

NOTICE: This is an unofficial transcript of the Public Company Accounting Oversight Board's *Webinar for Investors on International Issues* held on June 10, 2021, that relates to the Board's proposed PCAOB Rule 6100 on Board determinations under the Holding Foreign Companies Accountable Act. The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

+ + + + +

WEBINAR FOR INVESTORS ON INTERNATIONAL ISSUES

+ + + + +

PROPOSED RULE 6100: BOARD DETERMINATIONS
UNDER THE HOLDING FOREIGN COMPANIES
ACCOUNTABLE ACT (HFCAA)

+ + + + +

JUNE 10, 2021

+ + + + +

This transcript was produced from
audio provided by the Public Company Accounting
Oversight Board.

SPEAKERS:

DUANE DESPARTE, Acting Chairperson

REBEKAH GOSHORN JURATA, Board Member

MEGAN ZIETSMAN, Board Member

**LIZA MCANDREW MOBERG, Director, Office of
International Affairs**

**ERIN DWYER, Deputy Director, Office of External
Affairs**

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

2 3:00 p.m.

3 MS. DWYER: Thank you for joining us
4 today. I'm Erin Dwyer, the stakeholder liaison
5 at the PCAOB and we are very happy to have all of
6 you with us today, even though we're still
7 virtual as we've been for the last 15 months.

8 But despite the remote work that all
9 of us have been doing, at the PCAOB we've
10 continued to emphasize and prioritize our
11 engagement with key stakeholders including
12 investors, audit committees, and financial
13 preparers. Our webinar today is a part of that
14 engagement and we're really pleased that you've
15 taken time out of your busy schedules to be with
16 us.

17 Before we jump into this, I do want to
18 give the disclaimer for myself and fellow
19 speakers who are presenting today, and that is
20 that the views expressed are those of each
21 speaker and do not necessarily reflect the view
22 of the Board, other Board members, or the PCAOB

1 staff.

2 With me today I'm really pleased to
3 have as our speakers Acting Chairperson Duane
4 DesParte, and Board members Rebekah Goshorn
5 Jurata and Megan Zietsman, as well as our
6 Director of the Office of International Affairs
7 Liza McAndrew Moberg. If you do not see Liza, it
8 is not your connection. She was having a little
9 technical difficulty so she is joining us by
10 audio today. We apologize for that but she's
11 there on the phone and we are delighted she can
12 join us.

13 So, with that, I would like to turn it
14 over now to Duane. Duane, I was hoping you could
15 kick us off with some opening remarks.

16 MR. DESPARTE: Sure. Thank you, Erin.
17 On behalf of myself and Rebekah and Megan,
18 welcome. Really thank you for being here. As
19 Erin mentioned, stakeholder outreach is really a
20 key focus for us, remains a key focus for us, and
21 we're looking forward to our engagement today.

22 One of the things that you might know

1 is we had some developments last Friday that I
2 thought I would just cover very briefly. Last
3 Friday the SEC announced Bill Dunhnke's departure
4 from the PCAOB and I was designated as Acting
5 Chair effective at that time.

6 On Tuesday you may have seen that the
7 SEC also commenced a process to solicit and
8 consider nominations for all five of our Board
9 positions. I expect that some of you may have
10 questions about these changes. We would, though,
11 appreciate if we could devote out time together
12 today to address our agenda which, of course, is
13 on international audit-related issues.

14 That said, I do want to emphasize that
15 during this time of leadership transition
16 Rebekah, Megan, and I, and all of our dedicated
17 and talented staff, remain fully committed to our
18 responsibilities and to our mission of investor
19 protection through what we do day in and day out
20 in our audit oversight activities.

21 Our core standard setting,
22 inspections, and enforcement activities will

1 proceed normally through the transition period,
2 and we will continue to work in coordination with
3 the SEC to assess and respond to evolving
4 priorities as we always do.

5 With that, Erin, I'll turn it back to
6 you.

7 MS. DWYER: Great. Thank, Duane.
8 Appreciate those remarks.

9 I do now want to jump into our topic
10 at hand. We are going to address international
11 work. I know that some of what's going on on the
12 international stage has been top of mind for many
13 investors, including the PCAOB's role and
14 responsibilities related to the Holding Foreign
15 Companies Accountable Act.

16 Before we get into the details, Duane,
17 I was thinking maybe we could take a step back
18 and I thought it might be helpful if you could
19 give us a sense of the scope of our international
20 oversight responsibilities and its relationship
21 to HFCAA.

22 MR. DESPARTE: Sure. Thanks, Erin.

1 You know, robust inspections and investigations
2 of audit firms that audit U.S. public companies
3 are really what we're all about. It's our core
4 mandate under the Sarbanes-Oxley Act.

5 That mandate applies whether firms or
6 the public companies that the firms audit are
7 located inside or outside the U.S. All firms
8 auditing U.S. public companies are required to
9 register with us and they are subject to our
10 oversight activity.

11 To illustrate the scope of our
12 oversight program from an international
13 perspective, we have approximately 1,700 audit
14 firms that are registered with us, and of those
15 about 49 percent are located outside of the
16 United States.

17 Of those approximately 800 firms, 300
18 of them are located in 62 foreign jurisdictions
19 and those 300 firms perform activities that make
20 them subject to our inspection and our
21 investigation activity including the obligation
22 to be inspected by the PCAOB at least once every

1 three years.

2 For the 12 months ended March 31,
3 2021, this year, PCAOB-registered firms located
4 outside the U.S. issued approximately 1,200 audit
5 reports on U.S. issuer financial statements.

6 Those issuers had a combined market
7 capitalization at that time of more than \$11
8 trillion.

9 So all of that is to highlight for you
10 that while we are a U.S. regulator, our mandate
11 extends to firms, wherever they may be, that
12 audit U.S. issuers and, thus, international focus
13 and engagement is very important to our success
14 and to what we do.

15 I will offer that in order for us to
16 effectively fulfill our inspection and our
17 investigation activities, firms -- you know, we
18 need firms to cooperate and provide our
19 inspection teams, our investigators, our
20 enforcement teams, with complete and timely
21 access to personnel and to documentation. In
22 most cases, that is exactly what happens but not

1 always.

