NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on October 23, 2008 that related to the discussion titled "Panel Discussion – Signing the Auditor's Report." Feasibility of audit quality indicators, proposed standards setting activities, an emerging issue – audit considerations in the current economic environment were also discussed during the October 22-23, 2008 meeting and are not included in the transcript.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD (PCAOB)

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COPY

JENNIFER RAND: All right. It looks like the majority of people are back. So hope everyone had a good break, and the others will join the table, I'm sure, momentarily.

Our next discussion is on signing the auditor's report, and this topic relates to another recommendation from the Treasury Advisory Committee. In this case, the Treasury Advisory Committee recommended that the PCAOB should consider mandating the engagement partner sign signatures on the auditor's report.

This discussion is not new to the SAG. We brought this discussion to the SAG back in 2005. But we thought it was worthwhile to bring it back, one, because the Treasury did consider this and just finalized this recommendation in the October 6, 2008, report. And also the European Union's Eighth Directive recently went into effect in law that requires the engagement partner's signature on the report.

Last time, we did not have panelists. So this time, we brought panelists in to assist the SAG in providing additional input on this topic. So I'd like to introduce them now, and if you could just raise your hand?

The first panelist that will be speaking is Janice Hester Amey. Janice is a portfolio manager in the global equities corporate governance asset group at the California State Teachers Retirement System, also known as CalSTRS. CalSTRS is a public pension fund that serves the California public school teachers. The fund has over 800,000 members and beneficiaries and $148 billion in assets.

The next is Bob Kueppers. Bob, can you raise your hand? I'm not sure everyone knows you.

[Laughter.]

JENNIFER RAND: Bob -- obviously, we know Bob. He's a member of the Standing Advisory Group. But Bob also is the deputy CEO and vice chairman of Deloitte. So we've asked him in this case to provide his views as from the auditor's perspective.

And then, finally, Jean Bedard. Jean, welcome.

Jean is a professor of accountancy at Bentley University. It was Bentley College as of last week. So it's correctly on the slides here, Bentley University. Jean is -- she teaches financial reporting and auditing, and her research interests include audit quality, audit firm portfolio risk management, and corporate governance.

So we're very grateful for their participation in this discussion today. I've asked each of them to spend about 5 to 10 minutes presenting their views on the subject. And then after that, I'd like to open up the discussion to the SAG, and we have two discussion questions that were keyed up in the paper.

One is the pros and cons of mandating the signature of the engagement partner in the auditor's report, which flows from the recommendation from the Treasury. But the second expands that recommendation a little more broadly, and that is pros and cons on including signatures of other members of the engagement team or of the accounting firm, such as the second or concurring partner, review, the quality control partner, the firm CEO, and others that may or may be appropriate.

So, with that, I'd like to open, turn it over to our distinguished panelists to present their views. And Janice, you're first. Thank you.

JANICE HESTER AMEY: Good morning. My name is Janice Hester Amey, and I'm a portfolio manager, as Jennifer said, in the corporate governance unit at the California State Teachers Retirement System.

California STRS serves the retirement needs of California's public school educators K through 12 and community colleges and their families. As of June 30, 2008, we had 813,000 members and benefit recipients. And actually, when I sent the information to Jennifer, we did have $148 billion, but now we have $130 billion.

[Laughter.]

MALE SPEAKER: Are you sure?

JANICE HESTER AMEY: Well, you know. CalSTRS is the largest teachers retirement system in the country, and the second-largest employer-based plan in the U.S.

The fund currently has 48 percent of the portfolio dedicated to equity securities. Domestic equity securities account for about $45 billion, and international public equities account for another $20 billion. CalSTRS, similar to other major institutions, holds equity in thousands of public companies. So we have broad long-term exposure to equity markets across the globe.

Thank you for allowing me to be here today to comment on the Department of Treasury Advisory

Committee's report on the auditing profession. Although this is a very comprehensive report and there are many recommendations in it that CalSTRS supports, I'm here to comment on the committee's recommendation, also known as Recommendation 6, that the PCAOB undertake a standard-setting initiative to consider mandating that the engagement partner of the audit firm sign the audit report.

As the PCAOB and the Standard Advisory Group are keenly aware, the integrity of financial statements is important to all investors. Institutional investors rely upon the integrity and efficiency of the markets due to the fact that large portions of our portfolio are passively invested.

The role of the audit in our capital markets is critical, as it serves as the most significant independent verification of the accuracy of financial statements. We don't have to recite all of the high-profile companies that have failed in recent years and the associated accounting scandals here today. But the resulting losses from these failures and scandals have hit investors hard and have served to undermine confidence in our capital markets.

For obvious reasons, many institutions, including CalSTRS, have put resources and effort toward strengthening the role of the auditor, increasing independence, and improving the accountability of the audit function to investors. Broadly speaking, Broadly speaking, whatever can be done to improve the confidence of investors in these audited financial statements and, by extension, the markets should be done.

CalSTRS believes that requiring the engagement partner to sign the audit report is consistent with our overall objective to improve and maintain the quality of audits and increase the accountability of auditors and their work product -- the audit to investors.

The simple step of requiring the audit partner to sign the audit report will, we believe, increase ownership of the audit by the audit team, a concept that will certainly help investors gain confidence in the quality of audits.

We appreciate the fact that the PCAOB and the

SAG have had substantive discussions over the past several years regarding the auditor's reporting model, and we understand that many members support a proposal to require the audit partner to sign the audit.

We're in good company on this issue. The International Auditing and Assurance Standards Board came to the same conclusion in 2005, stating that audit firms should assign responsibility for each engagement to an engagement partner and that the engagement partner should take responsibility for the overall quality on each audit engagement to which that partner is assigned.

And now our own U.S. Department of the Treasury, the European Union's Eighth Directive, and Arthur Levitt, former SEC commissioner all the way back to the 2000 review of the audit profession, recommend the same prescription. The engagement partner should sign the audit report in order to enhance transparency and accountability.

The Advisory Committee's report calls it -- excuse me. The audit firm's roles are crucial to the public markets here and around the world. The Treasury

Advisory Committee's report calls it "noble." We agree with the Treasury's report that the signature should not impose any greater obligations or liabilities than what already exist for the engagement partner as a member of the audit firm.

When the investment staff at CalSTRS prepares prepares materials for our trustees at CalSTRS, our CIO requires that the persons preparing the document sign it, as well as the director of the unit, and finally, the CIO signs off on the document. These are all manual signatures, and this step does make each signatory read the document, proof the document, question and verify the document.

Certainly, this is a quality control measure. But more importantly, it is an accountability measure, an assurance feature for our trustees designed to give them comfort that they are looking at all of our best efforts to provide them with the information they need to oversee the fund. We think it's simple, elegant, and direct.

To close, CalSTRS has long been concerned about the integrity of financial statements and has consistently applied resources to the infrastructure of financial reporting and its effect on markets. We went through an extensive review of our portfolio in order to determine the companies that do not put their audit firm up for ratification by shareholders, and we are now petitioning the SEC and the exchanges to make this this a valid item requirement and a listing standard.

We understand that we have a fiduciary duty to monitor the operation of the audit committee and the performance of the auditors, and we want a universal way to achieve that review. We would like the auditor report that is included in the proxy statement to include the engagement partner's signature as well.

Shareholders do not have visibility to every audit firm employee that worked on the company's audit, nor should they. It is far more efficient, transparent, and in the interest of accountability to have the engagement partner's signature on the report. We believe that Sarbanes-Oxley contemplated your authority over these standards in the original legislation and that you now have both cause and opportunity to mandate it. It does not appear to us that anyone other than the PCAOB can mandate this standard.

Thank you for allowing me to present the views of CalSTRS on this important issue.

JENNIFER RAND: Thank you, Janice.

Bob Kueppers?

ROBERT KUEPPERS: Thanks, Jen.

Janice, very, very well put. Very articulate. And on behalf of the profession, we appreciate, as a profession, the support of many of the investor groups around the importance of the auditing function and the need to strengthen it. I certainly don't disagree with that at all.

I just want to make sure that the confidence that you mentioned that's put in the audit process is not misplaced in any way, that it be rooted in reality. And I think for purposes of getting a dialogue, I want to make sure that we present the other side of the issue from the audit firm perspective because this is an issue where I don't think it's that difficult to find common ground.

But there are some implications that I

thought I would review. And on balance, I'm not a proponent of this idea, but I think there are probably ways to achieve the same objectives that you mentioned, Janice.

Let me -- let's go back just a few years to some of the audits that led to the passage of Sarbanes-Oxley. And at that time, I think the public at large -- not only the investing public, but the public at large -- got a look into auditing in a way that probably had not been the case for many, many years prior to that. And we learned a couple of things.

One of the things we learned was that clients, companies -- big companies like Enron and the others -- should be clients of the firm. They should not be clients of an office. They should not be clients of a person. These big, complex clients demand the attention of the entire firm, and if you give too much authority to a level below the firm, I think you can get into some trouble.

We also learned that it's dangerous when an office or a partner can effectively override or ignore the firm's position on a technical matter. The firms have, since that time, and frankly, prior to that as well, worked harder than ever to reaffirm and embed the consultative culture that we encourage all of our partners to participate in.

