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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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INVESTOR ADVISORY GROUP

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MEETING

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WEDNESDAY
OCTOBER 12, 2022

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The Advisory Group met via Video-Teleconference,
at 1:00 p.m. EDT, Saba Qamar and Amy McGarrity,
Co-Chairs, presiding.

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LYNN TURNER, Senior Advisor, Hemming Morse LLP

PCAOB STAFF

SABA QAMAR, Co-Chair, Investor Advocate

BRIAN GOODNOUGH

BARBARA VANICH

ALSO PRESENT

JONATHAN FLUHARTY

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1 discussion.

2 MS. QAMAR: No, the detailed
3 discussion will be on this specific topic after
4 this, but if you have questions --

5 MR. SCHROEDER: Okay, great.

6 MS. QAMAR: -- that are related to
7 just the center setting update or like going to,
8 you know, going on some other topics, then you
9 can, this is your opportunity.

10 MR. SCHROEDER: No, at this point, I'm
11 holding off.

12 MS. QAMAR: Thank you.

13 MS. VANICH: Okay, well, I can't see
14 anyone else. Is there any other hands before we
15 get started? Okay. So in response to comments
16 that we heard both at your last meeting and at
17 the first meeting of our Standards and Emerging
18 Issues Advisory Group back in June, we thought it
19 would be good to have a discussion on Firm and
20 Engagement Metrics also referred to as audit
21 quality indicators.

22 For some of you, this is not a new

1 topic, but we do recognize that the Board here is
2 new, that we have new members on this group and
3 really see this as the start of a conversation.

4 So for Investor Advisory Group Members
5 who may have less familiarity with the topic and
6 with former efforts by the PCOB and IAG, we
7 thought this afternoon that we would just provide
8 a brief overview maybe as a conversation starter.

9 I don't intend to walk you through the
10 slides in any kind of detail, but really just
11 highlight some key points and then to the extent
12 you want to provide views today, we're certainly
13 interested in hearing from you.

14 Before we begin, I do just want to say
15 that we understand to the extend the Board hasn't
16 taken action. You know, some of the earlier
17 views provided by the IAG may be very consistent
18 with what we hear from you today.

19 And that's okay. But some things have
20 changed and we're also definitely interested in
21 hearing new perspectives as some time has passed
22 since the Advisory Group discussed this.

1 If you could advance to slide 4. So
2 by way of background, the idea of audit quality
3 indicators goes back to the 2008 report by the
4 U.S. Department of Treasury's Advisory Committee
5 on the Auditing Profession or ACAP as you'll hear
6 us refer to it.

7 Among others, the report included a
8 recommendation for the PCOB to determine the
9 feasibility of developing key indicators of audit
10 quality and effectiveness.

11 And requiring audit firms to publicly
12 disclose those indicators if, to disclose those
13 indicators of quality are feasible and then
14 require the PCOB to monitor these indicators.

15 Over the years, both the PCOB and our
16 Advisory Groups have discussed this topic on a
17 number of occasions. Could you please advance to
18 slide 7? So our investment, Investor Advisory
19 Group has devoted substantial time to this issue
20 and we're very lucky to have one of the original
21 contributors both to the ACAP report and to the
22 efforts of the IAG and that's Lynn.

1 Want to provide just a little
2 commentary on the work efforts and then, Lynn,
3 I'll pause to see if you have some perspective
4 that you'd like to add to that.

5 But back in October of 2013, the IAG
6 made recommendations for firms to provide the
7 PCOB with data compiled at both the engagement
8 level and at the firm level.

9 And many of those recommendations are
10 likely still viewed as important today. There
11 was a desire for public disclosure of audit
12 quality indicators and investors were looking for
13 metrics that helped to measure the quality of the
14 actual audit to help establish accountability for
15 audit quality that were forward looking and also
16 have information or predictive content.

17 Now in addition, it was noted that the
18 PCOBs, ATY initiatives at that time related more
19 to audit firm quality and to the audit process
20 than to audit quality.

21 And in addition, there was a
22 recommendation that firms should be required to

1 provide the PCOB with data and selected audit
2 quality indicators compiled at both the
3 engagement level and the firm level and that this
4 data should be subject to review verification and
5 comment by the PCOB.

6 The policy on the measurement and
7 management of audit quality indicators should be
8 made public. And then there's a very summarized
9 version of a very impressive work effort, but in
10 2017, the IAG again weighed in on AQIs.

11 That presentation which is also
12 available on our website also added focus that
13 other audit regulators were addressing this issue
14 and there was some information on further global
15 efforts.

16 Before I move on to developments,
17 maybe since this was last discussed with the IAG,
18 Lynn, would you like to provide any perspective
19 on that work effort?

20 MS. QAMAR: Let me --

21 MR. TURNER: Sorry about that.

22 MS. QAMAR: Okay.

1 MR. TURNER: I think Barb summarized
2 it. The ACAP took it up because there was some
3 view amongst the people from the business world
4 that if public companies had to be transparent,
5 then the audit firms who were key component of
6 the capital market system needed to be equally
7 transparent and weren't.

8 In fact ACAP had requested a bunch of
9 information from the firms which they declined to
10 provide some of it. So and then the ACAP got
11 some written input as well as public testimony on
12 this issue and thought it was important.

13 It became part of the recommendations
14 at the time. The firms were focusing more on the
15 European approach and doing firm-wide reports,
16 but and had done that, but those reports really
17 don't provide any data with respect to whether or
18 not a particular audit was high quality or not.

19 So by the time we got to the 2017 IAG
20 meeting, the focus had moved off of the firm-wide
21 reports which people didn't find very compelling
22 and got to focusing on what made, what was

1 important to a particular investor and that is
2 their portfolio manager and analyst.

3 What is the quality of the audit of
4 the company they're actually investing in? And
5 so the focus turned to individual audit, Greg
6 Jonas discussed, debated, quite frankly beat to
7 death and we did find out in the KPMG trial that
8 the PCOB is actually gathering some extremely
9 useful and helpful information.

10 It would be to investors and which is
11 probably why the firm at hand tried to get ahold
12 of that information so they could make their
13 audits look better.

