's not the level of sophisticated economic analysis

1 using the technology that's available today.

2 I see what Wall Street's able to use. And they're
3 heads above the firms in terms of using that technology
4 and bringing it to bear on risk analysis.

5 And I think you've got to take a look at how
6 others, other than the auditors, are using this data.
7 And then see if it's really actually being used on the
8 audits, because to date I haven't seen it really being
9 used in a meaningful way to identify issues.

10 And most of the firms, and this is true at the
11 academics as well, they view big data as running against
12 the databases of the company they're auditing. And using
13 no data external to that.

14 Wall Street mostly uses external data. And
15 that's how they're able to identify problems, quite
16 frankly do their shorts before the audit firms ever
17 realize there's a problem.

18 And I think you have to look at big data in terms
19 of not only the internal databases, which is what all the
20 firms are using. They're not using external.

21 But I think you also have to look at the
22 availability of external data that would be beneficial.

1 And should be used on the audit as well.

2 MR. BROWN: Hey Lynn, let me just interrupt
3 really quickly. And put you on the spot a bit.

4 With the use of technology and data analytics and
5 things like that, do you see any place in the auditing
6 standards? Do you see any place where it's interfering
7 with that?

8 One of the things, I think as Bill mentioned,
9 that we want to try to do, and as the strategic plan
10 points out, we at least certainly, you know, we don't
11 want to be an impediment to that.

12 Do you see --

13 MR. TURNER: No. There's nothing in the current
14 standards that would prevent an audit firm from doing
15 that.

16 And I remember when I was back running Glass
17 Lewis Research, we met with all the firms about this
18 exact issue at that point in time. And they were way
19 deficient.

20 But, there was nothing at that point in time.
21 That's been over 10, 12 years ago that would have impeded
22 the firms from being able to use that type of data

1 analysis if they wanted to do it.

2 It requires a fair amount of education. And the
3 students coming out of the universities today, are not
4 being very well educated.

5 They're being -- they're hearing a lot about big
6 data. But when you go into the professors and actually
7 start looking at what they're teaching in the classroom
8 about the use of technology and big data, very few are
9 doing it.

10 In fact, I had a discussion about this with
11 Audrey Gramling at my alma mater, CSU, a while back in
12 January. And asked her if it -- and she's on the
13 Auditing Standards Board now.

14 Asked her if in the university they are actually
15 going in and teaching the auditing students how to use
16 some of the big data that's available. Including a lot
17 of the universities have Bloombergs and Inside in the
18 Business Skills. So they can use that and other.

19 And they just aren't in the accounting group.
20 The finance students for the most part are getting it.
21 Which is somewhat amazing.

22 The finance students and the CFAs are way ahead

1 of us on this. But in the actual accounting departments,
2 I have yet to have a single auditing professor, as I've
3 talked to them, actually instructing on how to go in and
4 use the databases like a Bloomberg, to really do analysis
5 on these companies.

6 And you can do it. I remember back around '09 or
7 so when Mike Starr was the Deputy Chief Accountant at the
8 SEC, Mike called me up and asked me to take him down to
9 Bloomberg just to see what could be done.

10 So we arranged a demo for him and one of the PAF.
11 And he was astounded. And Mike could run the Grant
12 Thornton office.

13 He was astounded by what Bloomberg was able to
14 do. And he said, we absolutely need to do it. But we
15 don't do it.

16 And they didn't at that point in time they didn't
17 have a Bloomberg even on the floor of the SEC Chief
18 Accountant's office. And neither Mike nor the PAF
19 understood what you can do with it.

20 So, it's a big education process. Because the
21 accountants at this point in time, the auditors aren't
22 up to speed in how to use that, Jay.

1 And again, back to your last couple of points, we
2 talked about enforcement. But then on the audit quality
3 indicators, I think that's one of the things that the
4 Council for Institutional Investors hit on in their
5 letter to you on the strategy.

6 And it certainly was one of the major key factors
7 or recommendations of the U.S. Treasury Committee. And
8 here we are, more than ten years past the issuance of the
9 Treasury Committee Report, and we still can't get out
10 indicators about equality to the investors.

11 That says a lot, I think. And it can't be that
12 they don't know how to measure it. Because if we're not
13 measuring it, we sure as heck aren't managing to it.

14 And perhaps that's the reason you mentioned that
15 audit quality is improved. I think audit quality without
16 a doubt after the Enrons did improve.

17 But I'm not sure that it -- that it's gone
18 backwards now. And if you look at the findings of the
19 inspection reports around the globe, including here in
20 the U.S., they would indicate to you that it hasn't made
21 that big a move forward, if at all.

22 MR. BROWN: Thanks Lynn. On line, Amy and Gary,

1 any of you guys want to make a comment?

2 MS. MCGARRITY: Well, I guess I would just echo
3 what -- so first, thank you for including us and calling
4 this meeting.

5 And you know, I -- Colorado EPRA, I wrote a
6 letter comment on your strategic plan overall. I feel
7 like it's a, you know, a positive step in the right
8 direction.

9 I think Lynn nailed it with the motherhood and
10 apple pie. There's a lot of things to love in it.

11 But to leverage kind of what he was saying, I
12 would echo comments regarding technology. I feel like
13 in general, there's a lot of low-hanging fruit as it
14 relates to using big data to improve the quality of
15 audits.

16 And I think the PCAOB could likely use some of
17 those tools as well to improve the inspections of audits.
18 And also to maybe target, you know, low-hanging fruit as
19 far as, you know, financial statements that should be
20 audited further.

21 So, I think there's a lot of work that needs to
22 be done there. I'm naive to what's already going on at

1 the PCAOB.

2 So, perhaps you all could comment on ways that
3 you are already using some of that data to improve the
4 quality of your audits. But, broadly speaking, those are
5 my comments.

6 I think that just -- I just wanted to jump in
7 after Lynn, because he had hit on technology. And I
8 think that's a really important feature in your strategic
9 plan.

10 MR. BROWN: Thank you Amy. Anybody from inside
11 the building want to comment on use of technology in the
12 building?

13 Don't feel like you have to, but. All right.

14 MR. DUHNKE: I will.

15 MR. BROWN: Oh, okay.

16 MR. DUHNKE: And for our phone people, it's Bill
17 Duhnke. Just a couple of things in response to Lynn's
18 comments.

19 When we were putting this together, we were very
20 intentional about two things. One, and I said this many
21 times in our planning process, whatever we say, it has
22 to mean something.

1 We were very intentional about trying to avoid
2 sort of the organizational speak approach to this. Where
3 it just sounds like every other strategic plan that
4 anybody ever puts out.

5 And so -- and although we're guilty of some of
6 that in here, because it tends to be unavoidable. We
7 think every word has specificity with either something
8 we're doing, or something we intend to do.

9 So, and to address just some of the points you
10 made on the data side, objective two in Goal One is very
11 specific to that point. We intend to better leverage our
12 own data.

13 And part of that process internally is to
14 inventory our own data. And then figure out how to
15 better use it inside the building.

16 Some of the things that we first identified when
17 we got here, was there's a couple of things that we
18 haven't successfully integrated across this organization.
19 That is our IT and use of technology.

20 And our use of our analytical and research
21 ability. We have fairly decent and strong efforts in
22 both of those silos.

1 But it's not very well integrated. And that's
2 something we're looking very closely at. And that's why
3 it's in here.

4 On the enforcement side, we also were very
5 intentional that we wanted to make sure that we were
6 publically saying that we see that as an integral part
7 of our process here. And -- yeah?

8 Oh, I'm sorry. And we intend to examine how we
9 do that. Mark, who is acting in our enforcement division
10 right now, is in the middle of that process, of
11 reexamining case selection and how we do that, and what
12 we choose to bring and way.

13 What's the -- we want to make sure that we have
14 a sensible philosophy behind how we enforce. So, that's
15 underway as well.

16 And then of course, objective four is the
17 identification and communication of what we find to be
18 useful information in the area of audit quality
19 indicators.

20 But as you've all worked in this area for much
21 longer than I have or probably will, but that's a tough
22 conversation to have. Even just from the beginning

1 conversation of what is it.

2 And obviously when the regulator gets involved,
3 we have our own considerations to be careful of.

4 So, I would say on the motherhood and apple pie
5 side of this, yeah, we're guilty. Because that's
6 unavoidable, I think.

7 But I think if you -- and we're happy and that's
8 why we're here today. We're happy to have very specific
9 conversations about every word that's in here. Because
10 it means something to us.

11 And it has a very specific intent. And I think
12 you'll find over time Lynn, that we're after the things
13 that you're talking about, so.

14 MR. BROWN: Thanks Bill. Tony?

15 MR. SONDHI: Thanks Lynn. Help me avoid any. I
16 appreciate that.

17 I wanted to talk about some of your, you know,
18 the -- you've talked about prevention and audit quality
19 and so on. The standard setters, both the IAASB, which
20 always said they did that, and the FASB currently,
21 they've been moving towards more principals-based
22 accounting standards.

1 And one area in which that has been very evident,
2 is the new revenue standard, the new leasing standard,
3 and the accounting for bad debts by banks, which is the
4 CCL standard. And many other aspects of the new revenue
5 standard.

6 And you know, the new revenue standard affects
7 everybody. So it affects every single audit that we look
8 at.

9 What's happening though with the principals-based
10 standards, is that by definition, the standard setters
11 do not provide details. Which I'm fine with.

12 It's just that the details and the way it's going
13 to work is being controlled. Or at least to some extent
14 processed by the audit firms.

15 And it's being developed so -- by those big audit
16 firms to a large extent. We don't hear that much from
17 the others.

18 So, when you're talking about auditing estimates
19 for example, the focus that the audit firms have, is on
20 costs and auditability. Not on the fair value.

21 Because these estimation methods that the
22 standard setters are putting in, are substitutes for fair

1 value. Because as Pete pointed out, you know, there are
2 certain issues.

3 Historical cost is, you know, its objective
4 except that it is, you know, too old to be of any use in
5 decision making much of the time.

6 So, from that perspective, we need fair value and
7 we need estimates. But, the focus that we have on the
8 way the estimates are being audited, that's not in the
9 right direction.

10 The FASB recently has issued several standards
11 where they've said that they looked at the costs. And
12 they decided that the costs were onerous and they wanted
13 to reduce the cost.

14 And when it came to the benefit part of that cost
15 benefit analysis, the FASB says, we can't figure out how
16 to analyze the benefits. And that's where the whole
17 thing stops.

18 We've even had some standards where the board has
19 said that it's too complex. So, we decided not to talk
20 to investors.

21 And I think that contravenes the core principal
22 of financial reporting. Which is to develop information

1 that is useful to investment and other economic decision
2 making.

3 And the final piece I'll give you, if you want to
4 think about fair value, and how it affects the audits and
5 so on, at the Emerging Issues Task Force, which I'm a
6 member of, we were discussing a proposed accounting
7 standard, which requires us to talk about and do
8 something about how to measure the fair value of
9 liabilities that we are purchasing in an acquisition.

10 There's a single definition of fair value in the
11 accounting standards on that particular issue. And you
12 know, like economists of the eight or nine of us in the
13 Emerging Issues Task Force, we had 12 definitions.

14 So, that diversity, how that gets audited, how
15 you can improve transparency, how you can improve the
16 quality of an audit, when there's that type of, you know,
17 diversity, is something of a challenge.

