The Advisory Group met in the offices of the PCAOB, located at 1666 K Street, NW, Washington, D.C., at 9:30 a.m., Jay Brown, IAG Chair, presiding.

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SECURITIES AND EXCHANGE COMMISSION STAFF
WES BRICKER, Chief Accountant
MARC A. PANUCCI, Deputy Chief Accountant

* Present via teleconference
CONTENTS

Welcome and Introductions -
Jay Brown, IAG Chair ............... 5

Strategic Plan Implementation & Prioritization - ................ 21

Obtain Input on Implementation of
Goals and Priorities Outlined in
the Board's Draft Strategic Plan ....... 29

Goal One - Improvement in Audit Quality

Goal Two - Responding to Changes in the Audit Environment

Goal Three - Enhance transparency & Stakeholder Engagement

Goal Four and Five - Pursuit of operational excellence, including development of people

Prioritization of Goals - discussion

Breakout Sessions .................. 127

Break

Report Back from Breakout Sessions ........ 128

IAG Chair's Wrap Up ................ 145

Adjourn ................................ 146
MR. BROWN: All right, so shall we convene the ninth meeting of the Investor Advisory Group. Let me also ask, is anyone currently on the phone?

(No response.)

MR. BROWN: All right. We'll ask that question again later. Let me also note here, this is our very first IAG meeting inside the building. And in my mind it's very symbolic. I think metaphorically, your ideas and thoughts have less distance to travel.

(Laughter.)

MR. BROWN: They're already in the building. And hopefully will have even quicker effect since they're here already.

Let me note that all of the Board Members are present here today. And we have a couple of visitors from the Securities and Exchange Commission.

And I want to welcome all of you here. At the table we also have George -- some of our leadership here. George Botic from Inspections, Barb Vanich from the
Office of the Chief Auditor, Liza McAndrew Moberg from the Office of International Affairs, Mark Adler from Enforcement, and Patricia Ledesma from the Economic and Risk Analysis Office.

I also want to just take a minute here to thank a couple of people here. Lillian Ceynowa to my left, really knocked herself out to make this meeting happen.

With an assist from Uzma Wahhab back right behind us there. And really did a great job putting this together, I think, on relatively quick notice.

The other thing is, is trains don't just automatically run on time. All of the many administrative and security details that have to happen to have a meeting like this happen, would not have taken place without the extra effort of a few people.

So, let me just mention Jill Boocock, Lucia Carromba, and JD Moore. They were extraordinary in their help here.

So my last sort of housekeeping measure. Let me give the usual disclaimer. Of course, the views that I give here are my own, and not necessarily those of my fellow Board Members and the staff of the PCAOB.
And by magic wave, I apply that to everyone from the PCAOB. And after consultation with the General Counsel's Office, I think I'm not allowed to apply it to anybody else except someone from the PCAOB. So, you guys from the SEC are on your own.

MR. BRICKER: We're on our own.

MR. BROWN: Yeah. And I do want to mention, to my left is Wes Bricker, the Chief Accountant. And Mark Panucci, Mark, where are you? Mark Panucci over here, the Deputy Chief Accountant from the SEC.

So, let me go back in time a bit here. If you go back to 2002, Enron, WorldCom, you know, all of those massive failures, Congress confronted, quote, an incredible loss of investor confidence, close quote, in the financial markets.

I don't think it's an overstatement to say in that time period trust in the auditing process, trust in the financial disclosure process, was pretty much shattered.

I think that on the Hill, Congress knew something dramatic had to be done. Something dramatic to restore investor confidence.
Something to send a message that the conditions
that led to Enron and WorldCom and those other failures,
would not be allowed to continue.

So of course the answer was what? Sarbanes-
Oxley. SOX had a lot of bold things in there.

But I think maybe the boldest was the creation of
the PCAOB. I think with a flick of the legislative
wrist, self-regulation was gone.

And in its place was the creation of a regulator,
one of the first in the world that had the authority to
set standards, inspect engagements, and enforce these
requirements.

But in doing that, we were -- but in setting us
up, we were also given, what I think is, a very clear
mission. A very clear mission.

Of course we were told to oversee audits of
public companies and ensure informative, accurate, and
independent audit reports.

But, we were told to do that in order to protect
the interest of investors and the public interest. Very
clear it seems to me.

Missions like that, they're not self-executing.
And neither is ours. We have the responsibility, the obligation to ask ourselves constantly whether or actions and operations in fact further the investor protection mission set out in the statute.

And in doing that, we can't just rely on our own intuition. We can't just rely on our experiences, no matter how well our 401(k) plans have done.

To understand and protect the interest of investors, we need to hear from them, from you directly. Which brings me to the Investor Advisory Group.

I think this group has been instrumental in helping the PCAOB stay investor focused. It was created back in 2009 by the PCAOB under the leadership of then Board Member Steve Harris.

And you guys met for the first time in the shadow of the worst financial crisis since the Great Depression.

You know, when I think back on those times, you know, what you realize is, investor confidence, something that Congress struggled so hard to restore in Sarbanes-Oxley, what that time period showed is investor confidence, however hard earned, could just as quickly be lost.
Your meetings over the next series of years, I think, weighed in on some of the toughest issues confronting the auditing space. You talked about audit quality indicators.

You talked about non-GAAP and other information. You talked about noncompliance with laws and regulations. I think in the words of Steve Harris, you were trying to answer the fundamental question, how do we make audits more relevant to investors?

Nowhere though, in my opinion, when I look back on this record, was your insight and contribution more valuable then in connection with the audit report model and expanded auditor disclosure.

You guys are not a shy bunch. And you raised that in the very first meeting. And pretty much never really stopped bringing it up.

The frequency, depth, and intensity of those discussions made it very clear how important this issue was to investors. When I look back on it, I think I -- I wonder, you know, whether you guys had to wonder how often you had to bring this up, was the PCAOB listening?

And I think you know the answer to that now. We
1 were. The PCAOB adopted, and the SEC approved, enhanced
2 auditor disclosure.
3 So now there's disclosure of engagement partners.
4 There's disclosure of firm tenure. And soon to come,
5 critical auditing matters.
6 I think your role in this, the IAG's role in this
7 was essential, unmistakable, and necessary. I'd also say
8 this information, it sounds, you know, sort of a little
9 bit esoteric, but it's not.
10 And it's being used widely already. We have up
11 on the website an auditor search function. Where you can
12 search our Form AP that has some of this information in
13 it.
14 Since February 1, 2017, almost 30 thousand Form
15 APs have been filed. They've been filed by around 550
16 audit firms.
17 They identify more than 48 hundred engagement
18 partners. And auditor search shows that there have been
19 more then 730 thousand searches of this information.
20 We know this information is being used by
21 academics, investors, and other researchers. It's
22 important information. It's being used.
So what about the future? Our mission is no different. It's unchanged. The need for input from investors, if anything, is more important.

We are, as we'll talk about today, in the midst of implementing a strategic plan with the goal of creating PCAOB 2.0.

And as Chairman Duhnke has said in a recent speech, we need to reexamine our oversight function with the goal to, where necessary, quote, transform the manner in which we conduct our oversight. We need investor guidance and help. We need your help in that transformation.

But PCAOB 2.0, it's not a static concept. Protecting investors is a task that for us requires continuous introspection and continuous interaction with investors.

Introspection means that we have to constantly ask what standards should we prioritize? What types of usable information should we include in our report?

How should we conduct inspections and select the engagements that we inspect? How can we become, as the Chair has said, more agile?
And to answer those questions, we need investor input on a constant basis. So the conversation today, I fully expect will be robust and insightful. Again, I don't think there are any shrinking violets or silent types on this Committee. But, I see this only as a beginning. As a continuous process of helping us to execute our statutory mission to protect the interest of investors and the public interest.

So, with that, let me ask my fellow Board Members if they'd like to make some remarks. And let me start with Chairman Duhnke.

MR. DUHNKE: If you don't mind, might I suggest go the other way. And then I'll pick up at the end with a, sort of an overview.

MR. BROWN: Got you. All right. Board Member Hamm?

MS. HAMM: Thank you. I too would like to thank the IAG Members for your service. Those in the room and those that will join us on the telephone.

