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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD  
STANDING ADVISORY GROUP MEETING

Thursday, November 10, 2011

9:06 a.m.

1201 15th Street, N.W

Washington, D.C.

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MR. BAUMANN: Our final session, as I mentioned, is a discussion about our comment letters and then further follow-up on the auditor's reporting model, and I'd like to ask Dan Goelzer to share with us some thoughts to kick this off.

MR. GOELZER: Thanks very much, Marty.

As Marty has just indicated, the last topic on the agenda for this meeting is the Board's review of the auditor's reporting model. I don't suppose that project requires much explanation for this group since it's been discussed here previously.

The objective is to determine whether the

1 Board should expand what the auditor's report to  
2 financial statement users conveys. That is,  
3 whether the end product of the audit should be  
4 something other than the traditional standardized  
5 pass/fail report.

6           We have saved this as the last item on  
7 the agenda, but I will say that at least in my  
8 view, this initiative is the most significant item  
9 on the Board's docket. I think that it raises  
10 fundamental questions about the purpose and value  
11 of the audit, and expanding the contours of what  
12 auditors communicate could have profound impact on  
13 investors, auditors, public company financial  
14 reporting, management, and directors.

15           Just a bit of background. Again, I know  
16 it's relatively familiar to this group. This is  
17 not a new project for the Board. It originates, I  
18 think, with the suggestion in the ACAP report. In  
19 any event, the Board has been looking for almost 2  
20 years now at how it can increase the relevance of  
21 the information that auditors provide to financial  
22 statement users.

1           That effort on our side has included  
2 public discussion with both this advisory group and  
3 with our Investor Advisory Group. In addition,  
4 during 2010 and early 2011, we had a series of  
5 focus group sessions with investors, preparers,  
6 auditors, others.

7           And then, in June, we issued the concept  
8 release that we're going to be talking about this  
9 morning, which contains some alternatives for  
10 expanding the auditor's reporting responsibilities.

11          We also held a public roundtable in September of  
12 this year at which those alternatives were debated.

13           We're now at the stage where the staff is  
14 analyzing the comment letters that we received on  
15 the concept release. And certainly, at least by  
16 PCAOB standards, the comment file is very  
17 voluminous. The last count we have was 151 letters  
18 submitted, and I believe, although the comment  
19 period ended some time ago, submissions are  
20 actually still coming in. So that number will  
21 increase.

22           We've heard from a very wide range of

1 participants in the financial reporting process or  
2 those influenced by the financial reporting  
3 process. And Jennifer Rand is going to summarize  
4 the comments in just a minute.

5           Before she does that, I thought I would  
6 just highlight some of the issues that I think the  
7 letters suggest the Board will have to grapple with  
8 as this project moves ahead. Of course, my views  
9 are solely my own.

10           First, if the comment file makes one  
11 thing clear, it's that investors deeply believe  
12 that they deserve more from auditors than they're  
13 currently receiving. There is very strong support  
14 for requiring the auditor to provide insight into  
15 things like financial statement risk, audit risk,  
16 significant judgments and estimates that management  
17 has made in preparing the financial statements, and  
18 the quality of the accounting choices that  
19 management has made.

20           Certainly, clearly, if we were to treat  
21 the comment process as solely an investor  
22 plebiscite, it's clear that a broad auditor's



1 discussion and analysis requirement would be the  
2 winning choice. However, I think it has to be  
3 added that we've also received some views and other  
4 comments that raise some warning flags. A couple  
5 of examples.

6           A theme expressed in many of the comments  
7 is that management, not the auditor, should remain  
8 the primary source of information and insight  
9 regarding company financial reporting. Certainly  
10 many managements and directors see a risk of  
11 investor confusion if there are competing  
12 analytical presentations from the company and its  
13 auditor.

14           Also, some commenters have told us that  
15 the audit committee's governance role in overseeing  
16 financial reporting could be undermined by a broad  
17 auditor reporting requirement. In particular,  
18 we've heard from some audit committee members who  
19 believe that the quality and candor of the  
20 information that they receive could be compromised  
21 if the kind of information about financial  
22 reporting risk and accounting judgments that the

1 auditor provides to them today routinely becomes  
2 public.

3           Further, questions have been raised about  
4 whether the training and standards that  
5 traditionally currently define the auditing  
6 professional equip auditors to create and  
7 communicate new information, as opposed to  
8 providing assurance on information created by  
9 others. Some auditors fear that the effect of that  
10 kind of responsibility could be to widen rather  
11 than narrow the expectations gap that has  
12 traditionally bedeviled the profession and perhaps  
13 ultimately to decrease public confidence in  
14 auditing.

15           I won't go on with those examples, but I  
16 think maybe it's important to emphasize that our  
17 mission is to protect the interests of investors  
18 and further the public interest in the preparation  
19 of informative audit reports. In light of that  
20 mission, we obviously need to give considerable  
21 weight, great weight to the investor views that  
22 we've received.

1           We also need to test potential changes in  
2 the reporting model against the goal of promoting  
3 full and fair disclosure. While I'm not speaking  
4 for the other members of the Board, I think I can  
5 confidently say that we're all committed to  
6 increasing the usefulness and the relevance of the  
7 information that the auditor reports.

8           But at least in my view, despite the  
9 volume and sophistication of the comments that  
10 we've received, the solution to the issues raised  
11 in the concept release is not self-evident, and  
12 creating a workable new reporting model will  
13 require the Board to make some very difficult  
14 judgments.

15           I'm looking forward to the discussion  
16 this morning and to hearing any additional thoughts  
17 that SAG members may have on how the Board should  
18 modernize the reporting model. And with that,  
19 Jennifer, let me turn the floor over to you so you  
20 can give a more detailed presentation about what  
21 we've heard in the comments.

22           MS. RAND: Well, thank you very much,

1 Dan. And thank you for your very thoughtful  
2 remarks.

3           What I plan to do this morning is provide  
4 you with a high-level overview of the comments we  
5 received, who provided comment letters and the  
6 types of themes we're seeing in those comment  
7 letters, as well as provide you with an overview of  
8 where we're headed in the next steps.

9           First, key milestones. Dan talked about  
10 the concept release that was issued on June 21.  
11 That concept release was informed by a lot of work  
12 that we did and outreach to many of you all,  
13 including investors, auditors, preparers, audit  
14 committee members, academics, attorneys, previous  
15 and current other regulators, et cetera. So we had  
16 very robust outreach, which helped inform our  
17 concept release.

18           The concept release was seeking input on  
19 changes to the auditor's reporting model, asking a  
20 basic question -- should the model be changed? And  
21 also asking, as far as options for supplemental or  
22 additional reporting, and the options we presented

1 in the concept release included auditor's  
2 discussion and analysis, emphasis -- required and  
3 expanded emphasis paragraphs. Should there be  
4 additional reporting on other information, such as  
5 MD&A, earnings releases, et cetera? And also  
6 whether the report should be clarified?

7           We held a roundtable toward the end of  
8 our open comment period. That roundtable was held  
9 on September 15th. We had 32 participants and 2  
10 observers, and those included the SEC and FASB.

11           The comment period ended September 30th,  
12 and Dan mentioned 151 letters, but we just received  
13 an additional letter yesterday. So now we're up to  
14 152, which gives me great excitement because I am  
15 -- I do think we've received a very robust comment  
16 letter file and quite appreciative of all the  
17 comments, very thoughtful comments that we've  
18 received.

19           I feel like in each letter that I've gone  
20 through, there is gems in there that we need to pay  
21 careful consideration to. So I appreciate  
22 particularly those of you that took the time to

1 write comments. They're very much appreciated.

2           The next slide gives you an overview of  
3 who we received the comment letters from. As I  
4 said, it was very robust, and we're considering  
5 each of these comments. As you can see up here,  
6 it's kind of listed somewhat and who provided the  
7 most comments to the least, and then we have a  
8 category for other.

9           Preparers provided the majority, sent us  
10 the majority of comment letters, followed by  
11 accounting firms, and then investors. As I said,  
12 we are giving considerable comment -- consideration  
13 to each of these letters. I'm going to provide a  
14 high-level overview of the different categories,  
15 the themes that we're hearing from the different  
16 categories.

17           Overall, we heard pretty consistently was  
18 a desire to retain the pass/fail model. So that's  
19 what auditor reports currently are today. Some of  
20 you call it pass/fail opinion. We've heard kind of  
21 resoundingly that that should be retained, but  
22 really also resounding need for change,

1 particularly in the area of supplemental reporting.

2           In that area of supplemental reporting,  
3 whether it be an AD&A type report or an emphasis  
4 type report or reporting on other information, we  
5 saw quite a range of support on the type of change  
6 or the amount of change, depending on the commenter  
7 -- the person or group that provided comments to us  
8 -- and I'll go through that over the next few  
9 slides in more detail.

10           Starting with investors. In reviewing  
11 the investor letters, we saw kind of different  
12 themes coming from investors, and we kind of saw  
13 two different category of investors.

14           The first we saw coming from investor  
15 associations, pension managers, and analysts. In  
16 that, we saw clear support for auditors reporting  
17 on their assessment of areas of high financial  
18 statement risk; significant judgments; quality, not  
19 just acceptability, of accounting principles; and  
20 disclosure of significant changes or events  
21 impacting the financial statements.

22           Commenters in this group said that it

1 could be -- the form of reporting could be an AD&A  
2 type report or emphasis type report, kind of that  
3 form didn't matter as much, but the type of  
4 information mattered. So they're looking for more  
5 expansive, the auditor's assessment, more than just  
6 identification.

