NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Investor Advisory Group meeting on October 24, 2017 that relates to the standard-setting project, and related subject matter, discussed at PCAOB Docket 041: Firm and Engagement Metrics. The other topics discussed during the October 24, 2017 meeting are not included in this transcript excerpt. The Public Company Accounting Oversight Board does not certify the accuracy of this unofficial transcript, which may contain typographical or other errors or omissions. An archive of the webcast of the entire meeting can be found on the Public Company Accounting Oversight Board's website at https://pcaobus.org/news-events/events/event-details/pcaob-investor-advisory-group-meeting_1085.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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INVESTOR ADVISORY GROUP

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MEETING

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TUESDAY
OCTOBER 24, 2017

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The Advisory Group met in the Westin City Center, National Ballroom AB, located at 1400 M Street, Northwest, Washington, D.C., at 9:00 a.m., Steven B. Harris, Chairman, presiding.

INVESTOR ADVISORY GROUP

STEVEN B. HARRIS, Chairman; PCAOB Board Member
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ROBERT M. TAROLA, President, Right Advisory LLC
LYNN E. TURNER, Managing Director, LitiNomics; Former SEC Chief Accountant
GARY G. WALSH, Principal and Portfolio Manager, Luther King Capital Management

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PCAOB STAFF

MARTIN F. BAUMANN, PCAOB, Chief Auditor and Director of Professional Standards

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front page test. And laws have been broken. And the auditors were not present in terms of transparency and being held accountable.

I think there's a tremendous expectation gap. And I think that work has to be done in this area. And whether a must criteria is doable or not I think considerably more work has to be done.

And so I very much appreciate the specific recommendations of this particular session, which gets to something which is very doable within the jurisdiction, clear-cut jurisdiction of the PCAOB.

So thank all of you who were involved. Marty, thank you for the work that you've done already and hopefully will continue to do.

And why don't we take a 15-minute break and reconvene at quarter of three?

(Whereupon, the above-entitled matter went off the record at 2:27 p.m. and resumed at 2:44 p.m.)

MR. HARRIS: All right. Well, the last session deals with the subject of audit quality initiatives. And the choice of the word initiatives was deliberate so that we did not necessarily want to focus completely on audit quality indicators. We wanted to focus not only on audit quality indicators, but in terms of initiatives, any other areas that the working group would like to bring up.

So, having said that, Norman, if you'd like to start off the conversation, we'd appreciate it.

MR. HARRISON: Okay. Thank you, Steve. It's my pleasure. It's always tough being last, especially on a day like today when the two panels that proceeded us did such a great job with their material, their presentation, and the ensuing discussions. I hope we'll be able to do the same.

First, I want to recognize the other members of our group. Lynn was our co-lead, Linda, Anne, Gary, who are here. Parveen, unfortunately, who couldn't be with us today, was also a member of our group. And as the others have indicated, this too was very much a collaborative effort. And the front tents are those of the group as a whole, not only of those of us who are presenting.

Lynn and I are going to toggle back and forth over the course of the presentation. So I'll just give you a quick overview of where we're going to go over the next 30 or 45 minutes or so.

I mentioned in my overview comments when Chairman Clayton was here this morning that there was a theme or a principle underlying our message today, and that is that you manage what you measure or you regulate, assess what you measure.

And we believe that audit quality indicators, as concrete measures, but the broader category of audit quality initiatives provides an opportunity for the board to gather, collect, and analyze information in a variety of forms that we all strongly believe would enable you to better discharge your obligation to protect and ensure high quality audits.

So we're going to take it in a few steps today beginning with articulation of some principles, some foundational principles about why this topic matters to investors.

We'll take then a little bit of a look down memory lane and, you know, revisit where the origins of this topic rest and the work that the board and the staff have done to date.

We'll then turn to take a look at what regulators and other market participants, standard setters in other jurisdictions have been doing of late on the topic of audit quality.

We're then going to take a look back. As I mentioned this morning, this topic was on the agenda at our 2013 IAG meeting. And in fact, several of us who are here today, including myself and Lynn, along with Tony, who was the chair of the working group that year, and Mike and Gary were on that working group.

This year's working group would like to summarize for you some of the highlights or key points of the material recovered and the recommendations we made in 2013 and really embrace them and re-advance them, if you will, because we think they're of continuing relevance today.

And then we'll finish with some additional or specific recommendations from this year's working group and as you indicated, Steve, not only on audit quality indicators but more broadly on the topic of other initiatives that we believe the PCAOB should consider in the interest of advancing audit quality.

So, first point, and again, this probably could have been a ten-page portion of our presentation. But we wanted to at least highlight a few key issues or areas where, why we believe that this topic is of substantial importance.

You know, as I briefly described this morning, you know, it's important we all remember in this context that the process of interviewing, qualifying, proposing, re-proposing an auditor in the public company context is really the most important or one of the most important duties an audit committee discharges and is actually, perhaps, the most or one of the most important decisions with respect to which shareholders are invited to exercise their franchise.

And it should be much more than a formulaic or a rubber stamp process. It should be an election, a decision that's governed by a variety of helpful and relevant information on the quality of the auditor to do the job.

And we strongly believe that the development of audit quality indicators, at the least, would add considerable value to the flow or the repository of information that's available to better inform that decision, not only with respect to the quality and capability of the firm as a whole or the firm with respect to the industry in which the issuer is in, but indicators that relate specifically to audit level indicators for that company as well as for others that we think investors should have access to as they make this decision every year.

Audit quality indicators can also serve as red flags. If they're monitored, as Sarbanes-Oxley recommended, that the PCAOB track and monitor them year to year, you could well envision situations in which trends develop which might indicate issues around the capacity or resources available to particular audit firms or an audit firm's competence in a particular industry or subject matter that might better inform the board's investigation review processes, as well as provide information to investors again.

And in that and other ways, we believe that the publication and tracking of audit quality indicators could be an important complement to what we know is the terrific job you do in monitoring and inspecting audit firms.

It's a big job. Resources are limited. Time is limited. I'm sure that there is a lot more you would do and could do if you had, if resources were unlimited.

This could be, completing your work on this initiative we believe could provide additional information to better inform your inspection processes and provide additional pools of information that relate to the sufficiency and the fitness of audit firms to do their work.

We'll point out also there is -- I'll let everyone know if you haven't seen it already. We've provided an appendix to our, to the presentation that we'll review this afternoon that provides summaries of the published results of PCAOB inspection reports from the 2012 to 2015 period, 2015 year being the most recent year of which data was available.

And I think those, you'll see in those tables and in the summaries that have been prepared that, you know, there's reason for a concern about audit quality. And I'm not telling you anything you don't already know.

I mean, there are regularly deficiency rates from the high 20s to the high 30 percents on an annual basis, one Big Four firm in recent years with a deficiency rate of 54 percent, another one nearing 50 percent in two of the four years that are captured here. Firms in the next tier or category of firms have in some years in some cases deficiency rates that are even higher.

So I don't think it's an arguable proposition that there's room for improvement. And this is an area that's very much deserving of the board's and the staff's attention.

We'll note also that, you know, that audit, the quality or the outcome or the output of an audit is to a large degree dependent on the professionalism and the attitude of professional skepticism with which it is approached.

And, you know, we certainly acknowledge that the topic or the concept of professional skepticism has been the subject of many efforts and initiatives over many decades including PCAOB's own standards and your 2012 practice alert on this issue.

But, you know, the results of your inspection regimen and other measures of audit quality do not seem to indicate that continuing focus or education or guidance on professional skepticism will itself without more will likely have an impact on improving audit quality in any meaningful respect.

We also want to note, and we'll get back to this later, that it is, it's been nine years since the Paulson Commission report was published with some fairly specific guidance on the process around this topic. And yet we're still not at the finish line.

And I think one of the fundamental points or the core messages of our group today is we would strongly urge the board to move with dispatch to complete your work in this area. It's time.

And I also want just to make note of the fact that, you know, we've seen, in fact, in 2013 when we, when our working group discussed this topic, the point was raised, including by one of your former colleagues who's no longer on the board, that there is other information in the public domain that the firms themselves voluntarily publish annual reports on audit quality in various forms.

And they describe measures that they are taking to provide additional education and training and resources to support their audit practices. And those also often usually contain certain measures of audit quality, AQIs, that the firms report or track over time.

I don't think any of us would dispute the fact that any information that's in the public domain about steps firms are taking or the results of their audit processes are not important.

But I think we're all very much of the view that these types of voluntary reports, which often have more of a promotional aspect to them than simply a data reporting aspect, that they're not an adequate substitute for a uniform set of indicators with definitional uniformity, directed reporting requirements, and the ability of the board to track and measure them.

So with that by way of introduction, just a few points on background, again, just a reminder that the mandate to consider and develop measures to improve audit quality traces back, of course, to Sarbanes-Oxley. As I discussed this morning in the brief introduction for Chairman Clayton, it's the reason we're all here.

It's the reason the board is here.

Everything you do, everything in your mission, everything you do across your various areas of oversight and guidance and standard setting, all of your activities are in one way or another done with, to fulfill your mandate to improve audit quality.

And I think the working group members, you know, formally believe that, by not yet having taken final action on audit quality indicators, you're depriving yourselves of potentially valuable information to further fulfill your, or enable you to fulfill your duties.

As a reminder, this is really the genesis of the audit quality initiative concept. The excerpts from the Paulson Commission report took the form of a recommendation to the PCAOB in consultation with various constituencies to determine the feasibility of developing key indicators of audit quality and effectiveness and requiring audit firms to publicize them, and assuming that those things occur, then to establish a mechanism for the board and staff to monitor the indicators.

And we wanted to emphasize the language in the third bullet point because it really goes to the objectives or goals of developing an AQI regime and, in particular, as we discussed a minute ago, the significant benefit that it could provide to shareholders in connection with their decision-making process around auditor selection or ratification and as an enhancement to the board's role as the supervisor of the audit profession.