14 So I think that was the telling story
15 and the piece of the puzzle. So here we are
16 today and I think the real question today then
17 is, I sat through these presentations year after
18 year now for 18 years and things have come and
19 gone, but progress on them has been exceedingly
20 slow and painful.

21 So that's why I asked the question
22 about what does it mean to be on the research

1 agenda because it's been sitting on the research
2 agenda now we know for about 12 or 10 years.

3 MS. WILLIAMS: If I could jump in, and
4 I appreciate the background very much, Lynn, it's
5 very useful. Especially for this Board which is
6 relatively new to hear directly from you about
7 your experience in the past, and I just want to
8 be clear that the research agenda that this Board
9 has put forward is different.

10 There are projects on there, they're
11 not going to stay on our research agenda for more
12 than a year. And by placing this project of key
13 performance metrics on our research agenda, it is
14 a signal that this Board is actively working to
15 move it.

16 And that we are very serious about
17 getting it done and my plan is to move it to the
18 standard setting agenda in 2023 and advance it
19 from there. So I do understand the history.

20 We do want to learn that history, hear
21 especially from this Investor Advisory Group and
22 make sure that we get it right.

1 MS. QAMAR: Thank you, Chair Williams.
2 Lynn, do you have anything to add or should --?

3 MR. TURNER: No, I'd just say if Erica
4 can pull that off, kudos to Erica because it's a
5 lot of things that are being dealt with like this
6 need to be taken care of before we get into, get
7 towards the end of the 2024 election cycle
8 because that always seem to cause things to be
9 viewed and dealt with in a different light.

10 So what you're talking about is having
11 to move it off the agenda into standard setting
12 and then completed by 2024 we could be having the
13 same discussion with a whole new group after
14 that.

15 Hopefully not, but given recent
16 history, it would tell us that that would be the
17 case.

18 MS. QAMAR: Okay, thank --

19 MS. VANICH: Well, Lynn, thank -- go
20 ahead, Saba, what were you going to say?

21 MS. QAMAR: Well, I said, thank --

22 MS. VANICH: I didn't realize you were

1 on.

2 MS. QAMAR: No, I said thank you for
3 sharing your perspective, Lynn. We can just move
4 on to Barb to continue this, her presentation.

5 MS. VANICH: Yes, no. Thank you very
6 much for that. Just for the benefit of newer
7 members, we did issue a concept release as Lynn
8 mentioned. That was the work of a former
9 director of ours and it's hot comment on 28
10 potential indicators and got, I think, a pretty
11 wide variety of comment letters with as you can
12 suggest, you know, varying views.

13 For this group, probably what's
14 important is that investors largely repeated
15 views of the IAG that they want the information,
16 that information needs to be made public and it's
17 meant to provide them with meaningful information
18 to help them in voting on auditor selection.

19 If you could advance the slide please.
20 Next slide please. So rolling forward a little
21 bit, since the Board last engaged with the
22 Investor Advisory Group on this topic, we've not

1 issued a rule or a standard referred to as audit
2 quality indicators or firm metrics.

3 But we have through other rule
4 makings, required that firms provide certain
5 information to us that we make public and that
6 would include the information as mentioned
7 earlier that's submitted on Form AP which
8 includes the disclosure of the name of the
9 engagement partner, other auditors that are
10 involved in the audit.

11 And I wanted to point this out because
12 I think we heard a few times at the last meeting
13 that how we provide data and the availability of
14 data, the searchability of data is important and
15 it's probably more important today than it might
16 have been a few years ago.

17 We've also required through amending
18 the audit report, that the auditor disclose
19 critical audit matters and auditor tenure which
20 may not be directly on point, but are somewhat
21 related to information that people said would be
22 valuable.

1 And this may touch on, for example,
2 auditor tenure and the reason why we call the
3 project firm and engagement performance metrics.
4 What we found is indicators that actually tell
5 you what audit quality is or that indicate audit
6 quality may be a little bit elusive.

7 But nonetheless, there are other data
8 points which stakeholders find important or at
9 least useful in their considerations. Now the
10 information that is disclosed in the auditor's
11 report or true Form AP is subject to review
12 verification and comment by the PCOB.

13 And the related inspection
14 deficiencies today appear in Part 1B of our
15 inspection reports.

16 MS. QAMAR: Hey --

17 MS. VANICH: Next slide please.

18 MS. QAMAR: -- hey, Barb, I see two
19 hands up so I see Parveen and --

20 MS. VANICH: Oh, okay.

21 MS. QAMAR: -- Gina's. So Parveen,
22 you're next. And then we'll turn it over to Gina

1 for her question.

2 MR. GUPTA: Thank you, Saba. I just
3 wanted to follow up. Am I echoing?

4 MS. QAMAR: I can hear the echoes,
5 yes. If you're not speaking, please remember to
6 mute yourselves.

7 MR. GUPTA: Can you hear me?

8 MS. VANICH: Yes.

9 MR. GUPTA: Because I'm listening on
10 the phone, I think that's why the echo is coming.

11 MS. QAMAR: Yes. I think that's
12 right.

13 MR. GUPTA: Okay, I'll be quick. Just
14 to follow up on Lynn's point, is there any
15 accelerated process to put items like the AQI on
16 a fast-track agenda to accomplish something
17 rather than keep repeating the history?

18 MS. VANICH: Well, you've heard from
19 our Chair which probably carries more weight than
20 me saying it. But I think there may be
21 opportunities to address certain aspects of this
22 through projects that are already on our agenda.

1 And then other things I think we'll
2 see other aspects to this we'll see as we go.
3 Some disclosures might not require any standard
4 setting.

5 And that's information that may be
6 made available through our inspection reports or
7 otherwise.

8 MS. QAMAR: Okay, so I take that as a,
9 that answers your question, Parveen. So Gina is
10 next.

11 MS. SANCHEZ: Yes, thank you. Can you
12 hear me?

13 MS. VANICH: I can.

14 MS. SANCHEZ: Great. So having spent
15 quite a bit of time going through the Form APs in
16 preparation for my own presentation which by the
17 way, if anybody ever wants to like really get to
18 know everything that the PCAOB does, volunteer
19 for my committee.

20 So one of the things that I wanted to
21 suggest that would be very helpful in terms of
22 the data point that you could add to the Form AP

1 is some kind of standardized way of representing
2 the audit partners' industry specialization in
3 terms of their experience.