7           Investors in this category supported  
8 other disclosures by auditors, including audit  
9 procedures, so the procedures performed on those  
10 significant financial statement areas or areas of  
11 high audit risk. Also in this category, as far as  
12 information about the audit included materiality.  
13 So information about the audit, unrecorded  
14 differences was another area of interest about the  
15 audit.

16           And really, regarding other information  
17 or reporting on other information, commenters  
18 indicated that they're really interested in telling  
19 us more to having the auditor say more about what  
20 they're doing today on the financial statement  
21 audit rather than necessarily a desire to have the  
22 auditor report on other information. So the view



1 was clearly, "Just tell us more about what auditors  
2 are doing today."

3           The next category investor we categorized  
4 as large investment companies and advisers. Here,  
5 clearly, some desire for information, but it's less  
6 in the area of auditor assessment and more toward  
7 identification or pointing to those areas of  
8 significant areas in the financial statements.

9           So looking more for -- we saw some  
10 comments about tell us what the five largest areas  
11 of risk are, and where are those disclosed in the  
12 financial statements? So it was more of pointing  
13 to than a discussion of merit of discussion from  
14 the other category.

15           This group of investors indicated a  
16 preference that management be the primary source of  
17 financial information. So that's why not looking  
18 for an assessment or description of themes, but  
19 rather a pointing to where that information is  
20 disclosed by management in the financial statement.

21           There was some interest in information  
22 regarding audit procedures, but not as much as we

1 saw from the other category of investors. And as  
2 far as other information, just again like the other  
3 group, preferring information about financial  
4 statements rather than assurance on other  
5 information.

6           Moving on to then preparers, clear view  
7 from preparers that management should be the  
8 primary source of information. Did not get support  
9 for AD&A or expanded and required emphasis type  
10 reporting.

11           As far as assurance on other information,  
12 concerns about that costs would exceed any benefits  
13 on that type of reporting, preparers don't object  
14 to clarification of the report, but didn't see a  
15 strong need that that would be necessary.

16           I saw some similar, but different views  
17 from Board members, including audit committee  
18 members, similar to preparers believe that  
19 management should be the primary source of  
20 information, not supportive of AD&A type reporting.  
21 But we had some mixed views regarding expanded and  
22 required emphasis reports. Some support some

1 other, some less supportive, but not overall  
2 opposed.

3           There was some support for assurance on  
4 other information, not real strong support, though.  
5 And there was some support for clarification of the  
6 report, if that was considered to be useful to  
7 investors and other users of the financial report.

8           As far as accounting firms, saw some  
9 overall themes with some differences based on the  
10 type of accounting firm that provided a comment  
11 letter. Overall consistency, though, that  
12 management should be the primary source of  
13 information. Overall support or opposition to AD&A  
14 type reporting.

15           And here, we start getting into  
16 differences based on the type of accounting firm.  
17 Large and regional firms were supportive of  
18 emphasis type reporting, emphasis required,  
19 expanded emphasis reports. Also supportive of  
20 attestation on critical accounting estimates of  
21 MD&A.

22           Smaller accounting firms really were not

1 supportive of either of those, didn't think it was  
2 that additional type of reporting, either through  
3 emphasis reports or reporting on other information,  
4 was necessary. So not supportive of that type of  
5 change. And then as far as clarification, that was  
6 supported by all types of firms.

7           Just have a slide up here to highlight  
8 comments we received from academics, other  
9 regulators and standard setters, and other  
10 individuals. We couldn't really see how we could  
11 group them because we got different types of  
12 comments within these categories.

13           So, academics, we saw some different  
14 views from certain academics that may have been  
15 longstanding academics versus other academics we  
16 saw that had been retired partners in an accounting  
17 firm and then an academic. So some different  
18 themes among there.

19           The other regulators and standard setters  
20 also had different views, depending on their own  
21 particular perspective. And other individuals and  
22 organizations include, in that bucket, we had

1 actuaries. We have law firms. We have retired  
2 CPAs. So just a real mix kind of within each  
3 category.

4           So we didn't think it would be  
5 appropriate to summarize those like investors,  
6 preparers, et cetera. But we certainly are giving  
7 consideration to all comment letters that we have  
8 received. And we'll continue to receive if any  
9 should come in.

10           I wanted to point to some other comments  
11 that came through, the other I talked about kind of  
12 views from investors, preparers, auditors, others  
13 on the types of reporting, like AD&A and emphasis  
14 reports, other information, clarification. But  
15 there were some other themes that came through that  
16 we thought were worth highlighting.

17           Some themes came through, particularly  
18 from preparers, auditors, audit committee members,  
19 about working with other regulators and standard  
20 setters, particularly FASB and the SEC. So, as far  
21 as comments were coming through, that if there's  
22 need for additional information on financial

1 information, that we should have a coordinated  
2 approach with the FASB and the SEC on what that  
3 might be to not duplicate disclosures that are  
4 already provided by management.

5           Also support for working with the IAASB  
6 and ASB and others as they're considering changes  
7 to the auditor's reporting model. There is also  
8 some support for additional reporting by or some  
9 reporting by audit committees. There was noted  
10 efforts in the UK, for example, on audit committee  
11 reporting and thought that might be an area of  
12 consideration, although recognizing that's not  
13 within the PCAOB's purview. And some comment  
14 support for considered field testing of any changes  
15 to the report.

16           There was also -- in addition to overall  
17 themes or considerations, there were some concerns  
18 that were noted. And again, these principally came  
19 from preparers, auditors, audit committee members,  
20 others rather than investors. But certain concerns  
21 about changes to the report, such as dueling  
22 information between the preparer and auditor, such

1 that if the auditor were to have expanded report  
2 either through emphasis type reporting or AD&A,  
3 that how would that be in line or could be out of  
4 line or dueling with what management has said in  
5 the financial statements?

6           There were some concerns about this  
7 additional communication and the report impacting  
8 the audit committee's governance role for the  
9 oversight of financial statements to how would that  
10 play in? Where would that be if there's additional  
11 disclosure by auditor?

12           Some concerns about just impacting the  
13 overall three-way communication between the  
14 auditor, management, and audit committee. Some  
15 expressed concern about just with an expanded  
16 report there could be more boilerplate information,  
17 and that would not be desired. So concerns about  
18 that coming into play.

19           A number of concerns about maintaining  
20 confidentiality of company information. Some  
21 concerns that if the auditor had expanded  
22 disclosures in the report whether any of that

1 company information that's otherwise confidential  
2 could be disclosed.

3           Concerns about increased costs, the  
4 increased costs were mostly described in terms of  
5 additional audit cost. But there was also concerns  
6 about costs being incurred, additional costs by  
7 preparers and also audit committees in having  
8 discussions or review or what's being said or what  
9 then might management say in the report in their  
10 financial statements.

11           Also concern about increase, potential  
12 increase in auditor liability, potential adverse  
13 effect on auditor independence. If auditors are  
14 saying here is the preferred view of accounting,  
15 then whether management feels they need to default  
16 to that. And then whether or not if that's the  
17 view that, in fact, it becomes more auditors'  
18 financial statements than management's financial  
19 statements. So concerns in that light regarding  
20 independence.

21           And then comments we're talking about all  
22 this additional disclosure, while it may improve



1 communication, it's not doing -- there's little  
2 incremental effort or benefit on audit quality.

3           Our next step, what we've provided to  
4 have some discussion with you today is an overall  
5 high-level analysis. As I said, there's many  
6 different gems that we see in the comment letters.  
7 It's impossible to include all of the additional  
8 thoughts in these slides. So we will continue our  
9 analysis and our discussion with our Board in  
10 connection with next steps forward.

11           We cannot -- we're still in the process  
12 of digesting that information and discussing with  
13 the Board. So aren't in a position today to say  
14 what that will be as far as that it would come  
15 through in a proposal.

16           As we move toward a proposal, we will  
17 also be considering related projects of other  
18 standard setters, such as the IAASB. We'll also be  
19 having discussions, continued discussions with the  
20 SEC, as we have throughout, and also have  
21 discussions with FASB and what they're doing in  
22 terms of disclosures.

1           Our plan is to issue a proposal in the  
2 second quarter of 2012. I think, as Dan mentioned,  
3 our overall objective is to improve communication  
4 to investors, but certainly, we'll be considering  
5 thoughtful comments from others in determining our  
6 way forward.

7           So, with that, I see Barbara Roper has  
8 raised her tent card. But I'll open the discussion  
9 not just to Barbara, but to all others for any  
10 questions or comments on the auditor's reporting  
11 model project and comments we've received to date.

12           So, Barbara, I'll start with you.

13           MS. ROPER: Well, first, when I put my  
14 tent card up, it was specifically in response to  
15 that last slide, which went through and listed a  
16 number of other concerns with not necessarily any  
17 concrete backing behind them that have been raised.  
18 It could hurt independence. Well, it could improve  
19 independence.

20           It could, you know, do this. But it  
21 could have exactly the opposite effect. And I  
22 would just say I would hope that there would be --

1 as an investor advocate, we face this all the time,  
2 that industry raises concerns and they are given a  
3 credibility that advocates' expressions of hope  
4 about positive effects aren't given the same  
5 attention.

6           So I would hope that we don't -- I mean,  
7 I would like to see us go through the letters and  
8 find the same type of list of possible benefits to  
9 the rules. So that was sort of my initial  
10 emotional response to that slide.

11           But beyond that, I think the presentation  
12 is quite useful in separating out what sort of  
13 groups made what kind of comments. And the thing  
14 that comes through loud and clear from that is that  
15 investors think the system is broken. And if the  
16 document is designed to communicate to investors,  
17 the fact that investors are fundamentally  
18 dissatisfied with the document ought to carry a  
19 fair amount of weight.