18 So, I think from that perspective, we need to be
19 very careful. It would be very, very, helpful to find
20 a way to collaborate with these standard setters in such
21 a way that there would be a thought about audit quality.

22 To me the IAASB has always looked at enforcement

1 as being outside anything that they need to do or they
2 need to think about. We have a very good enforcement
3 system, I think.

4 And I wish it would continue to improve. Which
5 it does. And from an investor's perspective, that's a
6 critical thing to have.

7 So, we've got this tri-work in a sense. We've
8 got the SEC enforcement working on one side. We've got
9 you thinking about how to improve audit quality for the
10 investors.

11 The question is, what can we do about getting the
12 core standards themselves to improve in such a way that
13 they actually contribute to those enhancements in the
14 other places?

15 MR. BROWN: So Tony, let me ask you this. So it
16 sounds like and correct me if I'm wrong.

17 It sounds like you're saying that the standards
18 set by FASB are becoming more principals-based. Which
19 means the auditors have more sort of discretion and kind
20 of how to execute.

21 If that's right, when what would you say we
22 should be doing in that space? So, accepting right now

1 that that's the approach of FASB, what's our role?

2 MR. SONDHI: Okay, so yes it is the approach, and
3 as I said earlier, I agree with it. The problem is that
4 in order to -- for that to provide the investor with good
5 information, the auditor needs to understand what the
6 purpose of some of that information is.

7 And they're looking at it from the perspective of
8 costs and auditability or certain other risks. And
9 they're not necessarily looking at it from the
10 perspective of whether it provides good information to
11 investors.

12 So, your roll from that perspective would be to
13 set, I think, quality control measures and so on, that
14 do look at the investors' perspective. That do look at
15 outcomes rather than just the inputs into it.

16 MR. BROWN: Thank you. Board Member Hamm?

17 MS. HAMM: I just wanted to briefly follow upon
18 what Chairman Duhnke described. And in particular,
19 respond to Lynn's and Amy's point about the use of
20 technology and big data.

21 This is so important to us. We have, I think, 43
22 transformational projects. Each of those projects have

1 Board champions.

2 For our technology reassessment internally and
3 externally, there are three Board Members, myself, Board
4 Member Kaiser, Board Member DesParte, that we're focused
5 on that.

6 We also have a project underway where we're not
7 only looking at how we manage our data, we're coming up
8 with a data strategy across the whole PCAOB.

9 So, collectively, we know the data we have, what
10 we collect in each of those offices and divisions, what
11 we need to start to inform our public policy decisions.

12 So, I do think notwithstanding how general the
13 strategic plan is, we understand that it needs to execute
14 appropriately with the technology and the big data and
15 our use of data effectively.

16 As an overseer, we really need to drive forward
17 and have some details. So, we're doing that. And
18 appreciate the feedback.

19 MR. BROWN: Thank you Kathleen. Grant?

20 MR. CALLERY: Thank you. Just a couple of
21 comments. And I come to this from a different position
22 than many of the people. I'm neither an accountant nor

1 an auditor.

2 But I did spend the majority of my career in
3 private sector regulation. And so I understand some of
4 the concerns and the skepticism that is there about any
5 private sector -- or group that is serving a regulatory
6 function.

7 So, I think transparency is incredibly important.
8 I think it's -- you can't do too much. I know you've got
9 some statutory constraints on your disciplinary actions.

10 I think they should be gone. But, that's a, you
11 know, that's a personal opinion. And that would take
12 Congress to do that.

13 And then the second thing is, some people
14 mentioned in a couple of the comments, the jurisdictional
15 issues. And I think those are very important.

16 And I've had the opportunity to be a lead on some
17 working groups over the past few years. And I've always
18 sort of opened the conversation with the working group
19 about, you know, let's not go off into the stratosphere.

20 And let's focus on things that are useful to the
21 PCAOB. And that they can actually do things with.
22 Let's, you know, let's give them suggestions that are not

1 only helpful, but implementable.

2 I'm going to do a little bit of a reverse on that
3 now. Because I do think that at least internally, you
4 should be thinking about the jurisdictional issues.

5 Or the things that are -- I'll take as an
6 example, the working group we had last year on NOCLAR,
7 they're -- from an investor's perspective, the whole
8 Wells Fargo situation was just people shook their heads
9 and said, how can this have happened?

10 How can -- and if you read the -- if you read the
11 correspondence between Senator Warren, and Chairman Doty,
12 and KPMG, you can see it sort of weaving its way through
13 this structure to say that they didn't do anything wrong.

14 And they followed 10A and they -- or 10 -- 10A,
15 I guess. And they did, you know, the right thing. Or
16 maybe not the right things. But, they did the
17 appropriate things under what's there.

18 I think you should be looking at situations like
19 that. And saying, are there changes? And I know you
20 can't make them.

21 But you ought to be talking with Wes. And you
22 ought to be talking with your counterparts on the

1 Commission. And if necessary, on the Hill.

2 But, if there are things that just keep
3 recurring, and being -- just hurting credibility from an
4 investor perspective, I think you've got to be thinking
5 about those. Even if they're outside of your
6 jurisdictional scope.

7 And the third is really on the transparency and
8 engagement. And I know Bill, I know you've had some
9 conversations with Robert Cook and my former employers.

10 And they have just done at FINRA a -- or are
11 still in the process of a 360 overview, which was very
12 expansive in its scope.

13 And I would suggest that -- and I'm sure that
14 they would be happy to talk more with not only with you,
15 but with people at the levels, whether it's enforcement
16 or inspections or things like that, and share some of the
17 things that they learned from that experience.

18 Because I think that fits very nicely into your
19 Goal Three. And I've always been a fan of stealing good
20 ideas as long as they're not proprietary, intellectual
21 property.

22 And so if they've learned things that can help

1 you and move things along more quickly, you know, go for
2 it. They're only across the park, so.

3 MR. DUHNKE: Just in brief response to that, we
4 are fully involved with them. We started that
5 conversation very early when the Board got in place.

6 And it continues. Much to their consternation.
7 But, they're talking to all levels of our organization.

8 MR. CALLERY: That's good. Great.

9 MR. DUHNKE: Helping us understand what they did
10 and how they did it. And how it can inform what we're
11 doing.

12 So, yeah. We're on that one too.

13 MR. BROWN: Thanks Grant. Damon?

14 MR. SILVERS: Thank you. I have two comments on
15 the Goals. And sort of -- and sort of in the form of
16 encouragement, I guess, is the best way of putting it.

17 First, I think that the -- and again, it's
18 difficult to -- it's difficult to frame these kinds of
19 objectives in ways that really reveal too much about what
20 you're actually doing.

21 That's an inherent problem in this kind of
22 process. But, the focus on human capital at the Board

1 is really -- is a really important one.

2 And particularly so, I think, at this time when
3 there's been some significant turnover at senior levels.

4 The -- as someone who's been around as -- for a
5 long time around this -- around the Board, I think one
6 of -- and through a whole series of circumstances, right,
7 in terms of leadership and outside challenges.

8 I think one of the things that has been really
9 successful about the Board and its unique governance is
10 that there's been an ability to maintain continuity in
11 expertise and a sense of mission that in a way that's
12 unusual in Washington.

13 And it sort of transcends a lot of other stuff.
14 Right. That often -- that often affects agencies and the
15 like.

16 Maintaining that, and maintaining the -- and
17 building on the quality of the leadership here at the --
18 in the various departments, I think I'm using the wrong
19 technical terms for the departments. But the various
20 teams, is, I think, just a critical challenge that the
21 Board faces this year.

22 The second thing is, has to do with the

1 conversation we've been having about data. And I think
2 it's worth -- it's worth putting that from the investors'
3 perspective at a somewhat -- at one higher degree of
4 abstraction.

5 Lynn was talking about earlier the purposes
6 embodied in the Sarbanes-Oxley Act that created the
7 Board. And I'm sure it's lost on no one that the data
8 environment that we're operating in today, is quite
9 different from that which existed at the time the
10 Sarbanes-Oxley Act passed.

11 And it -- it raises this question about -- it has
12 raised continuously this question about the relevance of
13 the audit. In a much more noisy data environment.

14 And in a data environment in which many investors
15 feel particularly -- investors that might not have --
16 that many investors are sort of drawn toward other data
17 sources.

18 And other data sources that may in fact be
19 illusory in terms of the quality of the information, the
20 actual information they are providing. And I use the
21 term information in this sort of technical economic
22 sense.

1 The PCAOB has the opportunity, given the data
2 that it has access to, that it creates to be part of
3 ensuring that the au -- that not just the audit, but the
4 financial reporting process that the audit contributes
5 to and validates, that that constitutes real information.

6 And is understood by investors and market
7 participants as doing so. And that -- that requires, I
8 think, being really creative in terms of being able to
9 mine the data that you have.

10 Right, in ways that would in the past both not
11 have been possible, and would not have been as important.
12 Let's put it that way.

13 As important, because these data environment, the
14 larger investors' data environment would not have been
15 both as rich and as dangerous as it is now.

16 And I think that the strategic goals that you all
17 have laid out, sort of point in that direction a bit.

18 And I would strongly encourage you to think about
19 that. Not just in sort of maybe the -- not just in
20 conventional data terms, but in terms of how do we ensure
21 that the -- how does the PCAOB contribute in the best way
22 it can, to ensuring that the financial reporting pro --

1 the financial report -- the financial reporting process
2 really does bring to investors information that is
3 comprehensive and reliable in a way that, you know,
4 surfing -- surfing sort of stock market oriented websites
5 does not.

6 And that -- and the fact that what you have sort
7 of in this building is, I think, really -- really
8 uniquely valuable in terms of that process.

9 So, I just encourage that broader framework.

10 MR. BROWN: Thank you Damon. Larry and Sara,
11 let's take a break. And we'll come back to you as soon
12 as we come back.

13 This is the moment when we can have our first
14 break. And let's come back in about -- maybe right at
15 11:00. At 11:15? At 11:15.

16 (Whereupon, the above-entitled matter went off
17 the record at 10:47 a.m. and resumed at 11:17 a.m.)

18 MR. BROWN: All right. Welcome back, everybody. Yeah,
19 Larry and Sara, hold on one more second.

20 Let me talk to, turn to Mark Adler. Mark is
21 currently the Acting Director of Enforcement. And let
22 me give you a moment to give us some thoughts.

1 MR. ADLER: Thanks, Jay. I just wanted to talk
2 a little bit about Lynn's comment involving, you know,
3 are we just going after small firms, and then also touch
4 on the discussion that folks have had about technology
5 and how Enforcement is using technology.

6 If you look at a number of the cases that we
7 brought in the last two years, we have, in fact, gone
8 after a number of the global network firms, partners at
9 those firms, foreign affiliates of the global network
10 firms, and partners of those firms.

11 We're seeing about 30 to 40 percent of our
12 settled orders in recent years involve international
13 auditors. And those cases are really hard to bring, if
14 you think about how the documents we're getting are often
15 in foreign languages and we need to get them interpreted,
16 the challenges of taking testimony in other countries,
17 working with OIA and our counterparts in other countries
18 who are regulators.

19 And we've had a lot of good success. We've
20 brought cases against EY Indonesia in the last couple
21 years in part involving audit failures and document
22 alterations, brought cases most recently against

1 Deloitte's Canadian affiliate on an independence matter,
2 the Banro case. We just brought a case against three
3 partners of Deloitte Mexico involving the EZCORP matter.