I know in our firm, and I think I speak for others, there is no partner in our firm that has the authority to sign the firm's opinion, whether it's with his name or the firm's name, with accounting in those financial statements that differ from a position the firm has taken through its process. That would be grounds for removal from the firm, if you were to sign an opinion against the conclusion the firm had reached.

I also think it's important to keep in mind there is a difference between a person, in other words, a practitioner, and then the firm as a whole. And sometimes I analogize to law firms because we're all sort of used to working with law firms in some form or fashion. And I choose to pick on David Becker for that.

I mean, I could pick up the phone and talk to David about a legal issue and have a nice conversation. And then I'd say, "Well, David, I know you're on the clock. So I guess I have two choices. You could send me a chatty memo from David Becker with some of your thoughts around this. But this is a really big issue really big issue for us, and I really want an opinion of your firm."

I want you to go through the whole process to give me Cleary Gottlieb Steen & Hamilton opinion, and I know that the product that comes out of that process will be very different than just having a conversation with David.

We all speak with our clients every day about technical matters. But at the end of the day, sometimes they'll say -- I'll say, "Well, do you want to know what I think, or do you want the position of our firm?"

And depending on the issue, we go through our process, our consultation process, at the end of all that, of course, they get the position of the firm. I don't think we should confuse the authority of a partner versus the weight of the whole firm behind the issue.

Accountability is important, and one of the things I would observe is that in so many ways, in so many ways, our partners are absolutely accountable. First, they're accountable to the firm itself, through our own internal inspection process, through our own quality rating system that drives compensation for the audit partners. There is no question that the individuals are accountable to the rest of their partners.

The regulators, of course, including the PCAOB, have inspection regimes. They have enforcement programs. And at the end of the day, if someone is investigated, whether or not a case is brought, it could, in fact, be the end of their career.

And of course, on at least a quarterly basis and maybe twice that much, the intimate relationship that the audit committee has with the actual engagement team and as sort of agents of all the investors, monitoring the quality of the people, the progress of the audit, the resources brought to bear are firmly creating a situation where the partner who does have that quality responsibility is accountable to its client, the audit committee.

I do agree with Larry that the ultimate client are the investors. The question in my mind is always the tension between how much should go directly to investors and how much should be managed through the audit committee process representing the investors? And that's not an easy question.

And finally, I think the partners are accountable individually to the private claimants in litigation. It's certainly not difficult for a regulator or in litigation to get the names of the people. That's always at the ready when there are problems after the fact.

My real worry in part is that I don't believe this would improve audit quality. I think the other motivators of audit quality, including compensation, including the accountability points I just mentioned are, by far and away, the most effective way. To think that because I'm going to sign my name, I'm really going to do a better job when I have my entire career, my net worth, my reputation on the line in any event, I don't think it makes much difference.

I think signing your name and signing the firm's name is equivalent. In fact, I think the hand might shake a little more when you're signing your firm's name because at that point, I sometimes say you're bringing in the boat with you, depending on the size of your firm, all of your partners and all of their families. And by your authority to commit the firm to the opinion that you're rendering, in many ways, I think that has even more serious tone and tenor to it as you sign -- as you sign that report, in my case, as Deloitte and Touche.

I will point out that I've got multiple nametags. I have Robert J. Kueppers. I have Robert J. Kueppers, Deloitte and Touche, LLP. And I think there's a third one that just says Deloitte and Touche. But I don't know where that one is.

The point is that that's a serious matter, and I know that our partners take it very, very seriously.

I have some thoughts for the board on how to deal with this. I think that you're not going to hear any new arguments today. I think that when we talked about it in February of '05, most of those things are the same as now. There have been a few developments in the EU, and the Eighth Directive has sort of memorialized what for decades, if not longer, has been the practice in Europe.

But the statutory auditor and that custom of having the individual sign is, frankly, rooted in a long history in many of the countries of providing fiscal or tax advice and having an accountable person. It's a little different than on a quality measure, but it's been memorialized now for the future for all the 25 or 27 EU states as part of the world going forward.

But what I'd say to the board is do some additional research to determine the level of support for this individual partner signing idea. I think that we've had good articulation from academics, investors, and, to some degree, the firms. But I haven't heard a whole lot from the issuer community or the audit committee community yet. So you probably should solicit some ideas from those groups.

If you choose to propose a change, I think that's fine. But I predict that the letters will give you the same arguments you're probably going to hear in our dialogue today, and I think if you look at the letters already on file with the Treasury process, you're going to see the same sort of give and take, the same pros and cons.

But my real urging is if you ultimately choose to move in this direction and make such a change, I would ask you not to justify it as a substantive change, but an optical one. One that there's pressure to do, that's fine. If that's where the world's going, let's do it.

But it should not be framed as something that will be a significant change in audit quality or something that people will perceive something's different now, and I'm not sure anything will in substance be different.

Let me leave my comments right there, and let's hear from Jean. And then we can have our discussion.

JENNIFER RAND: Thank you, Bob.

Jean? The floor is yours.

MS. BEDARD: All right. Thank you.

I guess there's a reason I'm sitting in the middle here today between my two colleagues. My remarks are based on two perspectives. And first, as the academic on the panel, I see my role as providing a viewpoint to this policy based on research to the extent that research is there.

And the second is my views are also informed by my experience as one of the three-member tracking team for the American Accounting Association to the Advisory Committee on the Auditing Profession.

Okay. So let me start by considering the two purposes of this proposal, and these were implicit in what Janice and Bob said, but I'd like to make them more explicit. They are no doubt related, but useful to consider them separately.

First, transparency, of course, implies that an underlying process becomes visible. In this context, of course, we are thinking that knowing the identity of the audit engagement partner could be useful to market participants in assessing relative financial reporting quality, as this would provide some indication on how the audit was conducted.

So let's call this the "detective effect," all right? That knowing who runs the engagement reveals something about the process. That is useful to investors in making financial decisions.

Now, in addition to a detective effect, this policy is also intended to have a preventive effect. Publicly identifying the partner in charge of the engagement or multiple people -- that's also on the table -- is intended to improve financial reporting quality by increasing accountability of the individuals in charge.

The intent here is that, through time, financial reporting quality will rise as greater accountability changes behavior among any engagement partners who are not now meeting the standards set by the PCAOB and their firms.

Okay, now, so is there any direct evidence that engagement partner's signature affects financial reporting quality? For instance, you've got countries that have done this and countries that have not. So research could have compared financial reporting quality in similar countries before and after implementing this policy, although I admit it would be tough research to do. However, I was unable to find any reports of such types.

Thus, unless I've missed something, there appears to be no direct evidence on whether financial reporting quality is actually affected by engagement partner's signature or whether investors' perceptions of financial reporting quality are affected, and that's a related but, of course, distinct issue.

So there are no reported studies. Well, we're also unable to tell, as kind of a sidebar here -- because there are no studies, we're also unable to tell whether engagement partner signatures have some of these negative effects that are listed in the briefing paper. For instance, would it mislead investors about responsibility of individual partners versus the firm? Kind of relating to Bob's comments here.

Would it reduce the number of firms willing to audit risky public companies? Would it reduce the numbers of people willing to enter the profession? We really have no evidence on this. I think I'm starting a research program here to address some of these issues. It looks like there's opportunity.

But all right. So since there's no direct evidence on financial reporting quality, let's take a step back and consider the theory as to why this policy might achieve its intended effects and consider the research that already is out there in the context of the auditing profession that tests this theory.

Okay. So why would accountability change behavior? According to social psychologists, accountability is being answerable to an audience. Which implies you're identified to that audience as the producer of a work product. Now the engagement partner's signature proposal just expands the audience. Obviously, the engagement partner is visible to people inside the firm, to the audit committee, to the PCAOB. But this proposal expands the audience to the investors in general.

So now when an individual is accountable, there is an increase in self-critical thinking, which is thinking harder about the decisions you must make and possible threats to the quality of your response based on your intended audience. So that's the theory. What evidence is there in the auditing context?

context?

There are a couple of studies. Most find that when auditors are accountable, the effort involved in the decision increases and the quality of the decision outcome increases also. And just a couple of examples here real quick.

Auditors under accountability produce more conservative and less variable materiality judgments when accountable. Use more qualitative factors in arriving at materiality judgments.

Another study on analytical procedures, auditors under accountability plan more audit tests, focus more testing on possible misstatements as opposed to nonerror causes perhaps of fluctuations.

And a third study found that the effects of accountability are stronger when audit tasks are more complex and when participants are more knowledgeable. And here today, of course, we're talking about a partner in charge in the most complex level. So that means, I guess, that it should apply at that level.

Thus, some research shows that accountability works in inducing greater care and better decisions better decisions within the context of the firm's chain of command.

Now these results are probably not surprising to any of us, right? Because accountability in terms of identifying the persons who perform the various steps in the audit function, it's long been a part of quality control in audit firms. It's just part of the culture.

So we don't have any direct evidence on whether those results, these studies done on associates and seniors, would apply to engagement partners if they were identified to investors. There's no direct evidence on that that I know of, all right?

So I guess then my next thought was then why would this not apply in the current context of engagement partner signatures? And I guess I could think of two reasons why it might not work here. And one of them, and this is I think basically Bob's point, is that current accountability structures are already sufficient.