20           And then I would add to that just we  
21 spent a lot of time talking yesterday about how can  
22 we promote greater professional skepticism among

1 auditors? And it seems to me that one way you can  
2 do that is by forcing auditors to speak directly to  
3 their clients, the investors, about their views  
4 about the financial statements and that that has  
5 the potential to, one, make them focus on who it is  
6 that they actually work for, other than management,  
7 and it makes it more likely that they might be less  
8 willing to just go along to get along if they have  
9 to actually make an assertion of views.

10           So I think there's in an environment  
11 where investors have clearly indicated that they  
12 don't think a document that's designed to  
13 communicate to them communicates effectively to  
14 them, we should be looking at not just tinkering  
15 around the edges, but significant changes to the  
16 auditor's report.

17           MS. RAND: Thank you, Barbara.

18           I just wanted to comment on what you were  
19 -- one of your comments initially on the listing of  
20 considerations or concerns about changing the  
21 report. Certainly, we are giving consideration if  
22 there is a negative, could there be a positive, and

1 trying to weigh and balance all of that. And  
2 recognizing what have investors said for a need for  
3 change and how can we effect such a change?

4           So we are taking those points into  
5 consideration.

6           MS. ROPER: And I realize that. I just  
7 think it's fairly typical, as an investor advocate,  
8 in this process that you look at a long list of  
9 statements from industry about their concerns for  
10 which they aren't really required to offer any  
11 backing except their expression of opinion that it  
12 could have this effect. It could chill  
13 communication here. It could do whatever.

14           And yet an investor advocate who makes a  
15 comparable set of assertions about what they think  
16 the benefits would be is asked to come up with a  
17 100-page document of cost-benefit analysis to --  
18 not by you, but as a general matter, as an  
19 investor, to justify that the regulation might  
20 somehow not end capital formation process as we  
21 know it.

22           So it's just a frustrating feature, but I

1 recognize that you are balanced in your  
2 consideration. So --

3 MS. RAND: Thank you.

4 Arnold Schilder?

5 MR. SCHILDER: Thank you, Jennifer.

6 I would like to give a brief update of  
7 our similar project at the IAASB. First of all,  
8 many compliments for your presentation. I thought  
9 it was very interesting to see this overview of all  
10 your comment letters. And actually, we issued a  
11 consultation paper in May that had a lot of  
12 similarity, I think, between the concept release  
13 and our paper.

14 We also received many more comments than  
15 we usually do. We are currently at 82 comment  
16 letters, and usually there will be 40 to 50.

17 Many of the messages that you have shared  
18 with us came also across in our comment letters. I  
19 would say that particularly users seem to place  
20 most value on supplementing the information in the  
21 auditor's report with a discussion about auditor's  
22 insights on matters that include risks and views on

1 the quality of management's financial statements,  
2 et cetera.

3 I'll never forget a quote that I once got  
4 from an investor representative. "We want more  
5 about the soft stuff." And that's basically about  
6 the judgments and the uncertainties and the ranges  
7 and the estimates, and that's what I see coming  
8 back both in your comment letters and ours.

9 Some striking points in letters that we  
10 have seen. One, of course, is, and you have  
11 mentioned it also, that a number of respondents  
12 urged us and the PCAOB to work together to develop  
13 a common global solution to audit reporting. And  
14 maybe it's a bit symbolic that my fellow Board  
15 member Arch is seated amidst CalPERS and the CFA  
16 Institute, two examples who are very vocal on this,  
17 and of course, we agree to that.

18 And another one was BlackRock, also  
19 familiar. Just quoting, "It's critical that the  
20 IAASB work with the Public Company Accounting  
21 Oversight Board to minimize the confusion and  
22 expectation gap that may be created if different

1 auditor reporting models are adopted."

2           So that's the important message. I  
3 received similar messages from our CAG and  
4 regulators and others.

5           Also, and maybe a bit more than I learned  
6 from your presentation, there's a great deal of  
7 importance placed on other information that  
8 accompany financial statements. There was strong  
9 support for clarifying and enhancing the auditor's  
10 role and responsibilities with regards to that  
11 other information.

12           We have a project on that, revising our  
13 Standard 720. Hopefully, agreeing to an exposure  
14 draft in March, but that was an important item as  
15 well.

16           And thirdly, there was one difference, I  
17 think, between concept release and our consultation  
18 paper in that we asked more explicitly comments  
19 also about announced corporate governance reporting  
20 model, role of audit committees, et cetera,  
21 illustrating that, among others, we have the FRC  
22 proposals in the UK.



1                   And we noted that respondents generally  
2 expressed support for exploring ways to help  
3 enhance management and corporate governance  
4 reporting and including that, of course, the role  
5 of audit committee reporting. I think the comment  
6 from CalPERS about cooperation between the two of  
7 us was also in that area.

8                   And also many respondents urged that  
9 increased audit communication requirements would  
10 likely require additional auditor guidance to  
11 ensure consistent and appropriate application, but  
12 also let's say education of users and readers of  
13 that information, if it will be different from now.

14                   And of course, one example would be where  
15 now the case will be that if an auditor expresses  
16 an emphasis of matter, usually there's a bit of a  
17 reaction. "Oh, gosh, there's a problem." And if  
18 you would like to change that into a direction that  
19 it would be more normal, that auditors would  
20 express more EOMs, other matters, AD&A, whatever  
21 you call it, then it should also be received in an  
22 appropriate way.

1           I will not -- I have a list here, but as  
2 I said, there are other similarities in many of the  
3 specific comments. And of course, also difference  
4 of views, as was clear from your presentation. We  
5 see it as well how far can you go?

6           Some specific challenges that were also  
7 identified in addition to yours. How one is  
8 maintaining global consistency in auditor's  
9 reporting while at the same time providing  
10 additional customized information? And then, of  
11 course, avoiding that it will be boilerplate in the  
12 end.

13           Also the issuing of dueling information,  
14 the risk of blurring responsibilities. On the one  
15 hand, those charged with governance providing the  
16 information. On the other hand, auditors attesting  
17 to that or doing more. That's a key issue for  
18 further consideration.

19           Understanding impact of changes not only  
20 in terms of cost, but how would it be understood  
21 and how would it be appreciated and how would it be  
22 done? And then also how to allow for developments

1 in different jurisdictions. So should it be all  
2 the same, or could it be different depending on  
3 developments in, for example, UK, France, here,  
4 Australia, et cetera?

5           So, all in all, we will discuss in our  
6 board meeting in December -- 5 through 9 December  
7 in Los Angeles. For those that are near to LA, if  
8 you want to attend, I mentioned it already to Mary,  
9 our meetings are fully open. The agenda papers  
10 will soon be published, and we will discuss this.

11           And there will be a project proposal from  
12 our task force, and I figure just a draft version.  
13 But the project objectives are here described, and  
14 that may change, but the direction is clear.

15           First, to determine whether and how the  
16 IAASB reporting ISAs and their design can be  
17 modified to accommodate evolving national financial  
18 reporting regimes while at the same time ensuring  
19 that common and essential content is being  
20 communicated. And second, appropriately enhance  
21 the communicative value and relevance of the  
22 auditor's report through proposed revisions to the

1 ISA requirements that address its structure and  
2 content.

3           So, basically, there is a need for  
4 change, and that would be in particular regarding  
5 ISA 700. And I think this is a great momentum to  
6 move into that direction, and I would be fully  
7 supportive to those that have urged us to cooperate  
8 in particular on this line between the PCAOB and  
9 us, but also if standard setters and regulators and  
10 I'm sure that we will come somewhere, although I  
11 realize that it will not be an easy process.

12           That's my summary of where we are. Thank  
13 you.

14           MS. RAND: Thank you, Arnold.

15           Joe Carcello?

16           MR. CARCELLO: Jennifer, I'd like to ask  
17 a question first, and then I'd like to make a  
18 couple of comments. Can you go to your second or  
19 third slide? Can you go back to your second or  
20 third slide?

21           MS. RAND: I'm not in charge of the  
22 clicker after my yesterday challenge.

1 [Laughter.]

2 MS. RAND: Which slide in particular?

3 Was it on the investor overview?

4 MR. CARCELLO: Well, you had the buckets

5 of who responded. The number --

6 MS. RAND: Okay. The overall number?

7 MR. CARCELLO: Yes. Okay. That one

8 right there.

9 MS. RAND: There you go.

10 MR. CARCELLO: Here's my question before

11 I make comments. When you classified the third

12 bucket there, investors, including investor

13 associations, pension managers, analysts, and large

14 investment companies, and advisers. So when you

15 got a comment -- and let's say for hypothetically,

16 we'll use Vanguard -- did you put them in that

17 bucket, or did you put them in the preparer bucket?

18 MS. RAND: What we looked at, there were

19 some we had to read the overall comment letter, and

20 sometimes just overall classification was not easy.

21 Sometimes very straightforward, but sometimes not

22 easy.

1                   There were certain things that I picked  
2 up a letter that seemed like it may have been an  
3 investor, but recognizing the organization was  
4 signing it from it was more the preparer house, the  
5 CFO or their accounting function. So, in that  
6 case, we would have put them in the preparer if  
7 they were essentially issuing it as a preparer.

8                   MR. CARCELLO: Okay.

9                   MS. RAND: But other letters like that,  
10 other letters came through, they would say we took  
11 a poll of our investors and the people doing the  
12 investing in the company. So, therefore, we put  
13 that in the investor category.