As Board Member Brown stated, the PCAOB's mission and our statutory mandate is to oversee audits of public
companies and SEC registered broker dealers to protect the interest of investors, and further the public interest in the preparation of informative, accurate, and independent audit reports.

As Board Member Brown mentioned, we're driving towards a new strategic plan. One of our strategic goals is to enhance the PCAOB's transparency and accessibility through proactive stakeholder engagement as we work to improve the state of audit quality.

That's why I believe it is essential for us as a Board, to hear directly from you, on how we can most effectively protect your interests as investors.

I look forward to hearing your feedback on our draft strategic plan, as well as your perspectives during the breakout sessions on the implementation of the new auditor reporting model. And your views on the PCAOB's quality control standards.

Just a couple of words on the topic of quality control. I am very interested in hearing your thoughts on our quality control standards and the audit firm systems around quality control.

In my mind, if appropriately designed and
implemented, effective quality control systems can be a game changer in improving audit quality.

They offer the potential for audit firms themselves to self-identify, self-correct, and self-report deficiencies before audit opinions are issued. As a result, they can be a powerful tool to drive audit quality forward.

Thank you again for your service. And I look forward to today's discussion.

MR. BROWN: Thank you. Please don't anyone else do that. Press the middle.

Board Member Kaiser?

MR. KAISER: Thanks Jay. Thanks for joining us today. For me as one of the two CPAs on the Board, this is a unique opportunity.

In my 39 years, it was very difficult for me to have direct access to investors. So, I look forward to your feedback today, and the dialog and discussion.

And particularly feedback in the three areas, our strategy, the quality control standards, as well as the implementation of the new audit reporting model.

And I also look forward to this as just the
beginning of a dialog that we have during our tenure with
the PCAOB as Board Members. Thank you.

MR. BROWN: Thank you Jim. Board Member DesParte?

MR. DESPARTE: Yeah. Good morning everybody. And I echo my fellow Board Members' comments and a thanks to all of you for being here.

I know it's a significant investment of time. And it's very important to us.

I share the passion for high quality financial reporting that all of you do.

MS. HAMM: Can you talk closer to the microphone? Sorry.

MR. DESPARTE: Sure. Is that better?

(Laughter.)

MR. DESPARTE: But again, thanks to everybody for being here. And you know, I share the passion that we all have for high quality financial reporting. And of course that reporting is for the benefit of the investors. So, your input to us here today is really crucial as the foundation of what we do.

And you know, I've been an auditor. I've been
the past ten years I was a chief accounting officer doing preparation of financial reporting, and had some engagement with investors. But it was, you know, limited to one industry in my company. And I think getting the perspectives from all of you on a broader basis is going to be very helpful.

So, thanks for being here.

MR. BROWN: Thanks Duane. Bill, before I come back to you, let me ask Wes if he'd like to make some comments?

MR. BRICKER: With the microphone on. Thank you. Thank you very much Board Member Jay Brown. Good morning everyone. I know I also speak for Mark Panucci, who is also here today, in welcoming the Members of the PCAOB's Investor Advisory Group as well as the PCAOB Board, its staff, and others who have joined together in convening today's meeting.

Before I go further, let me also give the usual disclaimer for Mark and I. And I'll do the Jay Brown wave.

Which is that our remarks reflect solely our
personal views. Do not necessarily reflect the views of
the Securities and Exchange Commission, the individual
members of the Commission, or its staff.

So, continuing on, as Jay described, you
certainly have an interesting and a very packed agenda
ahead of you for today's discussion.

Before I let you get on with that discussion, I
wanted to thank all of you. Including the members of the
PCAOB staff for your public service.

To also the service of this Investor Advisory
Group. As members of the Investor Advisory Group, you
have very busy schedules. Yet you take a substantial
amount of time to share your knowledge, and your
expertise, for the betterment ultimately of investors and
our markets.

On the agenda, I'm certainly delighted that the
group will focus this morning on a discussion of the
implementation of the goals and the priorities of the
draft 2018 to 2022 strategic plan.

Also, a discussion about the potential
improvement in quality control standards, and experiences
with and understanding of the auditor's reporting model,
as well as the auditor's search database, which provides transparency of audit participants.

Jay has done a very thorough and useful job of providing a summary of the statutory mission of the PCAOB, the important role of standard setting, the primacy of the investor and trust, as well as looking forward to the PCAOB, however it's described.

Whether 2.0 or a continuation of relentless focus on the PCAOB mission, our support is with this work. That is, we support the PCAOB's outreach efforts engaging with a range of stakeholders as demonstrated by the approach taken with the draft strategic plan.

The Board's outreach activities in this regard will pay dividends for investors, preparers, auditors, audit committees, and others who depend upon the essential role of informative, accurate, and independent audit reports.

It's also clear to me that the PCAOB Board and staff are working diligently and collaboratively in advancing the important mission of the PCAOB.

The work of this Investor Advisory Group is beneficial to informing and advancing the Board's work.
Mark and I look forward to hearing your perspectives on the topics discussed today, and any recommendations that you may have.

Finally, I'll provide a full debrief of today's discussion with our own Chairman, Jay Clayton. Who is unavoidably unable to be with you today. But certainly sends his appreciation for your service.

Thank you.

MR. BROWN: Thanks Wes. Chairman?

MR. DUHNKE: As you sort of observed already, these microphones need to be pulled in pretty close when you use them. Hit the green button and pull it in close and speak up.

First of all, an advance apology to Linda and Larry. If you find yourself visiting your general practitioner, tell them it's probably bronchitis the next couple of weeks.

But first of all, I want to thank Jay, obviously in his career. Lillian and Uzma, and everybody else who pulled this together pretty rapidly. This isn't easy to do. And we really appreciate the work they did.

And we appreciate your presence here, because we
1 definitely want to hear from you, and hear your views, 
2 and continuing views, because some of you have already 
3 participated in this process with us on the strategic 
4 plan and sort of our -- the direction that we're headed 
5 in the future. So, we appreciate that. 
6 So, my question to you Jay, is, do you want me to 
7 move right in? Or do you want to -- 
8 MR. BROWN: I would say, move right in. 
9 MR. DUHNKE: Okay. So, I've been tasked with 
10 sort of doing the overview of how we approached this 
11 strategic plan, the process. 
12 Some of you are already pretty familiar with it, 
13 because you participated in it. But, when we got 
14 together to discuss this, it was a very quick consensus 
15 that we wanted to open this process up. 
16 We wanted to hear from as many people as 
17 possible, externally and internally. So, we went outside 
18 and we went inside. 
19 We asked all of our internal employees for their 
20 feedback. We asked as many of the interested parties of 
21 stakeholders on the outside for their input as well. 
22 We engaged the services of NAPA, the National
Academy of Public Administration, to help us go through this process, because we did a number of surveys. We did a number of interviews.

And they helped facilitate our process as we came up with this strategic plan. We got, I would imagine, relatively speaking it's a huge response.

Mostly, and I would say almost a vast majority were very positive about the direction that we're headed in. And we got a very good response from inside the organization as well to our invitation to participate in this process.

It's something we've all stressed with our own people inside the PCAOB, is that we see this as a group activity. And we're looking inside for their expertise.

And we want to hear from them about what they think is the best way of going about this process. And not only reexamining ourselves, but also fulfilling our mission as well.

We feel like the expertise is here. We're looking for the best ideas from inside the building. The multiple buildings that we have.

And then we took it to the next level when we
finally completed a draft of it. Then we put it out for public comment. And we asked the world to tell us what they thought. And we got a decent response. I think 31 is the count of actual comment letters that we received. And it was almost unanimously positive. And we received quite a bit of implementation advice as well. Which is a lot of what we expect to hear today. And we welcome that.

The next step for us, after this conversation, will be, I think it's next week, we'll have a formal and a public meeting. And we will adopt the strategic plan along with our own budget. That's part of our process. And I would just say that there's probably four or five thematics that came out of this process that we agreed on addressing that you'll see in the plan and we'll discuss today. And that is first and foremost, focusing on our primary mission. And that's we want to make sure that we are conducting the most effective oversight we can. We want to make sure that we have -- we are continuing the process of improving the provision of the
quality of audit services, first and foremost. And part of what you'll see in that, and we'll discuss today, is also a focus on prevention. We want to make sure that we're doing everything we can to make sure that we're not only identifying deficiencies, but we're doing everything we can to make sure the deficiencies don't even happen.