4 In the literature review, I found at
5 least one study that showed that that could be a
6 strong indicator for kind of a reduction of the
7 potential for fraud in terms of audit partner
8 industry specialization.

9 So I know that there's sort of a,
10 there can be a bio, but that's very unstructured
11 so, you know, if you can think about ways to
12 include in the Form AP some kind of indicator
13 that relates to the audit partners industry,
14 specific experience relative to the company's
15 industry.

16 MS. VANICH: Thank you. Saba, do you
17 see any other questions before we --?

18 MS. QAMAR: Yes, I see Jeff and Hal so
19 we'll have Jeff first and then Hal. Jeff, you're
20 next and after Hal there is David too.

21 MR. MAHONEY: I just wanted to add one
22 small point to your presentation, Barbara. You

1 mentioned the auditor ratification vote. But it
2 was also intended to provide information with
3 respect to the vote regarding the election re-
4 election of the audit committee chair and audit
5 committee members.

6 That's another area where there's not
7 a lot of information to assist investors in
8 making that vote and the idea was that this would
9 help provide some additional information in that
10 regard as well as with respect to the investors'
11 jumbled oversight regarding the audit committee.

12 Thank you.

13 MS. VANICH: Oh, thank you.

14 MS. QAMAR: Thank you, Jeff. So Hal,
15 you're next.

16 MR. SCHROEDER: Barb, is there any and
17 I didn't want to jump in or front run Gina on
18 this, but as I was listening to Gina and I read
19 her presentation before today's session, the
20 first thing I thought about was AQRs are helpful.

21 But if I just looked at AQRs in a
22 vacuum, I would struggle with coming to some

1 definitive conclusions, but if I were to link it
2 with the XBRL file of each individual
3 institution, I'm going to use banks because
4 that's what I'm most familiar with, I would be
5 looking at their adoption of COSO, grouping it by
6 firm then grouping it by partner within firm and
7 that got to Gina's point about specialization.

8 Particularly for mid-CAP and smaller
9 names, I'd look for patterns of a specific
10 partner doing multiple jobs consistency between
11 number. I would start to really have some strong
12 information or at least potential for good
13 analysis if I could link those two.

14 I know personally that XBRL is not
15 always the easiest to use and I didn't know if
16 somebody at the PCOB had gone through the
17 exercise of making sure that we could link AQR
18 information, AQI, AQR information with the
19 specific XBRL filing for that particular entity.

20 MS. VANICH: It's certainly something
21 we can have someone looking at.

22 MR. SCHROEDER: It sounds trivial, but

1 my experience tells me it will not be easy. And
2 Gina's like, yes. So if we can, you know, go
3 through the exercise and figure out what we can
4 do to make that easier for investors, I think it
5 will make this analysis or the potential for
6 analysis far more robust.

7 MS. HO: Hal, this is --

8 MS. VANICH: Okay.

9 MS. HO: -- Christina. I think that's
10 a really good suggestion. There are entity
11 identifier obviously in the XBRL filing in the
12 EDGAR database. And I think in the Form AP and
13 the audit we can certainly look at whether that -
14 -

15 MR. SCHROEDER: Right.

16 MS. HO: -- same entity identifier
17 exists.

18 MR. SCHROEDER: Yes, I know
19 conceptually it should work, but I also know that
20 things that are conceptual don't always actually
21 work in practice so I just, if you guys can test
22 that and make sure that it actually works, and

1 then even in presentations, maybe you can show
2 the linkage between that information. That would
3 be a really robust presentation for investors.

4 MS. HO: Yes, I think if that data's
5 already collected, then you, you know, the
6 challenge might be data quality. Linking is
7 possible, but if it's not already collected, then
8 collecting the data that will be another process.

9 But I do think that I agree with you
10 completely that linking multiple data sources is
11 where you get more insights and brings the power
12 to the consumer of the data.

13 MS. VANICH: Thank you for that.

14 MS. QAMAR: This really helpful. I --

15 MS. VANICH: Thank you, Christina.

16 MS. HO: You're welcome.

17 MS. QAMAR: -- so I see a couple of
18 more hands up. So David, Lynn and Sandy. David,
19 you're next.

20 MR. PITT-WATSON: Yes, thanks, Saba.

21 And I guess this comment comes from the sort of
22 same perspective as my previous one which is

1 about seeing this from the perspective of the
2 investor.

3 And as we're thinking about firm level
4 metrics, have we really thought about what
5 investors want and, Sandy, I see you're talking
6 later about the CFE Institute Study, for example,
7 about the really important and a thing about the
8 audit having, the auditors having good
9 communication with the investors.

10 Are we pulling that out, are we
11 managing to find any measures that might help
12 make that judgment? It's similarly the critical
13 nature of the independence of the auditor from
14 the audited company.

15 Is there any way that we could pull
16 out those sorts of things, Barbara, because I
17 suspect those are things that as Sandy's research
18 shows, are very important to investors for whom
19 these audits are being done.

20 MS. VANICH: I know that's certainly
21 something to consider. Saba, did you say there
22 was one more --

1 MS. QAMAR: Yes, no, there are a
2 couple. So there is --

3 MS. VANICH: Okay.

4 MS. QAMAR: So Lynn is next. Then
5 there is Sandy and then Nemit and then Sandy,
6 Sandy Peters and Sandy Rich. So, Lynn, you're
7 next.

8 MR. TURNER: -- Hal makes is a very
9 good one. When we get, when we start up Glass
10 Lewis and did financial research there, we
11 actually built models that did exactly what Hal
12 was talking about.

13 We used Capital IQ or FactSet to pull
14 the data into the models, but extracting on our
15 own some of the audit factors and it, when you
16 merge the statistical information, you could get
17 on companies with information, you could get on
18 auditors.

19 It became exceedingly powerful. One
20 of the large asset managers, the Capital Group
21 who runs the American Funds has spent a
22 considerable amount of time attempting to do this

1 and research it and they've brought in high
2 talented research people to work on it.

3 So I'd encourage you, Barb, to reach
4 out and have discussions with people at Capital
5 Group to better understand what they've looked at
6 because they definitely have keyed into some
7 factors.