14                  MR. CARCELLO: Okay. Just, and I'm  
15 saying some of this for the public record. I  
16 realize that the staff knows this. In the case of  
17 Vanguard, it's user and preparer. In the case of  
18 Capital Research and Management, it's user and  
19 preparer. In the case of BlackRock, it's user and  
20 preparer.

21                  In the case of Fidelity, it's explicitly  
22 for the preparer. And in the case of State Street,

1 it's explicitly preparer. So it sounds like you've  
2 made that adjustment. But I think it's important  
3 to understand that in terms of some of these asset  
4 managers, it's at best -- it's two perspectives.  
5 It's not purely an investor perspective.

6 I think it's also important to understand  
7 that the resources that the corporate community and  
8 the accounting firms can throw at this issue vis-a-  
9 vis the investor community, particularly pension  
10 plans and analysts and so forth, are so uneven.  
11 Talk about a lack of a level playing field. It  
12 makes the U.S. versus Russia in 1980 hockey look  
13 like a pick 'em hockey game, okay? That's about  
14 the scale that we're talking here.

15 I think it's also important to look at  
16 the assets under management in terms of the  
17 comments that you received not just from the asset  
18 managers, but from the pension funds. It's very,  
19 very significant assets under management.

20 Can you go to the slide that Barbara  
21 asked about? Can you click forward to the slide  
22 that Barbara asked about?

1 MS. RAND: That would be cost, I'm  
2 assuming, right? I mean concerns.

3 MR. CARCELLO: Yes, concerns.

4 MS. RAND: Which included cost as one of  
5 them, among others.

6 MR. CARCELLO: Yes, at the risk of  
7 repeating some of what Barbara said, as I was  
8 sitting here, I thought exactly the same thing.  
9 She just beat me to the punch.

10 I don't think this was intentional, but  
11 it's clearly asymmetric. It's presenting the  
12 downside, but not the upside. And there is a lot  
13 of potential upside.

14 So I think in fairness, in future  
15 presentations, if you're going to present potential  
16 downsides, you also need to present potential  
17 upsides. And I'm not saying you're not considering  
18 those. But when you present it, it would be more  
19 balanced.

20 When you look at these comments, though,  
21 expanding the auditor's role and the possibility of  
22 dueling information, if you look at the investor



1 comments to the extent that they commented on this  
2 almost without exception, they said this is  
3 something they can manage. This is not something  
4 they're troubled by.

5           Adversely impacting the audit committee's  
6 governance role and the three-way communication,  
7 again there was investor arguments that, in fact,  
8 it may enhance the alignment between the audit  
9 committee and investors. The fact that the audit  
10 committee's perspective almost exactly mirrors  
11 corporate management's perspective bothers me. As  
12 an investor, that bothers me.

13           I view the audit committee as they ought  
14 to represent me. Corporate management doesn't need  
15 additional representation.

16           Risk of additional boilerplate language.  
17 That's why you have an inspection division, and  
18 that's why you have an enforcement division.

19           Increased costs. Let's not lose sight of  
20 the fact that although the company writes the  
21 check, they're writing the check with our money.  
22 At the end of the day, even Fidelity and Vanguard,

1 that's just 401(k) and 403(b) money. And so, if  
2 investors want this information, they are paying  
3 for it.

4           Potential increase in legal liability of  
5 accounting firms. There may be validity there. I  
6 think that's something that you need to work with  
7 with the SEC. There are potential ways of dealing  
8 with that that I think would protect the accounting  
9 firms from additional legal liability.

10           Every investor I've spoken with, I have  
11 not heard one investor say to me we want this as  
12 another way of grabbing for the pockets, the  
13 wallets of the accounting firms.

14           Little incremental improvement in audit  
15 quality. Again, if you look at the CalPERS letter,  
16 Jennifer, the Vanguard letter, the Capital Research  
17 and Management letter, they all argued, in fact,  
18 that this additional communication will give the  
19 auditor additional leverage with management and, in  
20 fact, will increase audit quality rather than  
21 decreasing audit quality.

22           So that's what I mean about kind of

1 showing both sides, and it's the same point that  
2 Barbara made.

3 MS. RAND: It's clearly our goal here --  
4 the comment period ended not that long ago, a  
5 little over a month ago, September 30th, with  
6 comment letters coming in like yesterday, literally  
7 yesterday. I take the point that it's impossible  
8 to say everything, as I said early on, to put  
9 everything in a slide.

10 There were a number of -- this slide is  
11 capturing the frequency, the ones that came through  
12 a lot. Not to say that the points you mentioned,  
13 and even Arnold raised a point that we didn't  
14 highlight in there, but that came through as well  
15 as far as consistency or a type of framework. How  
16 do you, when you say "significant risk," how are we  
17 capturing, getting auditors to think of those risks  
18 on a consistent basis that we would expect to see  
19 in an audit report?

20 So a lot of those themes came through.  
21 So it can't be perfect, and so I recognize that.  
22 And we take all of those points into consideration.

1 But our desire today was to share with you kind of  
2 some of the things we saw coming through  
3 frequently, the type of comments that came through,  
4 but recognize that there's other points.

5           Even like clarification, there was  
6 concerns about even doing something that I may  
7 think would be the easier thing to do, just clarify  
8 language in the report. Some comment letters would  
9 talk about fraud is really most important, and that  
10 was really the one that came through in ACAP, and  
11 all the other types of clarifying language could  
12 have the effect or certain comment letters didn't  
13 want the effect to be minimizing the auditor's role  
14 in any way.

15           So there's no change that would be easy  
16 and a lot of careful consideration, and we did get  
17 a lot of good thoughts and comment letters, as you  
18 point out and Arnold mentioned. But anyway, I just  
19 wanted to highlight we're aware of all those  
20 things. So we haven't lost sight of them at all.

21           Let's see, who's next? Denny Beresford?

22           MR. BERESFORD: As long as that slide is

1 up, I'd like to make sure that you add one more  
2 item to it, and that is --

3 MS. RAND: Once again, it's not intention  
4 to be everything. But --

5 MR. BERESFORD: I understand.

6 MS. RAND: I'm going to switch off this  
7 slide after this.

8 MR. BERESFORD: No, no. Don't -- leave  
9 it. Because I'd just like to make sure that the  
10 Board members do consider one more thing, and it  
11 ties into Sam's point earlier on that I wanted to  
12 make sure that the Board members consider the  
13 effect of slowing down the closing process.

14 MS. RAND: I was thinking with increased  
15 cost, our thought was it's in addition to money,  
16 it's time. That came through kind of cost of the  
17 time.

18 MR. BERESFORD: Well, and the focus  
19 really of the engagement partner and the senior  
20 officials, senior people on the team that depending  
21 on the content, depending on what other decisions,  
22 obviously, are made -- if it's an auditor's

1 discussion, analysis, if it's several emphasis  
2 paragraphs -- depending on the complexity of the  
3 report, depending on the procedures that an  
4 accounting firm would need to put in place, for  
5 example, almost certain approval through the  
6 national office of the firm. Every report would be  
7 lengthy and custom made.

8           Outside counsel of both the accounting  
9 firm most likely. Outside counsel or at least  
10 inside counsel, if not outside counsel, of the  
11 individual company. And this is going to be a very  
12 intensive process that's going to add time near the  
13 end of the examination, when we don't have a lot of  
14 time when we're dealing with 60 days past year end.

15           And there's not a whole lot of slack in  
16 those schedules right now. So we're talking now  
17 about having to back up several days from the  
18 extremely tight deadlines that we have right now in  
19 order to accommodate that, which is just going to  
20 eat into our you might say substantive procedure  
21 performance time. And I think that has some danger  
22 of taking our eye off the ball on the really

1 important things that the audit partners need to be  
2 spending time on.

3 MS. RAND: Okay. Thank you.

4 Wayne Kolins?

5 MR. KOLINS: Thanks, Jennifer.

6 I have a comment that's less -- that's  
7 more granular and less contentious than most of the  
8 other ones. Just in the discussion yesterday about  
9 going concern, now this one and one of the elements  
10 here is the emphasis of a matter paragraph that's  
11 being considered. It may be that we just put a  
12 placeholder in when we look at the going concern  
13 because of the substance of the discussion  
14 yesterday was is the on/off switch the right thing,  
15 or is it a sliding-scale approach in terms of what  
16 the disclosure needs to be?

17 And if there is to be a mandated expanded  
18 emphasis of a matter paragraph going to more of a  
19 sliding-scale, qualitative discussion of the  
20 factors that could lead to going concern  
21 uncertainty may fit better into that kind of a  
22 section of the auditor's report rather than just

1 the one blinking light on/off switch of a going  
2 concern by itself.

3 MS. RAND: Thank you, Wayne.

4 I seem to have a cluster of open comment  
5 cards to go. There could be others. I see some  
6 others coming up, but I have Arnie Hanish next on  
7 my list.

8 MR. HANISH: Thanks, Jennifer.

9 First of all, let me echo what Denny  
10 said. I think those are really important points  
11 that really should be heeded as far as the  
12 timeline.

13 MS. RAND: Can you move closer to the  
14 mike? I'm just not hearing you as clearly as I had  
15 earlier.

16 MR. HANISH: Okay.

17 MS. RAND: Thank you.

18 MR. HANISH: Is this better? Okay. I've  
19 never been told that I was so quiet.

20 So I want to echo Denny's comments. I  
21 think, having lived through these timelines, the  
22 accelerated timelines, to get documents filed with



1 the SEC, the challenges that we have today with  
2 XBRL and all of those issues that are out there, I  
3 think this obviously would put significant  
4 additional pressures upon us, as well as the audit  
5 staffs of our auditors.