All that, of course, is not to say that the board hasn't been attentive to this topic, as you certainly have. Just a reminder for the benefit of the members of the working group that the board's activity in this area really dates back to late 2012, when in the setting of goals or initiatives for 2013 the board identified the AQI initiative as a priority project for 2013 with the goal of developing initiatives that would be reported over time.

The topic was discussed in 2013 both in May with the SAG, and as I mentioned, in October of that year, this group had a detailed discussion on the topic involving many of the people in the room today, further discussion in the summer of 2014 with the SAG.

And then, of course, in July of 2015 the board issued its concept release which proposed 28 potential AQIs, a very thoughtful and well-formulated discussion and analysis in my view. There was a comment period, of course, and a deadline.

And then in November of that year, the AQI initiative was again taken up with the SAG. And at least as far as we know, those of us who aren't within the building, that's about where the trail went cold.

So we're here today, as I said, to urge and perhaps now that the, that you have a gust of wind in your sails as a result of yesterday's very good news, that perhaps we return to this topic as one that's been lingering for quite a while and we believe is worthy of some final work and completion.

As I mentioned in the introduction, there are activities occurring in other forms, other standard setting bodies. Other international regulators have been active in this regard. And I'm going to turn it over to Lynn now to take us through that issue.

MR. TURNER: So there are a lot of activities going on with respect to audit quality. This is another area where the international community is actually ahead of us and has taken a lead on work on audit quality.

The international group of PCAOB regulators, if you will, got together in '14, discussed it, met the following year with the six largest firms, said it's way too high, 47 percent, got it down to 42 percent. But when you think about it, 42 percent of the audits are not following GAAS.

And it's interesting. I hear from the firms two comments. One comment is, well, it's because the PCAOB picks high risk audits. And my response to that is, well, if they're the high risk audits, they're the ones you ought to be doing the better job on.

And we also find in a number of the litigation cases that the auditors had said they were high risk, and they failed there, too.

And then, you know, so it doesn't, it really doesn't fly, those arguments. And it's 42 percent here. IFIAR went out and set a goal of trying to get a 25 percent reduction in the number of those deficiencies by 2018, 2019, 2020, right in that timeframe someplace.

But if you get a 25 percent reduction, you're still at a 30 percent error rate. I mean, what if your iPhones that you bought all had a 30 percent error rate? People would be, you know, chunking them into the trash can.

So any rate, and IFIAR has commented on the international proposals, which are very good. And it's just not IFIAR. The U.K. has been into this issue for some time here, almost ten years. And again, they're seeing the same type of problems, 31 percent in their most recent report.

It's kind of like a disease that's kind of gotten in and got hold of everyone. It's every place. It's not just here in the U.S. It's the U.K. It's Europe. You saw the IFIAR. IFIAR has a great website that shows it for every country. And Australia has had similar type problems, Singapore.

One of the interesting things about where the U.K. has gone with it in their Financial Reporting Council is they now grade each of these inspections, good, bad, or whatever the grading scheme. It would almost be nice to be A, B, C, D, and F because everyone knows what that means. But they do grade. And they give that grade to each audit committee.

So you talk about litigation, Jim. How about you have your regulator comes in and gives you a failing grade, you know, and everyone knows that grade goes in, I think the U.K. is dead right. I think this would be great to see in our inspection reports.

And as they say, currently we use the grade to inform public reports on each firm. So good things going on in the U.K. Click.

Singapore, again, they're trying to get down to that 25 percent reduction. The question becomes what's your starting point and how far does 25 percent if we're up at 40 percent. You know, saying it's okay to have a 30 percent error rate in the audits, not real comforting from an investor perspective.

You know, the goal should be getting down to zero. We know we'll never hit zero. But if our goal is only to get down to 30 percent, doesn't instill confidence in the system at all.

Interesting thing here, it says from inspections commencing on and after 1st of April, the names of public accountants imposed with hot review or restriction orders, articles or revisit inspection will be published.

So the name of the partner is going to go out there, you know. It's kind of like going home with the report card that had an F on it, you know. You always hoped there was a dog you could feed it to on the way home. Click it.

Again, Netherlands actually got started in it in 2008. They've been working on it. The Swiss are working on it.

Interesting thing about what the Swiss has said, we've all talked about the audit committees and the importance of audit committees and how they can be good. I think some are good, some are bad, some are in between.

But here, it says AQI were either not supplied to audit committees or only sparingly. So it's very clear that information is not getting to the audit committee. If that information doesn't get to the audit committee, the audit committee cannot manage and oversee audit quality. They don't have the information.

Again, you measure. You manage what you measure. If there's no measurement and no disclosure of the information, if you think the audit committees are doing their job, you're a fool. It just can't happen. And see the Swiss find this is most interesting. So let's flip up.

The IAASB, these guys have been, ladies have been hard at work jumping ahead of us here. 2011, get out the paper on audit quality, do some consultation, come back again, issue more for comment, publishes where they're trying to go with it by 2015.

After that, the Center for Audit Quality, the profession really, the professional's group here in the U.S., they put out a paper as well. I don't know that the IAASB, even though they put great heads on it, that it gets to where it needs to go. But at least they've been doing a lot of work on it.

The Federation of European Accountants, again over in Europe, they're putting stuff out as well.

I give a shout-out to Deloitte. They put out now an annual audit quality report separate from their annual report. I think that's good. It's got some useful firm-wide metrics in it. It doesn't get down to what we need as investors, though, to vote on individual audits and individual company audits. We need that detail.

But at least Deloitte has shown the courage to get out, form an advisory group. They form an advisory group of a number of people I know, respected. And not that DT always takes everything that they say and goes with it, but they use it as a good sounding board. And they put out their report.

I wish the other three would get on the bandwagon and join them in this effort. That would be a good move and show that the other three actually do give a hoot about audit quality as Deloitte has, so shout-out to them. And so --

MR. HARRISON: Okay. Yes, I think it's -- thank you, Lynn. I think it's back to me.

So, again, just by way of recap, we've covered some of this. The first two points we've touched on. We're now at the point of a nine-year period having passed since the Advisory Committee's recommendation was first published. Work remains incomplete or undone.

There is activity abroad that we do not want to be, the view of our group is that we don't want the board to be in the position of catching up if jurisdictions overseas are getting ahead of us.

And then lastly, you know, again, the third bullet, some of these issues have been touched upon today. Others have been the topic of discussion in this group in prior years. And that is that there are other industry professional factors, market factors at work that in recent years have further raised concerns about audit quality.

And some of those have to do with investments and culture in the firms. As the firm's consultants see practices continue to grow and expand, audit firms are in some jurisdictions now in the legal business, forming law firm affiliates, M&A advisory businesses and the like.

And those raise questions about the priority of the audit practice and willingness or ability to invest in audit quality when there are increasing demands for capital investment in other practices, which frankly may be more lucrative or higher margin. And those same issues raise questions about independence rules in that and other contexts.

And then, again, we've discussed this already today, but the too big to fail phenomenon or mindset continues to appear as we've seen most recently in South Africa and the issue with, and the banking situation there.

MR. TURNER: Norm, if I could just --

MR. HARRISON: Yes, please.

MR. TURNER: -- comment on that. We have now seen in South Africa where KPMG is looking at an Arthur Andersen type outcome where the central bank has had to go out and tell the other bankers, despite how lousy their audits were, you need to stay with KPMG or they will fail.

The federal reserve chair there equivalent has had to go out there to try to save them. It is a bailout.

If people think you cannot have a too big to fail situation today, the answer is we do have one. It is occurring. And it will occur in the U.S. just as it has in South Africa.

MR. HARRISON: The next thing that we want to spend a few minutes on is a review of the work done by the working group in 2013 and an overview of the principles and recommendations we made at that time, not because we didn't want to do any additional work this year. There are some new and updated recommendations coming toward the end.

But nonetheless, as I said, you know, several of us were involved in the work at that time and believed that the analysis and the survey results presented there, as well as the recommendations, are still relevant and vital today. So we'll take just a minute to recap those.

The 2013 working group urged the board to prescribe a set of audit quality indicators that measure actual output quality, not only resources, not only measures having to do with workloads or hours of investment, but measures of the actual quality of the output, additional measures that would more directly establish accountability.

And there's been, obviously, some movement in that regard by the board in the intervening years and indicators that would be forward-looking in nature and have meaningful information or ideally predictive aspects to them as well.

We urge that the board focus its attention primarily on audit quality indicators more so than indicators which relate more to the quality of the firm as a whole or the process it conducts. Again, outcomes we believe should be the principal criteria and the principal quality that is measured by the indicators.

And that's for the simple reason, although it does bear repeating, that investors are most concerned about the reliability and credibility of the audits of the companies that they're either invested in or are considering an investment in.

It is not enough to prescribe report standards that talk in general terms about steps that firms take or measures that provide some indication of investment in audit training, investment in audit processes.

At the firm level, the real issue for investors is what has been the quality of the audits of specific companies that we're looking at.

And again, as an audit committee member, the same concern, the same issue, what measures can we have apart from our auditors on representations, what quantitative criteria, what measuring posts can we have to give us some further sense of the quality of the work that our auditor is doing for our company, and therefore, for our shareholders.

The key elements of our recommendations at that time had to do with -- the first two bullets I've already really described. I'll pick it up with the third bullet where, you know, we strongly believe that audit quality indicators and audit quality initiatives should include publication and greater transparency around the outcomes of PCAOB inspection reports and also that -- and again, we will reiterate this year, but it was certainly our recommendation in 2013 that the board promulgate an initial set of regulations that, again, provide indications of audit quality both at the firm level, but more importantly at the engagement level.

We've provided several specific recommendations in each of those categories in 2013, but I -- and I won't repeat all those. I think that the presentation is still available on the board's website.