8 The other part of it though is to do
9 what Hal is suggesting and it's excellent. You
10 have to have a system where you can get that
11 information via data feeds.

12 And the problem with the AP Form is
13 someone has to come in and do it a form at a
14 time. And that doesn't work for any of these
15 large asset managers. It's just not feasible to
16 do.

17 It becomes too costly, too expensive,
18 too time consuming and so the PCOB's going to
19 have to change its technology to where it can
20 provide that type of information via direct data
21 feeds to the large asset managers or it just
22 won't work.

1 MS. VANICH: I know that's helpful.
2 I do know that it's probably not easy or
3 sophisticated as you suggest, but we do sometimes
4 guide people with questions on how to get better
5 access to the entire data set.

6 And I know some people have inquired
7 about, you know, different ways of looking at the
8 data, but that's very helpful. Thank you.

9 MS. HO: I have a question that really
10 is what Lynn and Hal talked about. Make me, you
11 know, I just came up with this thought. You
12 know, especially with regard to how long this has
13 been on the agenda.

14 And you know, when we talk about
15 performance metrics, that's generally not a short
16 effort to expedite equipping investor with more
17 information.

18 Do you think it would be helpful or
19 easier for investor to be armed with data that is
20 consumable to Lynn's point, you know, make it
21 machine readable, consumable for the data
22 available.

1 Would that be helpful versus, you
2 know, because coming up with performance metric
3 and, you know, I had the experience of doing that
4 in the Government at Treasury.

5 We have the 1990 CFO Act where
6 Congress asks Federal Agency to start doing
7 financial reporting, but the ultimate goal was
8 for performance management which 40 years later,
9 there's still no standardized performance measure
10 as some of you might know already.

11 So it's not a short endeavor because
12 of the various challenges. Some could be
13 excuses, but you know, to show progress in a
14 short period of time, relatively speaking, and
15 to, you know, help and arm investor with more
16 data.

17 Would that be, you know, comparing to
18 the two, would that be more helpful endeavor so
19 that when you have the data, investors can use it
20 and link it to different things?

21 Of course, we have to do data
22 standardization, otherwise, you can't link

1 anything. So it's just, you know, brainstorming
2 here. I'm not even saying this is, you know,
3 what the Board is trying to do or anything like
4 that, it just came to my mind.

5 MS. QAMAR: Thank you, Christina.
6 This is great. I think Lynn has some follow up
7 and then we'll move on to Sandy Peters. Lynn,
8 please.

9 MR. TURNER: Yes, first of all,
10 Christina, I'd like to reach out and give you a
11 hug because it is great to hear this interaction
12 from a Board Member rather than just all of us
13 talking to have those questions from the Board
14 and have that dialogue is fantastic so I give you
15 kudos for that.

16 Thank you very much. With respect to
17 arming the investors with that additional data,
18 and the data feeds that can allow them then to go
19 look at that and consider it especially in light
20 of what Hal said, I think that would be extremely
21 powerful in the market.

22 And I think it would have from the

1 perspective of if you give them that data, then
2 the markets can undertake to do some of the
3 disciplining if you will.

4 And drive the quality to a higher
5 level rather than always having to wait for a
6 regulator and, of course, you don't have the
7 resources to do all of that with the capital
8 markets around the world anyway.

9 So I think you actually make the
10 functioning of the markets much more efficient,
11 much more effective by giving those data feeds to
12 the investors and let them then work on it in the
13 context of making decisions of where to allocate
14 capital and what the risks are. So I think your
15 point is spot on target.

16 MS. HO: Thank you, Lynn.

17 MS. QAMAR: Thank you to both. So as
18 Sandy Peters is next, then we have Nemit, Sandy
19 Rich and then Hal and Gina.

20 MR. SCHROEDER: Saba, if I could just
21 add one thing to Christina's comment before we
22 move on.

1 MS. QAMAR: Sure.

2 MR. SCHROEDER: Okay.

3 MS. QAMAR: Sure.

4 MR. SCHROEDER: Directly on point. I
5 would just be cautious, I would take a walk
6 before we run approach. Instead of pushing more
7 data, you know, let's focus on quality,
8 consistency, and linkage of the various data sets
9 before you add more data.

10 So and the reason is I agree with Lynn
11 that if we show them that it works, more and more
12 people will then discipline the system, but if we
13 don't do those steps early on and it fails of a
14 quality is not there and consistency is not and
15 linkages aren't there, then they won't come back
16 for years.

17 And you won't get all of those added
18 benefits that Lynn was suggesting we'll get. And
19 I believe that they will come, but we have to
20 have some early successes in that process for
21 them to spend time and effort to take advantage
22 of them. Okay?

1 MS. QAMAR: Thank you, Hal. That's
2 really helpful. Sandy Peters, you're next.

3 MS. PETERS: Yes, I raised my hand to
4 agree with Hal. In the survey that I put in the
5 link which isn't available I guess to any, those
6 that are listening, it's on our website.

7 It's audit value quality priorities if
8 you just Google. See if I institute, we did it
9 after this concept release in 2015. It was in
10 2018. But in there, we talk about the need for
11 context which I think is to Hal's point of we
12 need to be able to understand this data in the
13 context of the actual organization.

14 As a heavy user of Form AP, in fact,
15 I'm going through right now and updating a 2018
16 paper that we did that looked at all of the S&P
17 500 audit partners.

18 I think that the usability of the
19 database is very hard. Particularly like if
20 there's a multitude of offerings and the like is
21 to something simple that gets you an indicator of
22 this is the annual filing and this, you know,

1 it's very hard to pick it out -- which one is
2 actually the one that you should use, you should
3 be using.

4 So I just wanted to add those comments
5 and I'm encouraging and agreeing with Hal about
6 context.

7 MS. QAMAR: Thank you, Sandy. So
8 Nemit is next.

9 MR. SCHROFF: I was aware that on a
10 point that David touched on and then Board Member
11 Christina as well mentioned is that from a user
12 standpoint, one of the challenges of assessing
13 our equality is isolating the quality of work
14 done by the auditors from the quality of
15 financial statements prepared by the issuer.

16 In this regard, a specific suggestion
17 that I as a researcher have used and I found very
18 helpful is data on audit adjustments. Such data
19 tell us what the unordered numbers were and then
20 how the audit changed those mentioned statement
21 numbers.