4 And then, in addition, we've brought cases
5 against global network firms in the U.S. Last year in
6 December, we brought a case against Grant Thornton
7 involving the Bancorp case. This was the first QC charge
8 against a global network firm that's domestic. And we
9 got a \$1.5 million penalty.

10 And then earlier this year, we brought a case
11 against Deloitte U.S. for audit violations in the Jack
12 Henry matter.

13 And these matters all fall into our higher
14 priority areas involving audit failures, involving lack
15 of due care and lack of professional skepticism,
16 independence, and then matters that affect the integrity
17 of the board process like document alterations.

18 So a good percentage of our matters do involve
19 the global network firms, foreign affiliates, or their
20 partners.

21 I want to just talk briefly about what we're
22 doing with an evaluation of our process. We are

1 embracing completely the message from the Board that we
2 should be looking to optimize our effectiveness and
3 efficiency.

4 We think we have a good program. But we know we
5 can do better. And one of the main ways we're doing that
6 is looking at technology. And we're very excited about
7 the possibility of using emerging data to help us
8 identify cases.

9 We think we have a good case identification
10 process. But we think there are parts of it that could
11 be automated. And we think there may be ways we can
12 leverage data both internally at the PCAOB and
13 externally.

14 We're also looking at technology tools to just
15 make us do our jobs better on a daily basis, and give you
16 a quick example.

17 One of the ways that we identify document
18 alteration cases is to look at metadata. That's the
19 property information in a Word document, an Excel,
20 PowerPoint, or PDF that tells you when a document was
21 last created.

22 Largely, we've identified these document

1 alterations by looking at the last modified date
2 manually. And you see that the last modified date is
3 right before an inspection.

4 We've found a very inexpensive tool that will
5 extract the metadata from a large volume of documents
6 that will enable us to review these documents very
7 quickly. And so then suddenly we can see patterns, like
8 there may be 20 documents that are altered right before
9 an inspection, and look who the person is who's doing
10 those alterations.

11 And so we're also looking at other tools to help
12 us with our investigative process. We have a terrific
13 platform where in an audit failure case we may have to
14 review up to a million pages of documents. And so we
15 want our teams to get through those as effectively and
16 efficiently as possible.

17 We're going beyond keyword searches. We're using
18 analytics, concept searches, categorization searches,
19 cluster searches, getting more analytic tools built into
20 relativity so that you can actually take text from a
21 document, run it through a search engine that will look
22 for similar concepts and help you find the key documents.

1 So those are just some of the things that we're
2 doing technologically.

3 We're really excited about the process of
4 reviewing not just our case ID process, but also our
5 investigative process and litigation process to see where
6 we can be more efficient and effective.

7 MR. BROWN: Thank you, Mark. So that's an
8 example of the translation of mom and apple pie into
9 what's actually happening inside the building. So those
10 were -- I appreciate those comments. Sara, let me turn
11 the floor over to you.

12 MS. DEANS: Thank you. Firstly, I'd just like to
13 say, you know, I'm sure it's correct that audit quality
14 has improved. And I've no doubt that the PCAOB's work
15 has been very valuable in driving that improvement. And
16 that is fantastic.

17 I would say at the moment I should briefly
18 explain. I sit in London. I'm based as a sell side
19 analyst talking to a lot of investors on accounting
20 topics.

21 And right now in New York I think we have a very
22 different situation, that there is a very strong,

1 especially in the U.K., a very big public debate about
2 the audit firms, about audit quality, effectiveness, and
3 also the role of the FRC in the U.K., the regulator
4 there.

5 And that's been largely driven I think by, you
6 know, some high profile problems and failures.

7 But there is a really big debate there about
8 whether the audit firms are serving the public interest
9 effectively. And we have seen, you know, a lot of
10 criticism in particular of the FRC as well on issues like
11 being ineffective, too slow, too close to the audit
12 firms, and lacking in transparency.

13 And I guess I would just sort of say, you know,
14 one note of caution in a way that I think if you have
15 some high profile problems, the perception of audit
16 effectiveness could change quite rapidly.

17 And I think one of the ways, obviously, the work
18 that PCAOB will hopefully prevent many of those problems,
19 but also I would say that having an involvement and the
20 outreach to a very broad community, where you can get
21 input and involvement and understanding from, is
22 important ahead of problems.

1 So I think I'm very, feel very positive about
2 Goal Three, transparency in shareholder engagement,
3 stakeholder engagement I should say.

4 And I think there's a potential virtuous circle
5 there that the more transparent you can be and, of
6 course, I understand the constraints, and the more you
7 can engage with wider stakeholders the better input you
8 will also get.

9 And I genuinely think getting input from
10 investors, more input from investors from a broader range
11 of investors can help the PCAOB's efforts be even more
12 effective. So that is the perspective sitting in London
13 at the moment.

14 And just, you know, I don't want to labor the
15 point. We've talked a lot about technology. I think
16 it's incredibly important. And thank you. Those
17 comments were very encouraging. So thank you.

18 MR. BROWN: Thank you, Sara. Larry?

19 MR. SHOVER: Thank you. This might be risky to
20 start with a trivia question, but I'm surrounded by a lot
21 of auditors, a lot of accountants. The reason it's risky
22 is that I might be getting this wrong.

1 Do you recall when accelerated depreciation was
2 allowed and disallowed, anybody in this room? Am I
3 saying that right? Remember accelerated depreciation?
4 I think it may have been mid-'60s it was allowed. And
5 then it was disallowed in the late '80s.

6 You have to know the answer. Somebody does.
7 Please bail me out.

8 MR. NACHTWEY: It sounds right from a tax
9 concept.

10 MR. SHOVER: Yeah.

11 MR. NACHTWEY: Yep.

12 MR. SHOVER: Okay.

13 MR. BROWN: Can I just say this is going to be
14 the YouTube clip of this meeting --

15 MR. SHOVER: Okay.

16 MR. BROWN: -- this exchange?

17 MR. SHOVER: I have to say something.

18 MR. BROWN: It's going to go viral.

19 MR. SHOVER: No, it's very important --

20 MR. BROWN: That's right, yeah.

21 MR. SHOVER: -- because it has to do with two
22 things. And two of them are I think comforting and

1 encouraging.

2 The first one is, when I read page 5 and I quote,
3 and this is -- I'm quoting, while these advancements
4 present great promise, they also present significant
5 risk. And that's talking about disruptive technological
6 change.

7 I am so happy. I was so happy when I read that.
8 I highlighted it, underscored it. We can't underestimate
9 the risks when we don't know what the risks are.

10 And that was like with, you know, accelerated
11 depreciation. Look what it did to the inner cities.
12 Look what it did to the suburbs. I mean, it had a lot
13 of impact that nobody could really foresee.

14 It's easy for me to sit up here and talk about
15 risk management. But the fact that you're taking it
16 seriously, the fact that I, for one, would love to be on
17 like a risk management subcommittee -- I mean, I've spent
18 my whole entire life in risk management, not for
19 accounting but for derivatives. But I can think in three
20 dimensions I think.

21 So I'd like to say I'm grateful that you're doing
22 that. That's powerful.

1 And to my second point, the SEC actually does
2 this really well. And I think the PCAOB can do this
3 better, and that is investor education, investor
4 awareness. And I know that's something that you want to
5 do.

6 But quite frankly, when it came to accelerated
7 depreciation, I learned that through a Chinese social
8 media app, WeChat, which was posted by the CSRC of all
9 things, which is the equivalent of the SEC here. So I
10 had to go to China to figure out what that was and --

11 MR. BROWN: How do you know we weren't behind
12 that?

13 (Laughter.)

14 MR. SHOVER: I know. I know full well. Although
15 I have to say, the Investor, I think it's called the
16 Board of Investor Advocacy or something for the SEC do
17 a really good job of educating. And you guys kind of
18 like, you don't need to hide behind, you know, the
19 building or the title. I mean, people just want to be
20 aware.

21 Last week, you know, television media talks about
22 the S&P 500, 77 percent of all companies beat earnings

1 by an average of 6 1/2 percent.

2 I mean, the average person doesn't even know what
3 that means. The average person's generally apathetic
4 toward it. It's -- they don't trust it. They don't
5 understand it. And I think, you know, making a big
6 effort or continue to do so would go a long way.

7 MR. BROWN: Let me ask you quickly --

8 MR. SHOVER: Sure.

9 MR. BROWN: -- because of your background and
10 experience, you know, just off the cuff, any specifics,
11 any thoughts about, you know, of course, clearly making
12 things better known and understood. But can you --

13 MR. SHOVER: Yeah, I think just like that. If
14 you remember, two years ago all the rage was GAAP, non-
15 GAAP. And, you know, all the financial media outlets
16 were talking, you know, getting earnings that weren't
17 correct or that this -- it all went away. But in the
18 investor's mind I don't think it went away.

19 So I think like more education of like how these
20 earnings are derived and why they're allowed to do what
21 they do with GAAP, non-GAAP, et cetera, yeah.

22 MR. BROWN: All right. Thanks. Linda, you still

1 have your tent card up. Are you --

2 MS. DE BEER: No, it's new. It's new.

3 MR. BROWN: Oh, it's new. Okay. Just checking.
4 Linda.

5 MS. DE BEER: Thank you. Do I get a second
6 chance to say something? Thank you, Chair.

7 And I've got a few comments on some of the
8 individual goals if I may. And some of those comments
9 have been made already, but I think maybe if I can just
10 weigh in some of that.

11 And the first one that deals with audit quality
12 is really important, and maybe two comments on that.

13 The first one is the whole issue or the whole
14 notion of audit quality indicators. And the Chairman
15 made the comment earlier on that it is a very difficult
16 issue and that you have been working on it for a long
17 time.

18 It is really important for audit committees. If
19 we talk about audit quality, it's not just the role of
20 the audit regulators. The audit regulators play a very
21 important role. But if you want to strengthen that, you
22 need to understand who your allies are in that process.

1 And, yes, auditors are allies. And I know you've
2 spent a lot of time and interaction with some of the
3 bigger groups to understand what they're doing about
4 audit quality, quality control process, and so on. And
5 that's important.

6 But audit committees also have a really important
7 responsibility when it comes to audit quality. And if
8 you want to, and it links to your comment, if you want
9 to get them to help you, because they're really at the
10 front end, at the forefront of it for an individual
11 audit, it is, it would be useful if there were more
12 sensible, helpful tools.

13 It might not be perfect if you come up with
14 something on audit quality indicators. But I think
15 everything that you put out to at least point audit
16 committee members into the right direction of what to
17 consider when they assess audit quality, when they make
18 decisions on whether these are the appropriate audits --
19 we're going in our part of the world through a process
20 and the shorter, more mandatory audit firm rotation.
21 We've got rotation rules for audit partners. And all of
22 those types of indicators will be useful.

1 Our stock exchange has put out some requirements
2 for audit committees to consider when they look at,
3 firstly, to look at the inspection report that comes from
4 the audit regulator and what are the typical things that
5 they should look at to assist them in assessing the
6 individual audit partner as well as the firm.

7 So I would say don't wait until it's perfect.
8 Rather, put something out that is useful guidance to
9 assist audit committees.

10 The other aspect on audit quality, which is a red
11 herring but really important, is the guidance around non-
12 audit services, because audit quality and audit
13 independence are two sides of a coin.

14 And I think generally audit committees are not
15 always so attuned to what are the types of services that
16 can and cannot be performed or should and shouldn't be
17 performed by auditors.