Some of those, for example, were, you know, tracking a number of restatements by industry group, the number of instances in which the PCAOB independence rules were violated, the disclosure of inspection reports and grades with issuers identified, identification of key risk areas and hours spent on those areas in the course of a specific audit, and disclosure of issues that with which, the audit team found it necessary to consult with the national office. What were the technical issues in which they felt they needed further guidance with respect to a particular audit?

And again, we strongly urged at that time and we really think the whole purpose of this initiative would be to enable, to require reporting of those indicators and that the results be subject to review and verification by the PCAOB in the course of your inspection processes and that there be public comment and feedback as well.

And in terms of where you are today, we realize that the concept release and the proposal came a year and a half or two years after the last time the Investor

Advisory Group considered the issue.

And, you know, as I said, I guess the view of our group that the indicators proposed covered a number of these areas. There was very thoughtful discussion and analysis around it.

And I think, you know, my closing remark before handing it back over to Lynn would be to echo Grant's comment in the, from the last panel. And that is we'd strongly urge you not to let the perfect become the enemy of the good here either, that it's important to start and to develop an initial set, and always with the option to revisit and to tweak or to introduce new ones as, when informed by experience.

But I think the most important message from us today is that we believe it's, that there's been more than sufficient discussion, debate, and dialogue. The board's done a lot of very important work. And it's time to bring it to fruition.

So, with that, I'm going to turn it back over to Lynn, who's going to take you through. As I mentioned, we didn't simply want to reaffirm our 2013 recommendations and call it a day. We do have some thoughts to share this year. And Lynn's going to finish up for us.

MR. TURNER: I think, as Norm said, he spoke to the first two points. One thing that came out of our discussions, though, was transparency was extremely important. People consistently talked about transparency in the inspections, what came out of discipline and what came out in the annual reports from the firms.

And I'd have to say, if you go back and look at the slides we did on the inspection results over the last four years -- and we actually looked at inspections before then, too; we're tracking this now -- the inspection results are, as we talked about before, not good.

They're actually -- I was surprised, though. There's enough transparency in the inspection reports you can actually start doing some slicing and dicing here that is useful.

The deficiency rates of the next three largest firms after the Big Four were significantly worse than what they were for the Big Four.

We've argued, and on ACPA we tried to deal with the competition issue. But if you're going to compete on quality, given those inspection results, you, as an audit committee, would never select those, that second tier of three because the audit results are significantly worse.

And so it does give us some data. And, Jim, I give you, I give Helen, the other board members tremendous kudos, because the transparency of that information we've seen in some of those inspection reports is better and has improved from what it was before you got here. So kudos to you for that.

But I'd encourage everyone to look at that because it does give you a chance to start looking at, if you're an audit committee, where you go if you're choosing based on quality.

There could be better transparency if you give us the name of the companies, but you're headed there. Anyway, next slide.

It was interesting. We asked everyone in the subgroup to give us their top six or eight items out of the list that you had put out in the concept release, Marty. It was a dumb request because people either gave me all of them or none. Actually, there were some that gave me the six.

But Anne was the first one to come back and I think gave me 25 of your 28. She loved your concept release. And when I went back and looked over it, it was very good. Those, what was in the concept release, as far as the audit quality indicators, was extremely well done.

But one thing that came out was again as it was a few years back, both firm-specific and audit engagement-specific are important.

We vote on -- and as we look at voting, I chair the committee that oversees the voting in PERA. We're voting on how well they're doing on that particular audit. So we need the information on that. That's why we need the company name.

And so if we could, go on. Here were some of the things where there did seem to be some consistency. If you go back to your AQIs, Marty, and your concept release, this will sync up with some of those in there. That's not to say that we'd say just do these, because, again, I think there was some reception that a lot of those are very good.

And also, but here are the ones that people -- independence seem to keep coming up in the conversation at the top of the list. If we have problems or concern with independence, and certainly we've seen that in the broker-dealer reports, then there are problems. And we've seen it in a number of the litigation cases as well.

I've actually now seen I think two cases where judges actually ruled against the auditors, didn't even let it go to trial on the independence issues. So next slide.

Again, looking for information that allow us to vote on and allow the firms to manage both the engagement. It was amazing. As we all started down this path and as we did the ACAP report, how the firms came back and said, well, no one's defined audit quality indicators, no one knows how to measure that, which gets back to the lead slide, you manage what you measure.

It was clear the firms were not measuring it by their comments. And so they just flat out could not be managing their quality.

And we found that to be true now when we look at the inspection results around the world. They're not managing it around the world, because inspectors around the globe have found the same type of problems.

It raises this concern with the too big to fail then and the lack of independence and the independence issues. We see the firms, once again, growing their consulting practices.

I've had lead partners in firms come up to me and tell me that they're having trouble with the interaction with the consultants who want them to do things that the audit rules don't allow them to do.

We see now PwC starting to buy and bring in legal practices into the U.S., which we prohibited when I was there at the SEC. And that's very concerning because an attorney is an advocate. And you can never be an advocate and be independent.

And ultimately, it probably gets down to we may not be able to fix not only this problem but the other ones that we've been talking about today, certainly the non-compliance issue, until we ultimately deal with what is the elephant in the room, which relates to independence, and that's who pays the auditor.

If people think that the people at the top who set the tone are paying the auditor and then they're still going to get an independent audit, I rewrote those independence rules and thought it would work. I just don't think until we get to this last slide we'll ever fix a lot of these problems.

Next slide. It speaks for itself.

MR. HARRIS: Chairman Doty.

MR. DOTY: Again, fascinating discussion. There is here a suggestion that it would help investors if a specific grade on audit quality indicators, on the basis of the quality of the audit of each issuer, were assigned.

Now, that's a departure from the inspection process and practice. But we couldn't do that under the statute now.

And I know Lynn has a different view of this, but there's a long-established principle to the Board that we can't, we cannot engage, we cannot disclose in our firm report the specific engagements. And we talk about engagements rather than firms.

But do I hear from the investors that a U.K. grading system, engagement by engagement, would be useful if it were required to be disclosed to the audit committee?

In other words, that's different from coming out to investors you see. That's not a disclosure to the public.

But is the investor confidence and the audit enhanced, if you know that the audit committee is going to get a grade from the divisions of inspections that says, we found on the following six, eight, I choose eight because Singapore has eight, could be 20, the following firms, the following engagement specific, all audit quality indicators, we give the following grades to this engagement.

Because that is, that avoids the disclosure to the public, it is a step beyond what we now do. And that's why I ask the question.

MR. HARRIS: Well, does anybody care to respond? I mean, the tent cards, well, these are all for questions. Are these for responses or for questions?

PARTICIPANT: Yes.

MR. HARRIS: Okay. Anne, you go first.

MS. SIMPSON: Thank you. We didn't discuss this in the working group so please treat this as just a little personal comment.

The issue here is about the whole framework of the government's arrangement. So share owners, are meant to hire and fire the audit committee, which hires and then asks for ratification in this country, election in the U.K. So there's a much stronger framework of accountability in the U.K.

I was talking earlier with Linda that until quite recently, in the U.S., it was very difficult for share owners to be able to vote anything other than yes, to the state of candidates put forward. So I think we're in the foothills in the U.S. of understanding what share owner oversight looks like, this is a famous majority voting. Which many of us have been involved in.

So, the point about the -- so, we rely on a disclosure much more in this market. And arguably the U.S. is very strong on the disclosures because sell or sue has been the basis of the oversight. There's been much less by way of ownership and stewardship because of very weak shareholder rights.

But that is the backdrop. It suggests that it's now that we have one hard fought abilities to vote for, as well as against, Board Members, how do we know if the audit committee is doing its job, unless we are also party to the information, which you're suggesting.

I'm very sympathetic to what you're suggesting on these grounds that if you know you got to hang something in the front window for all to see, it may have an inhibiting effect. Make it more difficult for the regulator to be frank.

But on the other hand, maybe we just have to get over that. Because unless shareholders start to understand how, you know, as opposed to the high expectations, part of it is things go wrong and then it's not clear who is living in a world of consequences.

But partly, I think, it's because the investor community doesn't yet know how to assess whether the audit committee has done a good job or the auditor has done a good job, until things have gone horribly wrong. And then you're stuck with very little choice for exactly the reasons that Lynn just said.

So, my thought is that the more that we can encourage or persuade the regulatory bodies to share with investors, the better equipped we are to carry out our own oversight responsibilities. And regulators can't be everywhere.

Really we need, in all circumstances, that the investor community is better informed. And right now, the investment community is rather sleepy on these issues.

Is that fair, fellow investors? I don't know who has voted against audit committees or audit ratification in recent years, but that would be worth looking at as well.

MR. HARRIS: Mike Head. We'll just go around the room. And skip Lynn for the time being, since he's --

MR. HEAD: I agree with everything that was presented. I am, kind of directly to where you were talking, Chairman Doty, I actually would be okay with individual audit ratings from the inspections going to audit committee, if there was somehow that there could be a public rating that was at the firm level.

Which would be some kind of conglomeration of the individuals. However, you guys would do that behind the scene and I have no idea how that would work.

But if the public had a firm rating and the audit committees had their individual ratings and there was, behind the scene some logical way that the individual inspections came together in the firm rating, I think that could be a win-win, both sides.

I do feel, and I was obviously involved in the 2013, so this is an area that I am passionate about like a lot of others, I think we're still stopping short, even with quality indicators. I do think that until the United States addresses who truly should hire and pay the auditors, that's not part of the company, it's always going to be a challenge.

And you can always go to the regulatory environment and say they assess. And then that's how FINRA and other agencies get paid.

I'm not saying that's a perfect model, but if PCAOB was hiring the firms instead of the companies hiring the firms, I think there would be a lot different outcome on your inspections. But that's just my personal opinion.