Current quality control policies in firms that audit public companies, PCAOB inspection process already induce such a high level of quality that there's no incremental effect of the engagement partner signing. PCAOB has insider knowledge of this, and they share some and they don't share other things. But the publicly available information today suggests there is room for improvement, and I'm sure the bar will rise as we go into the future.

A second reason that this policy might not work or accountability might not work in this context is that public identification of the partner would not have the standard accountability effect. In fact, it would have the opposite effect. And I think Bob referred to this. It's also in the Institute of Chartered Accountants in England and Wales report that like the partner would be less willing to consult with others if only the partner, the lead partner were publicly named.

It's a concern, I think -- to me at least, and we can discuss -- that it seems this effect could be reduced by adding the names of others in the chain of command, which is one of the things we need to talk about today. So it's not this go-it-alone, Enron sort of effect, but rather, people in the direct line up to the top of the firm participate in the signature.

All right. Well, to summarize the research here, accountability has been shown to produce more conservative judgments among auditors, more testing. These results are consistent with improving financial reporting quality, but they consider lower-level staff, not partners. The logic is compelling, but the evidence is indirect.

So now we consider these thoughts further. My time is limited, and I've already gone over. So let me come to my second point here, which is relating to my experience on the ACAP Tracking Team.

In our response to the committee, we recommended that the engagement partner sign the firm's name, as well as his or her own. But we also noted later on in our response to the firm structure and finances section of the report that we kind of viewed these recommendations, this family of transparency recommendations as part of the package that would potentially involve some liability relief and improve and improve the sustainability picture. And of course, that didn't happen for a lot of reasons.

But it does affect how I feel at least about implementing some of these proposals that otherwise seem valuable. What could be done? Well, the Center for Audit Quality mentioned in their letter to the ACAP that a Safe Harbor provision might be enacted for partners who sign.

If, in fact, the liability isn't changed, then it just seems to me it shouldn't be a big step to explicitly state that. Whether that would protect people or not, I don't know. So that is one possible way of a middle ground here perhaps for relieving some of these concerns on the part of the firms.

So I believe I have gone over time. So I'll end here and look forward to the discussion. Thanks very much for your attention.

JENNIFER RAND: Thank you very much, Jean.

MS. BEDARD: Thanks.

JENNIFER RAND: Jean was just talking about the liabilities at issue, and the paper, the SAG briefing paper did not really touch on that. But just a few observations. I spoke to our general counsel's office for any feedback they have, and just three points. And I don't want the focus of this discussion this morning to really center on that because that is an issue, but we are looking at the signing of the report.

But three observations. One, whether the signing of the report would subject the partner to increased risk of liability is a complex issue. And it will require analysis of Federal and State law, including the analysis of a Supreme Court decision earlier this year.

Second point is the Treasury Advisory Committee did indicate in its report that the committee notes that the signature requirement should not impose on any signing partner any duties, obligations, or liability that are greater than the duties, obligation, and liability imposed on such person as a member of an auditing firm. The committee noted that this language is similar to Safe Harbor language the SEC promulgated in its rule-making, pursuant to Sarbanes-Oxley Section 407, for audit committee financial experts.

committee financial experts.

And then, third, third point here is if the decision is made by the PCAOB to move forward with the proposal in this area, we will certainly need to give further consideration to potential liability issues. And of course, this is something the board may wish to seek public comment on before adopting any final rules.

So, for purposes of this discussion, really we're looking at the benefits, looking at the committee's recommendation and which is encouraging us to mandate the signature. Recognizing liability is an issue that will require future study by us. And if we were to move forward, we would certainly consider that issue and likely seek comment on that point.

But otherwise, we'd like to open up the floor as far as the benefits of this proposal as it is. So the first discussion question relates to seeking feedback on pros and cons of including the signature of the engagement partner on the auditor's report. And certainly, in your remarks, you may just have comments on that. You're certainly welcome to ask any follow-up ask any follow-up questions from our panelists -- Bob, Janice, and Jean.

Okay. Bob Kueppers, since you're a double duty, we'll give you first chance.

ROBERT KUEPPERS: And I have two signs. So I should absolutely be selected first. Thank you.

I was just going to pick up on what some of Jean's comments. One of the areas I think is actually ripe for some research because you talked about research that might have been dealt with, sort of seniors and assistants, but I don't know if anyone has really taken a look at the partners in the firms. And it could be firms of any size.

The changes in sort of the levers or the motivators of quality have really changed massively over the last years. And it used to be the threat of civil litigation, which might be way down the road, would be one of those things that would keep you focused on quality.

But now it's so much more immediate with PCAOB inspection, with quality ratings that impact this year's compensation or next year's compensation, or the or the fact that if you had bad PCAOB review, that's not a career-enhancing move. And so, why not research with the actual partners some of the hierarchy of things that cause them to stayed focused on the business at hand and doing a good job?

Because I think that whatever snapshot you would have taken 10 years ago would look very different today, and usually it's left to people like me at meetings like this to explain what I see and what I hear. But I think some research directly with the partners would be very beneficial.

JENNIFER RAND: Thank you.

Ernie Baugh?

MS. BEDARD: Oh, could I respond just a second?

JENNIFER RAND: Yes.

MS. BEDARD: Yes, I stand ready to do that research. It's very difficult to get partners. They're busy.

ROBERT KUEPPERS: I'll give you 1,000 partners. Don't worry about it.

MS. BEDARD: This is on record, and it's webcast. Thanks, Bob. Call you in the morning.

JENNIFER RAND: Ernie?

EARNEST BAUGH, JR.: Well, we can start your research right now. I'm sure that a lot of people have put a lot of effort into this project. However, as was intimated by Bob, I think that effort is very akin to rearranging the deck chairs on the Titanic. I do not think that whether or not you have a partner sign the audit report along with the name of the firm is going to make one bit of difference. If it does, he shouldn't have been a partner to begin with.

We take that signature, that firm signature extremely serious. If my name was on it as well, I wouldn't take it any more serious. I think -- I echo Bob's comment that if we do something along this nature, it should not be couched in -- as a means to improve audit quality. I do not think that will happen.

JENNIFER RAND: Thank you.

Jean, did you want to respond or --

MS. BEDARD: No, I wanted to ask Ernest then how would you couch it? If not as an audit quality move, what -- Bob said "optical" I think was the word you used? How would you?

EARNEST BAUGH, JR.: If it will improve investors' faith, perception of the reliability of financial statements, I think that may be beneficial. But you just have to realize that it's not going to be a real improvement to audit quality.

JANICE HESTER AMEY: I actually don't think the recommendation suggests that it will improve audit quality. I think it focuses on transparency and accountability and the perceived value of the report to the market participants as a whole. And that's what we are concerned about.

We're also concerned that in Sarbanes-Oxley, there is a suggestion or a recommendation that you rotate the partners on audit firms or on audits I think every five or seven years. And this just isn't visible to us as shareholders. We've adopted the much more what we think is disruptive guideline of rotating the whole firm. And I think if we had the visibility of the partner's signature, it would be a lot easier to carry out that suggestion.

JENNIFER RAND: Okay. Harold, did you have your sign up? That name tag is blocked by your water pitcher. Cindy Richson then. Sorry.

MS. RICHSON: Thank you.

First, I'd like to thank the panel. I thought the comments were excellent. And in particular, I think, Janice, I wholeheartedly agree with your position on encouraging the PCAOB to undertake standard setting in this area.

I'd just like to make a couple of comments. First of all, I thought it was interesting, Bob -- and not to pick on you -- but that having the audit or the engagement partner's signature versus the firm's signature is the equivalent and the analogy you made to law firms, whether you're the firm name or the partner.

And having been both an attorney in private practice and in-house hiring outside counsel to represent the company's interests, you actually do both. You hire the firm for their reputation, their brand, just like you would hire the audit firm. But you also hire the individual partner or associate or whoever you're working with because of their expertise, the value that they bring to the engagement. So I don't necessarily agree that it's equivalent.

And the thing that I find really interesting because the firms, the audit firms are required in the UK to file these annual reports, I just -- not to pick on a firm, but I happen to have the KPMG UK annual report from 2007, and there are disclosures on the legal structure. And so, when you say "the firm," I'm not quite sure exactly what you're referring to because in this report, the KPMG report, it states that "KPMG LLP is the UK member firm of KPMG International, a Swiss cooperative that serves as a coordinating entity for a network of independent member firms that provide audit, tax, and advisory services to a wide variety of public and private sector organizations."

Each member firm is a separate and independent legal entity and describes itself as such. So I think, if for nothing else, it would add clarity, especially as I hear that more audit work is being being outsourced to offshore locations such as India, et cetera. If for no other reason, having the engagement partner sign the auditor's report is informational at a minimum, and I do think while there may be no direct evidence, and I encourage -- I don't know that further study and research is warranted on this issue. It's rather straightforward. It's about enhancing transparency.

And in terms I think, Bob, you mentioned that you're not sure what the level of support is, but I understand -- and Damon, correct me if I'm wrong -- I think all the investor comment letters to the Treasury recommendation were unanimously supportive of this particular recommendation. So I think clearly it has significant investor -- institutional investor support.