22 I realize the ownership of some of

1 this data exists with the firms and there's a
2 question of whether it can be disclosed, but I
3 just want to point out that information I think
4 would help users find out what auditors do and
5 the quality of work that we do.

6 MS. HO: Nemit, I recall from my audit
7 day, if the adjustments that auditor identify and
8 the issuer didn't, and it's material enough they
9 have to incorporate it, they would have a, if
10 it's material, they would have a corresponding
11 material weakness.

12 Because of the ICFR requirement that
13 the management has an internal control to make
14 sure that they can detect any material
15 misstatement so if it's actually gets detected by
16 the auditors and their financial statement might
17 be, you know, adjusted.

18 But they would and not with a
19 potentially a material weakness in the internal
20 control which would be included in the audit
21 report I believe.

22 MR. SCHROFF: So I believe this might

1 be a question of magnitude. But like the, I
2 think the more granular data which I believe the
3 PCOB collects when they conduct inspections of
4 specific engagements, it is more granular.

5 And the audit adjustments then is at
6 a specific line item levels. So the, and what
7 I've seen through that the data access is from
8 other countries and again it's a little bit more
9 granular so it does not result in any observed
10 lot.

11 Because some of this just comes as a
12 result of negotiations say between issuers and
13 auditors regarding what the appropriate accrual
14 adjustment should be over the appropriate and
15 true amount should be.

16 But that I think helps us get a sense
17 for what the auditor is doing.

18 MS. HO: Okay. Yes, it's been a long
19 time ago so I apologize for, you know, I was just
20 trying to think, brainstorm ways you could
21 already find that information. So I apologize.

22 MS. VANICH: Any other questions or

1 comments right now?

2 MS. QAMAR: Yes, Sandy has, Sandy Rich
3 and then Jonathan. Two more so we'll take these
4 two and then move on the presentation because I
5 want to make sure that Barb has a chance to
6 finish her presentation. Sandy, you're next.

7 MR. RICH: Thank you, Saba. Just Hal
8 and Lynn are absolutely on point. This
9 information, if it is not EDGARized is largely
10 useless and well at least the large institutional
11 investors like I represent.

12 We are actually as an institutional
13 investor, pushing for EDGARization of many proxy
14 statement disclosures because language analytics
15 are not sufficiently sophisticated to extract the
16 information we are looking for.

17 And I, you know, thank you, Sandy, for
18 posting the CFA report. I was actually looking
19 at Page 11 and I would raise the question as to
20 whether your got too many critical data points to
21 be honest. I always --

22 MS. PETERS: I should say this wasn't

1 meant to be all of them, it was meant to identify
2 what was most important.

3 MR. RICH: So it wasn't even all of
4 them? Wow, because --

5 MS. PETERS: No. No, no, that's not
6 what I'm saying.

7 MR. RICH: Oh.

8 MS. PETERS: What I'm saying is we
9 gave them a series of options to ascertain a
10 population which may be greater than what they
11 actually intend so that we could discern a span
12 of what was most important. That's --

13 MR. RICH: We often struggle as an
14 analysist with the Deming observation that you
15 know, without data you just have an opinion and
16 my interpretation of that in these circumstances
17 is with too much data, you have everything but an
18 opinion.

19 If you're too confused to process what
20 is effectively an avalanche of conflicting
21 information, or even if it's not conflicting,
22 it's very difficult to homogenize into a view

1 that leads you to a decision.

2 And I, you know, when I see lists as
3 long as that, I see more confusion likely to come
4 out of it than conclusion. And perhaps that's a
5 --

6 MS. PETERS: But we weren't saying all
7 of these would end up being items. We were
8 trying --

9 MR. RICH: Yes.

10 MS. PETERS: -- to ascertain what
11 investors believe are decision useful so that we
12 could cull it down to the things that were most
13 important. Obviously understanding that it's not
14 an infinite data set that we can actually get.

15 And when you, when you say EDGARize,
16 do you mean XBRL to tag them? Or --

17 MR. RICH: Yes.

18 MS. PETERS: Okay.

19 MR. RICH: Get it into a machine
20 readable form that can be compared across
21 companies and across industries. And that's,
22 it's got to be numerical.

1 It can't be language related analysis
2 because that does not produce, it's very
3 difficult to use language analysis to come to
4 conclusions other than to raise questions in my
5 opinion.

6 So it can't be language, it has to be
7 a number, it has to be a yes or a no or a
8 relative, you know, a relative one to ten type
9 thing.

10 Because really, you know, it's very
11 difficult to -- I mean, if you're managing
12 hundreds of billions of dollars, if we can't get
13 it off a computer and it isn't summarized on a
14 page, it is largely useless to us.

15 MS. QAMAR: Thank you. This is great
16 so, we just take these next two questions and
17 then move on to Barb's presentation. So
18 Jonathan, I see your hand up and Alicia.

19 And then after that, we'll just move
20 on to Barb's presentations so any more questions
21 will be addressed after that. Jonathan? Yes.

22 MR. FLUHARTY: Okay, great. I'm

1 Jonathan Fluharty. I'm a financial economist at
2 OERA and I work in part on the firm and
3 engagement metrics team.

4 And one aspect that Lynn has raised
5 and I was wondering if it would move into sort of
6 a, at least awareness of that topic and providing
7 the information and data that we are getting is
8 the potential for auditors to seemingly
9 manipulate the numbers for their benefit and how
10 we want to think about that.

11 That was something that came out of
12 the court case that Lynn has referenced here
13 today. So I think that's also something to keep
14 in mind with respect to this particular topic so
15 I'll just leave that comment there.

16 MS. QAMAR: Thank you, Jonathan.
17 Alicia, I see your hand up.

18 MS. DAMLEY: Thank you, Saba. I'm
19 just struck by the breadth of our conversation
20 that has been triggered by firm level metrics and
21 just data broadly speaking and recognizing that
22 inevitably, just speaking to sort of my work as

1 an analyst and portfolio manager, finding that
2 balance between granularity of data with relevant
3 data. Right?

4 So having the right data points in
5 order to convert them to information and then
6 into insight so that I can make a decision as an
7 investor versus just having a treasure trove of
8 data which doesn't necessarily either as
9 inaccessible because of the nature of the way the
10 data is presented.