18 I know there's a big debate in the U.K. again and
19 in Europe around audit only firms. And I think that is
20 a really important aspect of guidance as well.

21 Then, if I may, just on the second goal that
22 talks about the changing environment and that's where the

1 emerging technologies and so on come in, later on today
2 when we talk about the audit quality standards, this has
3 got a very -- and I've recently been involved in a case
4 where you can actually see what the impact of this is on
5 the quality of audit teams and the level of audit teams
6 and the level of the training, you know, how the training
7 model fits into this, because where we're going
8 technologically means that the audit teams need different
9 skills and you probably need more people to move up to
10 a higher level of data analytics as opposed to just
11 executing the work.

12 And I think that is something in your standards
13 that you might want to think about when we have this
14 debate on where the world is moving with technology.

15 It links also -- again, something that I've
16 recently dealt with --- with how do you deal with experts
17 and what is the role of the signing partner when it comes
18 to experts, because I've had a really interesting example
19 recently where it's almost just adopt what the expert,
20 whether it's a GAAP or an IFRS expert or an actuary or
21 whoever, just he's the expert I adopt and I just accept.

22 And there's a very important interface, how that

1 fits into the audit and materiality. And I don't think
2 the standards in your instance or even in the
3 international standards, the ISAs are clear what exactly
4 is expected.

5 It's not just check that this person has got the
6 appropriate skills and then just accept what he does.
7 You still have to fit that into the rest of the audit,
8 the other audit findings, materiality.

9 And some of the big things that I've seen wrong
10 on my side of, our side of the world is because of
11 auditors not appropriately assessing and integrating the
12 work of an expert.

13 Then just maybe one more, if I may, and that's on
14 Goal Five. And that is empowering people and rewarding
15 people. And maybe it's not quite the right point but --
16 and I have made that comment in this forum before that
17 the PCAOB internationally as an audit regulator is a
18 really important player.

19 And I know you're quite involved in IFIAR. But
20 I think there's a lot of scope there as really the lead
21 audit regulator internationally to see how you can
22 further enhance and collaborate with some of the other

1 audit regulators, because often I think if you start
2 sharing more information, a lot of companies have dual
3 listings in the U.S. and elsewhere.

4 If you can start maybe sharing information and
5 skills and resources, I think that, again, will help
6 audit quality, because your audit quality also depends
7 on whether others get to try it elsewhere in the world.
8 Thank you.

9 MR. BROWN: Thank you, Linda. Jim or Barb, do
10 either of you want to, do you want to comment on -- no,
11 Jim, let me turn to you first. Do you want to comment
12 on the specialist standard? And I think it probably
13 fixes everything Linda just said, doesn't it?

14 (Laughter.)

15 MR. KAISER: And gives apple pie, too. No, we
16 have a goal before the end of this -- closer? Okay.

17 We have a goal before the end of the calendar
18 year to adopt the specialist standard. And it will
19 address not only specialists employed by the audit firm,
20 but also specialists engaged by the audit firm, and also
21 looking at the work of the specialist that the auditee
22 has.

1 So, hopefully, that will address the concerns you
2 mentioned. And we'll also have, hopefully, the estimate
3 standard approved, which the two in my mind kind of go
4 hand in hand and really bring together a lot of the
5 different standards that are integrating three standards
6 right now from the estimate standpoint.

7 So, hopefully, we're going to address that in
8 what we adopt later this year. Barb, I don't know if you
9 want to add anything to that.

10 MS. VANICH: Well, Jim has taken all the pressure
11 off of me. So that makes it quite easy.

12 But, you know, today we don't look at someone
13 with expertise in any kind of accounting matter, they're
14 not a specialist. They would -- that's within the
15 jurisdiction of accounting and auditing.

16 But we do have a number of findings where people
17 inappropriately use the work. And so those are some of
18 the things that our proposal back from a few years ago
19 sought to overcome. And so we're very hopeful that we
20 can move the bar forward.

21 MR. KAISER: The other item I would say is the
22 third standard that we're dealing with is auditor,

1 supervision by the auditor. We're hoping that once we
2 get into '19 we also adopt that standard, too, which I
3 think will have some significant changes in terms of how
4 audits are managed domestically and internationally.

5 MR. BROWN: Yeah, and I just want to add, so,
6 Jim, as a Board member, is the Board champion of
7 standards. And so he is very focused on this, so, and
8 you can see just from the comments.

9 Well, let me -- so I don't see any tent cards up.
10 So let me ask another question, which I think, you know,
11 we really could use your input on.

12 So Goal Three is enhanced transparency and
13 stakeholder engagement. That's something I think
14 everybody in this room would have thoughts on.

15 You know, stakeholder engagement, I think it's
16 sort of self-evident. Transparency, you know, for me
17 personally very important in this organization, how do
18 we become more transparent?

19 My belief is that if we're more transparent in
20 what we do, we can actually do -- we don't ever want to
21 do less outreach. But outreach, there's an element of
22 involvement from you all that we don't have to instigate

1 because you see what we're doing and then you come in and
2 comment and you give us your feedback, because what you
3 can tell from this meeting and our interaction, that we
4 want to hear it, we're open to it.

5 So really what you need is sometimes the
6 catalyst, you know, for wanting to do that. And I think
7 transparency and catalyst, those are probably two
8 different words or whatever. So I can't say they're the
9 same, but two different types, you know, grammatically.
10 But anyway, those two go together.

11 So what thoughts do you have for us on
12 transparency and stakeholder engagement? Bob.

13 MR. TAROLA: Sure. Thanks for teeing that up
14 actually. You know, transparency is critical. It's
15 important. It might be apple pie.

16 But if you look at transparency from a data
17 perspective, meaning you put out some facts about an
18 audit situation. And maybe it's an inspection finding.
19 That's a fact.

20 If you're sitting on a board, then you have to
21 interpret that fact. You know, what does it mean to me?
22 What does it mean to the auditing firm sitting in front

1 of us?

2 And unfortunately, the interpretation of that
3 fact often comes from the audit firm itself, kind of
4 don't worry, be happy. It's not a big problem. We've
5 already solved it. It doesn't pertain to your company.

6 Now, information would be a lot better if you
7 could get there, as opposed to pure facts. I know that
8 could be difficult because it means forming some judgment
9 as to whether or not you've uncovered something
10 pervasive. It affects, you know, more than just that one
11 audit that you took exception with.

12 But that kind of color commentary would be very
13 helpful to the governance of corporations.

14 MR. BROWN: Thanks, Bob. Sara?

15 MS. DEANS: Thanks. I mean, I think it's
16 incredibly important. And one of the things, which, you
17 know, I have to say is that the awareness of the PCAOB's
18 work, at least certainly overseas, is very, very limited.
19 It's harder for me to comment here. And people can't
20 engage with you who aren't aware who you are, what you
21 do, and why it's relevant to them.

22 And I know that, in particular, investors are a

1 notoriously difficult group to engage with. I mean, you
2 hear it again and again from the accounting standard
3 setters and so on. But, you know, of course, you're
4 going to hear from the audit firms naturally. That's no
5 problem. But engagement with investors is very, very
6 hard.

7 And I think to be seen where investors are, so,
8 you know, outreach in terms of speaking at investor
9 events, highlighting why this is relevant to them, why
10 they should care, you know, that would really improve --
11 I think it would be a real virtuous circle.

12 The more you can get out there, make people aware
13 of what you're doing, what's new, what's changing, why
14 it's relevant to them, and explain it in terms that
15 investors can engage with -- and again, I think the
16 profession generally has a problem with enthusiasm for
17 talking in technicalities that scares off the rest of the
18 world. And then no one will engage when they don't
19 really understand what you're talking about.

20 So I think, you know, very simply to try and be
21 high profile on the investor side, to publish everything
22 you can, and again, I understand there are restrictions,

1 in ways that are user-friendly.

2 And early in my career I was told publish or
3 perish. You know, you've got to get stuff out there,
4 because nobody's going to talk to you. You know, you can
5 be having the cleverest thoughts in the world, but if
6 people don't know about them, they're not going to engage
7 with you. And it's true everywhere.

8 So, you know, and I understand it takes resource.
9 But to the extent things can be tailored to that
10 audience, that's incredibly helpful.

11 So I know that's asking a lot. But I think it's,
12 it could be incredibly beneficial, because, again, I
13 think various people have alluded to the fact that, you
14 know, if auditors don't understand the investor
15 perspective, we also discussed this at dinner last night,
16 and if the audit regulators don't understand the investor
17 perspective, you know, there's going to be a lot of
18 efforts focused perhaps in not the key areas. Thank you.

19 MR. BROWN: Thank you, Sara. Pete?

20 MR. NACHTWEY: Yeah, thanks, Chairman. So,
21 having just spent a week in Asia -- somebody thought it
22 was a really good idea we take our whole corporate board

1 and do our quarterly meeting in Tokyo until they found
2 out how hard that was. But fortunately it went very,
3 very well.

4 But it's interesting. I don't know that the
5 needs of overseas investors are dramatically different
6 than ones in the U.S. But that's, you know, admittedly
7 just putting a very American spin on it.

8 There are some incredibly sophisticated investors
9 overseas. I mean, and, you know, we met with several of
10 them last week at Hong Kong Monetary Authority, the
11 Monetary Authority of Singapore. And we very often meet
12 with the largest sovereign wealth funds out there.

13 So I do think, you know, if you reach out, I
14 definitely think they'll have a view and they'll want to
15 engage. And, but you don't have to boil the ocean. It's
16 not like having to try to reach out to -- there's
17 billions of investors out there. I think you can kind
18 of engage with a handful and start, you know, start kind
19 of getting a perspective.

20 MR. BROWN: Can you after this meeting give me a
21 list of names of all the investors that you know and have
22 met that we can reach out to?

1 MR. NACHTWEY: Actually, I could if you want
2 them.

3 MR. BROWN: I --

4 (Laughter.)

5 MR. NACHTWEY: But maybe, but only if you don't
6 tell them when you call them where you got their name
7 from.

8 MR. BROWN: Fair, fair enough. Damon.

9 MR. SILVERS: I think that this question of how
10 to reach out to stakeholders, pursuant to what Sara said,
11 there is this sort of fundamental challenge that I think
12 the Board needs to be sort of creative about, which is
13 that the, from investor's perspective -- and obviously
14 the investor landscape is very diverse, right.

15 There's lots of different kinds of institutions
16 and lots of different -- there's chains, there's sort of
17 chains of, there's investment chains between ultimate
18 beneficial holders and people making decisions down the
19 line and different investors with different types of time
20 horizons and different levels of interest in the
21 financial statements. So you've got a lot of different
22 communities potentially to relate to.

1 And then you've got a fundamental problem that I
2 think that in the audit policy space we often kind of
3 forget, although it lies behind some of the issues that
4 Lynn raised earlier, which is that on the one hand the
5 financial statement itself is a very complex,
6 multidimensional document with a lot of thought -- I
7 mean, a, the document itself is complex and
8 multidimensional. And then what goes on underneath it
9 in terms of preparing it and auditing it is complex and
10 multidimensional.

11 And yet the audit letter itself, which is all the
12 investor sees of the audit, is a binary -- other than
13 very exceptional circumstances such as an imminent
14 bankruptcy, it's effectively a binary instrument.

15 So all that complexity is invisible, right, from
16 the investor perspective. The investor is largely
17 judging the audit based on the usefulness of the
18 financial statement. And the investor has a very hard
19 time knowing, in doing so.