And the elephant that's always been in the room that we in the United States just can't get our arms around, is mandatory rotation of auditors.

And I would be remiss to go through this process and not say, that still needs to be on the table. I don't like it as being an auditor, past auditor CPA, that I like self-regulation, but when are we going to be honest with ourselves if we continue to have the high-level rates that we do, that our system seems to not be working. And continuing to do the same things is "the definition of insanity."

MR. HARRIS: Mike Smart.

MR. SMART: I just have two questions. First of all, it was a very informative, actually, some of the information was actually somewhat shocking, surprising. Especially the percentage of failures or fractions.

But to that point, the 42, 43 percent, I was curious as to sort of the degree of severity of some of the infractions were, are the infractions sort of just all put into one pile or are they broken up in terms of the degree of severity associated with the infraction?

I'd be curious to know that I'm not sure whether that's possible, but I'd be very curious. Especially with a percentage that high. That's one.

Two, just as it relates to the disclosabilty of the infractions to the audit committee, just to sort of put them on notice, I'm curious, and I'm not an attorney or an auditor, but I'm curious that if an audit committee was told that your audit had X number of infractions and we're putting you on notice, as an investor, would that be a disclosable issue? Just curious.

Because if you got all of these infractions, you're on the audit committee and PCAOB is making you aware of it, me, as an investor, I'd be pretty curious about something like that. So once the cat's out of the bag, I would think that it might be, again, I'm not a lawyer, a disclosable item or issue.

MR. DOTY: Yes. Just to clarify, our findings are clearly stated in our firm report. Our firm report says, the findings do not constitute a correlate to audit quality.

In other words, the fact that we have made findings against a firm, in its engagements, does not mean that we are also making an ultimate determination as to the audit quality. This is very important.

Because the finding is simply a determination by the Board that in some area that is described in our annual report, for the firm, that the firms the auditors fail to obtain the confident evidential matter that would have supported their opinion. Now that's important.

It's important if you have an audit of X, Y, Z company. Even if there is one instance in which the firm didn't have support for its opinion, that's something we think the firm and the audit committee should know. This is Part 1 of the report.

The big issue here has been the fact that we don't have agreement on what audit quality indicators are or should be. We have had SAG meetings on these, and there is a view that we should not promulgate them, that we should not require them.

So whether it's a firm audit quality indicator or an engagement audit quality indicator, there's not been same consensus as to whether we have the right one.

But in this case, it is open to an audit committee and any engagement to say, has the PCAOB inspected our engagement, if so, what were its findings. And that an audit committee should know.

It does not mean that the audit firm has poor audit quality overall, it doesn't mean that the engagement itself reflects a poor firm quality or poor engagement quality. You will find out though whether in any specific audit that the audit committee inquiries about, whether the auditor had all the evidence it needed to support its opinion.

Because if the inspection did not result in Part 1 findings, that's what an audit committee wants to know. If it did result in Part 1 findings, that also is what we want to know.

And the second, then the next question is, what about Part 2 findings? What about your quality control findings? What has the PCAOB said to you about that?

If an audit committee starts getting into that with an auditor, and then the question become, well, what are you doing about it, what are you going to do about these things. That's where an audit committee activism, in our view, is fostered and takes over and it springs out of our findings.

It's the kind of thing we think Jay Clayton is talking about. We need to be confident -- we need to be conscious of what we can do that makes our reports useful to audit committees.

MR. HARRIS: Tony.

MR. SONDHI: And I appreciate very much the fact that the group has reiterated the 2013. I think the team had done a very good job.

And I'd like to emphasize that our interest really is in output indicators. Because I don't find the process indicators or the firm indicators that helpful, from an investor's perspective.

So I think that's very good. I think we ought to focus on those kinds of, on the various output indicators that we had mentioned. And some of these things are very important.

So as you were asking earlier, Chairman Doty was asking about, that, you know, I look at what we get and it would be very helpful, at least as a start, to provide that grade to the audit committees.

But I do agree with Anne that sooner or later we need to know about them as well. Because simply having it out there with the audit committee isn't sufficient. Because we need a lot of progress in the audit committees before we can start finding that they're beneficial for the investors as well.

The other thing I wanted to mention was something that just struck me. I was thinking back to one of the output indicators, which we had said, tell us about the number of restatements and those kinds of things, and I was thinking also along the lines of the number of restructuring.

And I remember that in the 1990's research study that I had done, over a six year period I found that the average number of restructuring charges announced, impairments announced by the firms was 3.2. 3.2 in six years. That should tell you something that there's something going on.

And by the way, what was also interesting was the second one was normally at least twice the size of the first one. And the third one very often was bigger than the first two combined.

So when you start thinking about that any, you know, what's going on in the audit where that in a six year period this is permitted to escalate in this way.

And my last point is that I'm also struck by the fact that when I look at and think about the new revenue standard, I can find a number of places where it's actually really unlikely that we're going to see a reversal of revenue.

If we look at the contract modifications, for example, the majority of the adjustments are prospective. So even if there is something going on there we're only going to find out it's not going to be a backward-looking thing, it's going to be, if we look at a whole bunch of other places, the estimation process, et cetera, these are all prospective adjustments.

So if there are errors, we're not going to know about them. And that, in a sense I think, should be worrisome. And that should give us more, you know, of an incentive to do something about audit quality as soon as we can.

You remember by the way that, or at least the last 15 years or so, most of the time the findings have been that the majority of restatements have been related to revenue. And I think this new revenue standard effects that adversely, the way it's structured.

MR. HARRIS: Linda de Beer.

MS. DE BEER: Thank you. A couple of things. And I'm thinking back about the question that Chairman Doty asked about the, where must the right things be published or who must get the right things.

I thought it was a really important comment that Chairman Clayton made this morning about the role of audit committees and the issue. And the point has come up so many times today.

If you read the IAASB's audit quality framework, it specifically talks about the different role players when it comes to audit quality. Between the regulator, the audit regulator and the auditor can't be the only two players, you won't get the right level of audit quality if it's only those two players.

Audit committees play a really important role and investors play a really important role. And it's very, I think it's really important that people play in their governing spaces, whether you're the audit committee versus the investor and so on.

So, I know this is not within the brief of the PCAOB, but I definitely think there is space to strengthen the role and the responsibility of audit committees when it comes to also audit independence and when it comes to the duties and the liability of auditors.

We've had quite significant changes in our companies acting recently in our stock exchange rules for audit committees to, firstly get acquainted by shareholders. And then I think that's where investors play a very important role in making sure you've got the right people as your audit committee members.

And then for audit committee staff specific duties around audit independence. And now in our new stock exchange rules, also around audit quality and how do you assess audit quality.

And I think then it is for the audit committee to actually report to the investors to whom they recommend that this audit gets reappointed. What they had done, as an audit committee, to base their recommendation answer.

I think I'm more in your camp where I think that reporting must go to the audit committee. I think there is a real risk if there's reporting that just goes out without the necessary contacts to investors that on this specific company there was not so good rating, an F rating or maybe a D rating, for this auditor.

It doesn't necessarily indicate, and I thought that's the point that you alluded to Jim, that the audit opinion is wrong. But it does allude to the fact there are gaps in the documentation, there are gaps possibly in compliance with the standard.

So yes or no, the opinion might or might not be wrong. Sometimes it's clearly not an issue of wrong opinion.

And I think if that information gets in the hands of the investors without context, we also have a broad base of investors, it doesn't get further than process. And I think it's an issue for the audit committee to process.

So maybe there is space for the SEC potentially to start thinking where that's necessary to strengthen the composition requirements, the duty responsibilities of an audit committee, so that they can also play that important role, or even a stronger role, in adding to audit quality.

Just one other point, if I may, Chair, and that is the point on transparency. Because it is a bit of a hobby-horse for me. And I really think it's something that came so clearly through the issues we had in South Africa now, around audit firms and the level of transparency.

I think as an audit committee member, it's also important for me to understand not just the inspection findings, but to understand where the firm is making their money. Are they actually making losses on audit and making audit profits out of consulting.

We, as the bulk of these skills and resources, if some of those indicators that were alluded to earlier, that is really important information because that sort of helps me, as an audit committee chairman, to see what's driving behavior.

For example, is there enough non-audit services, consulting services, that's actually paying for the loss that they're making on this audit. That type of information I think is really what regulators can start thinking about in transparency reporting.

I agree with what Norman said earlier on, yes, there's a lot of information, voluntary information out there. Personally for me, as an audit committee chairman, that doesn't really help me to assess audit quality of that firm or of the individuals. Because it doesn't really talk to the heart of what you need to know to make an assessment. Thank you.

MR. HARRIS: Bob Tarola and then Judge Sporkin.

MR. SPORKIN: It seems to me that if you sign up for an audit, it has to meet certain standards, otherwise you're not getting your bargain. And if that's the fact and they don't meet certain standards, then the remedy should be that they give you the money to go and get another audit. But I don't understand why a deficient audit should be accepted. And I don't even know why the SEC should accept it.

I think the SEC should say, go get another audit, you didn't meet the standards. And I think the problem is that you've been waiting for all these years to get the standards.

But there is something here that is not -- you're required to have an audit, but there isn't any requirement as to what that audit, what standard that audit should be. What standard it should meet. And I think that's where you got to, I think you can do it.

From the SEC, why don't you, if they don't meet these standards, why do you accept it?

MR. HARRIS: Wes is looking to answer.

MR. BRICKER: We require standards to be done according to PCAOB standards. So we do not accept deficient audits nor do we accept deficient, or just the same as, we don't accept misleading financial statements.

The reconciliation to the discussion about deficiencies identified in the inspection process is fully made by Chairman Doty's comments about the objective of the inspection process and the communication of what a deficiency represents.

MR. SPORKIN: So do you turn down audits by the Big Four? How many Big Four audits has the SEC turned down?