2 In some situations, we are not able to
3 fully inspect or investigate registered firms
4 completely and, partly in response to those types
5 of situations, Congress did pass the Holding
6 Foreign Companies Accountable Act. I think we're
7 going to talk a little bit more about that now.

8 Erin.

9 MS. DWYER: Yep. Thanks, Duane. I'm
10 unmuting myself. I think that's a really helpful
11 overview in setting our stage to now turn to the
12 proposed rule. Since we are in an open comment
13 period for that proposed rule, I just want to
14 outline logistically where we are in that process
15 and provide some disclosures or disclaimers, if
16 you will.

17 As many of you know, on May 13 of this
18 year the Board issued a release regarding a
19 proposed PCAOB rule that would govern Board
20 determinations under the Holding Foreign
21 Companies Accountable Act. That release contains
22 the views of the Board with respect to the

1 proposed rule and invites public comment on it.

2 We welcome input from all stakeholders
3 on all aspects of that proposed rule including
4 the questions posed in the Board's proposing
5 release. We encourage you to submit a written
6 comment if you wish to do so.

7 The comment period does close on July
8 12th. Instructions for submitting comments are
9 on our website as well as in the proposing
10 release, so I encourage you to take a look at
11 that. I will just now, before we jump into this
12 discussion, reiterate my earlier disclaimer that
13 the views each speaker expresses on this topic
14 are specifically their own and not necessarily
15 the views of the rest of the Board or PCAOB
16 staff.

17 With those disclaimers out of the way,
18 Duane, can I turn back to you to share with the
19 audience sort of a high-level overview? I think
20 I've satisfied the lawyers so maybe you can give
21 us --

22 MR. DESPARTE: All the fine print that

1 we put at the top. Yes, sure. Under -- we're
2 referring to it as HFCAA, Holding Foreign
3 Companies Accountable Act, but that's also a
4 mouthful. The PCAOB is required under that Act
5 to determine whether we are unable to inspect or
6 investigate completely registered public
7 accounting firms that are located in a foreign
8 jurisdiction because of a position that is taken
9 by one or more authorities in that jurisdiction.

10 In addition, the SEC is required to
11 take various actions with respect to public
12 companies that use registered audit firms that
13 the PCAOB has determined fit that criteria.
14 Under HFCAA such companies are referred to as
15 "covered issuers."

16 The SEC's website has a lot more
17 information about the actions that the SEC is
18 required to take under HFCAA including a release
19 that they issued in March that addresses
20 reporting requirements for public companies that
21 are, in fact, being covered issuers under the
22 Act.

1 With respect to our determination, we
2 issued a proposed rule on May 13th that provides
3 a framework for the Board in making this
4 determination as is required under the Act.

5 Along with the text of the proposed rule, the
6 Board had an open Board meeting and we discussed
7 the background of our proposed rule, the need for
8 the proposed rule, and the intended operation of
9 the proposed rule.

10 I encourage you to take a look at the
11 release that we issued for further detail.

12 Nothing we say today is intended to modify or
13 supersede the discussion of the proposed rule as
14 set forth in that release.

15 I also encourage you to provide us any
16 comments or feedback that you may have on the
17 proposed rule through our comment period which,
18 as Erin just mentioned, runs through July 12th.
19 We're making it as simple as possible. You can
20 just email us at comments@PCAOBUS.org.

21 I will now turn to Liza McAndrew
22 Moberg who heads up our Office of International

1 Affairs to share some additional details on the
2 proposed rule.

3 Liza.

4 MS. MCANDREW MOBERG: Thank you,
5 Duane. If it isn't a sign of the times, of
6 course, my technology issues started 15 minutes
7 before this was starting so I apologize for not
8 being on camera but hopefully you can hear me
9 fine.

10 As Duane said, and you'll hear us say
11 a couple more times as we go along in this
12 description, the HFCAA calls for the Board to
13 determine whether it's unable to inspect or
14 investigate completely registered public
15 accounting firms in a foreign jurisdiction
16 because of a position taken by authorities in
17 that jurisdiction.

18 I want to cover three aspects of the
19 rule that the Board recently proposed and, as was
20 already said, is open for public comment.
21 Specifically what I'll cover is, first, how the
22 Board proposes to allow two types of

1 determinations. Second, how the Board proposes
2 to make those determinations. And, third, how
3 the Board proposes to communicate its
4 determination.

5 First, on the type of determinations,
6 the Board is proposing to take a two-pronged
7 approach to determining which firms cannot be
8 inspected or investigated completely. The first
9 proposed approach is for the Board to make its
10 determination as to a jurisdiction.

11 In that scenario the Board can
12 determine that all firms headquartered in a
13 particular jurisdiction cannot be inspected or
14 investigated completely. The Board expects to
15 employ this approach in most cases and has
16 indicated that in its proposing release.

17 Second, the proposed rule allows for
18 firm-specific determinations, so we have
19 jurisdiction-wide or firm-specific
20 determinations. For example, because the
21 jurisdiction-wide determination would apply to
22 all firms headquartered in the jurisdiction, the

1 Board's proposed rule provides the Board the
2 ability to identify specific firms that are not
3 headquartered in the jurisdiction but that have
4 an office there and that the Board cannot inspect
5 or investigate completely because of the foreign
6 authority in that jurisdiction. So those, in
7 summary, are the types of determinations the
8 Board proposes to make.

9 I'll move on now to the second issue
10 which is how the Board proposes to make the
11 determinations. The proposed rule would tie the
12 Board's ability to inspect or investigate
13 completely to the mandate in the Sarbanes-Oxley
14 Act with respect to inspections and
15 investigations.

16 The Board would assess whether the
17 position taken by the foreign authority impairs
18 the Board's ability to execute its statutory
19 mandate with respect to inspections or
20 investigations. That assessment is driven under
21 the proposed rule by three factors:

22 First, the Board's ability to select

1 engagements in audit areas to be reviewed during
2 an inspection, and to select potential violations
3 to be investigated.