20 What's the, in looking at the usefulness of the
21 financial statement, what's the contribution of the
22 preparer? What's the contribution of the auditor? What

1 role does the PCAOB play? I mean, these are completely
2 opaque issues from investors' perspective.

3 What might be a good way of trying to
4 meaningfully engage with investors and potentially other
5 stakeholders -- you know, we forget often the degree to
6 which all sorts of entities, policymakers are dependent
7 on audit and financial statements. Academic researchers
8 are dependent on them.

9 There's a lot of people using financial
10 statements beyond investors. But that -- and I would
11 particularly suggest engaging with business and finance
12 academics in that respect.

13 But I think that the thing, the kind of thing to
14 do here is not to ask them, well, what do you think of
15 the PCAOB's work, because they don't know, right. And
16 there's no way for them to know. It's not just an
17 indifference or -- you know, it's that there's a
18 fundamental opacity.

19 It's rather to ask them the following question.
20 As you read through financial statements and as you have
21 engaged in the business of representing your clients,
22 managing money, et cetera, what's problematic, right?

1 What are the signs that you see that something might be
2 wrong with the audit?

3 You also don't have to necessarily engage in this
4 type of kind of critical way, right. There's ways of
5 asking them more, a less edgy question, which is, you
6 know, what about, what is there about financial
7 statements that, what should auditors be paying more
8 attention to?

9 What is -- how does -- and this comes back to
10 what I said earlier. How is it -- what should be done
11 inside that opacity? What are the outward indicia of
12 relevance that the people inside the opaque process need
13 to be paying attention to? How should the financial
14 statement be more relevant to what you're thinking about,
15 right?

16 But I think you have to be proactive in reaching
17 out to people and ask them what they see in terms of the
18 output, because they can't -- I mean, they, we can't, we
19 don't have anything to, we don't have any knowledge about
20 the internal workings of the audit process. All we have
21 is that letter, right.

22 And in terms of the Board, all we have is -- we

1 have the standard setting -- we have the rulemaking
2 process. But the inspections process, which is really
3 the issue, again, is largely opaque. And that's not
4 something you have any control over.

5 MR. BROWN: Thank you, Damon. You know, I would
6 just add, the Chairman, when he gave his most recent
7 speech, he said in there we plan to deploy one or more
8 additional teams of inspection professionals focused on
9 performing targeted procedures across firms on specific
10 topics.

11 You know, my suggestion, kind of consistent with
12 what Damon was saying, you know, one way to ask the
13 question is what topics, you know, sort of what are the
14 areas in the financial statements that you think if we
15 were to take this step would be worth examining kind of
16 across the board on a comprehensive basis.

17 And that is an easier -- easier is not the right
18 word. It's an answerable, a more answerable question,
19 you know, as Damon put. Lynn.

20 MR. TURNER: I would agree with Damon that very
21 few of the people managing money have much, if any,
22 understanding of the PCAOB and its process. There are

1 like five letters to it. And that's pretty much it,
2 yeah.

3 And I think your annual report, perhaps getting
4 wider distribution in the investor community would be
5 helpful, because there's usually very good stuff in the
6 annual report, but getting it distributed out to that
7 broader investor horizon.

8 The other thing to keep in mind is on the large
9 institutional asset managers, they're not the people with
10 the money actually in the market. They're managing it.

11 So it's critical to get out to their people who
12 are actually managing or doing the analysis for specific
13 portfolios and deal directly with the people who are
14 making those decisions and actually using the financial
15 statements. I think you'll find they have a better
16 understanding.

17 There's a couple groups that represent retail
18 investors. And I've never seen one of these
19 organizations in D.C. really reach out to the retail
20 investors.

21 So I'd try to reach out to -- and there's only a
22 couple of the groups. But I'd try to reach out to the

1 groups that deal with retail investors so that you're
2 really trying to get to the core of the investment side.
3 I think that's important.

4 I think Pete made some comment about when you go
5 to investors you'll get different perspectives. If you
6 go to one of the large asset managers, if you go to the
7 people putting together their financial statements,
8 you'll typically get a vastly different response to a
9 question than you will if you go to the CIO or the people
10 managing the portfolio.

11 The two answers will be different as black and
12 white. And it's almost in every asset manager I've ever
13 gone into.

14 And so one becomes the preparer. The other one
15 becomes the person actually using the information to make
16 investment decisions, and the same thing with the CEOs
17 unless they came up on the CIO.

18 So I think you have to -- just because someone
19 says they're at a large asset manager doesn't necessarily
20 mean you're going to get the perspective of the people
21 making the investment decisions. So I think you have to
22 be very cognizant of that difference, if you will.

1 As far as transparency goes, I think you guys are
2 going to probably get a good report card out of those
3 people managing and analyzing the data in the portfolios
4 when the audit reports start popping out.

5 We don't know what they'll say. We know the
6 firms are taking steps and strides to get ready for it.

7 But I suspect, just as within Europe, when we see
8 those reports, there's going to be some positive news and
9 some good information just like when Europe first went
10 to it.

11 I also worry, though, that you're going to have
12 some negative reaction if the reports in the U.S. give
13 less information than the reports in Europe. And given
14 that there's a clear-cut difference between the two
15 standards, I suspect that there will be less information
16 coming out of the reports in the U.S. than in the U.K.

17 So I think you're going to have to be able to
18 address that and respond to that, because if that
19 happens, then Europe will get one report card and you're
20 going to get another report card. And I think being on
21 top of that and managing to that is going to be very
22 important.

1 As far as transparency with the Board, the Board
2 in the past, version 1.0 so to speak, did their meetings
3 in a way almost like the SEC. They'll have a public
4 meeting to vote out a proposal and then have a public
5 meeting to vote out a final.

6 And the two times I was at the Commission we had
7 a joke that we were basically the bastion of darkness,
8 wanted everyone in the sunlight and we stayed in the
9 darkness. And I think there's some truth to that. To
10 the PCAOB, they've operated in the same way.

11 I compare that to the FASB where they go out and
12 in a public meeting sit around at public forums in a room
13 like this and debate the standard and what is the
14 development and what are the key issues and what's their
15 reasoning for voting on specific issues.

16 I think that's a much more transparent process
17 than what you currently have. And I think you need to
18 seriously consider going to a FASB type project. If you
19 really honestly want to become transparent, you need to
20 go to the FASB type process versus what the Board has
21 adopted and used to date.

22 It's a little more cumbersome. I acknowledge

1 that. It's a little bit more of a pain in the you know
2 what. But if you're serious about transparency, that's
3 the way to prove it to people, to go to that type of
4 process.

5 Lastly, you have got tremendous amount of data
6 inside here that you gather and collect. But you guys
7 operate that you never turn any of that out to the
8 public. It's like if any of it gets out to the public,
9 oh my god, we'll go after someone for disclosing
10 confidential information, you know.

11 And some of that data, there's no reason it
12 shouldn't be disclosed to the public. There's no damage
13 from it.

14 And I think, again, if you're serious about
15 transparency, you need to consider all the data you got
16 and how some of that data might very much so enhance the
17 confidence of investors if they were to see that and put
18 that type of data out there publicly.

19 When you hold it back, it always asks the
20 question why are you trying to hold it from all of us.

21 So --

22 MR. BROWN: Thank you, Lynn. Tony, before I turn

1 to you, let me check on the phone. Amy and Gary, either
2 of you want to jump in here and make a comment?

3 MS. MCGARRITY: Yeah, I would. Thanks for
4 asking. My tent card's been up for a while, but you
5 can't see it.

6 Anyway, so I think that this idea of investor
7 outreach is very important. And I think that frankly
8 there is potentially a wide gap in expectations as far
9 as what investors view as being done on the audit and
10 what may actually be done on an audit. So I think
11 there's a lot of educational work to be done here, which
12 I'm sure you're all probably on the same page there.

13 But one suggestion that I would put out there is
14 to potentially work with the CFA Institute on maybe
15 adding it to their curriculum. I think they could add it
16 in pretty easily. And it would help at least establish
17 a base of knowledge of what the auditors are doing, what
18 the PCAOB's role is in that process, et cetera, and what
19 they, what is actually audited and what may not be.

20 And I think there's really potentially an
21 expectations gap there that could really be filled pretty
22 easily. And that's just my viewpoint as an actual buy

1 side investor.

2 So I think there's a lot of investors that
3 potentially take for granted that everything in the
4 financial statements are 100 percent clean and audited.
5 And I think there's some work there.

6 In addition, I think that potentially increased
7 disclosure like CAMs and AQIs could really improve the
8 relevance of the audit letter, et cetera and increase the
9 amount of investor views there.

10 So I think there's some work that's already being
11 done and potentially some work that you could potentially
12 do with the CFA Institute that could really improve the
13 investor outreach. Thank you.

14 MR. BROWN: Thanks, Amy. Gary, just going to
15 check in, make sure you don't have your tent card up as
16 well.

17 MR. WALSH: You know, Amy took all of my
18 material. I would really encourage us to work with the
19 CFA Institute. I think that's a great route at the
20 educational process and would just encourage that. I
21 think that's the answer to a lot of what you're talking
22 about.

1 MR. BROWN: Great. Thanks, Gary. I'm going to
2 go to Tony and then Pete. And then we're going to go to
3 priorities. So, Tony.

4 MR. SONDHI: Thanks. It's interesting how the
5 comments have shifted to the CFA Institute because that's
6 what I was going to mention.

7 I've been working with the corporate disclosure
8 policy committee, which is the main group that writes the
9 comment letters on standards and writes to the FASB, the
10 SEC, the IAASB, and so on.

11 And we've actually in the last three years or so
12 done a fair number of surveys of our analysts asking them
13 what they think about audit reports and so on because
14 there was a question as to whether investors actually
15 cared.

16 So, having said that -- and by the way, I've been
17 involved in that particular group since about the early
18 1980s, and I've chaired it a few times in between. And
19 so we've been involved in it. We've been trying to be
20 as active as we can.

21 Part of our problem is that, for a while there at
22 least, we weren't being considered as the voice of the

1 analysts. So we've started turning to more and more
2 surveys.

3 But I come from academia and empiricism is a
4 little bit different. And we don't think that much of
5 surveys in that sense because it's very hard to gauge
6 what the quality is.

7 But then I was thinking back when Sara was
8 talking about some of the things, some of the issues she
9 mentioned. When I look at the comment letters that the
10 standard-setters get -- and I don't know that much about
11 it. I haven't done the same kind of work on the IFRS.

12 But at the FASB, there aren't that many investor
13 groups that write to them. And that's been part of our
14 problem, because we were getting sidelined because they
15 felt it was, it wasn't really representative, which is
16 the reason, as I said, we've moved on to more and more
17 of these surveys.

18 But the CFA Institute does do a lot of this work.
19 And I think it is the right place and the right group for
20 you to be working with in terms of expanding your reach
21 into the investor community.

22 And I think it would also help if there was some

1 more outreach to these different states where they have
2 CFA societies. Not every state's CFA society is a place
3 to go to.

4 Unfortunately, for example, my local society:
5 I've been there now as a part of it for more than ten
6 years. And I don't think, with the exception of one
7 presentation I gave, that we've ever discussed any
8 accounting issues over there. It's very, very difficult
9 to get those.

10 But the New York society does something very,
11 very different. And they do a lot of that kind of work.
12 So I think working with the CFA Institute would be a very
13 good place to be.