6           So let me sort of raise a couple of  
7 points. It seems to me, and we're definitely -- I  
8 mean, I and our company are definitely not in favor  
9 of the AD&A. I think that it would be, in my view,  
10 a terrible mistake to include this in any  
11 documents.

12           I think it is, as I think you  
13 articulated, it's management's responsibility to  
14 communicate. I think that it would be in direct  
15 conflict if we choose to keep the pass/fail for the  
16 audit because why have a pass/fail if you're then  
17 going to ask somebody to come in later and try to  
18 articulate the -- what are perceived to be  
19 judgments with regard to accounting within the  
20 overall framework of our financial statements?

21           We all know that GAAP is not black and  
22 white. There are lots of judgments and ranges of

1 estimates and outcomes in coming up with accruals.  
2 The SEC attempted to deal with that, with the  
3 initiation of disclosure of critical accounting  
4 policies and requiring us to provide quantitative  
5 explanations as to what would a change in various  
6 assumptions result in.

7           So I think if you look at our -- if you  
8 look at most companies' critical accounting  
9 policies, if they're articulated in an appropriate  
10 way in accordance with the SEC rules, then you  
11 would see that there are already in those documents  
12 and in those paragraphs quantifications of the  
13 change in estimate. Whether it's a 10 percent  
14 change in various significant accruals or a 10  
15 percent change in pension assumptions or whatever  
16 the case may be, if the disclosures are  
17 appropriate, there should be quite a bit of  
18 information in there to provide the investors with  
19 some assumptions and analysis as to what would a  
20 change in those estimates result in with regard to  
21 our financial statements.

22           But again, we've concluded that -- at

1 least maybe we've concluded, I hope we've concluded  
2 that we're going to retain the overarching  
3 pass/fail. And therefore, the financial statements  
4 are prepared in accordance with GAAP.

5 I certainly would be in favor, as are a  
6 number of preparers that I've spoken with, they are  
7 in favor of an expansion of the report. I don't  
8 necessarily think you've captured that. I haven't  
9 read all the letters, obviously, that have come in.  
10 But I certainly have had discussions with a number  
11 of preparers, and they are in favor of an expansion  
12 of the current report.

13 They are in favor of including additional  
14 paragraphs of emphasis where the audit is. We  
15 don't think it's absolutely necessary because we  
16 think if you look at the critical accounting  
17 policies and some other things that you can glean  
18 from that where the auditors have spent most of  
19 their time.

20 But if investors believe that that's  
21 important, then we're certainly happy to have that  
22 included in the expansion of the auditor's report

1 to make it clearer that areas of emphasis would  
2 generally include those areas that are identified  
3 as critical accounting policies. They would  
4 include probably major acquisitions, divestitures,  
5 areas of impairment of goodwill, areas of emphasis  
6 around the current economic conditions, as we  
7 talked earlier this morning.

8 I would be shocked if any auditing firm  
9 didn't focus their efforts on those areas of  
10 emphasis. And so, there is certainly nothing to  
11 hide from my perspective as to where our auditors  
12 have spent their time auditing.

13 But going beyond that I think is a  
14 terrible mistake. Again, I don't believe the  
15 system is broken, as Barbara might suggest. But  
16 she's entitled to her opinion. I'm entitled to  
17 mine.

18 I think that if we enhance the  
19 disclosures and the paragraphs, but stopping short  
20 of trying to have some sort of an opinion as to  
21 whether our financial statements are either  
22 conservative or liberal based upon the assumptions

1 that are inherent in numerous estimates I think is  
2 where it ought to stop. And if you're going to do  
3 that, then you need to change the pass/fail and do  
4 something other than a pass/fail because I think  
5 trying to provide any expansion through an AD&A  
6 undermines the pass/fail that we're suggesting that  
7 I think should be retained.

8 Thank you.

9 MS. RAND: Thanks, Arnie.

10 I just wanted to, at the outset of your  
11 remarks, you made a comment that I articulated.  
12 You said, as I articulated, it's management's  
13 responsibility to communicate information about the  
14 financial statements. I haven't stated a view.  
15 All I've been trying to say is what others have  
16 said.

17 So we're seeing that view reflected in  
18 comment letters, but that's not my view,  
19 necessarily.

20 MR. HANISH: I didn't intend it to be  
21 your view, I intended -- I believe that it's  
22 management's responsibility. And if I said the

1 otherwise -- it is our clear responsibility to  
2 maintain and communicate. They're our financial  
3 statements, and auditors can provide some insights,  
4 but not to the level that was suggested in this  
5 concept statement.

6 MS. RAND: Okay. Thank you.

7 Damon Silvers, you're next on my list.

8 MR. SILVERS: I mean, I found Wayne and  
9 Arnie's statements very interesting. Particularly  
10 Wayne said something that I was going to say, and  
11 I'll say it again, which is that I think there is a  
12 deep connection between this conversation and the  
13 conversation about going concern and the role of  
14 emphasis of matter in relation to going concern.

15 The more -- and I think there's also a  
16 deep connection between this conversation and the  
17 larger drift over the life of this Board of the  
18 financial reporting system toward more of a fair  
19 value approach. Then this is what I mean by this.

20 By the way, I don't think it's a  
21 particularly controversial notion that the preparer  
22 prepares the financial statements. The auditor

1 audits them. I don't think anyone would disagree.  
2 So I don't feel like staff is stepping into any  
3 kind of dangerous terrain in asserting that.

4           But the nature of the audit as a binary  
5 exercise was an easier piece of terrain to defend  
6 when the financial statement that was being audited  
7 was substantially -- where the balance of the  
8 financial statement tilted more toward historical  
9 cost accounting. You were having an inquiry at  
10 that point that -- again, these are matters of  
11 degree. It's not absolute.

12           But the inquiry at that point was more an  
13 inquiry into whether things were being -- into  
14 whether the financial state of the firm was being,  
15 I suppose, accurately reflected in the financial  
16 statements in a kind of binary way. Were they or  
17 were they not lying? These were kind of like  
18 WorldCom questions, right? Did somebody erase one  
19 number and put another number in?

20           As you move toward a fair value system  
21 and particularly where you're fair valuing items  
22 for which there is not a liquid market, you're very

1 quickly getting into a whole set of difficult to  
2 assess judgments, and it's harder and harder to  
3 answer the question about the accuracy of the  
4 financial statements in a binary fashion. And  
5 investors, when presented with financial statements  
6 of this kind, are increasingly asking of auditors  
7 something more than a binary opinion.

8           Similarly, on the -- in relation to the  
9 going concern matter, you have this same issue. If  
10 auditors and firms are unhappy with the prospect of  
11 potentially broadening scope of going concern  
12 anxieties, there's a natural push toward wanting to  
13 have something else to say rather than to have to  
14 express what is in reality, in the real business  
15 world, a very destructive statement that a firm is  
16 not -- that there's a going concern issue.

17           I think that's what makes -- those are  
18 the considerations, I think, that are at a more  
19 profound level driving the Board's inquiry into  
20 this area, and I think there are reasons for the  
21 Board to push in this direction that are only  
22 tangentially related to the question of whether or



1 not the system is broken.

2 I think we get the system we ask for.

3 And we've asked for a system that has the -- we,  
4 meaning all of us, have asked for a system that has  
5 the features that I was just reviewing. So then  
6 the question is what could the Board seek in terms  
7 of an audit letter that would be appropriate in  
8 relationship to what the role of the auditor is and  
9 would actually convey additional real information?

10 I've been around long enough sadly now to  
11 have seen a number of disclosure initiatives turn  
12 into mush. And it's not worth anybody's time doing  
13 more of that.

14 In the comment letter that we filed with  
15 the Board on this matter, we said basically  
16 anything that's going to be real in this area is  
17 going to have some aspect of the forced curve in  
18 it. And it seems to me that where these comments,  
19 where you might find some consensus in the varied  
20 comments you've heard today is in the notion that  
21 there ought to be more -- that it's sort of what  
22 the mutual fund said that they wanted, that there

1 is a desire here for auditors to be much clearer  
2 and much more precise about where -- in their audit  
3 letter -- about where the areas of concern are,  
4 where the focus was.

5 I think if that's left free form, I think  
6 it's going to be mush. But I think there is some  
7 reason to hope that properly structured, such a  
8 requirement could actually provide information that  
9 was useful to investors and the public, and that  
10 was responsive to the actual nature of the way the  
11 financial statements and the role of the auditor  
12 have evolved.

13 So that's what I hear in the  
14 conversation, and I can tell you that I think your  
15 summary of investor interest in these areas  
16 certainly reflects what I know of investor opinion,  
17 that we don't really live in a binary world and  
18 that auditors know a lot of really important stuff  
19 about the quality of financial statements that  
20 would seem appropriate that investors have some  
21 access to.

22 MR. BAUMANN: Thanks, Damon.

1           I think all of these comments are very  
2 helpful, and we'll get to the other commenters. I  
3 did just want to share that, to some extent, what  
4 we are hearing, and I did hear it -- at least I  
5 thought I heard it -- recently at a meeting over at  
6 the SEC in the financial reporting series is that  
7 current accounting rules aren't adequately dealing  
8 with the measurement uncertainty that you talked  
9 about that's pervasive in financial statements.

10           And especially as there are greater  
11 movements to fair value accounting, but measurement  
12 uncertainty can also exist with complex allowance  
13 for loan losses and other things that are not of  
14 fair value. But accounting rules are not  
15 adequately dealing with that measurement  
16 uncertainty and could require disclosure of not  
17 just the point on the financial statements, but the  
18 ranges in the footnotes and inputs and assumptions  
19 that went into that measurement and give greater  
20 insight to investors about that uncertainty to help  
21 them sort out how they might model a different  
22 value of the company, et cetera.