And if for no other reason, if the EU, in its wisdom, has passed the Eighth Directive making this a requirement, we've heard about international convergence for the five years I've been on the SAG, and it would harmonize U.S. standards with European standards, and I think that also would be very beneficial.

So, greater transparency. It would incent greater accountability. It would be informative. It would help clarify which part of "the firm" was involved in the engagement, in charge of it. And there's the report in 2005 from the Institute of

Chartered Accountants of England and Wales looking at this and talked about the benefits.

So the rotation issue that Janice mentioned -- this is something we haven't talked about yet -- would highlight the specific responsibilities that the audit engagement partner has for the quality of the audit. Again, informational.

So I thank the panel. I think this is an important issue, and I hope PCAOB moves forward on it.

JENNIFER RAND: Thank you, Cindy.

Gary Kabureck?

GARY KABURECK:: Thank you.

I'd like to give a view of financial statement issuers on this subject, and jumping to the end, I actually don't support individual partners' names going in the document either as a signature or as as a byline in the 10-K or whatever.

As a signing officer, I have to admit I don't feel extremely strongly about that because I see my name on all these documents, and I say, well, if my name's in it, well, why not the partner's? But so it's not what one I would lay on the tracks on, but I actually don't support it. And I'll tell you why.

First, I think is putting the individual person's name in it, I think someone makes audit partner in a firm, whether a small firm, medium-sized firm, or large firm, the thing is they think we're detracting from their professionalism. I don't know that they need to see their name in lights to do a good job, to make their best professional judgments, to engage experts in the firm, or however else they choose to do the audit.

I don't -- they think we're taking away from the skills and the competencies that got them to the position that they're in at their firms today.

So I think there's plenty of reasons, both inside the firm for its own management processes, and I think, to some extent, they've already earned the right, you know, to get where they are, and I'm not sure this enhances it a whole lot. But as a preparer, I'm worried about a number of unintended consequences that I think will happen out of this, and I'm talking as a preparer, as an issuer.

First of all, I think if this is going to result in extra costs. There were a lot of accounting and auditing changes out there that are increased in cost. But imagine yourself as an audit partner going to an audit committee or the chairman of your company saying, "I need to increase my audit fee because I'm signing this thing."

And so, the glass is half full argument is that there's more accountability and greater focus and stuff. In the glass is half empty argument is that you want to do more work because they're afraid not to do more work. And I just think that would be a dull conversation if we're trying to pass along extra work in the form of fees. However, be that as it may, there's lots of reasons why audit fees go up or they go down.

However, let's talk to a couple of things that could happen over time that issuers would be asked to answer questions on. So if we -- what would happen if the audit partner left the account early? They got promoted, or they decided to early retire. Or what if they left the account because of a client service issue or an internal discipline issue unrelated to the client?

I think the financial statement issuers have to be prepared to respond to a question from someone, "Why did this person leave your account before the five-year window?" And it's one thing to say, well, the person got promoted. It's another thing to say he was disciplined on something unrelated to us, and every reason in between. I don't think issuers should be put into that spot of possibly having to give that answer.

And it also might be dull to say, "Well, you should ask the firm why the person left early." I think you have to have an answer. And sometimes the answers you won't mind giving. Sometimes you will mind giving them.

And then another unintended consequence could could be if your partner says something controversial either in a speech or at a SAG meeting or they send a letter to another standard setter, and as the issuer, you might be is that how that partner is approaching your account or your audit? Are those the judgments he's making on yours?

And again, I think you have to have an answer for that, other than "no comment" or it's "we can't answer that" or "we don't know." Those answers don't really work. So, again, I think the unintended consequences is you have to have an answer for it.

And again, sometimes you might want to give the answer, but again, you're commenting on the activities and actions of people that don't work for you, and that's just not a good spot to be in all that often. So I think, again, I wouldn't lay on the tracks on this one to keep their name out of it, but I think that's a view sort of from the financial statement issuer point of view.

We absolutely view that we hire the firm and all the firm's resources is I think -- certainly I think all large companies would probably feel that way. way. I don't want to talk for small companies.

Thank you.

JENNIFER RAND: Thank you, Gary.

Janice, I noticed your card up. I didn't know if you wanted to respond to that?

JANICE HESTER AMEY: Not necessarily to him. I wanted to follow on what Cynthia was saying. Is that okay?

I -- Cynthia and I share something in common, we both read a lot of proxy statements and Annual Reports. And I brought the -- part of a proxy statement from a company called MGP Ingredients -- I'm not going to read the whole thing to you, so don't worry.

[Laughter.]

JANICE HESTER AMEY: But, on this section, "Independent Public Accountants," it starts out by saying, "BKD, LLP was previously the principle accountant for the company. On September 17, 2008, the Audit Review Committee of the company approved the dismissal of BKD, LLP, and the engagement of KPMG, LLP as the company's independent registered public accounting firm. KPMG has informed the company that it completed its respective client evaluation process on September 18th," and then it goes on to give a long description of all of the arguments that it had between -- with BKD.

As an investor, when I see BKD as an auditor -- as an audit reporting firm on a company that I own, I would be interested in knowing whether I should be happy at whoever was the engagement partner, or if I should be apprehensive whenever I see BKD as the firm auditing a company that I own.

And so I think a lot of issues that the last speaker brought up, I think they can be dealt with, with asterisks and Safe Harbor protections, but I think it's still the perception of value that's created for the investor, and the perception that someone is taking responsibility for the audit, and the ability to identify with the engagement partner, still outweighs the other concerns.

And I don't think we're suggesting that the audit engagement partner will do a better job, for having his name in lights, or having his name in lights. I think the intent here is more for the investor than it is for the audit firm.

JENNIFER RAND: Thank you, Janice.

I just -- Janice, you were pointing out proxy disclosures, and I just want to point out that proxy disclosures or rules regarding that do not follow, you know, the purview of the PCAOB, that's the SEC. And certainly, there was a related recommendation, related to proxy disclosures, but we don't control that. You know, our focus this morning is on the audit report, and whether or not the signature page should be --

JANICE HESTER AMEY: Right, but we'd like to have that in the proxy.

JENNIFER RAND: Right.

JANICE HESTER AMEY: Yeah.

JENNIFER RAND: Okay, Ted White?

TED WHITE: Thank you.

First, I think investors recognize that this is not a silver bullet but, in listening to the conversations here, first, I mean, I thought the panel discussion was good, and Janice articulated the points very well, but we're making this a much more complicated issue than it needs to be.

This -- I do believe that this is about audit quality, this has, I think, every opportunity to just raise the level of ownership, I do not see that there is any significant downsides, I have to respectfully disagree with Ernest and Bob in, while individually that may have very little impact on how their perception of their responsibilities may be, and that's just a test to their level of professionalism, from an investor's perspective, across the universe of auditors, this has the potential to add some benefit. And I just do not think that the potential that it would maybe bring some hard questions to issuers or to audit firms is necessarily a negative thing.

I mean, we spent yesterday afternoon and this morning talking about trying to identify audit quality measures, and how we'd bring transparency to them, some of the questions that are going to come through this are directly related to audit quality issues. And a little bit of transparency on this issue, I think, is a good thing.

So, I would just strongly support it, I think you're going to find fairly unanimous position from investors, that this just appears to be a good thing. Again, not a silver bullet, we understand that, but very little downside.

JENNIFER RAND: Thank you.

Damon Silvers?

DAMON SILVERS: Yeah, I want to sort of add to what Ted said, and -- with a little more -- and add some more detail to this observation.

When this -- when the Treasury Committee adopted this recommendation, it was viewed, I think, purely as a disclosure item, not as an item that would, in any way, alter the professional and legal obligations and rights. And there were enough people on that committee who were very anxious about not expanding litigation risks for audit firms and audit partners, and who were quite knowledgeable -- perhaps more knowledgeable than I am -- about exactly how those legal -- how that legal structure functions.

I'm pretty confident that this change is nothing more than an additional item of disclosure. Much as -- to analogize to the SEC world for a moment -- that, for example, when a 10K or S1 is filed with the SEC, a lawyer's name is on that -- is on the cover page of that document. Not just a firm, but a name. I don't think that changes the question of the relative liability of that partner, in any respect.

The -- what investors are looking for, here, and I think what we believe will, a little bit, perhaps, drive audit quality, is to make it a little bit easier to have that interaction with that partner. And the truth is, is that it's not impossible today, you can call up the firm and find your way to that person, but that just makes it a little easier.

At the same time, you get that little bit of focus on the job being done that Jean and Janice were talking about.

I might -- I thought I'd make a broader point about this, which I think is connected both to this matter, and to the matter we were discussing in terms of audit quality indicators. I don't think it's plausible to make assertions like, we don't know what audit quality is, or we don't know what audit quality indicators are, or that there's something enormously disruptive about identifying who is in charge of the audit. And that's not to say that each thing doesn't involve a certain amount of care, right? And thoughtfulness. I mean, I think that obviously you'd want to be sure that in having the person sign the -- having the individuals named on the signing line, you are not reducing, in any way, the accountability of the firm as a whole, that you were not increasing -- you were not altering the set of legal obligations, that was not the intent.

Just as with the audit quality indicators, and be thoughtful about the type of indicators, how they're designed, and so forth, how they're presented.

