

From the Office of PCAOB Board Member Christina Ho

PCAOB Docket 051: Amendments to PCAOB Auditing Standards related to a Company's Noncompliance with Laws and Regulations - March 20, 2024, Virtual Meeting with Tapestry Networks ("Tapestry") and Corporate Directors ("Directors")

Attendees

PCAOB:

- Board Member Christina Ho
- Board Advisor Julie Edwards
- Board Counsel Steven D. Laughton

Tapestry:

- Beverley Bahlmann, Principal
- Jason Watkins, Managing Director

Directors:

- David Herzog, Metlife
- Akhil Johri, Boeing and Cardinal Health
- Jeff Campbell, Aon
- Bob Herz, Fannie Mae and Morgan Stanley
- Prat Bhatt, Seagate Technology

Summary of Discussion

Board Member Ho advised that her views are her own and are not necessarily those of the PCAOB Board, other Board Members, or PCAOB staff. She said she had questions but that she first wanted to cede the floor.

One Director stated that he had pressed the auditor to estimate the costs to implement the proposal. The best estimate the auditor came up with was that it would double the current \$60 million in annual audit fees.

Another Director stated that the proposal would fundamentally alter the role of the auditor by putting it into the shoes of management by conducting a compliance audit and a forensic examination, which auditors don't have the skills to do.

Another Director stated that auditors should not be the first line of defense. He stated that PCAOB needs to better define the problem it is trying to solve and that the PCAOB should not be the first or the only actor, noting that coordination among the PCAOB, the SEC, the bar, among others, is crucial because of the public policy considerations and concerns.

Board Member Ho then asked the Directors (1) what do their investors want; and (2) whether their investors have expressed support for the proposal? One Director stated that he's had many conversations with buy-side investors, and they have never raised any concerns about audit

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quality or whether more procedures should be performed to detect fraud and other noncompliance with applicable laws and regulations.

Another Director stated that FASB had a project around 2007-2012 to improve/expand disclosures included in financial statements about contingencies, particularly litigation contingencies. The FASB decided not to pursue the project further, because it concluded that improving disclosures of loss contingencies was a matter of improving compliance with the existing disclosure standard(s) and not adopting new standards. It learned that investors wanted an early warning of what could be really major such as a large legal settlement. This Director said it would be better to take a more incremental approach.

Another Director who has been on numerous buy-side and sell-side investor calls said that investor questions revolved around business and financial risks to the company with a focus on the timing of disclosures and not the work of the auditor. This Director noted that company compliance programs today are pretty good but agreed that best practices should be codified. He noted that the roundtable discussion revolved around a false premise - that nothing is happening today - and that the proposal is thereby necessary to better prevent fraud.

A different Director mused that if the proposal had been in effect 5-10 years ago, would modeling be able to show what would have been detected or prevented. He suggested that PCAOB give some concrete case examples as to how the proposal would have protected investors.

Board Member Ho asked the Directors what they have heard from investors in terms of their decision making on matters such as auditor ratification votes. One Director who said he has spent a lot of time with investors said they have never asked about the audit or auditor ratification, because they have confidence in the audit committee's selected auditor performing a quality audit, and PCAOB's oversight of the auditors.

Another Director echoed that. He noted that PCAOB inspectors are in a good position to look at current best practices for codification and that would be preferable to the proposal's significant expansion of the auditor's role.

Another Director noted that it is rare for there to be a majority vote against auditor ratification, but when it does happen it's noteworthy and serves as a signal for the audit committee to reconsider its selection. Board Member Ho asked if it was rare because of a lack of information available to investors? The Director stated that it's rare not because of a lack of information but rather that it's confined to when really bad things happen such as a restatement. He noted that even though the ratification vote is non-binding, it has "signal" value for the audit committee.

Board Member Ho asked to what extent the proposal would improve or hinder investor protection? One Director said that's a tough question because the proposal pre-supposes that management controls are not good and that auditors are uninvolved – neither of which is the case. On the other hand, there could be some incremental benefit, but the proposal in its current

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form is simply not workable because it would require auditors to replicate what companies have done and are doing in their compliance function.