1           So, to a large degree, we're hearing  
2 that. I heard it quite a bit at that meeting I was  
3 at recently. I think then I'm also hearing that  
4 since that's not being resolved, then PCAOB, we  
5 need to have the auditors communicate that because  
6 we're not getting it in any other fashion. And the  
7 auditors do have insight into those measurements  
8 and uncertainties and difficult issues. And so,  
9 resolve this through the auditor's report.

10           But yet others are saying work together  
11 with the accounting standard setters and try to  
12 solve this together because it is both a disclosure  
13 issue and a reporting issue.

14           So a lot of things on our plate here.  
15 We're committed to trying to get a proposal out to  
16 improve this reporting in 2012, but I think we're  
17 also committed to trying to work with these  
18 accounting standard setters to improve the total  
19 framework. And I think that's an important message  
20 that we've heard.

21           Thanks.

22           MS. RAND: Okay. Barbara Roper?

1                   MS. ROPER:  So I'll be quick because  
2  between you, Marty, and Damon, you've actually made  
3  the primary point that I wanted to make.  So I  
4  won't belabor that point.

5                   But beyond that, reacting to two things.  
6  One, I had exactly the same reaction Joe did on the  
7  responses from the audit committee.  And there is  
8  sort of this sense that those who are already sort  
9  of in the tent think everything's fine and we  
10 really don't need to change anything.  And those  
11 who are outside of the tent are saying it's not  
12 giving us what we need.

13                   And I think investors might have more  
14 confidence about the role of the audit committees  
15 in overseeing this process if they didn't seem so  
16 frequently to speak with the voice of management.

17                   But I also had a reaction to this point,  
18 this concern that was raised about dueling  
19 information because I thought, well, what's the  
20 implication of that?  We're concerned that we would  
21 have dueling information coming from management and  
22 auditors.

1           Is the suggestion that auditors are  
2 routinely signing off on financial statements where  
3 they have views that are so significantly different  
4 that there would be some sort of conflict raised  
5 between what auditors might say in their assessment  
6 and what management would say?

7           And if that's the case -- I mean,  
8 because that's dueling information, right? Dueling  
9 information is information that's in conflict. Are  
10 investors better off not knowing that auditors and  
11 management have differences so significant that  
12 they would result in dueling information? Or if  
13 there's that kind of dueling information, are  
14 investors better off if they're informed of that?

15           And I would suggest that ideally that  
16 situation would not arise, but if the situation  
17 exists, investors should know about it, or maybe  
18 they ought to get their differences resolved. And  
19 if they have to publicly comment on it, maybe they  
20 would get their differences resolved.

21           MS. RAND: I think regarding dueling  
22 information, I think -- and auditors and others can

1 speak for themselves. But in coming through the  
2 letters, kind of the sense I got on that point was  
3 certainly any significant differences would have to  
4 be resolved. Otherwise, the auditor couldn't issue  
5 the report today.

6 Talking about any nuances to some extent,  
7 in light of that point, if there's any significant  
8 differences, the auditors wouldn't be issuing their  
9 opinion. They'd have to -- those would have to be  
10 resolved. So then what more additive are they  
11 saying because it's points below that line. You  
12 know, they have gotten comfortable. There may be  
13 certain things that are more minor and then kind of  
14 to highlight that wouldn't be fair to their  
15 opinion, if that's coming across clear?

16 So --

17 MS. ROPER: Right. But that's a  
18 fundamentally different issue. If there are  
19 nuances, if the auditor is adding a nuanced  
20 understanding of the information, that is different  
21 from dueling information. And so, you can't sort  
22 of -- the people who are making this argument can't

1 have it both ways. Either we're having dueling  
2 information that's going to come out there and  
3 investors are going to be somehow harmed by that,  
4 or the process of doing this reporting is going to  
5 eliminate the conflicts that result in dueling  
6 information. And what I get is some slightly  
7 different versions of the same truth.

8           So, I mean, you just have to sort of  
9 chose your argument and go with it, but the  
10 argument that's out there that this results in  
11 dueling information I just don't think works. I  
12 mean, I don't think it's valid.

13           MS. RAND: I accept that.

14           Mary Hartman Morris?

15           MS. HARTMAN MORRIS: Thank you, Jennifer.

16           I just want to say hear, hear to Barbara  
17 and Joe and Damon and what they said. I think  
18 auditors are in a unique position, and of course,  
19 we are shareowners. CalPERS is a shareowner, and  
20 we use that. We emphasize that we're the owner of  
21 a company.

22           And I think that only in this situation



1 that auditors are trying to appear adversarial  
2 because in any other industry a customer would help  
3 dictate what they would like. And I think that  
4 this is an important point. Investors are speaking  
5 out and saying that.

6 CalPERS signed onto two different,  
7 separate letters. I don't know if that was -- I  
8 wanted to emphasize that. We signed on as a member  
9 of IAG, the Investor Advisory Group. We also sent  
10 a letter from CalPERS. We also sent a letter to  
11 the IAASB.

12 And I think that it's really important  
13 that your numbers, and I think the points I want to  
14 make is that it only shows 16 investors. I'm not  
15 sure how you categorized the IAG letter, 70  
16 preparers, 35 auditors. But I think identifying  
17 assets under management, I think that's probably an  
18 important point, asset owners.

19 I think that one other point -- a couple  
20 other points I'd like to make on what, Arnie, you  
21 mentioned about the pass/fail. I think investors  
22 still want that. I mean, it's a quick way to look

1 at, and I think from your perspective, you're a  
2 preparer at this point. And the pass/fail is  
3 important to just show quickly what the auditor's  
4 opinion on. But I think it's really important that  
5 auditors then develop and explain to investors as a  
6 customer that perspective. You know, what is the  
7 important issue? What are the risks?

8 I think that CalPERS and other people in  
9 this room participate, excuse me, in the global  
10 auditor-investor dialogue, and we've been talking  
11 about the auditor reporting. But I think I'll  
12 mention Steve Mazlin, but he's, like, "Mary!" But  
13 I think that he, from his perspective, is trying to  
14 understand and provide a better perspective, a more  
15 balanced end from the auditors and receiving our  
16 opinions more from a customer's perspective. And I  
17 think that there is a role for auditors to provide  
18 more additional information.

19 On the point about the audit committees,  
20 we definitely respect the audit committees.  
21 They're a fiduciary to us in their responsibility  
22 to shareowners. But I don't think that there's a

1 problem with the audit committee saying some things  
2 and the auditors providing additional information.  
3 I mean, that's the stewardship of the company.  
4 That's providing information to investors, to the  
5 owners.

6           So, with that, I'll leave it at that.  
7 Thank you.

8           MS. RAND: Thank you, Mary.  
9           Jeff Mahoney?

10          MR. MAHONEY: Thank you.

11          My analysis may be a little bit too  
12 simplistic, but that's the way I look at things.

13          I would start off saying that investors  
14 are the primary customer of the auditor's report.  
15 I think everyone would agree with that. They  
16 ultimately pay for that report.

17          Evidence indicates that they are  
18 dissatisfied -- I think you said that in your  
19 summary -- clearly dissatisfied with the contents  
20 of the standard auditor's report. I think the  
21 evidence also shows that they want more  
22 information, and I believe the evidence shows they

1 want more information directly from the auditor  
2 that they're paying for.

3           And I think the evidence also shows that,  
4 at a minimum, what they would like to see is they  
5 would like to see that auditor, as an independent  
6 expert, provide their assessment of management's  
7 critical accounting estimates and judgments, at a  
8 minimum. That information would provide investors  
9 with some useful data points to analyze and price  
10 risks and make investment decisions.

11           And as a shareowner, it would also assist  
12 them in making their voting decisions, both with  
13 respect to the audit committee members as well as  
14 with respect to their annual vote on the external  
15 auditor.

16           I think the bottom line is if you  
17 continue to ignore your primary customer, the risk  
18 is that the customer is going to continue to  
19 devalue your product. And I think we can all agree  
20 that that's probably not a good result for the  
21 auditing profession.

22           Thank you.

1                   MS. RAND: Just as far as the auditor  
2 letters, we certainly saw recognition from many  
3 auditors with support for change to the report,  
4 too. So if they want to speak for themselves,  
5 they're welcome to do that.

6                   Lynn Turner?

7                   MR. TURNER: Let me just start out by  
8 saying I give tremendous kudos to the five members  
9 of the Board and Marty for taking up these issues  
10 we've discussed today and yesterday. These are  
11 tough, tough issues. They've been around for a  
12 long time.

13                   And as I listen to the arguments, the  
14 issues have been around a long time. The arguments  
15 have been around a long time. Not a whole lot has  
16 changed in the meantime. So I think it took a lot  
17 of courage to put these up on the agenda, and I  
18 give you all kudos for that.

19                   Having said that, I think what we've just  
20 heard from the last few commenters on the investor  
21 side is correct. It's a simple question. It is  
22 are you going to give the customer what numerous

1 surveys now have shown that they wanted? Are you  
2 going to build that product or not?

3           And it is a tough decision, but it's a  
4 tough decision for anyone in business as to whether  
5 or not you're going to build what the customer  
6 wants and satisfy them or not?

7           It's very natural for members of  
8 management -- I've been there myself. It's very  
9 natural to be hesitant to have someone from the  
10 outside come in and publicly comment on what you're  
11 doing. But we'd have them come in and do surveys  
12 of the quality of our product. We'd have them come  
13 in, and we'd have customers come in and survey us  
14 as members of management.