If we are sidetracked into discussions that seem like they really don't have a strong intellectual basis, and seem to be, instead, designed to forestall action -- for the purposes of forestalling action, itself -- I think the consequences of that are not going to be that there will be no action. It just will happen elsewhere. And to use -- our Presidential candidates are fond of discussing -- with something other than a scalpel. And without the thoughtfulness, and perhaps, sort of consensus-based process we have here.

And that troubles me. I mean, I think that the Treasury Department -- the Treasury Committee's process was as broad-based as this one, and came up with these items on a pretty much a unanimous basis. The only diss -- I believe the only dissenter was my friend, Lynn, who thought that there was nothing wrong with the report, but simply didn't go far enough.

So, it's disappoint -- again, I say, it's disappointing to me that we seem to be engaged in a kind of holding action around some of these items, rather than figuring out, in a consensus-based way as we did in the Treasury report -- how to do them in an intelligent, constructive way.

JENNIFER RAND: Thank you, Damon.

Liz Gantnier?

ELIZABETH GANTNIER: I guess being an auditor everybody's going to immediately assume what side of the fence I'm on, on this topic. I would just like to put a couple of things in context -- it may or may not may not be useful, but in a smaller firm, for example, it's not the audit partner that accepts the client, it's the firm that accepts the client. It is not the audit partner that agrees to continue with the client, it's the firm that agrees to continue with the client.

It is not the audit partner who schedules the engagement, it is the firm that schedules the engagement, pulling the right people, perhaps, off other engagements to ensure that the mix of personnel is being utilized properly. And to somebody else's point, it is not the client who decides who the partner is, it's the firm who decides who the partner is, and I would hope that you're happy with the selection of the partner, but it is us trying to serve the client the best way, to answer all of the criteria properly, that it's the firm that selects the engagement partner best suited to dispatch the duties of the firm, and it's an audit partner who is signing the firm's name.

We're all in this together, because we've chosen this client together, we've agreed to continue the client together, and in my opinion, it sort of takes away from that concept of it being the firm's client, as opposed to the partner's client.

This is not a name that you can't figure out pretty quickly, particularly in the smaller firm, and as for accountability, I can assure you that partner signatures, concurring partner signatures, consulting partner signatures, manager signatures, all the way down to individual staff signatures are all over the place, and that the PCAOB has mandated engagement completion documents that, in no uncertain terms, identify who the engagement partner is with overall responsibility, who concurred with the release of the opinion, and who was the overall engagement in charge.

So, I'm not really pointing out whether I'm for or against this, I'm just simply saying that we certainly have other measures in place, and if part of the goal of this is audit quality, you say that knowing who the partner is will aid in your understanding of the relationship with the firm, I would say -- I don't know how you're going to -- I don't know how that is. I don't know how, if Liz Gantnier's name is on the opinion that you have any knowledge of who I am, and knowledge of who I am, and then that leads us to all of yesterday's conversation about audit quality measures, of competency, other hours that I may be maintaining in my book of business, et cetera. That those measures, perhaps, are a better gauge of who the audit partner is, rather than the name.

So, thank you.

JENNIFER RAND: Thanks, Liz.

Joe Carcello?

JOSEPH CARCELLO: Yeah, let me second some of the comments that Damon made earlier, and I would point you to a few things. I think one of the first things we should look at -- Bob, earlier, said we've heard from academics, we've heard from investors, and we've heard from auditors on this, and we need to hear from others.

So, I refer you to page 10 of the briefing paper, and I'd say, who was in favor? So, let's look who's in favor. Don Nicolaisen; now who is Don Nicolaisen? He is a senior partner in one of the Big Four, was the Chief Accountant of the SEC, and chairs a bunch of Audit Committees. So there we've just hit three bells, right? Senior auditor, regulator, Chair of Audit Committee.

Also, an audit committee member, Mary Bush, goes on public record in favor of this recommendation. An investor advocate, Paul Hagger, who heads up, or a leader at Capital Management and Research, one of the largest mutual funds in the world.

So, I think those are pretty strong arguments in favor. So, that'd be my first point.

The second point would be -- a number of people have argued it won't change behavior at all. And I agree that at the margin it probably will have a small effect. But as Jean said, accountability is being identified. And by signing, you're identifying yourself to a much wider audience. You're identifying yourself -- not just to investors, but to the financial press, and the world.

Anybody who follows auditing will never forget the name of David Duncan. His reputation is ruined forever. And knowing that your name is going to be picked up by the Wall Street Journal and Business Week, and Forbes it -- I think, at the margin, it could margin, it could potentially effect behavior.

I think it also provides better information to investors and capital markets participants. Because if I know who signs every audit opinion, and I'm looking at an engagement, generally, who the partner is on the engagement's more important to me than the firm. What I'll do, is I'll run Compustat on every single engagement -- we'll pick on poor Vin -- that Vin has ever been the audit partner on, once we have a long enough time series history, and I'll look at earnings management on those engagements, I'll look at restatements, I'll look at fraud -- I'm sure there wouldn't be any fraud, Vin -- I'll look at going concern reporting, if he has any bankrupt clients -- I'll look at all of those metrics -- right, Jean? That academics love. So, that gives me better information to help make a decision.

Now let me just quickly comment on something that Gary and Liz said. Gary made a comment about one of the unintended consequences that he's worried about, is greater audit fees.

And with all due respect, Gary, investors are are pretty much, as Cindy said, unanimously in favor of this. And I would point out that it's their money, not the company's money, not management's money. And so, if investors are in favor of it, recognizing that it may cost more money, that's a decision they're making.

Elizabeth made the point that it's the firm's client, not the individual partner's client. But most of the research overwhelmingly finds that it's much more important to investors and to Audit Committee members, what's the composition of the audit team, rather than who the audit firm is.

And so I think it's both. I think it is the firm, but I think it's also the individual partner.

JENNIFER RAND: Thanks, Joe.

Lynn Turner?

LYNN TURNER: I think this is certainly about behavior at the end of the day. I think that someone -- when someone has to sign their own name, rather than someone else's name, it just flat-out sharpens the focus. And I think that's probably a good thing. And I think that can only contribute to audit quality, and audit quality, and not detract away from it.

And we've heard earlier today about how, when people go and select an auditor, the number one thing is looking for the experience and depth of industry experience of that partner. And while certainly you get all of the resources of the firm behind that person, anytime anyone goes out for evaluation of an auditor, the number one thing that comes up is, who is that audit partner?

And while you're getting the firm, most

importantly, you're getting that audit partner. And that audit partner, the manager and the senior, are the ones that make the difference. And you can have a good firm, but if you've got a lousy audit partner, you're probably going to have a lousy audit at the end of the day. So, I think putting that person's name on it -- and we do have the CEOs, and we do have the CFOs sign these statements now. And we know that at the end of the day, it isn't just those two people that turn around and make those financial statements accurate, it's all of the people working behind them, and all the controls that are going into it. So the notion of, notion of, don't put a focus on one name, just because that person doesn't do it -- we've already done that -- we've done that with the CEOs and CFOs, and we do it to establish some level of accountability. And I think that's probably a good thing, as well. And as far as identification of the partner, the A-CAP report does recommend that in the proxy it be disclosed as to who the partner is.

And if you go and look at the report that Bob's firm puts out on Societe Generale, you'll find the partner of -- the name of the partner, and an address and phone number for how you can get them, the only thing isn't there is, perhaps, the home -- home phone number. But all the information is laid out there, and as an audit partner, you go to the public meetings in front of the stockholders of all of these, and you hold yourself out then, so there's no reason not to name.

And some people do bring up the liability issue, but that's -- that's a red herring. Whether or not -- if I'm not a partner on an engagement, whether I, or not, I sign my name, doesn't change my liability. liability. I am on the hook for that audit, I know I'm on the hook for that audit, regardless of whatever name I change.

And Gaylen, maybe, can chime in, but whether or not I sign or not, in my State of Colorado, if I do a bad job, Gaylen's going to come after me.

So, I think this liability is just one more red flag. And in fact, when I go into a court, regardless of whether I'm with a firm or not, if one of Bob's partners goes into court and files an expert witness report, that partner signs in their name in that court -- he doesn't sign in the name of DT. So there are instances, already, where we have to go on, on the line with our name and establish our accountability for the work that we've turned around, and do.

And then, the notion that if I have the partner sign, he wouldn't consult -- I can't even believe that question would be brought up. Because you know the firm has a requirement that you consult on these things whether or not I sign my name is never going to enter into whether or not I would consult or not. I'm just flat out going to go up the ladder, because I'm one of the partners, that's what the partners have said I need to do, and I'm going to turn around and go up.

And so I think what we hear is somewhat disingenuous from the firms. They turn around, they say, "Well, I voted for this, and I support it," but then I'll give you the thousand and one reasons as to why you shouldn't do it. And I think the firms either need to decide they'll support it or not.

And quite frankly, I think one, to adopt this thing, should you adopt it, and I hope you will, I think a year down the road this will, for all practical purposes, be a non-event. And all you will probably have done is really got the partners to focus on it, and you will have given -- as the report calls for -- greater transparency to the investors, and you probably would have established more accountability through that transparency. And I think that is very good.