MR. BRICKER: So where we find in the enforcement context --- so our enforcement files reflect the work of the commission in reaching conclusions about where auditors have responsibilities that they have not fully met.

(Off-microphone comment.)

MR. BRICKER: The objective of -- again, the context in which this arises in our agency, as you know, Judge, is in the context of review of filings. Both for compliance with the securities laws and PCAOB standards. And to the extent that we find noncompliance, it's addressed through the enforcement division.

MR. SPORKIN: I assume it's sufficient in a certain area, and in that area, you say do this over again, it's all the same, or affirm the duty, the same thing over again, is that what you do?

MR. PANUCCI: Judge, I mean, as Wes said, we require an audit under PCAOB standards. So whenever there is a deficient audit, the auditor knows that there is now a deficient audit. As part of those standards, they actually have to run it again themselves. There's still a standard in accordance with those standards.

MR. SPORKIN: How do they know?

MR. PANUCCI: They've got to do more additional work in order to cover for that deficiency. If there is something that comes out of the financial statements that it's wrong, that is through the correction of the financial statement process, of whether there is a restatement or a revision. But that's all part of the PCAOB standards when they know there's a deficiency, they'll remedy it.

MR. HARRIS: Well, Judge, I think we ought to take this offline because there are a number of other tent cards up. The point is well heard and I think it ought to be discussed offline. But we understand the point. Bob.

MR. TAROLA: Yes. Back to the audit committee's role for a minute. This is a very serious and important question.

Annually audit committees reappoint auditors. And at least every five years they're assessing what new audit partner to put on the account or maybe even new audit firm to put on the account.

And to the extent to which the PCAOB can give audit committees information that will allow them to make better decisions, that would be a very positive aspect of improved corporate governance.

But it has a downside. So imagine, I'm going to put us back in the 2003/2004 time frame when audit failures were becoming the norm.

And at that time, no audit committee in their right mind would appoint the cheap auditor. You would always want to make sure you could say, we hired what we thought was the best situation.

In this case, I'm going back to Lynn's statistics, you also have to ask yourself how can you appoint the poorest rated auditor. So that comes into the equation as well.

So there's a positive and I think a potential consequence to all this. But I think in general, the more you can provide audit committees about their auditing firm, the better off the system will work.

MR. HARRIS: Let me follow-up on a question, or a point, that Linda made. She talked about the right people being on the audit committee. I'm concerned about the right people being on the audit engagement.

And one of your slides brought up the issue of competence. And as I review some of the statistics, the audit partners incur around five percent of all audit hours, the managers about ten percent and the other 85 percent is put in by junior staff.

And I'm wondering about the pyramid, the current pyramid structure, the apprenticeship model and whether the right people have the right experience to engage in the engagements they're currently engaged in.

I was wondering if anybody had any views on that because some of these engagements are terrifically complex. And I'm not sure that auditors are appropriately trained through the apprenticeship model.

And I bring this up in the context of, I think it was within the first four hearings of Sarbanes-Oxley, Lee Seidler, who was the staff director, deputy staff director of the Cohen Commission, raised the issue of the educational level. And that was in 2002. Or I guess the hearings were probably in 2001.

And it struck me then, and strikes me now, that whether we got the proper educational system in place, and even though that's a AAA issue, I'd be very interested in the views of the people around this table, in terms of whether that's a fundamental issue in terms of improving audit quality. Linda.

MS. DE BEER: I'm probably going to stick my neck out, by I'm going to say, Steve, I think it is an issue. I have, in many instances over the years that I've chaired audit committees, had CFOs come to me when we debrief after the audit themself, saying that the partner was hardly here.

Or because the partner spent a lot of time, a lot of issues were actually solved and addressed and identified early on. So I think a lot of the success of the audit or the audit quality hangs on how much time the more senior people, the manager or the partner, spend at the audit.

So I agree with you. I think there is something that needs to be looked at when it comes to the whole training model. And I think a lot of it does also effect the result of fee pressure.

So realistically I think auditors end up, the firms end up putting more junior people on. And some of those junior people just don't have the experience.

They just don't even know what to look for.

And I think the transparency around that, and information around that, as an audit committee chairman I don't believe I've ever actually seen the breakdown of hours spent. And that might be a really useful audit quality indicator.

I think you've given me ideas here but I think it would be useful to see what percentage of time was spent by the partner, by the technical IFRS or US GAAP person, by the manager and then by the more junior people because that in itself gives the message.

But I do think there is potentially an underlying concern when it comes to the training model.

MR. HARRIS: I think the level of experience is an audit quality indicator that I think would be extremely worthwhile. Lynn Turner, do you have any comments?

MR. TURNER: Let me respond to your question then I want to come back to Jim's comments. But the ---

(Off-microphone comments.)

MR. TURNER: As far as the education model and the experience, on the PERA board, on the pension board, all of our audit committee meetings are held in public. There is no private, no confidentiality, we go into executive committee session.

One of the things I always ask the auditor to provide me, is the schedule that shows across the top, all the major audit risk areas. Starting with the top five risk areas and others I control, or whatever.

Then down the left-hand side is the titles. Partner, manager, in-charge staff. And they have to populate that with the hours, and then I circle back around at the end of the audit and get the audit partner to give me that detail.

And we discuss that in a public meeting. It's scary at first but once you've done it you get used to it and it's not that big of a deal.

But in looking at those schedules on various audit committees that I've sat on, the experience level is just way too low. The pyramid that is in these firms doesn't work. Because it does leave 85 percent of the hours being done by typically people with zero to four years of experience.

In running a business, I was at a business, you know, 365 days around the year. So I lived it, I breathed it, I knew what was going on. As a CFO you really understood it.

To expect, say a person with two years of experience out of college to come in and understand that and get it right, is way too much. These are talented kids.

They're probably not the best and the brightest, because when we started to look at SAT scores and where the top people go, it's into law school, it's into medicine, it's into engineering these days. So the firms are getting very good people, but they're not the best and the brightest.

It's a great job, it's a very rewarding job and I'd do it again tomorrow. But when you look at the experience, when you look at the education, and many come out without masters still, and the complexity of business today, they're just not up to it.

We have got to go to a legal model where you have a pair of professionals in there that are there year after year after year and have got that experience behind them. Where in this up or out type motion where most people come in and are gone within three to four years.

It doesn't work. It doesn't serve the firms well and we've got to adjust that model because the competency just isn't there and it shows up time and time again on these audits.

And the partners are only spending five percent. I remember the PCAOB inspection that cited one partner for only spending one percent of the time on the audit.

You just can't get your hands around a huge complex organization when that type of leverage is used in your business model. Put that together then with the top people paying the paycheck, it doesn't work.

But quickly, Judge, or Jim, back to your point about grading and providing grading to the audit committee versus to investors. As investors, we own the business, why is it the people keep trying to keep information from getting it to us?

Is it that they're so troubled that the information is not good information? I'm sure if the information was good information the firms would say, disclose it all. But it's like people are trying to hide it.

It's like when you got the report card and you got a bad grade and it's okay to give it to mom but you don't want dad to see it, it's the same type of scenario.

And so I think maybe as an interim step. You start out with going to the audit committee, but ultimately that stuff needs to get up and people need to get over this lack of transparency in this profession. It's what's cost it time and a time again problems.

And people need to get honest and put that information out. If they're doing a good job, it shouldn't be a problem.

MR. DOTY: Well, actually Linda makes a point. There's a matter of context here. A letter grade in the five tier or four tier system, a letter grade without context would be, in some minds, misleading.

I'm not sure we could do it. I do think what we're putting out are the percentages of findings we have in each firm and the annual report.

And as you all have been saying today, a 42 percent finding, or if that 42 percent or 37 percent of your high-risk audits failed to, in some respect support the audit opinion, is not a good statistic. So if you start looking at what we put out on the firm, I think that is in fact the starting point for an audit committee dialogue.

I don't think we could grade firms A through F reliably and be sure that we're doing justice to the competitive market or to what people take away from that. And we try not to do that.

We do try to be sure that we have put in the report, in Part 1, all the information that an audit committee could use to see how their audit was done. If their audit was inspected.

I can't resist pointing out, you can go to auditor search, Bob. We have under, Form AP now provides an auditor search facility, on our website, in which you can look up your engagement partner, you can look up your issuer.

You can find out how many other issuers your engagement partner is engagement partner for, lead partner for. That's for audit committees. We have the standard, which requires the communications be made to audit committees.

Finally, I can't stress enough the importance of the interview with the firm, both on what the Part 1 findings may mean if it's your firm that's inspected, your issue that's inspected, or an interview on what their Part 2 results are if you're not inspected.

In other words, if you start talking about the auditors about what Part 2 has been for them, what we have told them about Part 2, about their overall audit quality, they should tell you that. And the firms will say, we'll send somebody and we'll have someone available to explain that to you.

So those are three things that we have done that has their sole purpose to enable a specific audit committee, of a specific issuer, to begin to assess whether they want this firm and this engagement partner, back next year.

MR. HARRISON: Steve, I just briefly wanted to weigh in on the question you asked about leverage and staffing and fee pressures and impact on audit quality. I think those of us who've been in the business of working with public companies and their audit committees had dealings with audit firms in various capacities, it's quite clear that the issue of fee pressure has been there for some time now, for years.

And it does raise, I think, serious questions about the ability of firms to maintain staffing compensation at adequate levels and to invest in training and talent development in the way that we all certainly expect them to.

The other thing I wanted to add is that there are, in addition to client pressures, there are other internal pressures as well, which relate back to the topic that came up during our presentation, in which we've discussed in this group in other years, and that is the issue of the breadth or scope of business of the Big Four and other public audit firms and their expansion into other higher margin lines of business, is often a drain on talent.