The other side of the equation too, is innovation. And that's both internal and external looking. We have our own challenges internally on the innovation front. And that just happens to be with just the basic IT systems and the use of technology inside the organization. But also our focus about the use of different tools like data analytics and artificial intelligence and so forth.

You've all heard the speeches before. But we want to make sure that not only are we on top of what's happening in industry, but that we're doing two things. One, we're not impeding that innovation. But we also, first and foremost, want to make sure that that innovation is not also impeding audit quality as our
primary mission of course. The other side of the equation is engagement. We feel like we have a lot of work to do. And part of -- this is obviously part of the process, of improving our engagement outside the organization. And you saw that in this -- in the strategic plan process. By reaching out to anybody who wanted to participate in the process with us. We want to expand our engagement with every other interested stakeholder, with audit committees, issuers, preparers and so forth. So that that -- you're going to see that a lot. You'll probably see relatively soon we're going to institutionalize a greater outreach process. So that we are more interactive with the people who want to talk to us, including this group here and your colleagues. And I'd say lastly it was about process in our own culture inside the organization. We want to make sure that we are being collaborative. That we're being innovative. That we're giving our own best talent the ability to shine. And that's what we're looking for inside this organization.
And we want to make sure that we're rewarding that process so that we keep the -- we keep it going. And I think that's probably the summary of it all. And I'll turn it back over to Jay. Thank you.

MR. BROWN: Thanks Bill. Let me just do a couple of housekeeping things.

So first of all of course, tent cards up if you want to speak. Remember, this is all being webcast. So, speak into the mic so that it can be -- the people that are listening in can hear you.

We'll take a break, I think at 10:45? We'll take a break at 10:45. We're going to discuss all of these different sorts of goals and topics that we have.

What I'd like to say though is, at the end, sort of before lunch and before we go into the breakout sessions, what I really will ask is, what you think our priorities should be?

You know, I sort of think about takeaways. And of course we're going to listen to everything that you say and assimilate all of the thoughts and ideas.

But, you know, at the end of the day, we're not -- you know, we have to also prioritize what we do and
how we implement the strategic plan.

So, I will ask you at the end to give us your thoughts on what you think our priorities should be. It maybe things you've said in the course of the discussion so that we understand they're important to you.

But, if you could sort of think in the -- in terms of priorities. You know, I think we'd like to do that at the very end of the meeting.

So, sort of know where -- no matter where we are in the discussion, you know, at least a little bit before the end, we'll bring it around to priorities.

So, having said that, is there any other -- anything else I'm missing on the housekeeping?

MS. CEYNOWA: No.

MR. BROWN: Okay. All right. Well, let's go ahead and begin. So, you know, we as you know from the agenda, we are talking about implementation of the strategic plan.

I mean, we're really now, this is not a focus on what should be in the strategic plan, this is a focus on, how should we implement what's in the strategic plan?

And so, you know, let's open it with, you know,
the very first goal. So, the strategic plan in it has
five goals essentially. Five sort of broad thoughts and
approaches to this.
And the first one is, to drive improvement in the
quality of audit services through a combination of
prevention, detection, deterrence, and remediation. So,
let's start there.
What thoughts do we have on how we should
implement that goal?
MR. DUHNKE: Can I just add in there too, Jay
that and obviously one of the things that we highlighted
here was the idea of the prevention that we want to focus
on.
And the -- and as a part of the internal
conversation is the focus on quality control systems and
our sort of turn towards that.
So that's -- something specific in that area
would be very helpful as well.
MR. BROWN: Pete?
MR. NACHTWEY: Well, I guess somebody has to go
first. So, Pete Nachtwey, CFO at Legg Mason.
I'll first of all congratulate the Board and all
the staff that are in the room. And probably those that aren't in the room in terms of putting this together. Because it really is, I think, a very thoughtful document. And I appreciate all the hard work that went into it.

Just from a -- and I'll make the same disclaimer. I'm the only Legg Mason person in the room. So I don't have to do the magic wave.

But, I am just representing Pete Nachtwey. But, when I'm representing Pete Nachtwey, it comes from being the CFO of an investment platform.

And I always remind people there's an F in my title, not an I. So, when my family asks for investment advice. But, I know enough to be dangerous on that front.

I probably learn more about what investors want interacting with the buy side and the sell side in my CFO role, which I probably spend a thousand hours a year doing.

But, I think in terms of what I would encourage, as you think about implementation, is not just -- you know, maybe it's a carrot and stick type thing.
I think that certainly the firms are used to, you know, feeling the stick from the PCAOB. And that's not inappropriate.

On the other hand, you know, what are the carrots? What are the things that, you all can do to help make the audit profession better and make these firms better?

And I think number one, sharing best practices. Which I, you know, is kind of in here. But really making sure that that's done in an appropriate way.

You know, obviously nothing that's propriety or a business advantage, et cetera. But, I think that ought to be trumped by their duty to the capital markets and to our society.

So, I think sharing best practices would be one thing. Second, making sure the right expertise is getting involved.

So, I've had the pleasure of sitting next to Jay and at Kathleen's table last night. And we talked quite a bit about the fact that the world changed about 15 years ago for accountants.

We all, those of us who are dinosaurs who got
trained back in the '70s, it was all about historical cost accounting. Because that's very objective. And you could actually audit that and measure it in very objective ways.

Fair value is a whole different beast. And making sure that the firms are, you know, staffing, have the right resources. And actually Tony, I'm sure, will have thoughts on this, because this is his world.

But in making sure they have the right expertise overseeing what managements are doing. And then staying current.

The technological change that's going on out there is massive. I just know what we're doing at our own firm at the moment around blockchain.

Or -- actually I had the chance to read the paper this morning since you were kind enough to not start at zero-dark hundred.

But I now learned that blockchain is going to be called distributed ledger technology. Which makes it all of a sudden much more closer to thinking about how does that have accounting implications?

But that's going to be a game changer. Robotics
is going to be a game changer. Cloud-based accounting systems and so forth, game changing.

And how are the firms and how is the profession staying up with that? And then last but not least, I think governance is really important.

I think the -- again, being a former partner at Deloitte, and since I just signed my ethics form, I'll point out that I no longer have any financial interest at Deloitte.

But I certainly am formed by the 30 years that I spent there. And, you know, figuring out how the governance of these firms should work.

Right now the governance is all about the people that are on their boards represent the partners. Because those are the owners of the business.

But, they're in -- they've been given a franchise by the public in the U.S. So, you know, what level of independent involvement should these firms have on their boards?

So, those would be my thoughts. Thanks for listening.

MR. BROWN: Thank you Pete. Well, let me sort of
phrase the questions, you know, maybe a slightly different way.

You know, I hear all of the time that people will say, since 2003, audit quality is better. And I hear that from a lot of different sources.

And I think so, you know, at least based on a quantitative discussion with me, it's true. But, I think we talk about inside, right?

And I think the strategic plan tees up, what's the next level for us? How do we get audit quality up to the next level?

You know, what steps should we be taking to do that? What should the firms be doing and what role should we play in that?

I think Pete touched on some of them. You know, what we know is coming or it's here, it's technology. You know, and a lot of changes to the profession.

But, you know, I mean, should we just keep doing what we've been doing? Or should we -- or are there ways in which -- or you should help us come up with ways that we can continue to think about driving audit quality to the next level.
Bob?

MR. TAROLA: Thanks Jay. Good morning everyone.

I'm Robert Tarola, Bob Tarola. I've been a former audit partner as well. A CFO of a few public reporting companies.

And now I'm on the board of two public reporting companies, including an operating company and a mutual fund company. And sit on the audit committee.

First of all, thank you for pulling this together. And we appreciate being involved. We've been -- most of us around the table have been involved for a number of years now.

When it -- my view is that you have an opportunity as a fresh board to refine what came before you. Which was a lot of good work.

But, you -- but everything can be improved. So, the opportunity to refine how you do your work and how you interrelate with auditing firms as well as the constituents of investors and overseers of financial reporting.