4 Second, the Board's access to, and its
5 ability to retain and use, any documents or
6 information that the Board considers relevant to
7 the inspection or the investigation.

8 Third, the Board's ability to conduct
9 inspections and investigations in a manner
10 consistent with the statutory mandate and the
11 rules of the Board. Really, this third factor is
12 capturing any other aspect of the Board's
13 requirements, statutory mandate, that aren't
14 already covered in the first two factors I just
15 went over.

16 An example of this is the Board's
17 ability to satisfy its inspection frequency
18 requirements -- for some firms it's annually and
19 for some firms it's every three years -- and the
20 Board's ability to share information with the SEC
21 as required under the Act.

22 These three factors are not separate

1 prerequisites for a Board determination. Rather,
2 if a position taken by a foreign authority
3 impairs the Board's ability to execute its
4 mandate in any of these three respects, a Board
5 determination could be warranted under the
6 proposed rule.

7 Also, the Board may not be impaired as
8 to both inspections and investigations. The
9 Board may make a determination under the proposed
10 rule if it's unable to either inspect or
11 investigate completely.

12 In addition to the three factors that
13 the Board would evaluate, the proposed rule
14 provides that the Board may consider any
15 documents or information it deems relevant. The
16 proposed rule, however, identifies for the
17 avoidance of doubt and clarity certain categories
18 of documents or information that the Board may
19 consider.

20 The proposed rule indicates that
21 determinations would remain in effect
22 indefinitely until modified or vacated by the

1 Board. However, as proposed, the Board would
2 reassess at least annually whether its prior
3 determinations merit reassessment.

4 Now I'll move on to the third aspect
5 that I wanted to cover which is communicating
6 about the determinations. Under the proposed
7 rule when the Board makes a determination, it
8 would issue the determination in the form of a
9 report to the Commission, the SEC. The Board's
10 report would describe the Board's assessment and
11 the basis for the Board's determination and
12 identify the firms subject to the determination.

13 Promptly after the Board's report is
14 issued, a copy of the report would be made
15 publicly available on the Board's website.

16 As Duane and Erin both said, the Board
17 has requested comments from the public on its
18 proposed rule and the Board welcomes comments or
19 feedback submitted in writing.

20 Erin, with that, I'll turn it back to
21 you.

22 MS. DWYER: Great. Thank you, Liza.

1 To reiterate I guess now for a third time, please
2 do think about submitting a comment or any
3 feedback to our docket. As Duane mentioned the
4 email is comments@PCAOBUS.org.

5 Someone is asking about if there are
6 specific countries that pose challenges so I know
7 we'll get into that a little later. So since
8 we're going to go into the country-specific topic
9 shortly here, maybe Rebekah, I'll turn to you
10 and, you know, sort of sticking with the same
11 HFCAA theme. That legislation was born out of
12 Congress' concerns about the implication of the
13 PCAOB's inability to access information from
14 auditors in certain circumstances.

15 While the HFCAA has increased
16 attention to this issue, we have at the PCAOB for
17 many years sought to be transparent with
18 investors and the public about these access
19 challenges, so can you describe our initiatives
20 and what that has looked like over the past
21 several years?

22 MS. JURATA: Absolutely. First of

1 all, I just want to say thank you to Duane and to
2 you, Erin, as our Stakeholder Liaison. I think
3 this demonstrates how critically important it is
4 that we can demonstrate to our stakeholders that
5 we're still showing up and doing our day job and
6 fulfilling our mission.

7 But, more importantly is that the
8 mission of the PCAOB, as Duane indicated in his
9 opening remarks, is not limited to the boundaries
10 of the United States but, in fact, our mission
11 and mandate is abroad and international. Our
12 international inspections program is crucial to
13 ensure that we can monitor and enforce for
14 compliance with the standards of the PCAOB.

15 It's also critically important that we
16 are able to facilitate our international
17 inspections program to ensure that everybody is
18 playing by the same rules of the road. I think
19 over the course of time the PCAOB has established
20 incredible cooperative relationships with our
21 counterparts and foreign regulators, but we do
22 still have some access issues. With that little

1 bit in the beginning, I'll go ahead and dive into
2 a little bit more.

3 The international cooperation is
4 obviously crucially important and how we
5 facilitate that here at the PCAOB is through a
6 number of facets including significant engagement
7 between the PCAOB with an international
8 regulatory information-sharing body called IFIAR,
9 which Duane is currently the chair of IFIAR,
10 where all the regulators -- all the other audit
11 regulators get around the table and, you know,
12 facilitate really critically important
13 information sharing in recognition that our
14 borders and our financial services markets are
15 global in nature, and that we want to advance
16 audit quality internationally. It's because we
17 have to facilitate those international
18 cooperations.

19 Now, also throughout the history of
20 the PCAOB as we have continued to apply our
21 standards compliance regime inspections program
22 internationally, we need to do that through

1 engagement with our counterparts abroad. In
2 certain jurisdictions, you know, you might come
3 across a conflict of law issue, but we've been
4 able to mitigate a lot of these access issues
5 through cooperative agreements.

6 I think it's a success that we can
7 demonstrate that just this past April the PCAOB
8 entered into such a cooperative agreement with
9 the country of Belgium, and I just have to
10 applaud Liza and her team for everybody to get to
11 that success. Right now there are no obstacles
12 for the PCAOB to facilitate our international
13 inspections program in Europe, which is
14 significant so that we can ensure that those
15 investors who are availing themselves of the U.S.
16 capital markets can do so in comfort knowing that
17 PCAOB's inspection program is applying itself
18 both domestically and abroad.

19 We have at the PCAOB, as you noted,
20 Erin, in your kickoff over to me, tried to
21 enhance the disclosure and what we are making
22 publicly available to investors of what we're

1 doing abroad including those international
2 cooperative agreements and where we are still
3 struggling with access.

4 (Laughter). Sorry. It was like
5 abracadabra.