15           I've seen other companies do it. GE does  
16 it under the Six Sigma type notion. It's always  
17 queasy. You really don't like it because you can't  
18 control what's going to happen with it. So I think  
19 there is a very, very natural hesitancy here to  
20 push back and say let's not go there because we  
21 want to stay in our comfort zone.

22           But staying in our comfort zone is what

1 has got us in the trouble that we're in today. And  
2 Marty, you talk about the uncertainties on  
3 derivatives and loans and fair values. I worked on  
4 Wall Street in the early '80s. We had derivatives  
5 then. We had fair values. We had loans. It's not  
6 new. Again, it's just one of those things that  
7 people discuss.

8           But the reason those things keep coming  
9 up in the papers is we've never got standards that  
10 delivered the information to investors that they  
11 wanted, including the standards about risk and  
12 uncertainty that you've aptly mentioned a number of  
13 times. It's the fact that every time we make  
14 incremental changes on these issues. And so,  
15 instead of fixing the problem, we go incremental.

16           And I think the real challenge for the  
17 Board here, for the five of you, is, are you going  
18 to go incremental, in which case what Jeff just  
19 said was absolutely true. You're going to continue  
20 to get criticism. You should expect to continue to  
21 get criticism, and there will be further  
22 degradation of the confidence in the product.

1                   Or are you going to go big, make that  
2 tough decision, and deliver a product that people  
3 want? These are tough decisions. But that's why  
4 the five of you are in these roles. If they were  
5 easy decisions, we could have anyone in those five  
6 seats.

7                   But we aren't. We've got great people  
8 who I think you've shown great courage. And I'd  
9 encourage you on this one to swing for the homerun,  
10 and I think what you've heard from Mary and Barb  
11 and Damon and Jeff is where that homerun is.

12                   MS. RAND: Thank you, Lynn.

13                   And I just see one other card up. So  
14 I'll turn it over to you, Arnie Hanish.

15                   MR. HANISH: I'll try not to be redundant  
16 here. But this issue of dueling perspectives that  
17 was raised, it's hard for me to have a full  
18 perspective on that because we don't have dueling  
19 perspectives at our company. We have issues, we  
20 get them resolved, and -- but I would expect that  
21 -- and I would expect my auditors, if there were  
22 contentious issues that were dueling perspectives,



1 that they would communicate those to my audit  
2 committee. I would expect that those be brought  
3 up. I would expect that a discussion would ensue.

4           And I know at our company, ultimately, I  
5 believe the audit committee would have final say as  
6 to whether or not they were going to side with the  
7 auditors or side with us, as far as management was  
8 concerned, over an issue that was a "dueling  
9 perspective" on accounting issues. But I know that  
10 not all companies are like our company, and I can't  
11 speak for all those other registrants that are out  
12 there, thousands of them.

13           But again, it's our responsibility. And  
14 I would believe -- I believe that there is enough  
15 in the current literature, whether it's the SEC  
16 literature around critical accounting policies,  
17 around MD&A disclosure, that if something is  
18 "broken," if there needs to be more disclosure for  
19 the investor -- because you are the customer, you  
20 own us -- then, to me, that's where it should come  
21 out.

22           And you should be pushing us to have

1 better disclosures with respect to our critical  
2 accounting policies, highlighting those areas of  
3 risk around the inputs and the outputs with regard  
4 to financial instruments or whatever the material  
5 aspects are that are of concern to us as well,  
6 because they're the same concerns that we have that  
7 we have to wrestle with all the time.

8           But I believe that the current mechanism  
9 is there. If something is broken, then it should  
10 be dealt with through those existing mechanisms. I  
11 believe, as I've stated earlier, we certainly are  
12 supportive of an expansion of emphasis in the  
13 report. That certainly is not troubling to most of  
14 the people that I've spoken with from the preparer  
15 community.

16           Other issues I think with regard to  
17 changes and estimates and what are the various  
18 inputs that go into those material aspects of our  
19 financial statements I think can be dealt with  
20 through existing disclosures that should be evident  
21 to all of us.

22           MS. RAND: Yes. Thanks, Arnie.

1                   I see two more cards that went up. Neri  
2 Bukspan and then Mike Gallagher.

3                   MR. BUKSPAN: Thank you, Jennifer.

4                   And then, again, apologies if it looks  
5 like I missed an important part of the discussion.

6                   But what strikes me from the presentation and some  
7 of the discussion now that there are certain  
8 elements and there is certain desire for  
9 information for some reason investors are not  
10 getting.

11                  From looking at your slides, there is  
12 some discussion stating, you know, not necessarily  
13 objecting to this information but suggesting it's  
14 not really my role, it's their role. And if it's  
15 not their role, it's the audit committee role.

16                  So I think it may be useful to think  
17 about it almost as a package and as a matrix,  
18 right, because things are moving from one side to  
19 another. And think about whose role to deliver  
20 what that, ultimately, this information will be  
21 presented. And to Arnie's point, nothing falls  
22 between the chairs. Because in the current

1 environment, maybe it's there, but there's a lot of  
2 things that falls between the chair in moving  
3 between the responsibilities.

4           And one element would be maybe you need  
5 to think about not only changing the auditor  
6 report, but suggesting to think about changing some  
7 other things. Maybe there should be an audit  
8 committee report suggesting how the audit committee  
9 executed its responsibility with respect to the  
10 audit and what's the dialogue with the auditor  
11 itself. So there is not necessarily one thing that  
12 you need to solve for, but a broader issue to solve  
13 for.

14           Yes, there will be a change to the  
15 auditor report. It will suggest some elements  
16 worth some consideration. Whether it's in the  
17 auditor report or an auditor MD&A type, that's a  
18 packaging issue in my mind.

19           Then perhaps there is another room for  
20 companies to suggest what their view is on these  
21 same particular issues and, in fact, also for audit  
22 committee. So maybe there is a role for each

1 element here to be ramped up or notched up rather  
2 than suggesting you must -- there is one silver  
3 bullet that resides necessarily either with the  
4 auditor report or elsewhere.

5           So I would suggest thinking about it  
6 together as a package and delivering this  
7 information, and whose role. Maybe it's a matrix  
8 thinking, and maybe there's a role for the SEC to  
9 think about it. But I clearly see another element,  
10 which is the role of the audit committee and how  
11 the audit committee executed and its role vis-a-vis  
12 the dialogue with the auditor.

13           So if it has been mentioned before, I  
14 apologize.

15           MS. RAND: Thank you. No need for  
16 apologies.

17           Mike?

18           MR. GALLAGHER: Thanks, Jennifer.

19           Neri hit a couple of points that I was  
20 going to mention. I'll reiterate them. We do take  
21 the comments and the views of investors extremely  
22 seriously, and I think we have challenged ourselves

1 as a profession to come up with some alternatives  
2 and not fight for the status quo. We'll continue  
3 to do that.

4 I think we need to continue to push  
5 ourselves, and what else can we do to meet the  
6 needs of our ultimate customers? And so, that is  
7 important, and we'll continue to do that.

8 I think Neri's point around other players  
9 in the system is really important, particularly  
10 audit committees. And if I look at the  
11 communication that occurs today in the audit  
12 committee report to shareholders, it's not very  
13 helpful. And I understand that maybe there isn't  
14 the best appreciation for what audit committees  
15 actually do, if that's the only data point that  
16 people have. So I think that is an opportunity.

17 But that said, as a profession, we first  
18 wanted to look at what we can do differently. I  
19 think we've done that, and we will continue to do  
20 that.

21 But I think Neri's point about as we do  
22 that, because there are so many interdependencies

1 here of other players, I think those should be  
2 concurrent projects as well, whether it's the SEC  
3 or FASB or whatever. I think looking at it and  
4 making sure investors are getting the information  
5 they need, and I think we can debate somewhat, a  
6 big part of this debate is who provides it, and I  
7 get that. I think we just have reasonable people  
8 just disagree on that.

9           But I think it is critical. I think we  
10 can agree on what the information is and how we get  
11 that information to investors, including what audit  
12 committees do on behalf of investors. And I do  
13 think that there's room for improvement there. But  
14 we will -- as I said, we're going to focus on  
15 ourselves as well and continue to look for  
16 alternatives even beyond some of the things we've  
17 proposed.

18           MS. RAND: Thanks, Mike.

19           Gaylen Hansen?

20           MR. HANSEN: I want to make sure that  
21 it's clear that I believe or I hope that the Board  
22 comes down weighting these letters and the views of

1 investors more heavily than anyone because, as has  
2 been said many times, they are the customers.

3           But following up on Neri's comment,  
4 occasionally, we do have disagreements with  
5 management. I think that maybe they don't rise to  
6 the level of dueling, as Arnie pointed out, but  
7 they are disagreements. Maybe that could be looked  
8 at in the context of SAS 61 disagreements. You  
9 don't see those very often. And when you do see  
10 them, the only time that they really surface is in  
11 an 8-K filing on disagreements when there's a  
12 change in auditors.

13           To what extent are those looked at during  
14 inspections, to what extent could it be explored as  
15 to whether or not that needs to be taken further, I  
16 think, is worth maybe talking about, and I think  
17 that speaks to what Neri was -- where he was going.

18           Thank you.

19           MS. RAND: Thanks, Gaylen.

20           Steve, you had your card up. Did you  
21 want to have some thoughts, comments?

22           MR. HARRIS: I was thinking about it,



1 then I put my card down. But I wanted to first  
2 associate myself with Mike's comments, to the  
3 extent that whose role is it to deliver what? I  
4 mean, I think that is a fundamental issue in what  
5 we're considering. Denny mentioned taking the eye  
6 off the ball and kind of wonder what the ball is.