I'd also like you to think about expanding how auditors get involved with the public reporting system.
And I think, in terms of quality of audits, it can't just be an internal view of how does the firm monitor its quality. It also has to be an external view of how does the firm relate to the investors and the governing bodies of their clients.

And to be involved more with the entire financial reporting framework, not just the annual financial statements. But the quarterly reports, the earnings releases, the metrics that drive the business.

Anything that can be validated, would be nice to have the auditors involved. So, from the perspective of a board member and an audit committee member, when the auditors come into the room and talk about the audit work on the financial statements, that's wonderful.

But what we really want to know is, do you understand the business? Do you understand what's really driving? What's going on here?

And can you indeed provide some satisfaction to the governing bodies? All of that is working as it should. Not just the debts and credits.

So, I ask you to think about refinement, but also expanding the auditor's role in the financial reporting
MR. BROWN: So Bob, can you -- let me ask, can you be a little bit more specific? As somebody who's sitting and listening to the auditor, what are some specific examples or things that you would like the auditor to have maybe looked at or discussed or whatever.

MR. TAROLA: Well, the investment world is making decisions on literally day to day, maybe even, you know, minute to minute information.

But the public companies are reporting in a fairly structured way. Generally quarterly earnings releases, quarterly filings with the SEC. Sometimes more frequent information about operating statistics.

All of that can be validated. In addition, how information is consumed. So, XBRL, Inline XBRL is now the format of reporting.

The consumption of financial information is now digitized. But there's no -- there's no indication that the auditor looked at that.

So there's ways to connect the audit with the investor and with the governing bodies by focusing it not just on the annual financial statements, but on all the
1 other information that impacts investor decisions. And 2 how they consume it.

MR. BROWN: All right. And before I call on the 4 next two people, let me put you on the spot one more 5 time.

So of course, we cannot expand the scope of the 7 audit. Right. That's not within the jurisdiction of the 8 PCAOB.

So, how would you recommend, if you were advising 10 us, how would you recommend we go about this?

MR. TAROLA: Well, we understand that. And we, 12 I think in the past some of us in the room thought one 13 of our roles here was to try to connect the auditing and 14 the reporting by way of having Wes and Mark in the room. 15 They can hear also what we have to say.

(Laughter.)

MR. TAROLA: Because we're here to try to give 18 you what we believe investors want to know. We're trying 19 to represent investor interests.

So, it's granted that your mission might be 21 defined in a limited way. But the role of the -- of 22 these oversight bodies is to protect the investor.
And we think it could be collaborative.

MR. BROWN: Linda?

MS. DE BEER: Thank you. And maybe just first to comment on the strategic plan in general. And I know we're not debating that, but more the implementation.

I think the goals that you have are right. I think it's focusing on all the right aspects.

The challenge of any strategic plan whether it's something like this or implementing a strategic plan in the business, is whether you get it right. The implementation, the how to.

And I think that is therefore a very important debate to be had. So, maybe one or two comments from our side for now.

You've alluded to that. And I think it's really important that these greater engagements with the, let's call them the recipients of the audit service, which are the investors and a much broader community.

I've seen from some of the experiences that we've had in South Africa over the past two years or so, ultimately the public out there is the judge of what they believe the auditor should and shouldn't be doing.
So, it's -- yes, it's not so much about how you expand the scope of the audit, which is not the debate. But how do you engage to ensure that there is sufficient understanding of what the auditor can and can't do. But also understanding the underlying needs. I think there are so many things happening in business. If you talk about the institutional investor community and what they expect of an auditor and don't necessarily see. I think it's important for the PCAOB to have that engagement with investors more broadly, with audit committees. Because they -- in a large way, they're the first recipients of that service. And they see where things go right, and where things go wrong. I get very nervous with IG audit committees. And I feel I'm the one that's flagging concerns for the auditors. It means that they don't necessarily fully understand that I'm managing the business or things like that. So, I think that engagement with key stakeholders, which are potentially beyond just in business. But also, I would say the audit committee
1 community is really important. And yes, maybe some of
2 what you will hear would go beyond the scope of an audit.
3 But I think a big element of that is within the
4 scope of how do you align the standards? And how do you
5 just make sure that the standards actually very clearly
6 address what is needed for the auditor to do their job
7 properly.
8 And certainly in my experience, some of the
9 things that go wrong are not on the complex difficult
10 areas. It's sometimes more the basics of the audit that
11 go wrong.
12 Understanding the business. The engagement and
13 interaction with other auditors. How do auditors
14 consider the views of experts.
15 And so I really think that much broader talking,
16 which is part of selling the audit. But also listening,
17 and how do you improve standards, inspections, and things
18 like that. That is really, really important through the
19 cycle of the engagement.
20 The second point I think is also just around
21 prioritizing. And we had a little bit of a discussion
22 over dinner last night.
I am a strong believer that if you try to cover everything, you suffer from mile wide, inch deep. You know, you don't really focus on the important aspects. And there are probably a couple of key aspects. And maybe as we talk about the rest of the agenda today, we can drill into that too.

But a couple of really important topics where it's necessary to drill deeper. And to make sure that those are sufficiently covered in your oversight and inspection.

But also in the way in which the standards are recorded and clarified.

MR. BROWN: So, before I turn to Lynn, let me ask on the phone. I understand Amy and Gary are on the phone?

MR. WALSH: Yes. I'm here. This is Gary.

MS. MCGARRITY: I'm here too. Thank you.

MR. BROWN: Hi both of you. Don't hesitate if you have -- if you want to make comments, just sort of jump in whenever you hear a momentary break in the conversation.

MS. MCGARRITY: Will do. Thank you.
MR. WALSH: Okay. Thank you.

MR. BROWN: Thanks. Lynn?

MR. TURNER: During the process I know Chairman Duhnke was open and willing and met with Jeff Mahone at CII and myself on it. And we certainly -- we certainly appreciated --

MR. BROWN: Yeah. You're still not aiming forward. Get a little bit closer.

MR. TURNER: You need to give us all head mics.

(Laughter.)

MR. TURNER: So, Jeff and I did appreciate that. And Jeff did on about the CII, sent in a comment letter on the strategy.

Which I think was actually very good. And it had a number of comments that I think would be useful if implemented and considered.

So, I urge you to take a look at that. The ICGN also sent in a very good letter. They said they weren't in position to support the strategy at this point in time because there wasn't enough in essence meat around the bones.

So, they didn't really know where you were going
with the strategy. And I think there's some truth to what they said on that.

And I think CalPERS weighed in on that somewhat too. So, I'd encourage you to take into careful consideration the comments that those investor and investor groups made.

As far as the strategic goals, I think they're all fine. They're all what I call motherhood and apple pie.

Increase audit quality. Who can argue about that? I'd be remiss though if I didn't mention the U.S. Treasury Advisory Committee from 2008.

And they made a number of recommendations in this area as well. Some of which have been implemented. But for the most part, most of those have not been acted upon yet.

So, I'd certainly encourage you to consider those. Because I think, those would have a profound and positive impact on audit quality. Including on governance.

I know that was one of the areas that Pete mentioned. And certainly there were some strong
recommendations out of U.S. Treasury Committee on that.

As far as going through each of the objectives on your strategic goals, I think it's important to keep in mind that SOX is built on the notion of you'd have the ability to do inspections.

And then use the data from those inspections to take a look at standards and where standards needed to be improved, weren't sufficient. And then go into the standard setting process based upon what you learned from the inspections.

And also at the same time then, where necessary, undertake enforcement actions. And I think one of the concerns on the enforcement side to date has been you tend to take on the small firms who really don't have much in the way of resources.

And you very seldom bring actions against the large firms. And so, that perception and perceptions become reality.

I think that's something to seriously consider as well. As far as the inspection activities and the timeliness, I think it's something that needs some attention both in the context of the timeliness of
feedback to the firms and to the audit committees.

I've gotten a number of calls and brought into situations where the PCAOB has issued inspection reports to the firm that requires remediation.

But, the audit committee really, at least from what they've passed on to me, communicated to me, they aren't getting firsthand, real good communication from the Board about what's going on.

So, it's difficult for them to understand how to react to the situation. Most of what they hear is from the firms.