11 But also doesn't necessarily enable
12 you to reach a decision. I think we need to be
13 thinking about these things from sort of this
14 broader perspective because just more data is
15 often not the answer in my experience.

16 And it just complicates the situation
17 and officiates the value of what might already be
18 there in place.

19 MS. PETERS: I feel the need to say
20 something here because the reality is that
21 investors have little to no data on the audit.
22 They have an audit opinion with a critical audit

1 matter. Right?

2 So to some degree you're arguing
3 against yourself because of the fact that you
4 have what's in the Form AP and you have the audit
5 opinion. And that's all you have.

6 So certainly, we at CFA Institute have
7 argued for the relevant data that's important to
8 decision making, but right now there's nothing so
9 they're not, it's agreed and it's good. Right?

10 So what we're trying to do is endeavor
11 to isolate what investors think is most important
12 to that decision-making process. And so I worry
13 when we say as investor group, we're worried
14 about too much data that will be as someone who
15 has lived this experience.

16 Where it's like, oh, investors are
17 overwhelmed with information. No, they're not.
18 They have computers and they can get, we totally
19 agree on quantitative data.

20 We have said that. We believe all the
21 textual data should be tagged as well because you
22 can use NLP to do it. Is it as good? No, but it

1 gives you something. Right?

2 But my concern is that as an Investor
3 Advisory Group we also need to discern what is
4 most important because the narrative that oh,
5 we'll be so confused will be quickly adopted to
6 lead you to nothing. That's my concern.

7 Only simply erase it as someone who
8 fought the disclosure overload narrative for
9 financial reporting in 2013. And now all we
10 have, we kept saying, but people want ESG data.

11 Investors want ESG data. Oh, yes, but
12 they're overloaded. Right? So I agree that we
13 have to get the right data, but we have to make
14 sure that the message is delivered in a way that
15 the relevant versus the totality is not lost and
16 that there's a mistake in narrative applied.

17 I'll leave it at that. I've been down
18 this road, so.

19 MR. SCHROFF: I could not agree more
20 with what Sandy said. I mean said it very well
21 and that we'll see.

22 MS. QAMAR: Lively discussion. I

1 think we should just, I just want to be mindful
2 of time and I know we have like 21 minutes to be
3 exact left. So, Barb, I'll hand it over back to
4 you.

5 MS. VANRICH: Yes, certainly. Saba's
6 overly generous calling this a presentation. I
7 mean, honestly, it was really just meant to get
8 the discussion going and so I think that's
9 achieved the objective and very happy to hear all
10 of the views.

11 Something else I guess that is meant
12 to just inform you about the current state of the
13 world. So I think since we had these
14 conversations early on, firms have started to
15 publish various, I'll call it firm level
16 information through their public reports.

17 And I think Lynn touched on this. And
18 so just for your information, to give you a feel
19 for those of you who maybe not, don't spend that
20 much time in the transparency reports, we just
21 put together an appendix for the group's
22 consideration of what we saw in looking at

1 several firm's most recent quality reports.

2 So, you know, nothing much, too much
3 exciting there, but again, just for the group's
4 considerations. If you could advance the slide
5 please?

6 Similarly, you know, as I noted in
7 2017, the IG pointed out that other audit
8 regulators had made progress and what we did
9 again just to inform the group and the group's
10 thinking after the meeting is to note more
11 current activity around the globe.

12 Some of the approaches are
13 interesting, some of the regulators have taken a
14 phased approach starting with information being
15 disclosed to them.

16 I think with the ultimate goal of
17 making the information available publicly. If
18 you could advance the slide please. You could
19 advance it again.

20 So probably unnecessary at this point,
21 I don't know that this was meant to be a complete
22 list of questions, but really rather a

1 conversation starter.

2 And I think that we've already had
3 some good conversation so again, I'll just pause
4 here to hear other views if anyone wants to weigh
5 in on the questions.

6 We're very lucky to have on the staff
7 currently someone who worked on the concept
8 release and he actually gave me another list of
9 questions if we run long on time and short on
10 commentary.

11 But I don't think that will be the
12 case today.

13 MS. QAMAR: So I see a couple of hands
14 up. Alicia, is your hand up from the previous
15 session or do you have a question? Okay.

16 MS. DAMLEY: -- to pull it down.

17 MS. QAMAR: That's okay. It happens
18 to me all the time. Gina Sanchez and then Nemit.

19 MS. SANCHEZ: Thanks. I just wanted
20 to thank you for, it definitely was a
21 conversation starter without a doubt. And we
22 will have even more time to discuss it when we

1 get to the data and technology presentation that
2 I prepared.

3 But I think one of the things I do
4 want to, I want to underscore here just to make
5 sure as we do take aways, is that Hal's point
6 about linkages is very important.

7 And we have quite a bit of literature
8 that I'll review in my own presentation as to how
9 this data has been used. And this is people who
10 are breaking their heads to get the data put
11 together into data sets.

12 I mean, Sandy Peters couldn't be more
13 correct in that the data is very, very difficult
14 to use. And, you know, that we're by no means
15 overloaded yet.

16 And it will be a very long time before
17 that occurs, but I just want to underscore the,
18 we have a lot of examples already through
19 academic research that there is a desire and
20 already validation that the data can in fact be
21 very useful for fraud detection and prevention.

22 And that to Christina's point that she

1 asked about, sort of you know, is making this
2 data useful to investors. You know, investors
3 are not all created equally, but what helps is
4 when you get investors like the capital group who
5 are making an effort to publish research.

6 It does increase the transparency
7 overall. And that is the overarching goal here
8 is to have more eyes on these efforts and so I
9 just wanted to make those comments.

10 MS. QAMAR: Thank you, Gina, for the
11 comment. And yes, there will be more on this
12 topic when Gina presents later this afternoon.
13 So, Nemit, you're next.

14 MR. SCHROFF: I just want to touch on
15 what Barbara said that some of the information on
16 audit quality indicators or what auditors are
17 doing was already disclosed at the firm level.

18 I want to emphasize that, you know,
19 the granular data is really important to
20 understand to how useful that information is so
21 when information is disclosed at the engagement
22 level, I think there's, there can be a lot, it

1 can be a lot more useful than when it's disclosed
2 at the firm level.