14 MR. BROWN: Thank you, Tony. Pete.

15 MR. NACHTWEY: Yes, thanks, Jay. Actually,
16 something that Lynn said triggered a thought here because
17 the CIOs -- you know, it's interesting.

18 It depends on the size of the platform. And it
19 depends, as Amy said, you know, are you on the buy side,
20 true buy side, which is actually representing
21 constituencies who are going to benefit from whether you,
22 you know, invest the money wisely or not, and is there

1 a third party.

2 So I look at the CIOs in our platforms, and we
3 have nine different affiliates. And there's several of
4 the CIOs that you could probably engage with and they
5 might, you know, want to engage on this.

6 There's some that are managing such huge amounts
7 of money. Their focus is much more on the macro
8 environment, broad investment themes, you know, getting
9 the right talent in place. They're not looking at the
10 financial statements let alone, you know, audit reports.

11 So the question is, you know, what level do you
12 engage with at some of these places. And a lot of times
13 it's the portfolio managers or the PMs and the analysts
14 who are the ones where the rubber meets the road.

15 And then if you do engage with them, then you've
16 also got to prepared to talk about what they care about,
17 frankly, which is more market-moving information. And
18 while the audit's important, they're looking at, you
19 know, non-GAAP information. They're looking at KPIs.
20 They're looking at did the company hit, you know,
21 analysts' consensus and what does analysts' consensus
22 even mean. They generally are analysts if you're talking

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1 to the sell side. But, so, you know, it's complicated.

2 But that's why I do like the idea of the CFA, I
3 mean, educating at that level, what is -- you know, they
4 absolutely know their way around financials. But what
5 does the information mean and how much stress is placed,
6 you know, by the auditor on some of that information that
7 they're relying on, and particularly, the things, to a
8 certain extent, that are outside of the financials?

9 And this is where I think engagement with audit
10 committees is also important, because, you know, I've
11 seen the better, best in class audit committees both from
12 my days as an auditor at Deloitte and then from our own
13 committee are the ones that are involved with the press
14 releases. They're involved with the non-GAAP things that
15 get put out, et cetera, because those tend to be market
16 moving, as Lynn said, you know, not only the reports,
17 inspection reports from PCAOB but, you know, the audit
18 report that gets issued out on public companies coming
19 out, you know, 40, 45 days after the news already hit
20 that moved the market.

21 So it's a little bit of again trying to figure
22 out, being, taking a rifle shot at, you know, where

1 you're engaging, if you're going to engage with investors
2 directly, and then maybe a broader, you know, kind of
3 shotgun approach with the CFAs, the CFA Institute. And
4 having an education program there I think would be
5 valuable.

6 MR. BROWN: Thanks, Pete. Bob, but you must end
7 your comment with a priority.

8 MR. TAROLA: Actually, I was going to go to
9 priorities. Is that okay?

10 MR. BROWN: So then that's the beginning and the
11 end. So you were -- that's good.

12 MR. TAROLA: And it's a bit of piling on, because
13 I think you're hearing from the members of the Investor
14 Advisory Group that, and I'm going to quote Amy from the
15 phone, there is a possible expectation gap developing or
16 maybe even currently exists.

17 We presented in the past here that investors are
18 surprised when they hear the information that they use
19 may not be audited.

20 So I would encourage you to reach out and try to,
21 one, understand that gap. Is it -- does it relate to the
22 type of information they're using? Does it relate to how

1 they get it? Does it relate to the timing, you know, an
2 earnings release versus a filed report?

3 But to the extent to which you can move the
4 auditing profession to fill that expectation gap, close
5 that expectation gap, that would give confidence in my
6 view not just to the profession but to the whole system
7 of financial reporting and would raise the, in my view,
8 raise the effectiveness of the whole system.

9 MR. BROWN: So how do we do that?

10 MR. TAROLA: I think you've got a lot of
11 recommendations already, reaching out to the CFA
12 Institute to see how their members are viewing, you know,
13 information that they use to make decisions and does it
14 matter if it's audited or not.

15 As you know, you know, how information is
16 consumed, whether it's structured data or, you know, just
17 paper, is important.

18 Disseminators of financial information, there's
19 a presumption that it's accurate. There's no validation
20 that it's accurate. There's just presumption that it's
21 accurate. You could create something behind that
22 presumption that it's a good presumption.

1 MR. BROWN: Thanks. Linda.

2 MS. DE BEER: And I'll make it my priorities
3 role, my priority point. And it is still on this point
4 of cycle, the engagement, because I think that is really
5 important.

6 And it just struck me. I've been involved, as
7 you know, in the IAASB process for a long time. I was
8 the chairman of the advisory group.

9 And the difficulty with engagement like this is
10 you almost start on a clean slate every time you start
11 with sort of a new round of engagement, because it
12 depends which investors you get to, it depends which is
13 the person that you're facing. And you somehow just
14 never get the momentum going.

15 And the IAASB in their process over 15 years or
16 so actually I think had pulled up a really sensible way
17 of engaging, because stakeholder engagement becomes a
18 relationship. And maybe what you want to think about is
19 how do you deal with your advisory groups and how do you
20 structure those to start getting the right stakeholder
21 organizations around the table, because there are
22 organizations like the CFA Institute, I see them invest

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1 their perspective.

2 But there are also other important organizations,
3 the director type of organizations, audit committee
4 organizations that you can get the right people around
5 the table and over time there's a common understanding
6 of what they can add to your process and what they would
7 like to get from you, the transparency both ways, the
8 give and take.

9 So maybe part of that solution is to not just do
10 a shotgun approach from time to time, but to formalize
11 and think through how you do it a little bit better.

12 And I would suggest have a chat maybe and have a
13 look at some of the engagement processes and the advisory
14 process of the IAASB, because I think that has over the
15 years developed into something that becomes quite
16 sensible where there's a mutual understanding and
17 agreement and a mutual agenda in some way.

18 The CFA Institute has been at the CAG, at the
19 time fundamental, ISGN has been fundamental in the
20 quality of their comments because they, the person that
21 you engage with deal and understand what you want. But
22 they can then also disseminate the information and get

1 the information out of the organizations and out of their
2 membership body.

3 MR. BROWN: Thank you, Linda. Lynn.

4 MR. TURNER: So, on priorities, I go back to or
5 harken back to your number one goal, improve audit
6 quality. I think you have to look at that being a top
7 priority.

8 Ultimately, improving the quality of audits is
9 what everyone looks to this organization to do. And if
10 you aren't doing that, then people are going to turn
11 around and say why are we spending the money in the first
12 place.

13 But along those lines then, I think everything
14 emulates from inspections. I think inspections that get
15 to the heart of the issues, identify issues is the number
16 one issue.

17 So I think your number one priority has to be
18 inspections. If it's something else, I think you've
19 missed the target by a long shot.

20 Within transparency, the things you have all
21 highlighted yourself are things that are important.
22 Transparency to the audit firms about things you're

1 finding and ways for them to prove, I think that's, I
2 think that firms have a legitimate request that you get
3 more transparent about that.

4 Likewise, on those findings, I think you got to
5 become much more transparent to investors if you expect
6 them to really look to the organization for information.

7 So I think both the investors and the firms got
8 a legitimate request from that side of inspections.

9 Second priority in my mind is the standard
10 setting. And you all have highlighted some things you're
11 going to try to finish off.

12 The estimate standard is, would be right at the
13 top of my priority list. Estimates is at the heart of
14 audits. It's the one place where audits just do or do
15 not make it. You either break or don't make an audit
16 because of poor judgment. Good judgment, yes.

17 And so that standard needs, which has been around
18 for decades, needs some real help and working. It's been
19 identified in inspection findings as the cause of the
20 problems. So that would be there.

21 Fair market value, I don't know if it was Wes or
22 someone talked about much more substantial use of fair

1 value in the last, really in the last three decades. As
2 Wes and I were talking at the break, we requested AICPA
3 almost two decades ago to put out a standard, a quality
4 standard on auditing fair values. They never did that.

5 So something in that area is very important as we
6 saw. We don't need another financial crisis with the
7 same issue popping up a second time. We need to get
8 ahead of the game on that. That would be there.

9 The audit quality indicators in a standard, and
10 then the one thing that I hear, too, time and time again
11 from analysts or whoever, investors, is we need auditor
12 involvement with this other information.

13 And, you know, you've got limits on what you can
14 or cannot do. You don't drive -- I know that Amy wrote
15 a letter to the SEC and wrote a letter to the FASB asking
16 them to get in gear and do something on that other
17 information. And the CFA Institute has as well.

18 But you can do something by taking on the other
19 information standard and redoing that. We had big issues
20 with that the first time I was at the SEC, about 1990,
21 on enforcement cases. And we still have the exact same
22 problem today.

1 So that other information standard absolutely
2 needs some attention and can be redone to scope in any
3 other information that the auditor reads in connection
4 with their work. And let's hope the auditors are reading
5 press releases. Let's hope they're reading the whole 10-
6 K.

7 And within that, you can -- there are ways for
8 you to scope in, because I got to tell you, and I'm not
9 sure I'm in agreement, but everyone, as Pete said, is
10 reading the non-GAAP numbers. It's probably why 85
11 percent of them underperform the market.

12 But nonetheless, they're reading it and they're
13 asking for it. So you ought to do something about that.

14 And then my third priority is this whole notion
15 of using the right data in the right fashion to improve
16 the quality of audits. And that has to be data not only
17 within the clients' databases, but in other available
18 data that would tell you those numbers are wrong. That
19 would be my top three priorities.

20 MR. BROWN: Thank you, Lynn. In that top 3, I
21 counted about 11. And I think we have the next three
22 years set out for us. But I very much appreciate that.

1 I don't see any more tent cards up.

2 MR. TURNER: -- some of those would get on the
3 agenda for the last ten years.

4 MR. BROWN: I have no comment on that. Sara.

5 MS. DEANS: Thank you. I'd agree with so much of
6 what Lynn said. And there was a lot of it, indeed, many
7 priorities. Fundamentally, it's all about improving
8 audit quality, and everything else is just trying to
9 achieve that.

10 I guess, though, one thing where things are
11 changing is for the audit reporting and the disclosure
12 of CAMs. And I think in terms of whatever you can do to
13 make sure that change happens as effectively as possible
14 would be very good, because if that works well -- and I
15 do share some of Lynn's doubts about how effective that
16 will be. But if it works well, then I think that could
17 really drive positive behavior in a whole host of ways.

18 So I think if information, though, is being
19 reported, I think that changes potentially the work that
20 is done. If you know you're going to have to report it
21 now, I think it could possibly change the relationship
22 a bit between the auditor and the company being audited.

1 And I think also, again, it will potentially
2 drive investor engagement if there is things in there
3 that are useful and effective.

4 So that's an area of change in there, so I think
5 it should be a priority because that's something that's
6 different. But fundamentally I agree with Lynn's
7 comments.

8 MR. BROWN: Thank you, Sara. We were expecting
9 to end at 12:15, but we're not so pressured for time.
10 Let's see.

11 We have Damon. We have Grant. And we have
12 Larry. I'm just going to give you guys a last shot at
13 priorities for us. Don't feel like you have to.

14 But, listen, I do this in my classes, right.
15 When I was teaching law, I'd cold call off the roll, so
16 get used to it.

17 MR. CALLERY: I'll go. I've been looking at the
18 plan. I think the enhancing transparency and stakeholder
19 engagement is really the portion of it that I would view
20 as the 2.0. I mean, the more substantive things about
21 quality and the like are things that have always been
22 there.