And the firms tend to say it's the PCAOB beating up on us. And understand that. But there's usually more to it than that.

So, I think direct --- more direct communication to the audit committees on a timely basis would be good.

And then one of the things I've seen, and I've actually watched it happen, as you exit out of the inspections in the various offices, it seems to take an extraordinary amount of time to really nail that down and provide a closure on that.

On a more timely basis to the firm so they can
1 act on that. I've seen where it's taken a long time
good back and forth.

3 And I remember when I was a partner and we did
4 the inspections and had the peer on peer review
5 inspections. We'd have closure to a large degree, not
6 totally, but we'd have closure as the inspection team
7 walked out of the office.

8 And I think you've got to figure out how to
9 expedite that so that then you can get those inspection
10 reports out quicker. And get them out to us as investors
11 on a more timely basis.

12 Just coming out as long as they have at times,
13 including this last year, is just -- it turns into being
14 old news. And people don't pay attention to it as much
15 as I think they probably should.

16 As far as objective two, leveraging economic and
17 risk analysis, couldn't agree more with you on that. And
18 it ties into the technology issue that again, Pete and
19 I think Bob both mentioned.

20 We hear the firms talk a lot about big data.
21 However, as I've seen audits, what concerns me is either
22 there's not the level of sophisticated economic analysis
using the technology that's available today.

I see what Wall Street's able to use. And they're heads above the firms in terms of using that technology and bringing it to bear on risk analysis.

And I think you've got to take a look at how others, other than the auditors, are using this data. And then see if it's really actually being used on the audits, because to date I haven't seen it really being used in a meaningful way to identify issues.

And most of the firms, and this is true at the academics as well, they view big data as running against the databases of the company they're auditing. And using no data external to that.

Wall Street mostly uses external data. And that's how they're able to identify problems, quite frankly do their shorts before the audit firms ever realize there's a problem.

And I think you have to look at big data in terms of not only the internal databases, which is what all the firms are using. They're not using external.

But I think you also have to look at the availability of external data that would be beneficial.
1 And should be used on the audit as well.
2 MR. BROWN: Hey Lynn, let me just interrupt
3 really quickly. And put you on the spot a bit.
4 With the use of technology and data analytics and
5 things like that, do you see any place in the auditing
6 standards? Do you see any place where it's interfering
7 with that?
8 One of the things, I think as Bill mentioned,
9 that we want to try to do, and as the strategic plan
10 points out, we at least certainly, you know, we don't
11 want to be an impediment to that.
12 Do you see --
13 MR. TURNER: No. There's nothing in the current
14 standards that would prevent an audit firm from doing
15 that.
16 And I remember when I was back running Glass
17 Lewis Research, we met with all the firms about this
18 exact issue at that point in time. And they were way
19 deficient.
20 But, there was nothing at that point in time.
21 That's been over 10, 12 years ago that would have impeded
22 the firms from being able to use that type of data
analysis if they wanted to do it.
It requires a fair amount of education. And the
students coming out of the universities today, are not
being very well educated.
They're being -- they're hearing a lot about big
data. But when you go into the professors and actually
start looking at what they're teaching in the classroom
about the use of technology and big data, very few are
doing it.
In fact, I had a discussion about this with
Audrey Gramling at my alma mater, CSU, a while back in
January. And asked her if it -- and she's on the
Auditing Standards Board now.
Asked her if in the university they are actually
going in and teaching the auditing students how to use
some of the big data that's available. Including a lot
of the universities have Bloombergs and Inside in the
Business Skills. So they can use that and other.
And they just aren't in the accounting group.
The finance students for the most part are getting it.
Which is somewhat amazing.
The finance students and the CFAs are way ahead
1 of us on this. But in the actual accounting departments, I have yet to have a single auditing professor, as I've talked to them, actually instructing on how to go in and use the databases like a Bloomberg, to really do analysis on these companies.

And you can do it. I remember back around '09 or so when Mike Starr was the Deputy Chief Accountant at the SEC, Mike called me up and asked me to take him down to Bloomberg just to see what could be done.

So we arranged a demo for him and one of the PAF. And he was astounded. And Mike could run the Grant Thornton office.

He was astounded by what Bloomberg was able to do. And he said, we absolutely need to do it. But we don't do it.

And they didn't at that point in time they didn't have a Bloomberg even on the floor of the SEC Chief Accountant's office. And neither Mike nor the PAF understood what you can do with it.

So, it's a big education process. Because the accountants at this point in time, the auditors aren't up to speed in how to use that, Jay.
And again, back to your last couple of points, we talked about enforcement. But then on the audit quality indicators, I think that's one of the things that the Council for Institutional Investors hit on in their letter to you on the strategy.

And it certainly was one of the major key factors or recommendations of the U.S. Treasury Committee. And here we are, more than ten years past the issuance of the Treasury Committee Report, and we still can't get out indicators about equality to the investors.

That says a lot, I think. And it can't be that they don't know how to measure it. Because if we're not measuring it, we sure as heck aren't managing to it.

And perhaps that's the reason you mentioned that audit quality is improved. I think audit quality without a doubt after the Enrons did improve.

But I'm not sure that it -- that it's gone backwards now. And if you look at the findings of the inspection reports around the globe, including here in the U.S., they would indicate to you that it hasn't made that big a move forward, if at all.

MR. BROWN: Thanks Lynn. On line, Amy and Gary,
any of you guys want to make a comment?

MS. MCGARRITY: Well, I guess I would just echo
what -- so first, thank you for including us and calling
this meeting.

And you know, I -- Colorado EPRA, I wrote a
letter comment on your strategic plan overall. I feel
like it's a, you know, a positive step in the right
direction.

I think Lynn nailed it with the motherhood and
apple pie. There's a lot of things to love in it.

But to leverage kind of what he was saying, I
would echo comments regarding technology. I feel like
in general, there's a lot of low-hanging fruit as it
relates to using big data to improve the quality of
audits.

And I think the PCAOB could likely use some of
those tools as well to improve the inspections of audits.

And also to maybe target, you know, low-hanging fruit as
far as, you know, financial statements that should be
audited further.

So, I think there's a lot of work that needs to
be done there. I'm naive to what's already going on at
the PCAOB.

So, perhaps you all could comment on ways that you are already using some of that data to improve the quality of your audits. But, broadly speaking, those are my comments.

I think that just -- I just wanted to jump in after Lynn, because he had hit on technology. And I think that's a really important feature in your strategic plan.

MR. BROWN: Thank you Amy. Anybody from inside the building want to comment on use of technology in the building?

Don't feel like you have to, but. All right.

MR. DUHNKE: I will.

MR. BROWN: Oh, okay.

MR. DUHNKE: And for our phone people, it's Bill Duhnke. Just a couple of things in response to Lynn's comments.

When we were putting this together, we were very intentional about two things. One, and I said this many times in our planning process, whatever we say, it has to mean something.
We were very intentional about trying to avoid sort of the organizational speak approach to this. Where it just sounds like every other strategic plan that anybody ever puts out.

And so -- and although we're guilty of some of that in here, because it tends to be unavoidable. We think every word has specificity with either something we're doing, or something we intend to do.

So, and to address just some of the points you made on the data side, objective two in Goal One is very specific to that point. We intend to better leverage our own data.

And part of that process internally is to inventory our own data. And then figure out how to better use it inside the building.

Some of the things that we first identified when we got here, was there's a couple of things that we haven't successfully integrated across this organization. That is our IT and use of technology.

And our use of our analytical and research ability. We have fairly decent and strong efforts in both of those silos.
But it's not very well integrated. And that's something we're looking very closely at. And that's why it's in here.

On the enforcement side, we also were very intentional that we wanted to make sure that we were publicly saying that we see that as an integral part of our process here. And -- yeah?

Oh, I'm sorry. And we intend to examine how we do that. Mark, who is acting in our enforcement division right now, is in the middle of that process, of reexamining case selection and how we do that, and what we choose to bring and way.

What's the -- we want to make sure that we have a sensible philosophy behind how we enforce. So, that's underway as well.

And then of course, objective four is the identification and communication of what we find to be useful information in the area of audit quality indicators.