6 MS. DWYER: I was trying to get my
7 slides up. I didn't mean to scare you with it.

8 MS. JURATA: Like what did I do? What
9 did I say? No, but I appreciate that t-off.
10 This will show, as Erin is pointing out, what
11 we're trying to make readily available for all of
12 our stakeholders, and investors in particular, to
13 know where we are able to show up and do our job
14 and where we are still having problems.

15 I have to give credit that making
16 everything transparent happened before I joined
17 the Board starting in 2009 and really kind of
18 geared up in 2018 where we wanted to flag as much
19 information as possible for those investors of
20 issuers who were using auditors that may be
21 located abroad who have not been inspected by the
22 PCAOB.

1 In particular, starting in 2018, we
2 starting making quarterly data available which
3 included the aggregate market capitalization of
4 issuers whose audits we have been unable to
5 inspect, and data about auditors doing referred
6 work, as well as about the auditors that sign
7 issuer audit opinions.

8 I think to just sort of, you know,
9 circle back to what I began in talking about was
10 that we want to ensure that auditors who are
11 registered with the PCAOB are subject to the same
12 rules and requirements and that we are able to go
13 in and do inspections to ensure compliance with
14 our standards.

15 What is really important and relates
16 to our international inspections program is that
17 we're applying the same standards and principles
18 of our program both domestically and abroad
19 consistently. There has been a certain
20 jurisdiction, which comes as no surprise, where
21 we have not had that same experience.

22 Now, other jurisdictions have raised

1 their own concerns and issues. As I kind of
2 referenced earlier, we've been able to work
3 through those through cooperative agreements. I
4 think that Congress has highlighted the fact that
5 we want to ensure that investors who are availing
6 themselves of the U.S. capital markets recognize
7 that issuers who use an auditor registered with
8 the PCAOB should be subject to the same
9 requirements and the same inspections program.

10 That is why, I believe, that Congress
11 required the SEC and the PCAOB to take action
12 under the Holding Foreign Companies Accountable
13 Act. I think, you know, as we work through that
14 as a critical rulemaking, hopefully it will fill
15 that gap but, obviously, it's in the early
16 stages. The lawyer in me, Erin, will circle that
17 also and say we welcome comments as we move
18 forward with the proposal. But I do just want to
19 emphasize that the work that we do, both domestic
20 and, importantly, abroad, we're trying to
21 increase our transparency.

22 As Erin popped up, and startled me

1 (laughter), on our website we really are trying
2 to make it clear to the investing public where we
3 are having issues but also where we are
4 successfully facilitating our international
5 inspections program.

6 MS. DWYER: I apologize, Rebekah, for
7 the pop-up but I did want to share and show
8 investors where you can look on our website under
9 the Oversight tab and there's a whole section on
10 the international that has some really good
11 information, as Rebekah noted, that we've been
12 updating quarterly.

13 When you click through on the audit
14 reports issued by PCAOB-registered firms in
15 jurisdictions where denied access to conduct
16 inspections, you can search by a number of
17 parameters, including country, firm name, among a
18 number of items. I'm going to turn that up but
19 warn my speakers that they will pop back up
20 again, different slides. Apologies again for
21 that.

22 I did want to before we move on, you

1 know, kind of turn to our audience again because
2 I think a lot of people are surprised, at least
3 when I speak with investors and others, when they
4 hear that there's about \$2.3 trillion, Rebekah,
5 as you mentioned, in market cap that's audited by
6 PCAOB registered firms in jurisdictions where we
7 face access challenges.

8 I'm going to try to ask a poll
9 question here and hopefully no one is frightened
10 by this pop-up poll like I did with my slide.
11 The poll question is for investors: When
12 thinking about investment risks, do you consider
13 PCAOB access challenges often, occasionally,
14 rarely, or never? I'll give everyone a minute to
15 answer that before I share the results with the
16 group.

17 All right. I'm going to end the poll
18 so hopefully everyone has voted and share the
19 results with everybody. So hopefully my fellow
20 speakers can see this. What we're getting is
21 that almost half of folks who answered this
22 question occasionally consider PCAOB access

1 challenges, where another almost 40 percent think
2 of us often, and about 22 percent rarely or
3 never.

4 I have to say that makes me happy that
5 over about -- oh, gosh, my math is bad, but 68
6 percent about are thinking about the PCAOB's
7 access either often or occasionally. I don't
8 know if others want to provide comments as they
9 go about their results but I think I've now ended
10 that poll.

11 You know, I'll move on a bit, I think.
12 We've covered a lot about, Rebekah, where we have
13 challenges.

14 Megan, as Rebekah mentioned, access
15 challenges are the exception, not the norm for us
16 at the PCAOB when it comes to our international
17 oversight program. Can you speak maybe a little
18 bit to the scope of our oversight internationally
19 as well as our enforcement activities?

20 MS. ZIETSMAN: Yeah, sure, Erin.
21 Hello everybody and thank you for joining and for
22 having the opportunity for us to engage with you

1 today.

2 I think maybe what I'm doing is
3 recapping some of the points that others have
4 already made. Maybe this puts some of the other
5 conversation in context again. I think as Duane
6 mentioned at the beginning, the PCAOB's
7 responsibilities are mandated by Congress and
8 they apply equally to all registered firms
9 irrespective of where those firms are located.

10 Our registration processes, our
11 inspection processes, and our enforcement
12 activities are intended to operate in the same
13 way for all firms. Of course, audits of issuers
14 need to be done in accordance with the PCAOB
15 standards and rules. In accordance with the
16 Sarbanes-Oxley Act, the Board is expected to
17 periodically inspect firms that issue audit
18 reports for U.S. issuers.

19 During those inspections our staff are
20 required to go and obtain the documents and the
21 information that they need so that they can
22 perform those reviews of both selected audit

1 engagements, as well as firms' quality control
2 systems and perform any other procedures that
3 they think are appropriate in the context of
4 those inspections.

5 Of course, I think it goes without
6 saying that inspections and investigations are
7 really crucial aspects of the Board's oversight
8 and critical to the accomplishment of the mission
9 of the Board.