As far as questions about, should a CFO have to answer a question as to why there's been a change in in the auditor, of course. Is it an uncomfortable question? Well, if it is, it is. But, you need to be able to tell your shareholders why, in those situations, there has been a change. If there's been a change, because of disciplinary action, would that be of interest to me, if I'm voting on the auditor? Of course it would. And you know? Those are things you just have to deal with. Trying to keep that hidden, and not transparent, is what gets us into trouble and the type of messes that we're in, currently, anyway.

So, I think this transparency and

accountability would be excellent, long past-due, and at the Treasury Committee I think just, literally, every investor letter we got in from the investor community said, "Go for it."

JENNIFER RAND: Thank you, Lynn.

I'd like to -- Lynn was just touching on other individuals being included in the report, in his remarks, and this is something we also want to get feedback on, too. So -- and the first time we discussed this, there -- it was really, kind of a running out of time, and I do not want that to happen today.

So, we'll continue going through the cards, and we'd also like your views on the second question which is pros and cons of including the signatures of other members of the engagement team, or the firm, such as the second partner, quality control partner -- Lynn was talking about the firm CEO and others.

So, I would like your feedback on both.

Bob Tarola?

ROBERT TAROLA: Thanks, Jennifer.

My comments are from the perspective of

someone who used to sign a firm's name, and someone who currently signs his own name, as a certifying officer.

I actually agree -- from an issuer's perspective, we're hiring a firm, and not a partner. However, I'm -- what I'm hearing is a profound lack of confidence and trust in the system. And even though I, personally, it doesn't matter to me if the firm and the partners' signatures are on the opinion, I think if it adds to the level of confidence and trust in the system, it's probably a good thing. I think anything we can do, professionally, as preparers, auditors and regulators to do that, will be beneficial for all of us.

JENNIFER RAND: Thanks, Bob.

Gaylen Hensen?

GAYLEN HENSEN: I'm not going to repeat -- I'll try to avoid repeating some of the comments that have already been made, but as an audit partner, I've always felt like the buck stops with me, and therefore, I'm not uncomfortable, personally, with signing my name in any report that I take the final responsibility for, and no one else.

On Lynn's comment about the expert witness -- that is true. I've testified many times, as I'm sure a number of you are and, you know, there's also attorneys here. The report is on the firm letterhead, but I sign my name personally, and I've seen situations where a finder of fact, a judge will not even allow a person to testify, because the report that they've submitted has been the firm name report, and not the individual expert witness. And I think there is an analogy there. there is an analogy there.

Damon, you had said that it's easier to deal with the partner, and I guess Damon's left here, for the moment, but -- on that I'm not sure that I really agree with that. I know that I've received calls from shareholders before, and the first thing that I tell them is, you know, "I really can't discuss the client's decisions or the financial statements with you directly," and then I call the CFO and ask them to call that shareholder. That just isn't possible, except for in a situation where we're talking about a shareholder meeting where you're present there with management and you can field the questions.

I would add to the list, Joe Carcello, State Board, NASBA is certainly in favor of this particular recommendation.

On your questions that you just flashed up there, Jennifer, concurring reviews and all of the other people -- I'm not in favor of that, and I'll tell you why. Concurring reviews in our firm -- we want to keep those people insulated and really, a higher level of independence than what the -- an engagement partner engagement partner operates at. It's okay to talk with your client, to meet them, but we really try to keep any kind of personal relationship that they've got going with the company at one level beyond what, even, the engagement partner's at, and so that there's never any question that their advising the engagement partner, taking their responsibility one step removed, and hopefully making the best decisions possible.

JENNIFER RAND: Thanks. Thanks, Gaylen.

David Becker?

DAVID BECKER: I have to say, I'm struck by the insignificance of the issue.

[Laughter.]

DAVID BECKER: You know, the underlying values of accountability, transparency, and investor confidence are certainly very important, but the proponents here don't seems to be saying that it's going to make a very big difference, and the opposition also seems to be kind of lukewarm.

What I'm -- and the question for me from the standpoint of advising -- if we're an advisory group -- advising the Board what it should be doing, it strikes strikes me, on balance, I'd say, "Sure, do this, but don't spend very much time on it, and put it on the bottom of your list." Because we started talking yesterday about, you know, how should the Board respond to the largest financial crisis since the Depression. And it strikes me, spending a lot of time on whether or not -- or in getting individuals to sign audit reports -- that's a, you know, I can make the argument that it has a relationship to that, but not much.

And I just hope that whatever the Board does in this, as I say, it spends most of its time on things that are much more important, and are going to have a more demonstrable effect on audit quality. And it is the fact of audit quality from which confidence arises, more than the sort of more subjective, "Oh, this makes me, you know, this makes me feel more [indiscernible]."

JENNIFER RAND: Thank you.

Bob Kueppers?

ROBERT KUEPPERS: Just a couple of follow-up thoughts. You know, the actual recommendation from Treasury is signature, but when I listen to the dialogue, I hear that a lot of the benefits come from the transparency of having the name of the individual. And in your questions, you didn't frame up -- another way to apply this is the last sentence of the auditor's report could say, you know, "Robert J. Kueppers is responsible for the completion of the engagement and compliance with professional standards." I mean, that would be a disclosure in the report, but it wouldn't be a signature. And probably 90 percent of the benefit is there because people would know who it is.

The most intriguing thing I heard today, though, because we've struggled as a profession and with many of the constituent groups here about the wisdom or folly of mandatory firm rotation, versus partner rotation, the notion of visibility being a way to monitor partner rotation as an alternative to proponents of, perhaps, firm rotation, that has some real -- it is really intriguing to me.

So, if the Board takes it up, you should maybe not have to do it so literally, you should maybe think about other ways, we have this jurisdictional issue, because I could argue that proxy disclosure would be just as effective, but that takes it out of the PCAOB, puts it over at the SEC, but the other sort of middle ground, is you could think about disclosure in the auditors' report as separating it from having these two signatures at the bottom.

So, I just -- if you do determine to take this up, I would encourage you to think about, you know other ways to achieve the objectives we heard today.

JENNIFER RAND: Thank you.

Kurt Schacht?

KURT SCHACHT: Thank you.

Whoever down here on my left mentioned that this is really about confidence, I think you're right on. I think this is really about the truth of the balance sheet, and that anything we do in this environment is very important in that regard. So, we support it, as an investor group, and I think -- I think Janice was right on.

I have a just a -- very quick practical question, for Bob and the other auditors here, and I think Gaylen sort of touched on it for me -- but what is the frequency of direct contacts that you have from shareholders now, and what is contemplated in the context of putting this information and the phone number there, because my sense is that this is really -- simply a statement about your involvement, as opposed to an invitation for questions.

ROBERT KUEPPERS: I'd be happy to take that up. I mean, one of the -- I think it was Gaylen that mentioned -- he's actually received calls from investors in the past -- it's a very awkward call to take, even though I've actually taken those calls from time to time.

Not only do you have client confidentiality -- because it's usually a question about the financial statements -- you're really not able, under the professional standards -- to chat with an individual investor, or institutional investor, any investor -- about what you might know or have learned in the course of their engagement.

You've also got, you know, things like Reg FD. If you're sharing information with one caller, and that information is not provided to all investors, I mean, you're going to find yourself in an impossible place. So the first thing you must do is call your client and say, you know, "Joe or Sally just called me, I don't really know them, but I'm not in a position to comment, could you handle that?" I mean, that's kind of what happens.

So, the real interaction, frankly -- if there is any -- is at the annual meeting when you are there as a representative of the firm to answer questions in the public arena, but then everybody's there -- the shareholders are there, management's there -- and you're able to respond as appropriate.

KURT SCHACHT: So, I guess the other question is what is -- is there a point to putting in the phone number?

ROBERT KUEPPERS: No, it's just that in Europe they do a lot of crazy things.

[Laughter.]

JENNIFER RAND: John Kellas? Seems like a good segue for you, you were next.

JOHN KELLAS: Well, fortunately, I have no mandate to speak for Europe.

[Laughter.]

JOHN KELLAS: And there are about 20 languages spoken, anyway.

There were a couple of comments about the international position, and I, first of all, would say that I was pleased that Cynthia raised the question of convergence, because I think that is extremely important, and I'm glad that it is considered 'round this table.

In this particular regard, though, I don't think there is a convergence issue involved, and you will have seen from what is in the briefing paper that we do not mandate a personal signature of the audit report. We do, however, of course -- and this is absolutely key -- require that the engagement partner takes responsibility for the audit, and that is just a sine qua non.

And it does seem to me that the particular way in which the audit report is signed is substantially a jurisdictional matter, and many of the cases where personal cases were used relate to jurisdictions where that is the way in which firm signatures were signed as a matter for legal practice, and so that -- there's a history there that may depend upon the particular jurisdiction.

But apart from that, I think I have no mandate to advise you to jump one way or the other, except that I would rather agree with Mr. Becker's comment about the importance of the issue.

JENNIFER RAND: Jean Bedard?

JEAN BEDARD: Yes, thanks.

I had wanted to make some comments on transparency. Let me first, though, respond to Bob. There is some research on partner rotation that has been enabled by having the partner's signature in Australia and Taiwan, with regard to audit quality differences at one end of the tenure spectrum or the other, and they come to opposite conclusions, so I don't know.