But as you've all worked in this area for much longer then I have or probably will, but that's a tough conversation to have. Even just from the beginning
1 conversation of what is it.
2 And obviously when the regulator gets involved,
3 we have our own considerations to be careful of.
4 So, I would say on the motherhood and apple pie
5 side of this, yeah, we're guilty. Because that's
6 unavoidable, I think.
7 But I think if you -- and we're happy and that's
8 why we're here today. We're happy to have very specific
9 conversations about every word that's in here. Because
10 it means something to us.
11 And it has a very specific intent. And I think
12 you'll find over time Lynn, that we're after the things
13 that you're talking about, so.
14 MR. BROWN: Thanks Bill. Tony?
15 MR. SONDHI: Thanks Lynn. Help me avoid any. I
16 appreciate that.
17 I wanted to talk about some of your, you know,
18 the -- you've talked about prevention and audit quality
19 and so on. The standard setters, both the IAASB, which
20 always said they did that, and the FASB currently,
21 they've been moving towards more principals-based
22 accounting standards.
And one area in which that has been very evident, is the new revenue standard, the new leasing standard, and the accounting for bad debts by banks, which is the CCL standard. And many other aspects of the new revenue standard.

And you know, the new revenue standard affects everybody. So it affects every single audit that we look at.

What's happening though with the principals-based standards, is that by definition, the standard setters do not provide details. Which I'm fine with.

It's just that the details and the way it's going to work is being controlled. Or at least to some extent processed by the audit firms.

And it's being developed so -- by those big audit firms to a large extent. We don't hear that much from the others.

So, when you're talking about auditing estimates for example, the focus that the audit firms have, is on costs and auditability. Not on the fair value.

Because these estimation methods that the standard setters are putting in, are substitutes for fair
value. Because as Pete pointed out, you know, there are certain issues.

Historical cost is, you know, its objective except that it is, you know, too old to be of any use in decision making much of the time.

So, from that perspective, we need fair value and we need estimates. But, the focus that we have on the way the estimates are being audited, that's not in the right direction.

The FASB recently has issued several standards where they've said that they looked at the costs. And they decided that the costs were onerous and they wanted to reduce the cost.

And when it came to the benefit part of that cost benefit analysis, the FASB says, we can't figure out how to analyze the benefits. And that's where the whole thing stops.

We've even had some standards where the board has said that it's too complex. So, we decided not to talk to investors.

And I think that contravenes the core principal of financial reporting. Which is to develop information
that is useful to investment and other economic decision
making.

And the final piece I'll give you, if you want to
think about fair value, and how it affects the audits and
so on, at the Emerging Issues Task Force, which I'm a
member of, we were discussing a proposed accounting
standard, which requires us to talk about and do
something about how to measure the fair value of
liabilities that we are purchasing in an acquisition.

There's a single definition of fair value in the
accounting standards on that particular issue. And you
know, like economists of the eight or nine of us in the
Emerging Issues Task Force, we had 12 definitions.

So, that diversity, how that gets audited, how
you can improve transparency, how you can improve the
quality of an audit, when there's that type of, you know,
diversity, is something of a challenge.

So, I think from that perspective, we need to be
very careful. It would be very, very, helpful to find
a way to collaborate with these standard setters in such
a way that there would be a thought about audit quality.

To me the IAASB has always looked at enforcement
as being outside anything that they need to do or they need to think about. We have a very good enforcement system, I think.

And I wish it would continue to improve. Which it does. And from an investor's perspective, that's a critical thing to have.

So, we've got this tri-work in a sense. We've got the SEC enforcement working on one side. We've got you thinking about how to improve audit quality for the investors.

The question is, what can we do about getting the core standards themselves to improve in such a way that they actually contribute to those enhancements in the other places?

MR. BROWN: So Tony, let me ask you this. So it sounds like and correct me if I'm wrong.

It sounds like you're saying that the standards set by FASB are becoming more principals-based. Which means the auditors have more sort of discretion and kind of how to execute.

If that's right, when what would you say we should be doing in that space? So, accepting right now
that's the approach of FASB, what's our role?

MR. SONDHI: Okay, so yes it is the approach, and as I said earlier, I agree with it. The problem is that in order to -- for that to provide the investor with good information, the auditor needs to understand what the purpose of some of that information is.

And they're looking at it from the perspective of costs and auditability or certain other risks. And they're not necessarily looking at it from the perspective of whether it provides good information to investors.

So, your roll from that perspective would be to set, I think, quality control measures and so on, that do look at the investors' perspective. That do look at outcomes rather than just the inputs into it.

MR. BROWN: Thank you. Board Member Hamm?

MS. HAMM: I just wanted to briefly follow upon what Chairman Duhnke described. And in particular, respond to Lynn's and Amy's point about the use of technology and big data.

This is so important to us. We have, I think, 43 transformational projects. Each of those projects have
1 Board champions.
2 For our technology reassessment internally and
3 externally, there are three Board Members, myself, Board
4 Member Kaiser, Board Member DesParte, that we're focused
5 on that.
6 We also have a project underway where we're not
7 only looking at how we manage our data, we're coming up
8 with a data strategy across the whole PCAOB.
9 So, collectively, we know the data we have, what
10 we collect in each of those offices and divisions, what
11 we need to start to inform our public policy decisions.
12 So, I do think not withstanding how general the
13 strategic plan is, we understand that it needs to execute
14 appropriately with the technology and the big data and
15 our use of data effectively.
16 As an overseer, we really need to drive forward
17 and have some details. So, we're doing that. And
18 appreciate the feedback.
19 MR. BROWN: Thank you Kathleen. Grant?
20 MR. CALLERY: Thank you. Just a couple of
21 comments. And I come to this from a different position
22 then many of the people. I'm neither an accountant nor
But I did spend the majority of my career in private sector regulation. And so I understand some of the concerns and the skepticism that is there about any private sector -- or group that is serving a regulatory function.

So, I think transparency is incredibly important. I think it's -- you can't do too much. I know you've got some statutory constraints on your disciplinary actions. I think they should be gone. But, that's a, you know, that's a personal opinion. And that would take Congress to do that.

And then the second thing is, some people mentioned in a couple of the comments, the jurisdictional issues. And I think those are very important. And I've had the opportunity to be a lead on some working groups over the past few years. And I've always sort of opened the conversation with the working group about, you know, let's not go off into the stratosphere. And let's focus on things that are useful to the PCAOB. And that they can actually do things with. Let's, you know, let's give them suggestions that are not
only helpful, but implementable.

I'm going to do a little bit of a reverse on that now. Because I do think that at least internally, you should be thinking about the jurisdictional issues.

Or the things that are -- I'll take as an example, the working group we had last year on NOCLAR, they're -- from an investor's perspective, the whole Wells Fargo situation was just people shook their heads and said, how can this have happened?

How can -- and if you read the -- if you read the correspondence between Senator Warren, and Chairman Doty, and KPMG, you can see it sort of weaving its way through this structure to say that they didn't do anything wrong.

And they followed 10A and they -- or 10 -- 10A, I guess. And they did, you know, the right thing. Or maybe not the right things. But, they did the appropriate things under what's there.

I think you should be looking at situations like that. And saying, are there changes? And I know you can't make them.

But you ought to be talking with Wes. And you ought to be talking with your counterparts on the
1 Commission. And if necessary, on the Hill.
2 But, if there are things that just keep recurring, and being -- just hurting credibility from an investor perspective, I think you've got to be thinking about those. Even if they're outside of your jurisdictional scope.
3 And the third is really on the transparency and engagement. And I know Bill, I know you've had some conversations with Robert Cook and my former employers.
4 And they have just done at FINRA a -- or are still in the process of a 360 overview, which was very expansive in its scope.
5 And I would suggest that -- and I'm sure that they would be happy to talk more with not only with you, but with people at the levels, whether it's enforcement or inspections or things like that, and share some of the things that they learned from that experience.
6 Because I think that fits very nicely into your Goal Three. And I've always been a fan of stealing good ideas as long as they're not proprietary, intellectual property.
7 And so if they've learned things that can help
you and move things along more quickly, you know, go for
it. They're only across the park, so.

MR. DUHNKE: Just in brief response to that, we
are fully involved with them. We started that
correspondence very early when the Board got in place.

And it continues. Much to their consternation.