10 To give a sense of the scope of our
11 international oversight activities, I think you
12 heard some of the stats and data through the
13 presentation already, but the slide that's up now
14 shows that actually nearly half of the firms that
15 are registered with the PCAOB are actually
16 located outside of the United States. You can
17 see on the slide where since 2004 the PCAOB has
18 actually conducted inspections of one or more
19 registered firms.

20 The Board, of course, is strongly
21 committed to enforcing compliance with our
22 standards, rules, and the related federal

1 securities laws. Obviously, that's core to the
2 achievement of our mission.

3 As the Board and as the members of our
4 organization we are all strongly committed to
5 that goal. When registered firms and their
6 associated persons engage in improper conduct, we
7 also will take prompt action to hold them
8 accountable. That's to not only hold people
9 accountable for things that we think they haven't
10 done properly, but it's also intended to deter
11 others from similarly engaging in that same kind
12 of improper conduct.

13 So we continue to allocate substantial
14 resources to our enforcement activities and our
15 enforcement priorities with an emphasis on cases
16 that involve significant audit failures. That's
17 really where we tend to try to focus our efforts
18 and our resources.

19 Maybe just to give a little bit of a
20 sense for our enforcement activities related to
21 non-U.S. firms and their associated persons, over
22 the five years ending December 31, 2020 one-third

1 of our cases related to non-U.S. firms or their
2 associated persons. That's a term that's defined
3 in our rules. Those cases were located in 17
4 jurisdictions. Currently when we look at our
5 current case load we kind of continue roughly at
6 that one-third level as well.

7 I think you've heard a little bit
8 about agreements that we have in place with
9 foreign regulators. Those agreements address
10 both inspections as well as investigations which
11 fall under our enforcement function.

12 While non-U.S. oversight might involve
13 some additional coordination considerations with
14 non-U.S. regulators, fundamentally an inspection
15 or an investigation should be the same whether or
16 not the firm is located within or outside of the
17 U.S.

18 I think at that point I'm going to
19 turn over to Liza and she'll give us a little
20 more information about what does an inspection
21 entail and really how that might look in the
22 context of a non-U.S. inspection.

1 Liza, I'll turn it over to you.

2 MS. DWYER: Yeah. And I'll jump in
3 really quickly I think before Liza starts because
4 we did have an audience question that I'm now
5 seeing, so apologies guys, about in the COVID
6 environment how the access challenges to
7 documents are handled. Liza, I think you're
8 going to walk us through sort of how the
9 inspections work.

10 As you're thinking of your comments on
11 that, if you can speak to how we've been handling
12 our international inspections during COVID and
13 what, if any, additional challenges have arisen,
14 I think that would be helpful to the group.

15 MS. MCANDREW MOBERG: Great, Erin.
16 Yes, happy to do that and I will cover that.

17 Erin, since I can't see what's on the
18 screen, we're going to go back to the
19 presentation. If you can let me know when we
20 have up on the screen our slide on home regulator
21 involvement.

22 I'll get started with reinforcing

1 something that Megan just said which is all our
2 inspections are the same fundamentally whether it
3 is of a U.S. firm or a non-U.S. firm, and that
4 includes also whether we do the work on our own
5 or if we do it cooperatively with the home
6 country regulator in the jurisdiction.

7 I'm going to provide you an overview
8 of the inspection process in a minute, but first
9 let's talk a little bit about how other
10 regulators are involved in our inspections in
11 some cases.

12 Erin, do we have our slide up?

13 MS. DWYER: We do and I will -- I'm on
14 the home regulator slide. When you tell me to
15 move on, I will.

16 MS. MCANDREW MOBERG: Perfect. Thank
17 you. You guys are having a real-time
18 demonstration of PCAOB agility and flexibility in
19 unforeseen circumstances.

20 On the home regulator involvement,
21 during our inspections if we start with the two
22 poles of this slide, in many cases a non-U.S.

1 firm inspection is PCAOB only. Quite a lot of
2 our inspections are done where perhaps there's
3 not a regulator in that country, or perhaps there
4 is a regulator but for a number of reasons the
5 regulator chooses to not work with us on the
6 inspection.

7 Not in any negative way. It's just
8 for whatever reason the choice that they make.
9 In those cases we notify the firm, we coordinate
10 our inspection, we go and do our inspection just
11 as we would any U.S. firm, no difference. If we
12 go on to the opposite side of the slide, a joint
13 inspection.

14 In many cases we truly do all aspects
15 of our inspection jointly with the home country
16 regulator. That would be before we even contact
17 the firm we might plan with the regulator. We
18 are out on the field together. We talk with each
19 other about what we find and we'll see some of
20 that when I get to the inspection process in a
21 minute. So those are joint inspections and those
22 can be done also for a number of reasons.

1 In the earliest days in some
2 jurisdictions the law required that the
3 inspection be done jointly with the foreign
4 regulator. Today there are many places where
5 that is the law and it's just become normal for
6 us and those regulators to have a relationship
7 where we plan and conduct inspections together.

8 In other jurisdictions there is no
9 requirement under law that we do the inspections
10 jointly, but we choose to. The foreign regulator
11 wants to and we are always open to having a
12 conversation with them about doing that.

13 We find it, the staff finds it, very
14 beneficial for us to be communicating with the
15 audit regulators in the home country. We learn a
16 lot about what it is that they are seeing in
17 their domestic environment that that firm is
18 operating in, so we find those joint inspections
19 and those communications very useful.

20 In the middle of the slide here we
21 have coordination or observation. This can take
22 a variety of forms. We have some regulators who

1 like to be the ones to contact the firm and say,
2 "hey, the PCAOB is coming" and set up the dates.
3 We have some regulators who say "go ahead and set
4 up with the firm, but I'm going to ask the firm
5 if I can come and observe what you do."

6 Again, we are open to all of those
7 sorts of arrangements. Of course, we do all of
8 this in compliance with the Sarbanes-Oxley Act
9 which requires us to keep information
10 confidential, but certainly there are provisions
11 in place and ways that we can work with the
12 foreign regulator nonetheless.