I mean, people leave the audit practice and jump over to consulting or advisory because the comp is higher there, there's a bonus structure, there's an incentive structure that's greater.

Or I think we've seen, certainly in my experience and others probably have seen the same, that there was a time not all that long ago when the accounting profession was perhaps the last profession or business in our economy. Where someone would join out of college with a reasonably good expectation of spending a career there.

And I think even that aspect of the model has begun to dissolve for people who come in to a firm and are trained for two or three or four years.

There are now other service providers in the market place who value that training on the nickel of the accounting firm. And I think you're seeing more departures of younger professionals from audit firms just at about the time when they're starting to get their legs.

So there are both internal and external market pressures, all of which at the end of the day brings us back to the point Lynn raised earlier about the model. About the whole manner in which we pay auditors in our economy.

MR. HARRIS: And I don't want to end this session, but we're beginning to run out of time and I'm sensitive to it, but I can't help asking you, the team who worked on this. With respect to the other factors effecting audit quality, you raised the issue of independence, increasing tension between firm investments and audit quality and strategy to grow business lines, which you just mentioned, and the lack of regulation regarding too big to fail.

And I wish you'd take all three of those, I know that's a full day's discussion and more, but take each one if you would and indicate to what extent that threatens the audit quality and what your concerns are. And let me just, to maybe feed in the discussion a little bit.

The firms are now all viewing themselves as multi-disciplinary one stop shops. In terms of legal services, the legal divisions of the firms outside the U.S. put them in a par with the largest law firms in the world.

With respect to investment banking, the Big Four global accounting firms are going head to head with investment banks in China, also in other places.

With respect to one of the firms, their ad agency is over a billion dollars in revenue and they employee over 6,000 employees. And it goes on and on.

They're into personnel recruitment, marketing campaigns, asset management. And I'm wondering, to what extent you think this is taking their eye off the ball of audit quality assurance.

And then I was reading, as one firm leader, KPMG in Australia stated, we need to move on from referring to us as an accounting firm. He goes on to say, those who would pigeonhole us as an accounting firm do so to avoid competition, not recognizing the broader threat we pose to the professional services industry because of the scope available to us.

I think that mind set is not only the mind set potentially of the leader at KPMG, but I think it's broader than that. And I'm wondering, to what extent people in this room are concerned about how audit quality may be impacted, with respect to some of these firms potentially taking their eye off the ball.

(Off-microphone comments.)

MR. HARRIS: The three what?

(Off-microphone comments.)

MR. HARRIS: Yes, there was independence, too big to fail and the increasing tension between firms, investments and audit quality and strategies to grow business lines and revenues. Right out of your slides, Lynn. Mike.

MR. HEAD: Well, probably it's not surprising, after my earlier comments, that I think the last one, the non-audit services.

You can say it a lot of different fancy ways, but they're making higher revenues and the smartest and the brightest and the most talented find the work more interesting.

You have a drain of the most talented resources and it's the most, contributing the most profit to the firm. I don't think it takes a rocket scientist to determine the audit quality will be affected.

Now, that's all anecdotal evidence, it's not statistical or research based. Though fees, and I don't think we're back there yet, I hope we aren't there, that it's still, we still have Sarbanes-Oxley with prohibited services, but it makes that client a commodity client versus aggressively going after non-audit clients. And there again, you're going to put your brightest people on the higher realization and you're going to put the less talented on the commodity work.

And that's not really independence. I think that I'm probably less worried about independence as long as we have the prohibited services in place.

But I do think that there is some concerns about whose getting put on what engagements based on that. And too big to fail just needs to go away.

MR. HARRIS: Let me give you some -- I'd be interested in the views of how concerned we ought to be with respect to too big to fail and concentration.

Because currently in the U.S. market, the Big Four audit is approximately 97.5 percent of the total market capitalization. The concentration of Big Four is even more pronounced when viewed at the sector level.

For example, in two sectors, the consumer staples and utility sectors, the Big Four audit 99.1 percent and 99.4 percent of the market capitalization. If you combine the fifth to eighth largest firms in the U.S., the combined firm would not even be close in terms of revenue or size to the smallest of the Big Four.

And of course in America, we believe that nobody is too big to fail. But having said that, what would be the impact if one of these firms did go under and how concerned should we be and what, if anything, do you think we should be doing.

And ACAP recommended that we look at catastrophic risk, in terms of one of their recommendations. But I can't end this session without asking your views on these three issues.

So, Linda, you've got it right smack in your back yard.

MS. DE BEER: I've certainly spent very many sleepless nights out of the past couple of months, and I think so did many other people in South Africa, when it comes to this, all the issues that we've had around the audit firms and the concept of too big to fail.

I don't believe that any firm is too big to fail. I also think the jury is still out to see, we'll have to wait and see what happens with KPMG in South Africa because, yes, there is a little bit of a life boat, maybe what happened with some of the banks. I happened to be on the board and the chairman of the audit committee of the bank that actually came out first to say we're putting our audit out on tender.

And I think after that there was quite a bit of a knee jerk reaction from the regulator and so on. But I don't think it's necessarily a done deal that that's enough to save a firm.

The question that you asked, Steve, I think is really important. Is it in anybody's best interest, is it in the best interest of investors and the companies and the country, that will be current files.

And it absolutely can't be because it means the competition just gets laced and it just gets harder to find appropriate auditors that don't have conflicts that are not, we've got legislation that deal with non-auditors, so the instances where you just cannot legally appoint an auditor because they've done an ID system for you.

And I think it links to your comment about several of the other services and the mind set where the firms see themselves as public watchdogs, auditors, or whether they seem themselves as broad business advisors.

And what was very clear to me in all of these things is it's almost irrelevant. If they seem themselves as broad business advisors, the business world and the public at large see themselves as an audit firm and they see the name, and irrespective of what services they've provided, they expect that level of quality.

So what they do in the other parts of the business actually has an impact on audit quality, it has an impact on the firm's reputation whether standards say so and whether the legal regime say so, it's irrelevant. There's actually the perception, and the perception and that expectation.

Certainly, in our experience in South Africa is what's driving the big view of this is not acceptable, we just won't live with this as companies or as investors.

MR. HARRIS: Anne Simpson.

MS. SIMPSON: Thank you. Apologies, because I think Lynn actually put his card up first.

MR. TURNER: Go ahead.

MS. SIMPSON: I want to speak in a personal capacity because I'm sort of thinking back through experience on these topics before I joined CalPERS. But, there are very few markets, if any that I can think of, where we argue to prevent competition, and we argue in a capitalist system in a free market to prevent companies or entities going bust when they fail.

I mean, that sort of is concerning, I think, and ultimately shows itself up in quality. And if we say lack of choice makes us a prisoner on insisting on quality or insisting that failure takes place, I think that the market itself will be prevented from evolving.

Now, creative destruction, thank you to the Schumpeter, the economist. If we don't allow these processes, you know, if you like gardening you understand deterioration and compost and new growth and all of that good thing, which we British love our gardens, so I would prefer not to be thinking about ways to protect failing companies but ways to reduce barriers to entry and give the opportunities for tendering, out of which one hopes high quality firms could get bigger and better.

And to Mike's important point, it's about competition. It seems that if you're running two options in any business, you can work on the hairdressing side or you can go over here into the post office, we pay more in the post office and hairdressing is very lonely and not highly, guess what, people will want to crossover onto the post office sides of what you do.

So if you, whilst these firms are trying to be all things to all people, I think you'll find that problem. So that, to me, leads you to an argument of having auditors and then having business entities to do consulting, which are separate. It's a governance question.

So anyway, two thoughts. We shouldn't fear failure because out of failure comes new potential. Easy for me to say, I know I'm not an auditor facing this, but we do not protect other parts of the market in this way.

So too big to fail, to me, is not the right phrase. We're borrowing it out of the systemically important financial institutions world and I simply cannot apply that idea to a consulting service.

But anyway, a personal remark. Sorry, Lynn.

MR. TAROLA: No, go ahead.

MS. SIMPSON: No, you can be more inflammatory than me.

MR. HARRISON: We're leading up to the grand finale. I really actually was about to mine down, Anne more beautifully articulated much of what I was going to say but I echo and align myself with your comments.

I think, Steve, the only thing I would add, and it's related to Anne's point is, I think when you mention the phrase too big to fail and you envision the possibility of another one of the Big Four failing, you got to work it through and ask the question, well, what happens next.

I mean, do all the 10, 20, 40,000, pick your number of audit professionals then go to work in bicycle shops or post offices, well no, presumably they go elsewhere. When Anderson failed, they went elsewhere.

And you see the -- not that I'm wishing it happens, please, to be clear, but in the event that some cataclysmic event occurred when there was the prospect of a failure, whether it be in South Africa or any other country or here, if you think through the logical next step in the process, you start to see the potential for perhaps a realignment, a reconfiguration of the competitive posture then the profession. Which, frankly, might not be entirely a bad thing.

MR. HARRIS: Kevin. I don't think that's the least bit realistic, Norman. I think if one of these firms were going to fail, I don't think there would be a competitor to the remaining three.

I think the dominance of the Big Four are such that there is a barrier to entry with respect to the non-Big Four. Kevin, go ahead.

MR. CHAVERS: Well, Steve, actually I agree with you. And let me preface my comment by saying I'm not going to help with the solution, but I can't help but sit here and listen to the conversation and recognize that, and it was alluded to earlier, that there is a challenge to the business model such as it is.

Because frankly, we ask auditors in public markets to play almost a utility function. And because we can't figure out who the proper alignment of interest, we think of them, certainly from the investors perspective, we think of them as operating in the best interests of the markets and so there is transparency to the markets and to investors.

But as was alluded to earlier, but they are selected by respective management of the companies and no one wants to go to a rotational system. And so you find yourself in this conundrum. Which by the way, is the exact same dialogue that you have about the rating agencies. I mean, it literally is the same conversation.