But, they're talking to all levels of our organization.

MR. CALLERY: That's good. Great.

MR. DUHNKE: Helping us understand what they did
and how they did it. And how it can inform what we're
doing.

So, yeah. We're on that one too.

MR. BROWN: Thanks Grant. Damon?

MR. SILVERS: Thank you. I have two comments on
the Goals. And sort of -- and sort of in the form of
encouragement, I guess, is the best way of putting it.

First, I think that the -- and again, it's
difficult to -- it's difficult to frame these kinds of
objectives in ways that really reveal too much about what
you're actually doing.

That's an inherent problem in this kind of
process. But, the focus on human capital at the Board
1 is really -- is a really important one.
2 And particularly so, I think, at this time when
3 there's been some significant turnover at senior levels.
4 The -- as someone who's been around as -- for a
5 long time around this -- around the Board, I think one
6 of -- and through a whole series of circumstances, right,
7 in terms of leadership and outside challenges.
8 I think one of the things that has been really
9 successful about the Board and its unique governance is
10 that there's been an ability to maintain continuity in
11 expertise and a sense of mission that in a way that's
12 unusual in Washington.
13 And it sort of transcends a lot of other stuff.
14 Right. That often -- that often affects agencies and the
15 like.
16 Maintaining that, and maintaining the -- and
17 building on the quality of the leadership here at the --
18 in the various departments, I think I'm using the wrong
19 technical terms for the departments. But the various
20 teams, is, I think, just a critical challenge that the
21 Board faces this year.
22 The second thing is, has to do with the
conversation we've been having about data. And I think it's worth -- it's worth putting that from the investors' perspective at a somewhat -- at one higher degree of abstraction.

Lynn was talking about earlier the purposes embodied in the Sarbanes-Oxley Act that created the Board. And I'm sure it's lost on no one that the data environment that we're operating in today, is quite different from that which existed at the time the Sarbanes-Oxley Act passed.

And it -- it raises this question about -- it has raised continuously this question about the relevance of the audit. In a much more noisy data environment.

And in a data environment in which many investors feel particularly -- investors that might not have -- that many investors are sort of drawn toward other data sources.

And other data sources that may in fact be illusory in terms of the quality of the information, the actual information they are providing. And I use the term information in this sort of technical economic sense.
The PCAOB has the opportunity, given the data that it has access to, that it creates to be part of ensuring that the audit -- that not just the audit, but the financial reporting process that the audit contributes to and validates, that that constitutes real information. And is understood by investors and market participants as doing so. And that -- that requires, I think, being really creative in terms of being able to mine the data that you have.

Right, in ways that would in the past both not have been possible, and would not have been as important. Let's put it that way.

As important, because these data environment, the larger investors' data environment would not have been both as rich and as dangerous as it is now.

And I think that the strategic goals that you all have laid out, sort of point in that direction a bit.

And I would strongly encourage you to think about that. Not just in sort of maybe the -- not just in conventional data terms, but in terms of how do we ensure that the -- how does the PCAOB contribute in the best way it can, to ensuring that the financial reporting pro --
the financial report -- the financial reporting process really does bring to investors information that is comprehensive and reliable in a way that, you know, surfing -- surfing sort of stock market oriented websites does not.

And that -- and the fact that what you have sort of in this building is, I think, really -- really uniquely valuable in terms of that process.

So, I just encourage that broader framework.

MR. BROWN: Thank you Damon. Larry and Sara, let's take a break. And we'll come back to you as soon as we come back.

This is the moment when we can have our first break. And let's come back in about -- maybe right at 11:00. At 11:15? At 11:15.

(Whereupon, the above-entitled matter went off the record at 10:47 a.m. and resumed at 11:17 a.m.)

MR. BROWN: All right. Welcome back, everybody. Yeah, Larry and Sara, hold on one more second.

Let me talk to, turn to Mark Adler. Mark is currently the Acting Director of Enforcement. And let me give you a moment to give us some thoughts.
MR. ADLER: Thanks, Jay. I just wanted to talk a little bit about Lynn's comment involving, you know, are we just going after small firms, and then also touch on the discussion that folks have had about technology and how Enforcement is using technology.

If you look at a number of the cases that we brought in the last two years, we have, in fact, gone after a number of the global network firms, partners at those firms, foreign affiliates of the global network firms, and partners of those firms.

We're seeing about 30 to 40 percent of our settled orders in recent years involve international auditors. And those cases are really hard to bring, if you think about how the documents we're getting are often in foreign languages and we need to get them interpreted, the challenges of taking testimony in other countries, working with OIA and our counterparts in other countries who are regulators.

And we've had a lot of good success. We've brought cases against EY Indonesia in the last couple years in part involving audit failures and document alterations, brought cases most recently against
Deloitte's Canadian affiliate on an independence matter, the Banro case. We just brought a case against three partners of Deloitte Mexico involving the EZCORP matter. And then, in addition, we've brought cases against global network firms in the U.S. Last year in December, we brought a case against Grant Thornton involving the Bancorp case. This was the first QC charge against a global network firm that's domestic. And we got a $1.5 million penalty. And then earlier this year, we brought a case against Deloitte U.S. for audit violations in the Jack Henry matter. And these matters all fall into our higher priority areas involving audit failures, involving lack of due care and lack of professional skepticism, independence, and then matters that affect the integrity of the board process like document alterations. So a good percentage of our matters do involve the global network firms, foreign affiliates, or their partners.

I want to just talk briefly about what we're doing with an evaluation of our process. We are...
embracing completely the message from the Board that we should be looking to optimize our effectiveness and efficiency.

We think we have a good program. But we know we can do better. And one of the main ways we're doing that is looking at technology. And we're very excited about the possibility of using emerging data to help us identify cases.

We think we have a good case identification process. But we think there are parts of it that could be automated. And we think there may be ways we can leverage data both internally at the PCAOB and externally.

We're also looking at technology tools to just make us do our jobs better on a daily basis, and give you a quick example.

One of the ways that we identify document alteration cases is to look at metadata. That's the property information in a Word document, an Excel, PowerPoint, or PDF that tells you when a document was last created.

Largely, we've identified these document
alterations by looking at the last modified date manually. And you see that the last modified date is right before an inspection.

We've found a very inexpensive tool that will extract the metadata from a large volume of documents that will enable us to review these documents very quickly. And so then suddenly we can see patterns, like there may be 20 documents that are altered right before an inspection, and look who the person is who's doing those alterations.

And so we're also looking at other tools to help us with our investigative process. We have a terrific platform where in an audit failure case we may have to review up to a million pages of documents. And so we want our teams to get through those as effectively and efficiently as possible.

We're going beyond keyword searches. We're using analytics, concept searches, categorization searches, cluster searches, getting more analytic tools built into relativity so that you can actually take text from a document, run it through a search engine that will look for similar concepts and help you find the key documents.
So those are just some of the things that we're doing technologically. We're really excited about the process of reviewing not just our case ID process, but also our investigative process and litigation process to see where we can be more efficient and effective.

MR. BROWN: Thank you, Mark. So that's an example of the translation of mom and apple pie into what's actually happening inside the building. So those were -- I appreciate those comments. Sara, let me turn the floor over to you.

MS. DEANS: Thank you. Firstly, I'd just like to say, you know, I'm sure it's correct that audit quality has improved. And I've no doubt that the PCAOB's work has been very valuable in driving that improvement. And that is fantastic.

I would say at the moment I should briefly explain. I sit in London. I'm based as a sell side analyst talking to a lot of investors on accounting topics.

And right now in New York I think we have a very different situation, that there is a very strong,
especially in the U.K., a very big public debate about the audit firms, about audit quality, effectiveness, and also the role of the FRC in the U.K., the regulator there.

And that's been largely driven I think by, you know, some high profile problems and failures.

But there is a really big debate there about whether the audit firms are serving the public interest effectively. And we have seen, you know, a lot of criticism in particular of the FRC as well on issues like being ineffective, too slow, too close to the audit firms, and lacking in transparency.

And I guess I would just sort of say, you know, one note of caution in a way that I think if you have some high profile problems, the perception of audit effectiveness could change quite rapidly.