13 So if we move on, Erin, to the next
14 slide on the cycle, I want to give an overview
15 here really quickly of what the planning cycle
16 looks like and then we'll go through a timeline
17 in a little bit more detail.

18 The key point that I want you to take
19 away from this slide is that the inspection
20 process really doesn't stop once we issue a
21 report. We plan our inspection, we go out and do
22 it, the Board reaches its conclusion.

1 Importantly, it's the Board that decides what to
2 issue in the final report. It's a Board report
3 on the inspection.

4 Then after the report is finalized, we
5 take a look at whether or not any quality control
6 issues have been remediated by the firm to the
7 satisfaction of Board within 12 months. At the
8 end of all of that, again we're still not done.
9 We've learned a lot through that whole process.

10 Before we start planning the next
11 inspection -- at this moment every non-U.S. firm,
12 the number of audit reports that they issue
13 subjects them to inspections once every three
14 years. We do not have any non-U.S. firms at this
15 moment whose activity level on audit subjects
16 them to an annual inspection.

17 But if we're coming back to the firm
18 three years later -- we might decide to pull it
19 forward depending on the facts that we know --
20 we think about what we learned in that report in
21 that past inspection, and we think about what
22 have we learned in other inspections. That cycle

1 is really meant to reinforce that idea. We're
2 always building off of prior knowledge to see how
3 that informs the risks and the approaches for
4 future inspections.

5 I want to reinforce at this point,
6 this is a reminder I'm sure to many of you, that
7 we inspect quality control overall for the firm,
8 the firm-wide quality control system. Then we
9 also select certain engagements and inspect those
10 engagements. We don't do 100 percent of the
11 engagements that we select. We select focus
12 areas with an engagement. Again, it's based on
13 our risk assessments.

14 So, Erin, if we can move on now to the
15 next slide on the timeline. Perfect. Thank you.

16 So this has a lot of the features I
17 just went through on the last slide but a couple
18 of more details. This is where I'm going to get
19 to some of the challenges that we've had and some
20 of the different ways we've adapted to the COVID
21 environment.

22 I want to reinforce before I start

1 that, in fact, with very few exceptions, in fact
2 one exception, this is the timeline and these are
3 the processes for every one of our inspections.
4 The only exception is for a non-U.S. firm, if
5 those work papers are not documented in English,
6 you'll see the very first item on the timeline is
7 our planning and our risk assessment, we think
8 about whether we need a translator or an
9 interpreter to help us make sure we get through
10 the work papers and, importantly, to help us make
11 sure we have the means to communicate effectively
12 with the inspected firm so that their firm
13 personnel can really communicate to us what they
14 need to about the work that they did.

15 You'll see in the timeline that we
16 don't just show up and surprise the firm and say,
17 "We're here. We're starting to inspect." We
18 notify the firm in advance of the inspection.
19 The firm then provides us some preliminary
20 information. We've already done our risk
21 assessment. We've done some planning based on
22 information we have, what we know. Some of it

1 from the prior inspection, some of it from the
2 annual reports that the firms have to file, and
3 other documents that we received. We ask them to
4 provide us a little bit more information so that
5 we can further refine our plan. Then you'll see
6 the second item at the top. We notify the firm
7 of the specific engagements that we've selected
8 and the focus areas for our review so that they
9 have everything ready for us when we get out
10 there to inspect.

11 We also ask them to give us even a
12 little bit more information so, again, we further
13 refine. It's not unlike an audit, in fact, where
14 the auditor is required to continually re-
15 evaluate the information and reassess as they go
16 along in the process.

17 One thing that is a little bit
18 different this year, this is one of our COVID
19 challenges and how we've responded, is the early
20 access in the test of technology. In many cases
21 for the U.S. firms, in particular, we might have
22 gotten advanced access and we might have utilized

1 technology in order to see some of the firms'
2 documents.

3 In the non-U.S. setting, we had never
4 done that prior to COVID. We didn't ask for work
5 papers in advance. We would fly to the
6 jurisdiction, we would show up at the firm's
7 offices, and we would start our work from there,
8 so there was no technology to deal with. We
9 would get there and there would be firm laptops
10 ready for us.

11 Now what we have done to pivot in the
12 COVID environment, all of our inspections since
13 we closed mid-March of last year, closed our
14 offices and started working from home, all of our
15 inspections had been remote whether they are
16 domestic or foreign. Some of those still are
17 laptops. Some firms choose to send us laptops
18 with all of their data on it for the inspection.
19 We return it at the end.

20 But in many cases it's technology
21 enabled and we didn't have all of this set up
22 with every single one of the firms around the

1 world that we'd need to inspect, so we've spent a
2 lot of time working with their IT and with our IT
3 to ensure that we've established effective and
4 safe ways for us to access the data.

5 Then we conduct our field work.

6 Again, we have "remote" signaled here because
7 this year, and in most of last year, those were
8 remote inspections. We do our field work and at
9 the end of it, we request and the firm provides
10 supporting documentation for what we have found.
11 Again, we don't keep all of the firm's audit work
12 papers, all of their files. We don't have a need
13 for all of them, but we do have a need for the
14 documentation that supports what we have found
15 that we think might be a finding, we call it.

16 After the field work we issue comment
17 forms to the firm. It describes what it is that
18 we found and it gives the firm an opportunity to
19 respond. It may be that there's something that
20 they feel that we didn't see and they want to
21 provide it to us. It may be that there are other
22 factors they want us to consider, so that comment

1 form really makes sure that we've had a thorough
2 process and a thorough understanding between our
3 teams and the firm.

4 Based on those comment forms, we draft
5 a report. We have an internal process to ensure
6 that across all of our many inspections that we
7 conduct, we have consistency in how we've
8 evaluated what we found and decided what belongs
9 in an inspection report.

10 Again, the firm has a chance to review
11 that report and respond. Not to negotiate with
12 us about what's in it, but rather that they see
13 it, they can see if they've provided us
14 everything that we needed that is relevant and,
15 importantly, the firm has an option to provide a
16 letter that we will attach to the final report
17 that the Board ultimately publishes.