ROBERT KUEPPERS: You've got to love research.

JEAN BEDARD: Yes, there's always more to do. do.

But with regard -- I have a question now, with regard to this issue here on the slide of single versus multiple people. With the transparency purpose, you do want, of course, to reveal the true, underlying process otherwise it's not transparent, so which is more reflective of the true, underlying process is that -- I can see it both ways, so I'm asking, here -- is it multiple people signing is more descriptive, as Bob said, the firm's have many controls around this opinion, and many people are involved in some way?

Or, as we've heard here, too, the lead partner is the one that determines when the work is done, and the lead partner should sign -- so, which is the more reflective? Assuming that this were going to be done of the true, underlying process.

JENNIFER RAND: That's a good question and we're hoping to get some answers.

JANICE HESTER AMEY: You can have the engagement partner sign, since they have all of these other colleagues sign with him or her, then let's have them all sign.

Just that list, but I think the wrangler, the engagement partner, is the most important.

JENNIFER RAND: Okay, thank you.

We have several people still wanting to speak, and I'm getting mindful of time. We've got about 15 minutes.

Greg Jonas?

GREGORY JONAS: I used to have a client who said that -- accused me, he said, "I sure pay your firm a lot of money for a single piece of paper signed by a dead man."

[Laughter.]

GREGORY JONAS: I'm delighted that, if we go forward, I finally have a response to this concern.

[Laughter.]

GREGORY JONAS: My views on this topic changed in about 2003, because I think the certifications -- management certifications -- went in about 2002 as I recall, though my memory may serve me wrong, but is that about right.

I had thought for sure that the management certifications -- I guess that was under Harvey's regime, maybe? Was, you know, much adieu about nothing -- very much David Becker's take on this issue. And I was surprised at how seriously the executives and companies took those certifications, and what additional things they put in place to put some discipline around these certifications.

And I thought it was helpful, and it taught me a lesson about human psychology. And I think that there are 2 reasons to go forward with this idea. One is -- I'm repeating what's already been said, but my priorities would be, first, it is good optics, from an investor's standpoint. But I wouldn't dismiss the psychological aspect of this on the engagement partner.

You know, everybody's proud of the firm, or they wouldn't be with the firm, but they're also proud of themselves, and their names, and particularly professionals who have worked many years to develop an excellent reputation. And I think the truth is, in an audit, both are on the line -- not one, both. And I can remember some cases where there became a dispute with a big client, and the engagement partner did the right thing, and raised the dispute within the firm, you know, for a resolution.

And all of a sudden, high unit partners were resolving this dispute. And the engagement partner was basically prepared to take dictation from the firm. And I think that if this serves to -- and this is one psychological example, but not the only one -- if in those instances it serves for the engagement partner to come in and remind the high unit partners that there are two things on the line, here, and I need to be comfortable with this thing, too. And maybe that could help, in a small way.

I'm not claiming that this is a panacea, and that this is, you know, going to help us get through the sub-prime crisis, but I do think that this is something that is worth seriously considering, and it can have an impact both from optics, as well as psychology.

JENNIFER RAND: Thanks, Greg.

Just from a count of the cards, I've got 9 cards up, and 10 minutes left, which means about 1 minute a person, which doesn't seem practical.

We are very interested in your views on this subject, so I would hope that it would be okay with you if we extend the session about 10-15 minutes, to provide everyone an opportunity to speak, so you have about 2 minutes a person.

So, next on the list is Randy Fletchall.

RANDY FLETCHAELL: Jennifer, I'll honor your request, and I'll be very brief. I've heard a lot of reasons thrown out as to why the lead partner should sign, ranging from monitoring partner rotation to comply with independence rules and access to the party -- who is not going to disclose client confidential information -- a whole bunch of different reasons, but I guess, tell you something -- the lead partner has a fundamentally different role on each and every audit, the audit stands for anybody else, and so I would absolutely say that if PCAOB wants to go forward with this recommendation about someone signing the report, you would stop at the lead partner, and not go beyond that, I think. All you do is get people who have pieces of the audit, some involvement, completely different roles, and would stop at the lead partner.

JENNIFER RAND: Thank you.

Dick Dietrich?

J. RICHARD DIETRICH: I don't have a comment, it's more of a question, and I'll frame it as a hypothetical.

Let's suppose that we have an audit partner who conducts an audit for Client A, and subsequently Client A's financial statements are restated. Now, the question is going to turn on whether or not the audit partner's name is publicly known with that.

Subsequently, Company B decides that they want to engage that public accounting firm, and that partner, and that's the decision they're considering.

So the question I have is one of consequences, and this gets back to Randy's point, too, of who do we think that we want to hold accountable for that restatement, how would we do it? Would Audit Committees behave differently if the name were publicly known to have been associated with the restatement?

Because I think -- the point that was made earlier was exactly right. At least the academics, and I suspect the investor community, too, is going to start running Compustat every time they see a name associated with it. So, the more names you put up, the more association people are going to run.

And the question is, would an Audit Committee say, in the absence of public knowledge that this partner who, perhaps, they're convinced would actually do a fine job on their audit, would they then say, because there's public knowledge that that auditor was affiliated with a restated company's financials in a previous period, they would not engage the partnership, or they would not use that particular partner as a lead partner?

And so, there's a consequence there. And I don't know if it's an unintended consequence, or an intended consequence. But I think that's something that the Board might consider.

JENNIFER RAND: Good question, and perhaps some of the SAG members who have their cards up and if they have different backgrounds, might give that -- if you have any thoughts or observations regarding Dick Dietrich's question that he raised.

So, Joe Carcello? I'll turn it to you first.

JOSEPH CARCELLO: Yeah, I wanted to weigh in on your question up here since you said you wanted feedback on that. I agree with Gaylen and Randy on this issue. I think clearly to expand it beyond the lead partner would probably be a mistake. All of these other people have limited roles, very different roles, and if you want to talk about costs -- if you start having the concurring partner have to sign his or her name, then I do think you're going to have some real cost issues, there. So, I think you'd stop if you go forward with the lead partner.

And, if I could, I wanted to just ask a quick question that I think he could respond to very quickly of Bob.

Bob, you suggested that rather than having the signature, just put the name in the report, of the partner -- what would be the benefit of that?

ROBERT KUEPPERS: I guess that -- my point is

I was hearing different things. A lot of what I heard heard was, "Well, okay, it wouldn't really impact quality, some say it was just a mite of a psychological effect." But I think the same psychological effect would be there if you were named. It's the difference between signing and naming, it's disclosure versus the physical act of signing.

Because I still think the report, first and foremost, is the firm, and all of the resources of that firm are behind it, and at risk. The signing of the partner, you know, it seems less important than -- from what I'm hearing -- about, well, who is the partner?

JENNIFER RAND: Ted White?

TED WHITE: Thank you, just a couple of points.

I'm actually a little concerned about the discussion in regards to the importance of this topic. And I want to say that while I do recognize this is not a silver bullet here, that it is an important concept, and we shouldn't underestimate its potential to have a positive impact over time.

You know, rather, I think what it is, is a simple concept, and something that should not take the PCAOB or the Board a long time to come to a conclusion, and act on this. We're making it more complex than it needs to be.

I, for one, would not want to enter into horse trading on this, I think you should just move forward and have them sign the audit report. I think it's fine to leave it at the lead partner, you could always revisit that in a number of years if you wanted to have another fascinating discussion like this, but I think it's fine to leave it at that level right now.

And to Richard's point -- I suspect that this does not lead to a world where audit partners have to be batting 1.00 to get their next assignment. I think there is some fair recognition that, you know, this isn't a perfect science.

I would assume it's going to be quite situational, this be something that leads to questions from Audit Committees around the circumstances, which is a good -- another good audit quality indicator, these are going to be individual situations they need to investigate, and at least they know about it, and that's a positive benefit, here.

JENNIFER RAND: Vin Colman? Oh, you put your card down?

VINCENT COLMAN: Well, I'll go -- I was going to answer your question, but it sounds like everybody's got a similar reaction, so I put my card up because I think -- I understand all of these, I guess the arguments with respect to the lead partners, so not to repeat any of them, but to go beyond that, because these roles are so different.

I did want to -- the Damon question was addressed, but I wanted to go back to Cindy's point, and I don't see the, at all, how the signing partner, this discussion assists with respect to the international organizations of the firms. We've talked about that before, why the firms are set up that way in other sessions, but I don't see how that -- the individual partner signing here in the United States -- is going to help investors, at all, understand the legal structure of the firms, and the people that are working on them. I don't see that transparency.

JENNIFER RAND: Cindy, do you want to address that?

CYNTHIA RICHSON: Yeah, just real quickly -- my point was that, number one, those kinds of reports are not being produced in the U.S., so we don't know what the legal structure is, but my understanding -- just from anecdotal information -- is that when you say, "the firm" that there's a similar individual, partnership with a common branding.

And so, my point was simply to show that it's not, you know, one legal entity, KPMG International, versus KPMG USA, and so it would just be informative for investors.