I don't know the answer. If I did I might not be here. But it is the challenge. And until we sort of figure out, I mean, I think, you know, to your point, if one were to, the barriers to entry are such that I don't expect sort of the constructive destruction that we see occurring, sort of the technology front and for a host of old industries.

The difference in this context is, both for the large public accounting firms and for that matter, the rating agencies. They are required in the statute.

They have a bit of a publicly created mandated function to perform. And perhaps the old business model doesn't acknowledge that but you have a bit of no one will call it a monopoly or duopoly or whatever, but in effect is granted in the statute.

MR. HARRIS: Linda and then Lynn and then we'll wrap up this session.

MS. DE BEER: Thank you. Just on Norman's point on where are those people going to work, would it be in bicycle shops or would they go to one of the other firms, it certainly is a debate that we all have in South Africa, specifically around what's happening now.

And we have a fairly well developed second tier of local firms that are loosely linked to, in some instances, to international networks. I'm not talking about the Grant Thorntons and so on, they are there, but there are a couple of very specific South African firms.

And there is a very strong school of thought that maybe that will actually solve some of the concentration risk issues. That with people potentially moving stuff, many just even partners moving to some of those firms, it would actually create the capacity and the skills that are lacking to give them the competitive edge.

You spoke about the barrier to entry, but because those firms are already there and established, and some of them fairly well established in the public sector, it might actually be a way of dealing with the competition issue. Which may be just as a sidebar comment, is one of the benefits that the audit regulators put in forth when it comes to their recommendation, or actually their rule that came out on manage your audit firm rotation, that it's not just for the benefit of audit independence, but it would actually deal with the concentration risk, which I think is interesting.

MR. HARRIS: Lynn.

MR. TURNER: I think you're absolutely right about the concentration, or the barrier to entry issue, Steve. When you go and look at the number of offices these firms have around the globe, no one else can enter this and be competitive to the Big Four. It is the four-opoly if you will.

And there's just, the next three are so far down the path, which is probably the reason their audit quality isn't as good. And in fact, the Big Four, when they find that one of the other firms that developed a great office, like Grant Thornton had in Brazil or one of the firms had over in Scandinavia, they come poach it.

So the bottom is, it's four and that's it. So when Marc or Wes go back they've got a choice of four firms. Hopefully all there.

But in terms of where they're too big to fail, we really don't know because we don't have any financial statements and information. They've typically been very thinly capitalized because they distribute money out so they, partners can pay tax, so they're not adequately capitalized.

And until you guys get financial, or ladies, excuse me Jeanette, get financial statements on them that are GAAP prepared and you can really tell what's going on, you don't know. Which is one of the criticisms you get, because if one goes down and you don't have that information, there is not a rock big enough for you guys to go hide on for not having got that information.

And I suspect that if they had a problem, it will be because of a large audit. Like an Enron size audit that went bust and thinly capitalized, they don't have the money.

If it was Jim as the chairman, I have absolutely no doubt Jim would fail it. Jim was at the commission when Drexel Burnham went under, and I have no doubt that he'd do the same thing that he and Richard Breeden did at the time, and away it went. And despite opposition from others in the administration, it was allowed to fail.

If there's a different person in that seat, I'm not so sure but what they wouldn't save it, provided they can get the administration to come up with the money to help them bail it out. And that's what it would take.

But, again, we don't know. And it's unfortunate that we find ourselves in a situation where no one can answer that question.

One of the things that the treasury committee recommended was that there be a plan put in place to allow for a resolution of one of the firms if they got in trouble. And to the best of my knowledge, that plan has never been put in place.

So think about it, never got a plan in place, don't have audited financial statements. If one of them gets into a failure type situation, you guys won't be able to find a place to hide, because why did that happen.

MR. HARRIS: Okay, let me ask, and I want to go around the table and close this out, and we're going to start with you Bob. With respect to, hold on for one sec, just because I want to ask Lynn and others a question, but I'd like each of you to prepare, if you got any suggestions or recommendations to the PCAOB or to the Commission, Wes and Marc, we want to give you the opportunity and then we'll close it up.

Does anybody disagree with the suggestion, the recommendation that firms be required to have audited financial statements, and if so, why?

So that way we create some kind of a record in terms of how people view that issue. Or has anybody thought about it and does anybody have any recommendations?

Wait a second, if people agree they ought to, I mean, we're looking either for a record or a non-record, so if somebody --

MR. TURNER: I'll go on record --

(Simultaneous speaking.)

MR. HARRIS: Oh no, I'm sorry, I apologize. No, that's why I was so happy to have Chairman Clayton and Jim here because they're lawyers' lawyers and wordsmiths and I forgot the words to use.

Does everybody agree -- is there any disagreement, I'm sorry, with the recommendation that the firms be required to have audited financial statements?

MS. SIMPSON: Why don't you put it forward as a motion and then each one of us can be affirmative? Because sitting silently, I think, on this topic is not good enough.

MR. HARRIS: Well, we've never had a motion before but since it's the last time I Chair the Investor Advisory Group --

MS. SIMPSON: I would be happy to move a friendly motion --

MR. HARRIS: Okay.

MS. SIMPSON: -- that this house, are we, the house moves that the governance of audit firms be of such, being of such critical importance to the economy, it's vital that the regulator has access to financial information necessary to perform its role.

MS. BERSOT: I'll second.

MS. SIMPSON: Oh thank you, seconded by Mary.

MR. HARRIS: This is a first. Is there any objection? So voted.

All right, moving on. Robert, if you could go ahead and take --

MR. TAROLA: Yes. And I'll affirmatively say yes to that motion.

MS. SIMPSON: Thank you.

MR. TAROLA: I actually think it's good for the record that we all do that.

MS. SIMPSON: Yes, we should --

MR. TAROLA: In terms of, Steve, you're looking for what's next kind of recommendations?

MR. HARRIS: Yes. And Kevin was just reminding me, it's by unanimous consent. Motion is passed by unanimous consent.

MS. SIMPSON: There you go.

MR. HARRIS: Of the Investor Advisory Group. Board Members not taking a position. Based upon a recommendation. Robert, take it away. Thank you, we'll close up.

MR. TAROLA: Yes, yes, yes. So I'll stay with the topic I introduced today. This movement to structure data and accessing a financial information, electronically instead of it on paper and reading it, is a movement that's going to continue.

There's already a couple hundred registrants that are using it I believe, Wes, something like that. And if the SEC makes it a permanent requirement, it's going to be every registrant that has one set of financial statements instead of two.

And I think that the relevancy of the auditing profession needs to step up and be part of that evolution. And to the extent this group agrees, we can talk about that at another meeting.

MR. HARRIS: Thank you. Larry.

MR. SHOVER: All right. I have to start off by saying I've never been more encouraged than today. And I think part of that is we've dealt with an issue two years in a row. And I think there is something to be said to that. Like the whole NGFM.

And I like to propose, if I'm allowed to propose or suggest, that even one of the subjects we talked about today, be talked about in more granular detail next year. And that would be the auditor consideration of noncompliance.

Because there was a lot of great suggestions that came out of that. And as an institutional investor, it seems real easy on paper for me to say to you, oh, just revisit AS, what was it, 2405, and update the shoulds and the musts and all that. But I know implementing is a way different story. That said, that would be my vote.

MR. HARRIS: Gary.

MR. WALSH: I too thought it was a great session. In response to why we had a 42 percent average deficiency, you said that the firms have said, well, you took the riskiest audits. I think that's the aspect that as an investor I don't have good enough visibility into it.

I agree with Michael, with Mike, that I'd like a root cause analysis as to why we see a 42 percent deficiency rate. But instead of the direct answers to all of that, I'd really like to know, is this a risky audit?

As an audit committee chairman, I think I would want to know, is this a risky audit. And maybe visibility into that would help in a lot of different ways.

Your question about, do we have the right people on the audit, I can't imagine what an audit would cost if you had just partner hours staffed to do it. Or the quality for that matter.

(Laughter.)

MR. WALSH: But I think the deal is that we have to staff those audits that are less risky with the more inexperienced people so that they can get up to speed on something that's not critical. And make sure that the more risky audits that are taking place are done with more, with higher caliber people. From an experience standpoint.

And so I think the risk is the thing that I'd like to see us identify and explain a little bit more.

MR. HARRIS: Norman.

MR. HARRISON: Steve, first of all I want to thank you. I and a few others around the table today are charter members of this cast of characters who've been around a few years and it has been a privilege and a pleasure each year to work with you and Jim, Janette, your predecessors, other Board Members along the way and I want to give a shout out to Annette and the rest of your fantastic staff for all the work they do to prepare and help this be such a pleasant experience for all of us.

But I think by way of a final word, I have two final words. One is that, I hope the record shows also that we're here because we have respect for the audit profession and a vital appreciation, or an appreciation of the vital work they do and the central role they play in our capital markets.

We come and we make recommendations and there are criticisms or critical commentary along the way, but we're here to help the Board do a better job in overseeing and regulating them and to provide you with our recommendations about additional tools we believe you should avail yourselves of, to help the firm succeed and do their jobs well. I just want to be sure that comes through at the end of the day.

And then by way of a closing suggestion, I'll also revert back to the Panel that I presented on today, and to the point we were just discussing a minute ago, about the issue of disclosing to you audit financial statements.

And the Big Four do enjoy a privileged position in the capital markets. They are an oligopoly or some form of a market dominance mechanism that would be permissible in other contexts.

And it is because of the unique role they play and a variety of other factors, but it would seem that in exchange for that status, which we've conferred upon them by statute and regulation, that there should be more offered in return. And I think disclosure of audit financials is one of those.

And I think making some effort to measure and report performance is another. Which is why I think AQIs are important.