1 I think this is the area where you have the
2 possibility of making some dramatic changes. And I think
3 Linda's suggestion that you bring in some of the right
4 investor groups, whether it's through surveys, through
5 a meeting like this, to talk about what their
6 expectations are, what they think are the important
7 issues, because I think what you may find, particularly
8 as you go down to the less, the groups that are
9 representing the less sophisticated investors, that there
10 is going to be a gap between what the requirements today
11 are and what their expectations are.

12 And then I think you've got to figure out from
13 that, okay, are the requirements okay but not being
14 properly transmitted, explained, or, you know, so that
15 those investors understand and to narrow that gap, or
16 does the narrowing of the gap, are they right and the
17 standards are wrong, or is it somewhere in between.

18 But I think if you can -- that's some real
19 meaningful things you could use through that whole
20 engagement and outreach process that might help alleviate
21 some of these things where the reality and the
22 expectations seem to be ships passing in the night.

1 MR. BROWN: Thank you, Grant. Damon.

2 MR. SILVERS: Cold calling can be a dangerous
3 business. The --

4 MR. BROWN: I've learned.

5 MR. SILVERS: I agree with a lot of what other
6 people have said. Particularly, you know, I served on
7 the treasury committee that Lynn referred to and, you
8 know, a huge process involving all sorts of stakeholders.

9 Now, it seems like a very long time ago. But as
10 Lynn pointed out, many of the recommendations and issues
11 remain highly relevant and unaddressed.

12 I think, secondly, as I said earlier, that there
13 are things in your strategic plan that sound kind of
14 like, you know, like obviously it's sort of motherhood
15 and apple pie, but are actually very important and
16 somewhat hard to do in terms of particularly the human
17 capital questions.

18 And then I'll just reiterate and maybe in a
19 different way this issue of how do you take the knowledge
20 that this body has and turn it into a forum that is
21 helpful to investors and then can elicit investor
22 response, right.

1 That seems like the fundamental institutional
2 challenge that this Board faces beyond the issues of sort
3 of, you know, implementing the human capital challenges
4 and so forth.

5 And I'll reference something Grant raised
6 earlier. You know, circumstances like Wells Fargo
7 involving, you know, mega cap companies that have big
8 public presences where it just looks like the basic audit
9 and internal controls processes have failed, right, cause
10 -- it goes beyond the impact of those companies.

11 It feeds a perception, those types of episodes
12 feed a perception that the financial reporting system and
13 the auditing system isn't real, right.

14 And the PCAOB is handicapped in terms of dealing
15 with that public perception by the limitations on what
16 the PCAOB can say about individual cases, because there's
17 effectively nothing you can say about individual cases
18 and individual inspections.

19 I think being able to communicate in more
20 aggregate terms about what the Board has learned about
21 audit quality and about audit failures in aggregate and
22 being able to communicate, and thinking creative ways

1 about how to communicate about issues like, as Lynn was
2 saying, issues like non-GAAP financials and issues that
3 -- an issue, for example, that I feel, raised for many
4 years and feel so frustrated about, which is that the
5 audit challenges raised by fair value accounting and the
6 sort of bleeding of, the issue of making sure that you're
7 auditing a company as a going concern, right, which is
8 I think impinged on by fair value accounting in various
9 ways so that you're creating -- in the guise of trying
10 to get more timely data, you end up with data that's not
11 relevant, right, in the context of a going concern
12 business.

13 But in any case, taking these kinds of things and
14 communicating with investors about your aggregate
15 learning, right, as opposed -- which you can do, I
16 believe, and then soliciting responses from investors
17 about what, about their experience, right, that then can
18 inform what you do, that's where I would -- in addition
19 to the standard setting issues that Lynn raised, that's
20 where I would put your emphasis.

21 MR. BROWN: Thanks, Damon. Larry, I don't want
22 to put you on the spot. But --

1 MR. SHOVER: It's no problem. I didn't put my
2 card up because what I wanted to say is what I started
3 the session with.

4 But, yeah, so I think short term the gain, the
5 transparency that you guys are after really is just
6 education. And I know we live in a noisy world. And the
7 last thing we need is another, somebody on social media,
8 et cetera, et cetera.

9 But I think there's an incredible interest and
10 also embarrassment by the average investor, who has zero
11 idea if these earnings are right, if these financial
12 statements are correct, how do I get through it.

13 A most recent example, a very, very large, well-
14 established investment house just got caught for
15 spoofing. And most people don't know what spoofing is.
16 But that's like manipulating markets by putting large
17 orders in that you don't want to get filled.

18 So the NFA actually, the National Futures
19 Association actually put something out on I think Twitter
20 or something just explaining so that like my mother could
21 understand what spoofing is. And I think that's
22 valuable.

1 But especially with what you guys are doing,
2 you're doing such a good and great work. And I do
3 believe that the average person is embarrassed by what
4 they don't know and, you know, would like to learn. So
5 that's it.

6 MR. BROWN: Thanks, Larry. All right. Well, I
7 think this is a good time to stop. So the public portion
8 of the meeting will come, for now will come to an end
9 now.

10 We'll break for lunch. And then we're going to
11 do the breakout sessions. We will reconvene publicly at
12 3:30 to have a report back on the breakout sessions.

13 So I hereby declare the public portion of the
14 meeting adjourned for now until 3:30.

15 (Whereupon, the above-entitled matter went off
16 the record at 12:26 p.m. and resumed at 3:34 p.m.)

17 MR. BROWN: All right. Shall we reconvene? The
18 public session is now back in order.

19 So I hope both groups -- of course, I was in one
20 of them. I hope the other group also had a nice,
21 interesting, and rigorous discussion. Certainly, in the
22 group that I was in, it was quite active I would have to

1 say.

2 So, Brian Degano, where are you, Brian? Brian.

3 And, Stephanie, right next to me, Stephanie Hunter. You
4 guys are going to I think give us the takeaways on the
5 QC discussion. Am I right on that?

6 And then after you do that, maybe we'll have a
7 little bit of a discussion of that if anybody wants to
8 make any additional comments. And then we'll turn and
9 get sort of a similar report back on the audit report
10 model and Form AP.

11 And Jennifer Rand, Jennifer --

12 (Off-mic comments.)

13 MR. BROWN: Oh, okay, over there. And will be
14 joining us. And, Lisa Calandriello, where are you? And
15 you'll be joining us up here to do the audit report
16 model.

17 All right. So let me turn it over to Brian and
18 Stephanie. I don't know which one of you want to go
19 first.

20 MR. DEGANO: I'll go first.

21 MR. BROWN: Thank you.

22 MR. DEGANO: So we had a very robust discussion

1 in the breakout room and a lot of interesting insights
2 for us to consider.

3 MR. BROWN: Brian, get close to the mic, please.

4 MR. DEGANO: Sorry. So, first, I think I'm going
5 to go through some of the key takeaways from the session
6 and just give you a high level overview of all the
7 discussion that was in there. And then we definitely
8 look forward to IAG members giving additional context if
9 they'd like on some of these points.

10 But one of the first points to make was that the
11 PCAOB should be looking at an outcomes-based approach.
12 You know, the QC system is really the means. And we
13 should be really focused on the outcomes of the system,
14 and this -- because outcomes is what investors are
15 focused on.

16 The other thoughts to keep in mind were don't get
17 too caught up with a checking the box type mentality,
18 which could be leading to some of the current issues that
19 are out there, also that systems could be either a top-
20 down approach or a bottoms-up approach.

21 Other thoughts for us to consider are how would
22 you normalize a QC type mentality, how would you best

1 implement the feedback loop for a continuous improvement
2 system, how do you identify audit quality.

3 And it was noted that some problems come up with
4 either the failure to supervise or a lack of professional
5 skepticism. So those might also be considered.

6 Another thought was how do you go about sharing
7 best practices across firms so the firms could be alerted
8 to best practices and QC systems. Also, it was
9 considered whether or not the PCAOB should think about
10 utilizing a COSO or an ICFR approach.

11 And then as to communicating about QC systems to
12 investors, it was noted that investors don't always want
13 too much detail, but information could be very helpful
14 to help firms begin to compete on audit quality. And the
15 thought would be that that could help level the playing
16 field.

17 And as part of the thought about what types of
18 communications about quality controls might be helpful,
19 the topic of AQIs and performance measures came up. And
20 this would be an important area for the PCAOB to explore.

21 And also the possibility of the PCAOB scoring
22 firms also came up. And there was a discussion of the

1 potential pros and cons of such an approach. And it was
2 noted that while it could provide helpful information,
3 it could also become a potentially slippery slope.

4 And I think those are the key points that were
5 raised from the breakout session. I think, Stephanie,
6 if you have --

7 MS. HUNTER: Okay. So we also had a very lively
8 discussion, a lot of good points that came out of our
9 room.

10 First, I'll focus on a couple of points that are
11 similar I think to Brian's room. And that is that our
12 room as well thought that the outcome-based approach on
13 QC was very important.

14 One thing that our group particularly focused on
15 was the tie-in between compensation and/or incentives
16 when looking at the outcome-based approach and that we
17 should focus on both what we consider the stick but also
18 the carrot in that compensation and incentives.

19 Also similar, we talked some about benchmarking.
20 I know Brian mentioned COSO. But our group focused on,
21 particularly on ISO 9000 model or other similar types of
22 models to use whereby we're really focusing on

1 fundamental principles. And that was really important
2 to our room and a lot of discussion around that model.

3 Some of the areas that we I think expanded upon,
4 there were some thoughts in the room, in looking at the
5 objective of a QC system, that reasonable assurance may
6 not be the right focus.

7 I think some people felt that way, that the goal
8 of quality control should really be closer to 100
9 percent, and then if there are issues, those be
10 communicated and be more transparent about. So that was
11 some discussion there.

12 Also very important to our group was that there
13 should be a customer focus here on the quality control
14 systems and that those customers or that base of
15 customers would be the user of the financial statements.
16 So that was also discussed. Had a lot of good
17 discussion.

18 Also, a governance focused, so one of the big
19 focus in the room was on potential establishment, if they
20 don't already, for the firms to have what would be a QC
21 group where there would be, you know, some type of chief
22 compliance officer, but that the interest there would be

1 protected from other interests.

2 And so there might be independent directors, as
3 there may already be, but independent directors that have
4 a dotted line to the board or independent directors
5 within the board but that this quality control group
6 would have reporting there.

7 And I think Brian may have also mentioned, but we
8 talked a lot about transparency in reports, transparency
9 reports, but that there should be some type of framework
10 for these transparency reports.

11 Some of the items that could be within these
12 reports that would be important for people in the room
13 might be reporting of clients that had restatements, also
14 clients that received SEC comment letters, and then also
15 AQIs came up as well in our room.

16 Let's see. And then also, in general, we talked
17 a bit about technology focus within the QC standards, and
18 also a robust discussion around, you know, small and
19 large firms, both small and large firms having to follow
20 the same principles. Okay. So it wouldn't be, you know,
21 the small firms excluded from what the larger firms are
22 following.

1 So I think those were -- have I missed anything?

2 Those were the big points in our room.

3 MR. BROWN: All right. Does anybody want to
4 offer a comment or, so anybody in the groups that wants
5 to sort of add something to the discussion. Amy, you
6 also on the phone, if you want to add anything, let me
7 know if your tent card is up. Or does anyone just want
8 to raise a question, raise a point or a question? Any
9 thoughts on that?