7           But, Arnold, I appreciated your update in  
8 terms of what you're considering. Because in  
9 Sarbanes-Oxley, we provided -- the Congress  
10 provided in the law greater independence for the  
11 audit committee, but the audit committee was viewed  
12 as a gatekeeper. But it was not viewed as the  
13 gatekeeper.

14           And I think the conversation, both abroad  
15 and to a certain extent here, is that the  
16 independent audit committee is the gatekeeper with  
17 respect to protecting investors. The act says, the  
18 very first words of the act are, "An act to protect  
19 investors." And then the mission of the PCAOB and  
20 the establishment of the PCAOB was to protect  
21 investors.

22           And so, I think what we're wrestling with

1 here is what's the direct role for the auditor to  
2 investors? And I know that in terms of the  
3 European community, they're focused very directly  
4 on the audit committee and management, and a whole  
5 host of the comments here are directly focused on  
6 the role of the audit committee as a funnel.

7           How do we get information directly from  
8 the auditors to investors, and what should that  
9 information be? To me, that is probably the  
10 fundamental point.

11           Scott, we were discussing it a little  
12 bit. You mentioned earlier on that the audit  
13 committees are backsliding and that there's  
14 backsliding on the part of the audit committees.  
15 If that's the case, I think we ought to get some  
16 empirical data, some academic research on that  
17 issue because if there's backsliding, that goes to  
18 the point that they're a watchdog which may not be  
19 performing part of their function directly to  
20 investors.

21           But I think the role of the auditor  
22 directly to investors is really what we're talking

1 about, both with respect to the audit report and in  
2 other issues. So, Mike, I think you put your  
3 finger right on it. And I do appreciate from my  
4 vantage point the fact that the profession is  
5 focusing on it, and Arnold, that you're focusing on  
6 it. But we're coming at it from slightly different  
7 perspectives.

8           But I wanted to direct my remarks  
9 primarily to you because in terms of the audit  
10 committee and the role of the audit committee, the  
11 role of the audit committee in the United States  
12 and the role of the audit committee in various  
13 jurisdictions, I think, in the European community  
14 is also different, as I heard from Paul George very  
15 recently in the context of IFIAR.

16           So I would encourage you in your  
17 deliberations not to put all your eggs in the  
18 basket of the audit committee. And I know you're  
19 going through a very deliberative process, and now  
20 you've heard from a wide variety of constituencies  
21 here.

22           To the extent that everybody can work

1 together, I think that's extremely positive. But  
2 to the extent that we have an obligation on the  
3 part of the PCAOB to come up with the best  
4 standards we possibly can.

5 MR. SCHILDER: May I just briefly  
6 respond, Jennifer?

7 MS. RAND: Sure.

8 MR. SCHILDER: Steve, thank you very much  
9 for your comments.

10 We certainly are not putting eggs in one  
11 basket. Actually, we have five categories of  
12 possible options going forward, and this is just  
13 one of them. So we will explore all of those. And  
14 as I said, I hope in much dialogue with yourself  
15 and many others here.

16 Thanks.

17 MS. RAND: Okay. Thank you, everyone,  
18 for your very thoughtful comments.

19 Before I turn it over to Marty, I just  
20 also want to acknowledge and thank my colleagues  
21 working with me on this project, Elena Buzhkova,  
22 who's sitting next to me, and then Denise Wray,

1 who's sitting next to her. Also recognize the  
2 significant efforts of Jessica Watts, who has a  
3 prior commitment and couldn't be here but has been  
4 very actively engaged in this project.

5           So we have much work ahead of us,  
6 considering all your very thoughtful comments and  
7 the comment letters and discussions. But we will  
8 be -- we're committed to doing that and very  
9 engaged in working through all these issues.

10           So thanks to them and thanks to all of  
11 you.

12           So, with that, I'll turn it over to Marty  
13 Baumann to close up the SAG discussion.

14           MR. BAUMANN: Thanks, Jennifer.

15           It's hard to close up this kind of a  
16 discussion over the last day and a half. I gave  
17 some thought to some summary comments, and it's  
18 really too difficult to summarize the varied  
19 comments and the quality of the comments in a few  
20 minutes, and therefore, I won't, except to say the  
21 following.

22           I think what we heard from you in many

1 ways, starting with the presentation yesterday of  
2 our standard-setting agenda overall, is that we  
3 have the right issues on our standard-setting  
4 agenda from your view, that we're tackling some  
5 very important and very tough issues, as was  
6 clearly evidenced by the quality and depth of the  
7 discussions throughout yesterday and today on the  
8 different standard-setting matters in front of us.

9           So I appreciate that support that we have  
10 the right issues on our agenda and that we're  
11 tackling the tough issues. And to a question that  
12 Steve Homza asked yesterday, do we have the  
13 resources to do that? I'll answer that again and  
14 say not only the quantity of resources, but based  
15 upon the quality of resources of people that you've  
16 seen here today like Jennifer and team, and  
17 yesterday Keith and team, and Greg Scates and team,  
18 and we have a very talented group of people to  
19 support the Board and me in getting through these  
20 very tough issues.

21           And we also have a great Standing  
22 Advisory Group here to give us valuable input.

1                   So thanks for all of that. I appreciate  
2 all your effort through these day and a half of  
3 meetings and look forward to working with you more.

4                   [Whereupon, at 12:02 p.m., the meeting  
5 was adjourned.]

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# Auditor's Reporting Model – Preliminary Overview of Comments

Jennifer Rand

*Deputy Chief Auditor and Deputy Division  
Director*



# Key Milestones to Date

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- Concept release issued June 21, 2011
- Roundtable held September 15, 2011
  - 32 participants and 2 observers (SEC and FASB)
- Comment period ended September 30, 2011
  - 152 comment letters to date

# Comment Letters Received

❑ Preparers, internal auditors and preparer associations	70
❑ Accounting firms and associations of accountants	35
❑ Investors, including investor associations, pension managers, analysts, and large investment companies and advisers	16
❑ Academics	7
❑ Other regulators and standard setters	7
❑ Board members, including audit committee members, and their associations	6
❑ Other individuals and organizations	<u>11</u>
<b>Total</b>	<b>152</b>

# Overall Themes from Commenters and Roundtable Participants

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- Retain the pass/fail opinion
- General support for change to auditor's reporting model
  - Range of support depends on the type of commenter (e.g., investor, preparer, accounting firm, etc.)

# Overall Themes - Investor Associations, Pension Managers, and Analysts

- Support auditors' reporting on their assessments of:
  - Areas of high financial statement and audit risk
  - Significant judgments and estimates used in the financial statements, including sensitivity analysis
  - Quality, not just acceptability, of accounting policies and practices
  - Significant changes in or events impacting the financial statements
- Support other disclosures by auditors, including audit procedures
- Prefer more information from auditors regarding the financial statements and the audit rather than assurance on information outside the financial statements or clarification

# Overall Themes - Large Investment Companies and Advisers

- Support auditor's identification of significant areas in the financial statements:
  - A reasonable number of significant areas that would be most helpful for investors' understanding of the financial statements, such as:
    - Significant management judgments, estimates, and areas of measurement uncertainty in the financial statements
    - Significant changes in or events impacting the financial statements
  - Location of disclosure in the financial statements
- Management should be the primary source of financial information
- Some interest in information regarding audit procedures
- Prefer more information from auditors regarding the financial statements rather than assurance on information outside the financial statements or clarification

# Overall Themes - Preparers, Internal Auditors and Preparer Associations

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- ❑ Management should be the primary source of financial information
- ❑ Oppose “AD&A” and “required and expanded emphasis paragraph” type reporting
- ❑ Costs outweigh benefits for assurance on information outside the financial statements
- ❑ No objection to clarification of language, but do not believe it is necessary

## Overall Themes - Board Members, Including Audit Committee Members, and Their Associations

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- ❑ Management should be the primary source of financial information
- ❑ Oppose “AD&A” type reporting
- ❑ Mixed views regarding “required and expanded emphasis paragraph” type reporting
- ❑ Some support for assurance on information outside the financial statements
- ❑ Support for certain clarification of language

# Overall Themes - Accounting Firms and Associations of Accountants

- ❑ Management should be the primary source of financial information
- ❑ Oppose “AD&A” type reporting
- ❑ Large and regional accounting firms generally support:
  - Objective and factual “required and expanded emphasis paragraph” type reporting
  - Attestation on the Critical Accounting Estimates section of Management’s Discussion and Analysis
- ❑ Small accounting firms generally do not support additional reporting
- ❑ Wide support for clarification of language



# Other Commenters

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- ❑ Academics
- ❑ Other regulators and standard setters
- ❑ Other individuals and organizations

# Additional Themes from Commenters and Roundtable Participants

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- Work with other regulators and standard setters towards a coordinated solution:
  - FASB/SEC
  - IAASB/ASB/Others
- Support for additional audit committee reporting
- Consider field testing of contemplated changes to the auditor's reporting model

# Frequently Mentioned Concerns about Changing the Auditor's Reporting Model

- ❑ Expanding the auditor's role and the possibility of "dueling information" between preparer and auditor
- ❑ Adversely impacting the audit committee's governance role
- ❑ Impairing the three-way communication between auditor, audit committee and management
- ❑ Risk of additional boilerplate language
- ❑ Maintaining confidentiality of company information
- ❑ Increased costs
- ❑ Potential increase in legal liability of accounting firms
- ❑ Possible adverse effect on auditor independence
- ❑ Little incremental improvement in audit quality

# Next Steps

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- Complete analysis of comment letters
- Consider related projects by other standard-setters
- Issue a proposal in the second quarter of 2012
  - Objective is to improve auditor communications to investors