3 In fact, even at the audit office
4 level, offices have reputations for being high
5 quality or low quality. So I think to the extent
6 there's more, the information is more granular,
7 it makes a huge difference.

8 MS. QAMAR: So I see Nemit's, Nemit,
9 are you still speaking? Because I can't hear
10 you?

11 MR. SCHROFF: No, I'm not. I'm not.

12 MS. QAMAR: Okay.

13 MR. SCHROFF: I just wanted to make
14 that point saying that --

15 MS. QAMAR: Yes.

16 MR. SCHROFF: -- when information is
17 disclosed at the firm level, it's the extent to
18 which it's useful is just a lot different when
19 it's disclosed at the audit office level or at
20 the individual engagement level.

21 MS. QAMAR: Okay, thank you. So I see
22 Jack and then Board Member DesParte. So Jack,

1 you're next and then Board Member DesParte.

2 MR. CIESIELSKI: Thank you, Saba. I
3 just wanted to say in reference to the prior list
4 of questions about input from the IAG about what
5 they'd like to see.

6 I think you have to think big and we
7 don't have, it's not 1992 anymore it's 2022.
8 Databases and distribution of data is, you know,
9 very economically produced and you can get a lot
10 of information out there to everybody.

11 I don't think it has to be just that
12 you have data that's downloaded by APIs to like
13 the capital group or a T. Rowe Price. I think
14 when you design the performance indicators and
15 get them on board, you know, take the auditor
16 search model that you have and, you know, bring
17 it in to 2022.

18 And put the whole thing out there and
19 make it searchable and comprehensive so that any
20 investor can use it. And extract from it what
21 they want, you know, as Sandy said, make it
22 XBRLable, XBRLable, EDGARable.

1 But you know, I think that we're way
2 behind on getting this kind of information out to
3 investors. You know, all we're looking for
4 really is circumstantial evidence that a quality
5 audit has been performed.

6 And even then all we can do is just
7 approve or disapprove of whether we want the
8 auditor to return. And we're not even getting
9 enough information to make that kind of a
10 circumstantial judgment.

11 So I really think that this is an
12 urgent kind of project for the PCAOB and it's
13 taken far too long and I think we're setting our
14 sites too low by saying we're going to have too
15 much information if we do this.

16 I mean, I think we really have to try
17 and start experimenting and set a timeline for
18 getting it done. That's all I have to say.

19 MS. QAMAR: Thank you, Jack. That's
20 helpful. I can hear my echoes. Board Member
21 DesParte, I'll hand it over to you.

22 MR. DESPARTE: Thank you, Saba. And

1 I want to thank everybody. Really good
2 discussion, very thoughtful. I don't know if
3 folks can go on mute if you're not on mute here
4 with an echo.

5 But I will underscore Nemit's point
6 about, you know, we talk about firm level and
7 then engagement level and I will also offer that
8 we hear from audit committee members quite often
9 that they would really appreciate the engagement
10 level metrics, you know, on their specific
11 issuer.

12 And I've heard, you know, the
13 discussion here about relevance, about
14 reliability, consistency, about context and
15 that's one thing as this project moves forward,
16 I'm interested in how you all think about what
17 good looks like because I know the firm
18 sometimes, you know, there's a focus on the firms
19 from an input measure about well let's not
20 compress all the work at your end, let's try to
21 spread the work more evenly and they believe that
22 will drive better quality.

1 But at the same time, if you have a
2 metric about how much work was performed after
3 year end versus before, if there was a big
4 transaction towards the end of the year, well
5 then you'd expect more work perhaps to be done
6 near your end.

7 And so that context that I heard some
8 talk about and the qualitative aspects that go
9 around the measures, I am curious how you, how
10 the investors are thinking about that as they
11 analyze.

12 And the other thing is with the big
13 firms, you kind of can get into the law of
14 averages where, you know, for many, many clients
15 that these big firms have, how will the investor
16 really get a good sense without it being more
17 engagement specific and be therefore need to be
18 more in context?

19 So really good discussion. I just
20 offer those few thoughts, you know, that I'm
21 interested in learning more about as we move
22 forward.

1 MS. QAMAR: Thank you, Board Member
2 DesParte. That is really, really helpful. I see
3 Sandy's, Sandy Peters' hand up and then David
4 Pitt-Watson.

5 MS. PETERS: Something about the fact,
6 it sort of aligns with what Jack said and then
7 what you said, Duane. I mean, the reality is
8 that we can't let perfection be the enemy of
9 something. Right?

10 That and that we have said that give
11 it to the audit committee and have them go
12 through it first and then share it with
13 investors. Right? So that they can add context
14 because they're our agents. Right?

15 Just like management is an investors'
16 agent, the audit committee is our agent, we need
17 them to have the information that they need to
18 evaluate it. Just as you said. Right?

19 The audit committee just talks to the
20 auditor. They don't look at the work papers.
21 Right? This is a big game of telephone at some
22 point. Right?

1 You guys look at the work papers, but
2 you're not in the conversation with the audit
3 committee and investors are like, okay,
4 everybody's sort of talking to each other, how do
5 we evaluate this. Right?

6 We're looking for something to start
7 a conversation. Right? And we always believe
8 that relevance is more important than
9 reliability. And that violates the, some
10 auditors, and I was one so that makes them feel
11 bad, but it's like we can't let perfection be the
12 enemy of something.

13 So to Jack's comment about a moon shot
14 or whatever. Right? We need to start somewhere
15 and I think the audit committee can be a good
16 first step.

17 MS. QAMAR: Thank you, Sandy. I see
18 David's hand up. David?

19 MR. PITT-WATSON: Yes, what?

20 MS. QAMAR: You're next.

21 MR. PITT-WATSON: Thanks. I thought
22 a Board Member DesParte's question was absolutely

1 an excellent one because I guess that the center
2 of having this new information is that we get
3 better audits out of it.

4 And that often when we think about
5 information, we think about it being extraneous
6 like taking the temperature of the patients and
7 then the doctor can tell you whether you need to
8 go to bed or not and what's wrong with you.

9 I think that if you're thinking about
10 this, you might also want to think about the
11 indigeneity of the information, the way that it
12 affects the person who's being measured, the
13 auditor.