10 MS. VANICH: I'll take the opportunity, because
11 it sounds like there was quite a bit of interesting and
12 good feedback. I mean, I guess what I would be most
13 interested in is --

14 MR. BROWN: Barb, pull it a little closer,
15 please.

16 MS. VANICH: -- is if anyone could differentiate
17 for us what do you view as a best practice that should
18 be suggested versus something that should be required in
19 a rule.

20 When you talk about the reporting, I mean, should
21 that be optional or are you advocating that that be
22 included in a rulemaking where it would be required?

1 So, for the suggestions that were brought up, I
2 mean, it's very interesting to us. To do rulemaking, you
3 know, we'll have to gather data and support and put it
4 out for comment, but, so interested in particular views
5 on what is it nice to have versus what should be required
6 by the PCAOB.

7 MS. DE BEER: We didn't discuss it in our room.
8 But maybe if I can share, we've got some new
9 requirements, I've alluded to it earlier on in South
10 Africa, that was written into the stock exchange rules,
11 which is I guess an interesting place, but that's where
12 it is, that specifically talks about auditors disclosing
13 the firm quality control processes with a conclusion on
14 it that comes from the audit regulator to disclose that
15 to the audit committee, as well as some disclosure
16 regarding the engagement partner as, including the
17 engagement partner's inspection findings, and some
18 additional disclosure around peer review within the firm.

19 So there is a disclosure to that specific audit
20 committee, which has actually been quite useful. And
21 there are requirements around that, and maybe that's why
22 it's in the stock exchange rules, around what audit

1 committees should ask for and how they should measure and
2 think about it.

3 So I think it has focused the mind quite a bit on
4 not just the outcome of the audit, but the duty of
5 everybody in the process to make sure that quality
6 control is actually adhered to.

7 MR. BROWN: Bob.

8 MR. TAROLA: Sure. This is a tough subject for
9 you all I think because is it a baseline requirement?
10 In order to practice in the public company auditing
11 arena, do you need a baseline quality control framework?
12 And what does that look like?

13 Or is it a -- can you set up a system where
14 auditors compete on quality and, indeed, expand the
15 universe of auditing firms that might, you know, might
16 take on, you know, more clients or bigger clients?

17 My sense is you could do both. But it's going to
18 take some creativity.

19 MR. BROWN: Thanks, Bob. I assume you're not
20 putting that up again. Okay. Any other thoughts,
21 questions?

22 All right. Shall we do the audit report model

1 and Form AP? Lisa and Jennifer.

2 MS. RAND: Okay. Well, I'm going to start. The
3 group talked both about disclosures that are required
4 now, so disclosures on Form AP regarding engagement
5 partner disclosure, other accounting firms that
6 participate in the audit, and also disclosures on the
7 audit report about tenure, which recently went into
8 effect with audit reports for last year.

9 So the group, the members in my group said that
10 the disclosures on Form AP and then in the audit report
11 today, those disclosures are very useful to investors.

12 They also said they expect that information will
13 continue to be valuable over time, particularly
14 disclosures about engagement partners to see, for
15 example, over a period of time did engagement partners
16 become a partner and a client but then were rotated early
17 before the five years expired, their term. So more
18 information over time and analyzing that will be useful.

19 The group really thought the PCAOB could add some
20 benefit, some value here by providing greater
21 transparency in an aggregate way about some of the
22 information or the information on engagement partners,

1 for example, number of clients that partners have on
2 average, thought it would be useful to see information
3 about tenure, what are we seeing in the Fortune 500 area,
4 for example, what is the tenure distribution look there,
5 potentially Russell 3000, there might be a number of
6 ways.

7 But for us to, PCAOB to make that public was a
8 recommendation investors had in our group. Those are
9 some of the key things. Lisa, I think I'll turn to you.

10 MS. CALANDRIELLO: Okay. This is on. I'll try
11 not to let it make too much noise.

12 To add on to what Jennifer said, when it came to
13 the tenure disclosure, we talked a little bit more about
14 that in our room and found that internationally in some
15 spaces that is actually being used as a factor in
16 determining whether or not investors are recommending the
17 ratification of the auditor based on their tenure.

18 It's not always a factor, but it is being
19 considered, and that, in some cases, it's being requested
20 to be added for proxy advisors to consider in making
21 their overall recommendations of the new auditor.

22 So that information is being used and is being

1 found to be useful. So it's kind of incremental on Form
2 AP and the data that we talked about in our room.

3 And then we also talked about CAMs. And we had
4 a little bit more discussion about CAMs in our room than
5 we did about the data.

6 So we talked a lot about expectations and
7 implementation challenges, in particular, thinking about
8 the proper application of the definition of CAMs, whether
9 or not there would be any misunderstandings around how
10 you're applying the part about the definition on relating
11 to accounts or disclosures that are material to the
12 financial statements, and also proper application of the
13 threshold on involved, especially challenging, subjective
14 or complex judgments.

15 There's been experiences where some auditors may
16 be actually suggesting that there won't be a CAMs because
17 they already know how to audit an area. But that's not
18 the driver of whether or not the CAM exists or whether
19 it was especially challenging or subjective. So that's
20 something for us to think about in going forward with
21 implementation.

22 Also, that there should be clarity around

1 applying the materiality threshold and what it really
2 means.

3 Our room also talked about the risks related to
4 boilerplate disclosure, something that had come up
5 throughout the rulemaking process, but not just across
6 firms, across industries, and year over year when would
7 it be appropriate, when wouldn't it be appropriate to
8 have similar disclosures on particular audit areas and
9 a particular audit client.

10 From a financial statement analysis perspective,
11 we discussed that in the global market where the key
12 audit matter disclosure, the K KAM, is actually in play
13 today, that that is being used sometimes, not necessarily
14 for financial statement analysis, but it can be used to
15 look at changes year over year in a company. It helps
16 with governance, considering what the auditor has been
17 doing.

18 And it might help investors confirm big ticket
19 items that are in the financial statements, where to draw
20 your attention, which would also be helpful with the C
21 CAMs, the critical audit matters that we'll have going
22 into play next year with the large accelerated filer

1 space.

2 And then we also talked about the lessons learned
3 and focused a bit on what's happened in the international
4 space with key audit matters and finding that one thing
5 that's been helpful is audit committees reviewing draft
6 versions of those KAMs. That way there's no surprises
7 at the end of the day when the audit reports come out.

8 Looking at outcome-based KAMs, not just a laundry
9 list of audit procedures, but what's useful and important
10 and informative about that matter that's been disclosed.

11 And then just generally speaking, investors have
12 been encouraged by what they're seeing in the key audit
13 matter space and are excited to see what will be
14 happening in the critical audit matter space when that
15 happens.

16 And, Jennifer, I don't know if you want to add on
17 to what was discussed in your room.

18 MS. RAND: Yeah, some of the things are similar,
19 kind of just to start with where you left off regarding
20 what investors are seeing now with key auditor matters,
21 the K KAMs versus the C CAMs.

22 I don't know if it was a concern or certainly a

1 question that was raised in terms of once we start having
2 critical audit matter disclosures, so a year from now
3 we'll be seeing that. Investors said that they will be
4 comparing the disclosures and critical audit matters or
5 C CAMs and comparing that to the K KAM disclosures.

6 And I didn't hear that the group said they
7 thought one might be better over the other, but wondered
8 how those two would compare, and to the extent there are
9 differences where one might be perceived as providing
10 better disclosures, you know, kind of just wondering how
11 that will play out, so kind of an area to be mindful of,
12 certainly an area that investors will be looking at, and
13 something for us to consider in terms of implementation
14 and our requirements.

15 In terms of boilerplate, you talked about
16 boilerplate. Our group in general kind of focused on
17 concerns or issues that they're aware of. And
18 boilerplate is also, was a concern mentioned among
19 Investor Advisory Group members in my group.

20 The group noted that there could be some kind of
21 -- you could think about boilerplate or different CAMs
22 in different ways. So you may have -- year over year

1 maybe there might be a similar CAM. Allowance for loan
2 losses might be an example.

3 The group recognized this should be specific to
4 the audit, but did wonder, because they've seen just kind
5 of companies maybe have similar disclosures and may be
6 copying what they perceive to be disclosures.

7 And concerns, they didn't want auditors to
8 similarly do that with critical audit matter disclosures,
9 just kind of copying similar CAMs, because it may be
10 applicable but really wanting to make sure that auditors
11 are making them specific to the audit and not just going
12 to boilerplate, but some risk of that.

13 Thought that the PCAOB inspection process could
14 potentially help with that. And so kind of the
15 boilerplate was a point we talked about.

16 One concern that was mentioned in my group, and
17 I didn't hear that come up in yours, but at least one of
18 our members said that they'd been hearing from general
19 counsels of companies. And general counsels are really
20 encouraging to have involvement over what audit reports
21 will look like and try to have influence or some effect
22 on those disclosures.

1 And so the group's concern is just making sure
2 auditors are not allowing that to happen, that it is the
3 audit report. And so it should be the firm's report and
4 making sure that companies are not trying to influence
5 what's in the auditor's report, that auditors are
6 comfortable with the report that they're issuing.

7 And another concern that was raised in a
8 different line in terms of if there's an, if an auditor
9 -- I guess really making sure that they're identifying
10 CAMs that they consider appropriate.

11 They said that if there's a blowup or a
12 restatement, an issue that happens -- and that will
13 happen at some point. There will be things. Just noted
14 that investors will be certainly mindful of or aware of
15 what that blowup was and how the auditor identified a
16 critical audit matter.

17 Certainly, the critical audit, the audit opinion
18 is the pass/fail. The auditor's got to get comfortable.
19 It's not an out. But they will be, to the extent there
20 is a restatement in an area or an issue that's
21 identified, investors will be mindful to see did the
22 auditor talk about that and what was in their critical

1 au And then finally, our group talked about kind of
2 the dry runs and auditors getting ready for critical
3 audit matters, and said they're really hopeful that
4 auditors are having discussions with audit committees
5 kind of now or early on and kind of once critical audit
6 matters become effective, go into effect and auditors
7 need to write them, they hope that auditors are not
8 waiting for the end of the audit to have discussions with
9 the audit committees and writing that, recognizing that
10 issues can be identified early on and auditors should be
11 having discussions with the audit committees sooner
12 rather than later. And so they hope that was

13 So that was it in my notes. Because of our quick
14 turnaround, interested if, you know, if we left anything
15 out certainly. But that was, that's the end of it.

16 MR. BROWN: Jennifer, thank you. Lisa, thank
17 you. Anyone have any questions, comments, anything.

18 All right. Well, I want to do one last quick
19 thank you. You know, of course, to make this happen, we
20 had -- the four people who spoke did a great job I think
21 running the discussions in the respec

22 But none of this could have happened and the

1 quick turnaround without our flip chart people. And that
2 was Nicole Funari in one of the rooms and Saad Siddiqui
3 in the other. So I want to thank them also for their
4 yeoman service in this e

5 All right. If there are no other questions, you
6 know, I think there's five minutes for sort of, or ten
7 minutes for final statements from me. And I don't have
8 any. So I think we can declare this meeting.

9 (Whereupon, the above-entitled matter went off
10 the record at 3:57 p.m.)

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C E R T I F I C A T E

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In the matter of: Investor Advisory Group

Before: Public Company Accounting Oversight Board

Date: 11-08-18

Place: Washington, DC

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