18 As I said before, all of our reports
19 are, in fact, reports of the Board. Our Board
20 votes on them and once they are voted on, they
21 are published.

22 Finally, as I mentioned before, if we

1 have quality control findings, the firm has one
2 year in order to demonstrate to the Board's
3 satisfaction that it has remediated those quality
4 control findings. But we don't just wait 12
5 months until we talk to them. It is a process of
6 communication with the firm and the staff between
7 the time we issue it and the time that ultimately
8 the Board reaches its determination.

9 So that, in some detail, is what
10 happens in an inspection. Again, I want to go
11 back to the only things that are different are
12 translators are needed. We have been using
13 technology a lot more on the remote inspections
14 this year. And, as I said before, there would be
15 coordination of varying degrees with the
16 regulators along the way.

17 I want to make one thing very clear
18 also. When we coordinate with regulators, we
19 still independently, the Board, draws its own
20 conclusions at the end of the inspection. All of
21 the procedures that we needed to have done have
22 been done and the Board has evaluated what it

1 found to arrive at its own conclusions.

2 We speak with the foreign regulator
3 about what we found and we find that two-way
4 dialogue very helpful to understand how they are
5 concluding and them understanding how we are
6 concluding but, at the end of the day, it is an
7 independent report of our Board at the end of the
8 joint inspection.

9 I'm going to turn back to Erin in just
10 one minute, but I wanted to touch on something
11 that Megan said earlier to emphasize what we've
12 gone through with you in detail, what happens in
13 an inspection, in our investigations it's the
14 same concept. When our investigators are looking
15 at a suspected matter of a non-U.S. firm, they
16 are conducting all of the procedures, they are
17 going through the processes, the same as they
18 would in a U.S. firm.

19 In some cases when we get access to
20 that information, we request it through a home
21 country regulator but that doesn't change in
22 essence what it is that are investigators are

1 doing in order to form recommendations to put
2 before the Board.

3 With that, Erin, I will turn it back
4 to you and see if we have any questions.

5 MS. DWYER: We do, Liza. I actually
6 think one that we just got is a good one for you,
7 which is how do you determine which international
8 firms to inspect. I guess we got ahead of
9 ourselves a little. Maybe you can just take a
10 step back and share with the group how we choose
11 which international firms we are going to
12 inspect.

13 MS. MCANDREW MOBERG: Sure. No
14 problem. So this is driven by the statute, by
15 our mandate. If a firm is conducting audit work
16 that subjects it to our inspection, which really
17 if they are issuing audit reports for any U.S.
18 issuer, they are subject to being inspected every
19 three years. Sometimes for risk reasons, or for
20 other reasons, we might do it more frequently
21 than every three years. We are able to do that.
22 The Board is able to do that.

1 We know pretty well -- we have about
2 300 firms right now, non-U.S. firms, that are
3 subject to inspection and we know when they are
4 coming up due for their three years. If there's
5 a foreign regulator involved, some foreign
6 regulators don't inspect every single firm every
7 single year so we might have conversations with
8 them about we are going to need to come in the
9 next three years. When will you be there? We
10 try to align our schedule so that joint
11 inspection works very effectively for us, for
12 them and, frankly, I think it's probably better
13 for the firm as well.

14 MS. DWYER: Great. Thanks, Liza.
15 While you were talking, I popped up another slide
16 just to show folks where on our website you can
17 find our inspection reports. I think sometimes
18 I've heard from stakeholders that they didn't
19 know they could access our inspection reports but
20 if you do go, again, to PCAOBUS.org under
21 oversight, you will see a link to firm
22 inspections reports.

1 Again, once you get there, you will
2 have a lot of different ways you can search for a
3 report. Right now this is just what the most
4 recent reports that we've issued are. They are
5 coming up alphabetically so you'll see some of
6 the Deloitte firm reports there, but you can also
7 do a country look-up, as well as whether it
8 includes a public quality control criticism. I
9 really do encourage investors to look at those
10 reports. I think it's really useful information.

11 We are coming to the end of our time
12 and we will open the floor to question and
13 answer.

14 Before we do that, I wanted to get one
15 more polling question in from our attendees to
16 ask sort of about your confidence in the audited
17 financials of companies based in jurisdictions
18 where the PCAOB cannot inspect audits is.

19 Please fill in the blank with much
20 less, less, the same, more, or much more compared
21 to jurisdictions where the PCAOB can inspect.
22 I'm going to give that a minute. Please as we're

1 taking our poll questions, if you have questions
2 for us, the Q&A box is where you can ask them.

3 All right. So I will end the polling
4 and share the results. Pretty interesting.

5 Almost 90 percent of you have less or much less
6 confidence in the audited financials of companies
7 where we cannot inspect. About 13 percent of you
8 have the same amount. Interesting results.

9 Like I said, I will now turn to our
10 Q&A. We have a question here that asks sort of
11 with the extent of remote auditing happening by
12 firms in the last year -- I imagine this is
13 related to COVID -- the person is asking what is
14 the PCAOB been doing to assess the impact in
15 2020, as well as in this current year, and are we
16 able to do that sort of assessment
17 internationally.

18 Maybe, Duane, I'll kick it to you if
19 you'd like to start.

20 MR. DESPARTE: Sure. Yeah, I can
21 start. Erin, I do have the polling question
22 still up just by the way, on my screen at least.

1 In any case, with respect to remote auditing,
2 certainly last year not only were auditors doing
3 their audits remotely, but a lot of the financial
4 close activities for issuers were being performed
5 remotely as well.

6 That certainly can -- that certainly
7 got our attention, as you would expect. Last
8 year right out of the gate we engaged with the
9 firms to get a better understanding of what they
10 were doing to ensure that they had quality
11 controls around their inspections -- around their
12 audits.

13 We also in our inspections we
14 increased our scope to include some calendar
15 non-calendar year-end audits; for instance, June
16 30th audit, just to start to get a feel of what
17 some of the risks were going to be. We have a
18 general feel kind of what complexities were out
19 there last year. We had a lot of discussions
20 with the firms in terms of what activities and
21 controls they were putting in place to address
22 those complexities. That's kind of overall from

1 an international perspective.