14 But like the way that the person who
15 sets the exam script makes a difference to what
16 it is that the student actually studies. And as
17 somebody who I'm in an investor, but I have a sat
18 on the Board, in the UK of one of the Big Four
19 accountant.

20 And the audit calls you reviews done
21 by the FRC really focus their mind. They did
22 sort of make a little bit of an impact on

1 investors and the investors would raise it with
2 the auditors, but that indulgence information was
3 absolutely critical.

4 It changed what it was that people
5 were doing. And that, of course, brings you back
6 to all the other questions that we've been asking
7 about.

8 But what information do you actually
9 want here because you will get what you measure
10 if you start measuring these things. So we need
11 to be sure that we're measuring the right thing.

12 But I think about the way that it will
13 directly affect the auditor as well as the way
14 that it will affect an investor who will then
15 think about the way they vote or whatever they do
16 similarly for the audit committee chair, et
17 cetera, et cetera.

18 MS. QAMAR: So I see Hal and then
19 Lynn.

20 MR. SCHROEDER: Question for Barb and
21 I apologize for not knowing this. Whose name,
22 what partner's name is being listed or would be

1 listed?

2 Is it the only the lead, the top, top
3 partner or is it the second tier, the third tier
4 for large multi --

5 MS. VANICH: The lead.

6 MR. SCHROEDER: -- type of
7 engagements, you could have 10, 15, 20 partners.

8 MS. VANICH: The lead partner, but
9 that's a good point.

10 MR. SCHROEDER: I would really
11 challenge that. Particularly if you have more
12 junior partners that are also leading other
13 engagements. I'd want to have a general sense as
14 to what their, you know, their industry
15 specialization is, are they playing a role on a
16 bigger engagement and carrying that information
17 to the smaller engagement.

18 I would really want to know kind of
19 structurally how it was set up. Particularly if
20 I were taking an industry focus, but just give
21 that one thought.

22 MS. VANICH: Okay. Thank you.

1 MS. QAMAR: So we're at the five-
2 minute mark. Five minutes until we take a break.
3 Lynn, you're next and then Sandy Rich.

4 MR. TUNER: -- however, Barb was,
5 where would you put this information in terms of
6 disclosure? Probably the most logical place for
7 me is in the proxy because it's right next to the
8 audit committee that you're voting on as well as
9 with the auditor.

10 But you guys don't control or have any
11 authority over the disclosures in the proxy, so I
12 doubt that would work unless you could work that
13 out with the SEC which I suspect perhaps you
14 could.

15 The other option is make it part of
16 the audit report. My only concern there is I
17 think some of these factors will not be pulled
18 together by the time you do the audit report each
19 year and issue it.

20 So it just may take some coordination
21 with the SEC. If you put it into the -- can get
22 them to agree to put it into the proxy, then it

1 can all be EDGARized to Hal's point and make
2 access to it a lot easier.

3 MS. VANICH: Thank you.

4 MS. QAMAR: Yes, that's a great
5 suggestion. So, Sandy, you're next.

6 MR. RICH: Just listening to this
7 conversation, it makes me think of the
8 Government's structure of all of these things
9 because we're -- these quality indicators are
10 basically trying to penetrate through the, you
11 know, oversight that the audit committee has, the
12 Board Committee has, the auditor, PCAOB watching
13 the auditor and the SEC watching the financials.

14 And at some point, I think there's a
15 question of what is the governing structure of
16 corporations in related to SEC, the auditor, the
17 audit committee, the directors, the PCAOB and any
18 other regulator including state level CPA
19 organizations which monitor CPE credits.

20 They monitor accreditation, they
21 monitor the responsibilities of auditors so at
22 some point, this conversation has to include that

1 governance structure and the concept that if we
2 choose to have quality indicators that seek to
3 bypass that governance structure, that's
4 definitely something we could do. Right?

5 And there are analysts who wish to
6 pursue that. But if we are trying to strengthen
7 the governance structure, I think we have to
8 identify where these quality indicators should be
9 positioned. Right?

10 Is it the audit committee? Is it the
11 PCAOB watching the auditors? Is it the state CPA
12 organizations which monitor the auditors? I
13 mean, I think that's a big, that's a big question
14 that the governance here because it's definitely
15 possible to provide audit quality indicators on
16 every piece of information that's reviewed.

17 Every time the auditor has a question
18 on the representations of the CFO, and that could
19 definitely be accounted for, it could be
20 published. We have the computer capacity to
21 include all that stuff.

22 The question is, should we? It seems

1 to me, it's not clear to me that we should do
2 that on all of these things, but you know, just a
3 question.

4 MS. QAMAR: No, it's a really
5 interesting question. I mean, definitely for
6 someone who is not from this background. Like
7 this is just really thought provoking so thank
8 you for sharing this.

9 I see one more hand and after this,
10 we'll take a quick break, 15 minutes break, so
11 Alicia, you're next and then after this question
12 we'll take a break and be promptly back at 3:15
13 for our next presentation. Alicia?

14 MS. DAMLEY: Thank you. Just a minute
15 to echo what Sandy has just said and, you know,
16 if I come back to the original comment that I
17 made, I think we want to be thinking about not
18 just quality, but quantity, but within the
19 context of how this all fits. Right?

20 I don't know that the PCAOB is
21 actually positioned to be able to be, do all and
22 be all things to everybody out there. There is,

1 this is a very complex mix of professionals,
2 licensed professionals in many cases as well as
3 individuals with, you know, with competencies.

4 And leveraging how this is supposed to
5 work I think bears some consideration if not
6 significant consideration. We all want more
7 data. I absolutely concur.

8 I often times am a data nerd, but I've
9 also learned that I think we want the right data
10 and that's actually a really difficult question
11 to answer sometimes. Thank you.

12 MS. QAMAR: Thank you, Alicia. This
13 is actually a great discussion. I am delighted
14 and I'm sure everyone else is learning a lot and
15 enjoying this conversation.

16 So we'll be back at 3:15. We'll take
17 a 15 minutes break and back for the next
18 presentation from Gina Sanchez. Thank you,
19 everyone.

20 (Whereupon, the above-entitled matter
21 went off the record at 3:00 p.m. and resumed at
22 3:16 p.m.)