VINCENT COLMAN: Yeah, I got that, but just so we're all clear, or help me -- we're talking about a U.S. standard where we would be signing, here in the United States as a U.S. firm. Just as simple as that.

CYNTHIA RICHSON: Right, but is that firm in Arizona, is that partner in Arizona, is that partner in California? I'm simply talking about informative as to who, actually, was the lead partner.

JENNIFER RAND: Christy Wood?

CHRISTY WOOD: I just wanted to say that

after listening to all of the arguments, you know, sort of against the signature, speaking on behalf of investors who, I think, are not just users, but in fact, they are the providers of capital, and I think those are the people that we all work for -- that it seems to me if they'd like more transparency and more accountability that -- and this comment is directed directly at the PCAOB members -- you ought to give it to them. You know, they are the providers of capital, they're not just one constituency, the are the constituency, it seems to me. And not equal to many others that are represented at the table.

So, that's it.

JENNIFER RAND: Jeff Mahoney?

JEFFREY MAHONEY: Thank you, just two points. The discussion has probably already made this clear, but just for the record that Janice isn't the only general member of the Council of Institutional Investors who supports this. We had seven other members from across the country who felt this issue was important enough that they took the time to write a a letter to the Treasury Committee or to testify in front of the Treasury Committee on this issue, and all of them strongly supported it.

In addition, I've had a number of off-the-record discussions with some current and former auditors, both in the U.S. and outside the U.S., and I was struck that one of them, at least, put this item at the top of his list of the things that he would do; if he could do something tomorrow to change the auditing profession that he thought would make an improvement, he put this on top of his list.

And the reasons that he gave me were quite similar to the reasons that Andrew Bailey gave to the Treasury as part of his submission. Andrew Bailey is currently with Grant Thornton, but was formerly the SEC Deputy Chief Accountant who, I believe, oversaw the PCAOB and auditing, had his time at the SEC.

Just to mention a couple of things he said in his statement to the Treasury. He said that, "Requiring this change may have the effect of focusing the attention on those named individuals on the potential future consequences of a badly-done audit. Knowing that any failure will be clearly and unambiguously associated with the named individuals, and that the veil of the firm will not be there to obscure the responsibility may be of value. Something similar occurred when senior managements were asked to sign off, personally, on internal control and disclosure systems effectiveness."

Thank you.

JENNIFER RAND: Larry Salva?

LARRY SALVA: I guess I was going to echo my thoughts that I'm struck by the insignificance of this issue, but in any way, I don't mean it quite that same way, in that I'm surprised at how much debate there is going on over the issue -- that it does seem to me to be a pretty simple thing to do.

But I'd also say that, I don't believe, personally, that it will -- it's not going to matter in quality. In my opinion. Because, you know, as a prior, a previous person that used to sign audit reports on behalf of my firm, they were in the name of the firm, I don't believe, if you're signing as a professional, you understand that when you're signing as the -- in the firm's name, or your own name, you're binding all of your partners, and resources of all of those partners, to this professional act you performed, for the audit. But you are the person that is taking that personal responsibility for making that final decision about issuing the report, the form of the report, et cetera.

But, you know, as apparently there is an expectation gap here, between what the auditors think, and maybe what issuers think and what investors think. So, agree with Greg's point, that it's good optics -- that if the investors actually do have this problem with the confidence of not believing that the partners that are binding the firm are taking personal responsibility, and taking that act seriously, then maybe it will help the optics by naming the partner.

But I also believe that all of that benefit will come from just the name -- not signing. And the reason that I would think that we don't want to necessarily bind it up into a cursive-written signature -- first of all, many handwritings are so bad that you wouldn't be able to recognize who the person was by person was by looking at their signature. But in this age of electronics, when I sign my 10Q or 10K, I believe my signature actually goes into our files, and doesn't get filed, and that an electronic name goes into the filing. So, it really doesn't matter whether you get a cursive signature or not. It's the identification that will give you all the benefit, I believe.

And as to the point about naming others, there's only one -- it's been my understanding -- there's one person that makes that final decision, as to whether that report should get signed. That person should be identified. All other people are part of the team that supports that decision, but one person has to make that final decision, that's the only person that should be made.

JENNIFER RAND: Thanks, Larry.

Lynn Turner?

LYNN TURNER: Let me just say that the origin of this recommendation actually did come from David Tweedie, who had a conversation with me and other members on the Committee. He'd been in the national national office of KPMG in London, and he felt very,

very strongly, if there's one thing we did, we ought to do this, because he said he'd had to deal with partners out in the field that just weren't sharpened enough on the issue, and he thought this is the one thing that really needed to be done to get those people sharpened. So, that's where the thing really came from.

I think Greg is absolutely right, that we had big change in behavior, even though there was no change in liability, when people had to start signing the 10Ks and put their names on it. And we're going to see the type of change in behavior, I think, with this one, without a doubt.

I think just how significant it is, is evidenced by the fact that the firms just absolutely do not want to go do this. And I think that's probably the best indication of just how significant this is going to be. The firms have fought this for the last 3 decades, tooth and nail. It's not the first time it's come up, and I think it tells you, it is not an insignificant thing. The CEO-CFO thing was not not insignificant, and neither will this.

And I totally agree with Randy -- it should stop at the partner, and only be one name.

JENNIFER RAND: Thank you, well we have two auditors that are left to speak, so Gaylen, and then Vin.

GAYLEN HENSEN: I do think that getting back to your question, Rich, there needs to be some consequences, and hopefully it wouldn't be a career-ending consequence, in terms of the Audit Committee chair asking those kind of questions, but it's a matter of transparency.

And then I wanted to -- I meant earlier to add to Lynn's comment where we're watching -- in Colorado we're watching Mr. Turner very closely --

[Laughter.]

GAYLEN HENSEN: -- and we can haul him before the Board.

[Laughter.]

JENNIFER RAND: Vin Colman?

VINCENT COLMAN: Yeah, I'll just be real quick. Damon said, you know, stall tactics -- this is not a stall tactic at all, but I do think you should answer Dick's question, and really think about the fact. Because I hear a lot of the perceptions, and people think there will be perception differences, and you can debate that for a long time. All right? So, everybody will have a different view, and who knows? Maybe it's somewhere in the middle.

But the one thing that you don't want to do, is to do anything to take -- possibly take -- a step backwards, and just make sure you fully analyze that. And I think the question that he put on the table is a fair one.

JENNIFER RAND: Just when I think I have all of the tent cards down, they keep popping up.

Bob Kueppers?

ROBERT KUEPPERS: I'm sorry, I just -- I really feel the need to respond. Is this my last meeting, by the way? Jen, is this my last meeting? Am I done? Okay, so I have no -- I have nothing to lose.

[Laughter.]

ROBERT KUEPPERS: I just -- I just -- Lynn, I've got to tell you, I don't think it's fair to accuse the firms of fighting this for 30 years -- it's a different point. I actually believe the signature of the firm is more important. I'm the one that just suggested that disclosure of the name is not the issue, it's the signing thing that I think just mucks up and confuses the point. If transparency is the objective, there are ways to do that. And I just, frankly, believe that when you try and manage -- best you can, 1,000 people, in my case -- there are a lot of partners, and as fragile as their situation is now, with all of the pressures that are on them, you know, I'm always worried about the next thing that's going to be the straw that broke the camel's back, and I'd like to keep people focused on their responsibilities, doing a quality job, and I don't think that this is -- changes liability at all, I really don't. And so I'm not worried about that.

And, you know, and in Europe, where people have been sorting for years is a very different liability situation, so -- I think the Board should take this up and do what they do with it. We'll play it out, and it'll come out where it comes. And I think all the input we can possibly give has been given to the Board at this point.

But I -- I just -- you know, it's viscerally it's not something that I think is just a great idea, but you know, it's -- whatever's going to happen is going to happen, and so we'll move on.

JENNIFER RAND: David Becker?

DAVID BECKER: Just very quickly -- there is a difference between signing and provided information, and even though you can't precisely trace all of the threads of liability -- signing is a form of representation, or acknowledgement of responsibility for -- the statement that's made. It's not merely providing information, it is an assertion And it's taken as an assertion, and absent something that, in effect, immunizes you from liability, will mean that the person signing is regarded as "the speaker," for the purpose of the representation.

At a minimum -- so, that's the first point.

The other point is, whether you think this is a good thing or a bad thing for people to decide, I don't think it's realistic to say that an Audit Committee -- having gotten a communication from someone, saying, you know, "We understand that the audit team that you're considering hiring has as its lead partner," or the folks who have been doing your audit, have the lead partner, someone who was involved in a restatement, or two restatements. To assume that that won't have consequences for the person named -- of course it will.

Because the Audit Committee is going to say to the firm, "You know, I -- you've got a fair number of partners," 25 in whatever the area was that was mentioned, the other -- we'd rather take the guy without the restatements associated with his name than the one with the restatement.

So, I -- you know, again, you may think it's a good thing or a bad thing, that's their -- but it's not nothing.

JENNIFER RAND: Well, thank you so much, this has been a great discussion this morning on this topic. I appreciate everyone's comments, and especially want to give thanks to the panelists, Janice, Jean and Bob, Janice, Jean and Bob, so thank you very --

(Recessed at 12:40 p.m.)

(Reconvened at 1:50 p.m.)