And, Jim, I take your point that there continues to be debate and discussion around whether we know how to measure, whether we know what things to measure, and we and the profession and others who have interests in this topic, and we can talk about that for the next ten years, we can debate in the absence of data, in the absence of any results.

Which is why I would urge you to move ahead, get started with something. Let's give it a go and let's get something out there.

Let's measure, let's track a few years, let's see if we can find correlations between measurements and outcomes and quality of audits. And if it isn't perfect in the first instance, so be it, we'll tweak and revise along the way.

I just don't think there is any reason at all not to move forward, at least get started. So, with that, thank you.

MR. HARRIS: Linda.

MS. DE BEER: Thank you. And I also just want to say, it is really great for me to be here. It is actually a privilege to be part of this debate.

And I know I come from a completely different jurisdiction where we clearly don't always get things right, but it is definitely worthwhile for me to come here and spend the time, so thank you for the opportunity.

Maybe just two or three points from my side. And I've made the point a couple of times today, but it is just in our past experience, in the past couple of months in South Africa, struck me that there is still a massive gap, that expectation gap, between what investors and what the public and what companies expect of auditors and what the legal requirements and statutory duties are.

And that in the day and age that we live with social media and millennials that see things very differently, we're not going to bridge that gap by preaching to people what the law says. We need to actually bridge it by moving the role and the responsibility of auditors, because I honestly do think it's a profession that runs the risk of becoming extinct if they can't move with where that expectation is moving.

I also would just like to make the point again about working together on audit quality and the role of audit committees. I think audit committees is a key governance structure to actually help, and it can't be done in isolation.

Echoing your point, Norman, around transparency and the governance within audit firms and we see now again in South Africa the lack of transparency, the lack of good governance structures seem to be at the heart of some of the things that went wrong.

And then Jim, you made the point this morning about leveling the playing field. I think it was in relation to auditor reporting and the fact that you've now also adopted the standard and there are other things, audit quality indicators and things like that, happening internationally.

And it is really important that auditors play at the global level and that standards across jurisdictions are sort of similar and that the quality of an audit and the value added by an audit is sort of similar whether you come to South Africa or in the U.K. or in the U.S. And I really think that is important.

And I think it's very encouraging to see how there is a much better alignment now between, for example, the processes of the IAASB and the PCAOB and the topics. I think everybody has got their own agenda, but there also is similar topics. And I think that is really important for, not just for auditors, but it's really important for multi, companies that operate in a sort of a multi-country level.

And in saying so it is important for the PCAOB, I believe, to remember that there are very many smaller audit regulators that look up to you and that actually just follow your leads, because they don't necessarily have the capacity to do something like this and to do the work that you're doing.

So yes, you do it for the benefit of the U.S. market that you regulate, but I think there is, and there should be, a consciousness that there are others that also look to you, to follow the steps in, in the footsteps of what you're doing. And I think that's a very important and also a very responsible role.

MR. HARRIS: Thank you. Tony.

MR. SONDHI: I wanted to start, Steve, by first of course saying thank you. It has been a great pleasure being here working with you, and learning. And I hope that we've managed to provide some contributions to this.

With respect to where we should be, I certainly think that the non-GAAP measures are something that we need to do something about. It's critical to have the transparency and the consistency, but I also want to be very clear that I think, at the moment at least, that many of the non-GAAP measures can be rather significantly and seriously misleading. And I think we need to be very, very careful about that.

My next point is with respect to the audit quality. I think the more we can focus on the output the better off we will be.

And I wanted to close with just a brief comment on what Anne was saying earlier. Anne, I agree with you about the gardening, and particularly if you try orchids and anthuriums, I think failure is one of those things that you certainly learn from very quickly.

But this issue of the too big to fail, Lynn had said earlier that with structured data and iXBRL and all of that coming in, one wouldn't want to go to these audit firms to ask them for that.

And I wonder whether our solution to this too big to fail and all these problems that we have with the audit firms is going to come from the fact that there will be creative destruction and we will get a new breed of audit firms. The ones that specialize in auditing structured data in XBRL. iXBRL.

I think that may be our savior going forward. And don't get me wrong, I'm not saying anything about, I do believe we need the audited financials from them.

And I'll close by saying, after we get the accounting firms to give us audited financials, we'll also get a chance to see which non-GAAP measures they favor.

(Laughter.)

MR. HARRIS: Mary.

MS. BERSOT: Thank you. And thank you very much. I don't have the background that a lot of you have but I've learned a lot and I think I have somewhat of a 30,000 foot view. So I do have a couple of comments.

One is, as I'm listening to too big to fail, and they're not providing financial statements, maybe perhaps, and this is just a wild idea, but they should have minimum capital requirements that they keep in their businesses.

I mean, we talk about them passing out everything to partners, maybe they shouldn't. I know in the investment management business, if you're govern by a state, not the SEC, you are required to keep minimum capital. So it's just a thought. Revolutionary probably.

And I also, before I came, I kept thinking to myself, objectivity and independence. Being objective and independent keeps weaving its way through all of our discussions.

And I think, from an investor perspective, that's where the huge gap is. I think investors rely on the audit firms. And they really do believe that they're independent and objective.

And somehow I think adding all these other businesses reminds me of being at Citibank, right after Glass-Steagall fell, and we all started sort of coming together and cross-selling.

So I do feel that any effort next year, that includes the objectivity and independence, and could be pretty much anything at this point, I think would be very valuable.

MR. HARRIS: Thank you. Kevin.

MR. CHAVERS: I want to join the others in thanking you, Steve, for the opportunity and thanking you for your service here. It's been, and if Mary is at the 30,000 foot level I'm probably at the 35,000 foot level. But it does afford me the opportunity to make some observations and try to connect a couple of the dots.

So the last conversation about sort of audit quality, and frankly the transition of that conversation to looking at the business model of auditors, it's a pretty interesting one that I had not given sort of a lot of thought to, but the discussion, particularly as we delve down the too big to fail conversation, reminded me very much of the conversations about financial market utilities.

And while they perform a different function, we in effect are saying they have that kind of connectivity as we've deemed for other financial market utility functions.

And so it's an interesting perspective in which to view the role that they play in the markets. And specific, I'll comment a little bit on the, sort of the non-GAAP measures.

I don't think there was a great deal, or I didn't hear much disagreement about the recommendations coming out of the working group. I think there was some disagreement perhaps about the tactics to execute them.

I think there may have been less than uniform support for the notion that relying on the creation of transparency in the standards we would rely on management to create those. I don't know that there was a uniformity in the room around that concept.

But I think the chairman made a very good suggestion, in terms of a tactical effort, and I would like to encourage the steps along those lines. And that is, wearing sort of your regulatory hat and your convening authority as a regulator to work with the standard setting bodies to start thinking about and looking at how do we create some standards with some transparency. At least to start taking those initial steps.

Not suggesting it's going to be an easy task, but

I think it's a task that merits follow-up. And would encourage you to do so.

And the lastly, as I've said, actually I brought this topic up last year and reiterated it this year, as we start to look at non-GAAP measures, I would strongly encourage, given the evolution and increasing significance of ESG related issues, to be part and parcel of that conversation as that evolves.

MR. HARRIS: Grant.

MR. CALLERY: I guess I would raise three points probably. First, thank you, it's been great working with you.

And I think these sessions are of value to us, hopefully they're of value to the Board. And so thank you for that.

Second, I think the NOCLAR discussion today is something that I would hope that the Board could move on, at least in part with some degree of speed. It's uniquely one of the things that under your control for the most part.

And I think it's something that can, could help close that gap between investor expectations and reality. And if you got a couple of wins out of it, it might not be the whole thing and you might continue to work on it, but I think that would be something that would be very helpful.

Second thing is, I continue to, and we've talked about this and it's been weaving through the discussion today, I continue to have concerns about the, sort of the business models, the consulting, the cool guys versus the non-cool guys and that kind of thing. And I don't know what the answer is but it is troubling.

Because the audit function is so important to so much of the investment process in the United States that to have it the poor relation, there's got to be a better answer and we need to keep thinking about it.

And then I guess finally, there is still some legislation out there that would take us out, I guess. And if there's anything that members of this group could do that would be helpful in that regard, and I don't really know where it's going, where it's not going, but I'm sure that everybody around the table will be willing to do what they could with either the SEC or wherever. So let us know.

MR. HARRIS: Thank you very much, Grant. Amy.

MS. MCGARRITY: Thank you. I guess I just also want to reiterate my gratitude to Steve and the rest of the PCAOB team.

Jeanette said something earlier that really resonated with me, I wrote it down. It's tone at the top.

And I just really think that you set a great tone. You and the team at the PCAOB put together a great, this has been a great experience for me for the last two years and I'm really grateful for the opportunity to have met you and worked with you, so thank you for that.

As it relates to potential topics for next year, Kevin, I think your comments, as it relates to non-GAAP financial measures, are on par.

While I think there is some frustration as to next steps and defining those, I'm happy to serve as an investor resource to the extent it's helpful at all to either the SEC and/or the PCAOB. I'm happy to do whatever I can to learn more and further the objective.

I think it's an important issue that a lot of people are working on, and there's just not a lot of clarity on where we're going with it so I'm happy to just keep staying in the conversation, and to the extent I can, contribute. I would love to do so.

I think there's a lot that's been said about the expectations gap between investors and what the auditing profession is doing and the PCAOB. And I think that there are a lot of topics that we talk about as it relates to electronic statements, as it relates to the, Grant, what you and your team put together.

I think there's a lot of things we can weave into a topic related to closing that gap of the investor expectations and really maybe work together to collaborate on some potential solutions to try to bring that gap a little bit, to close that gap a bit. So those are just some potential ideas.

MR. HARRIS: Thank you, Amy. Mike.

MR. SMART: First and foremost I'd like to thank you, Steve, and the Board for just allowing me the opportunity to serve.

This is actually something I take a great deal of pride in to give something back to an institution and a