2 It was mentioned earlier that PCAOB is
3 a very active member of the International Forum
4 of Independent Audit Regulators, IFIAR. IFIAR
5 spent a lot of time with the global firms, the
6 largest network firms, to engage with them to
7 understand what they were doing and how they were
8 managing the remote environment.

9 I think as the PCAOB we have a lot of
10 information about what the firms have told us
11 they were doing. We are just starting our
12 inspections of 2020 audits for the most part so
13 we are now going to be finding out -- you know,
14 we kind of understand what the firm intended to
15 do. We are now going to inspect to see how that
16 worked out.

17 But the feedback that we've gotten
18 from most of our stakeholders is that it seems to
19 have run more smoothly than anybody would have
20 initially expected. I think that really relates
21 to some significant investments in technology at
22 preparers and at firms that help facilitate a

1 very unique, obviously, and challenging,
2 situation.

3 Erin, I don't know if anyone else
4 would want to comment.

5 MS. JURATA: Erin, I might jump in and
6 just say, you know, I don't have much to add
7 because Duane answered the question but I do just
8 want to flag that we did as an organization try
9 to signal and make public a lot of areas of
10 concern and high risk given the remote audit
11 environment.

12 As Duane said, you know, we did a
13 significant amount of ongoing outreach, not only
14 with audit firms, but also with audit committees
15 seeing how they were addressing the risk. We
16 were trying to make public and signaling to the
17 firms registered with us and subject to our
18 requirements that we expected the audit
19 procedures, in particular over ICFR, should
20 change in light of the fact that if the auditor
21 is doing a remote audit, then they can't rely on
22 procedures that were previously used in a non-

1 remote environment.

2 I think highlighting that and then, as
3 well, as focusing on the quality control systems
4 of firms and how they've adjusted in a remote
5 environment is going to feed into our 2021
6 inspections. Just to emphasize what Duane
7 pointed out was that I want to applaud the work
8 that the Staff did in responding to 2020. We did
9 change our inspections program in response to the
10 COVID environment.

11 I think it bears mentioning again what
12 Duane just said, we changed the issuers whose
13 audits were selected for inspection and review to
14 include some with calendar year ends of June
15 2020, as well as the interim reviews. The PCAOB
16 did get some real-time updates of how firms are
17 handling it, and then again calling out the high-
18 risk areas through a lot of publications.

19 MS. DWYER: Great. Thank, Rebekah.

20 I think we just have another question
21 that maybe I'll wrap us up with because we at
22 almost the time mark. This is a really good

1 question. Maybe, Liza, I'll give this one to you
2 to start, at least, which is in a joint
3 inspection does the PCAOB ever wish to inspect
4 areas or items that foreign inspectors -- foreign
5 regulators they mean -- don't wish to inspect?
6 If so, what happens?

7 MS. MCANDREW MOBERG: It happens all
8 the time, Erin. We're very used to this
9 discussion. You know, at its heart a joint
10 inspection and the work that we do
11 collaboratively really is about the foreign
12 regulator respects that firms are doing work,
13 registered with us and did work that subjects
14 them to our oversight. That firm needs to meet
15 its requirements under its registration
16 obligations.

17 That foreign regulator has its own
18 work that it has to do under its mandate. From
19 one jurisdiction to another, the scope, the
20 frequency, the type of work that the foreign
21 regulator needs to do to satisfy their own
22 mandate, could be quite different from ours.

1 They and we agree to work together so that each
2 side can get done what they need to do in an
3 effective way. It is quite often that we talk to
4 the regulator. We say -- they want to do some
5 things, we want to do some things. Part of the
6 time we might be out in the field together doing
7 the same things and part of the time we might be
8 in the field together doing totally different
9 things.

10 They obviously being in the
11 jurisdiction will spend, you know, different
12 amounts of time at that firm and have the luxury
13 to come and go. We go out and try to get
14 everything done effectively while we are there.
15 In some jurisdictions it could be in one year
16 they will look at a firm with us together and
17 then the next year they won't look at the firm at
18 all. It might not be part of their inspection
19 cycle.

20 We really see a lot of variations of
21 the extent of coordination in an individual joint
22 inspection but, in most cases, our program has

1 been very successful at managing those to achieve
2 the outcomes -- the objectives of the Act.

3 MS. DWYER: Great. Thanks, Liza. You
4 have brought us to almost exactly 4:00 so I just
5 on behalf of the attendees would like to thank
6 Acting Chair DesParte, as well as Board Members
7 Zietzman and Goshorn Jurata, as well as Liza for,
8 I think, what hopefully was really useful
9 information today. Thanks to you all for bearing
10 with us on the technology. Still after all these
11 months I'm not sure we quite nailed it but I
12 think we did okay.

13 Then, Duane, did you have any
14 concluding remarks?

15 MR. DESPARTE: Yes. I hope this gives
16 you an increased appreciation for the rigor with
17 which we approach our work internationally and
18 gives you an understanding of why we do that.
19 You know, I was really encouraged by the poll
20 question results because I think it demonstrates
21 that at least folks here today understand the
22 protection that what we do at PCAOB provides to

1 investors.

2 It's so important that protection
3 apply equally to any issuer whether it's a U.S.
4 issuer or not. I think that's what Congress is
5 getting at in the act that we discussed. But it
6 really is fulfilling to know that you view what
7 we do really matters. Of course, we do as well.

8 The international component is just so
9 important given the materiality that we talked
10 about earlier.

11 Thank you for being here. We
12 appreciate your interest. If you have further
13 questions, please reach out to us informally as
14 well. The best to everybody.

15 MS. DWYER: Thanks, Duane.

16 Thank everyone for joining us. Please
17 do reach out if you have any questions for us.
18 We hope to see your comments in the HFCAA
19 proposed rule docket. Thanks again. Bye-bye
20 everybody.

21 (Whereupon, the above-entitled matter
22 went off the record at 4:00 p.m.)