And I think one of the ways, obviously, the work that PCAOB will hopefully prevent many of those problems, but also I would say that having an involvement and the outreach to a very broad community, where you can get input and involvement and understanding from, is important ahead of problems.
So I think I'm very, feel very positive about Goal Three, transparency in shareholder engagement, stakeholder engagement I should say.

And I think there's a potential virtuous circle there that the more transparent you can be and, of course, I understand the constraints, and the more you can engage with wider stakeholders the better input you will also get.

And I genuinely think getting input from investors, more input from investors from a broader range of investors can help the PCAOB's efforts be even more effective. So that is the perspective sitting in London at the moment.

And just, you know, I don't want to labor the point. We've talked a lot about technology. I think it's incredibly important. And thank you. Those comments were very encouraging. So thank you.

MR. BROWN: Thank you, Sara. Larry?

MR. SHOVER: Thank you. This might be risky to start with a trivia question, but I'm surrounded by a lot of auditors, a lot of accountants. The reason it's risky is that I might be getting this wrong.
Do you recall when accelerated depreciation was allowed and disallowed, anybody in this room? Am I saying that right? Remember accelerated depreciation? I think it may have been mid-'60s it was allowed. And then it was disallowed in the late '80s. You have to know the answer. Somebody does. Please bail me out.

MR. NACHTWEY: It sounds right from a tax concept.

MR. SHOVER: Yeah.

MR. NACHTWEY: Yep.

MR. SHOVER: Okay.

MR. BROWN: Can I just say this is going to be the YouTube clip of this meeting --

MR. SHOVER: Okay.

MR. BROWN: -- this exchange?

MR. SHOVER: I have to say something.

MR. BROWN: It's going to go viral.

MR. SHOVER: No, it's very important --

MR. BROWN: That's right, yeah.

MR. SHOVER: -- because it has to do with two things. And two of them are I think comforting and
The first one is, when I read page 5 and I quote, and this is -- I'm quoting, while these advancements present great promise, they also present significant risk. And that's talking about disruptive technological change.

I am so happy. I was so happy when I read that. I highlighted it, underscored it. We can't underestimate the risks when we don't know what the risks are. And that was like with, you know, accelerated depreciation. Look what it did to the inner cities. Look what it did to the suburbs. I mean, it had a lot of impact that nobody could really foresee.

It's easy for me to sit up here and talk about risk management. But the fact that you're taking it seriously, the fact that I, for one, would love to be on like a risk management subcommittee -- I mean, I've spent my whole entire life in risk management, not for accounting but for derivatives. But I can think in three dimensions I think.

So I'd like to say I'm grateful that you're doing that. That's powerful.
And to my second point, the SEC actually does this really well. And I think the PCAOB can do this better, and that is investor education, investor awareness. And I know that's something that you want to do.

But quite frankly, when it came to accelerated depreciation, I learned that through a Chinese social media app, WeChat, which was posted by the CSRC of all things, which is the equivalent of the SEC here. So I had to go to China to figure out what that was and --

MR. BROWN: How do you know we weren't behind that?

(Laughter.)

MR. SHOVER: I know. I know full well. Although I have to say, the Investor, I think it's called the Board of Investor Advocacy or something for the SEC do a really good job of educating. And you guys kind of like, you don't need to hide behind, you know, the building or the title. I mean, people just want to be aware.

Last week, you know, television media talks about the S&P 500, 77 percent of all companies beat earnings
by an average of 6 1/2 percent.

I mean, the average person doesn't even know what that means. The average person's generally apathetic toward it. It's -- they don't trust it. They don't understand it. And I think, you know, making a big effort or continue to do so would go a long way.

MR. BROWN: Let me ask you quickly --

MR. SHOVER: Sure.

MR. BROWN: -- because of your background and experience, you know, just off the cuff, any specifics, any thoughts about, you know, of course, clearly making things better known and understood. But can you --

MR. SHOVER: Yeah, I think just like that. If you remember, two years ago all the rage was GAAP, non-GAAP. And, you know, all the financial media outlets were talking, you know, getting earnings that weren't correct or that this -- it all went away. But in the investor's mind I don't think it went away.

So I think like more education of like how these earnings are derived and why they're allowed to do what they do with GAAP, non-GAAP, et cetera, yeah.

MR. BROWN: All right. Thanks. Linda, you still
have your tent card up. Are you --

MS. DE BEER: No, it's new. It's new.

MR. BROWN: Oh, it's new. Okay. Just checking.

Linda.

MS. DE BEER: Thank you. Do I get a second chance to say something? Thank you, Chair.

And I've got a few comments on some of the individual goals if I may. And some of those comments have been made already, but I think maybe if I can just weigh in some of that.

And the first one that deals with audit quality is really important, and maybe two comments on that.

The first one is the whole issue or the whole notion of audit quality indicators. And the Chairman made the comment earlier on that it is a very difficult issue and that you have been working on it for a long time.

It is really important for audit committees. If we talk about audit quality, it's not just the role of the audit regulators. The audit regulators play a very important role. But if you want to strengthen that, you need to understand who your allies are in that process.
And, yes, auditors are allies. And I know you've spent a lot of time and interaction with some of the bigger groups to understand what they're doing about audit quality, quality control process, and so on. And that's important.

But audit committees also have a really important responsibility when it comes to audit quality. And if you want to, and it links to your comment, if you want to get them to help you, because they're really at the front end, at the forefront of it for an individual audit, it is, it would be useful if there were more sensible, helpful tools.

It might not be perfect if you come up with something on audit quality indicators. But I think everything that you put out to at least point audit committee members into the right direction of what to consider when they assess audit quality, when they make decisions on whether these are the appropriate audits -- we're going in our part of the world through a process and the shorter, more mandatory audit firm rotation. We've got rotation rules for audit partners. And all of those types of indicators will be useful.
Our stock exchange has put out some requirements for audit committees to consider when they look at, firstly, to look at the inspection report that comes from the audit regulator and what are the typical things that they should look at to assist them in assessing the individual audit partner as well as the firm.

So I would say don't wait until it's perfect. Rather, put something out that is useful guidance to assist audit committees.

The other aspect on audit quality, which is a red herring but really important, is the guidance around non-audit services, because audit quality and audit independence are two sides of a coin.

And I think generally audit committees are not always so attuned to what are the types of services that can and cannot be performed or should and shouldn't be performed by auditors.

I know there's a big debate in the U.K. again and in Europe around audit only firms. And I think that is a really important aspect of guidance as well.

Then, if I may, just on the second goal that talks about the changing environment and that's where the
emerging technologies and so on come in, later on today when we talk about the audit quality standards, this has got a very -- and I've recently been involved in a case where you can actually see what the impact of this is on the quality of audit teams and the level of audit teams and the level of the training, you know, how the training model fits into this, because where we're going technologically means that the audit teams need different skills and you probably need more people to move up to a higher level of data analytics as opposed to just executing the work.

And I think that is something in your standards that you might want to think about when we have this debate on where the world is moving with technology.

It links also -- again, something that I've recently dealt with --- with how do you deal with experts and what is the role of the signing partner when it comes to experts, because I've had a really interesting example recently where it's almost just adopt what the expert, whether it's a GAAP or an IFRS expert or an actuary or whoever, just he's the expert I adopt and I just accept.

And there's a very important interface, how that
fits into the audit and materiality. And I don't think the standards in your instance or even in the international standards, the ISAs are clear what exactly is expected.

It's not just check that this person has got the appropriate skills and then just accept what he does. You still have to fit that into the rest of the audit, the other audit findings, materiality.

And some of the big things that I've seen wrong on my side of, our side of the world is because of auditors not appropriately assessing and integrating the work of an expert.

Then just maybe one more, if I may, and that's on Goal Five. And that is empowering people and rewarding people. And maybe it's not quite the right point but -- and I have made that comment in this forum before that the PCAOB internationally as an audit regulator is a really important player.

And I know you're quite involved in IFIAR. But I think there's a lot of scope there as really the lead audit regulator internationally to see how you can further enhance and collaborate with some of the other
audit regulators, because often I think if you start sharing more information, a lot of companies have dual listings in the U.S. and elsewhere.

If you can start maybe sharing information and skills and resources, I think that, again, will help audit quality, because your audit quality also depends on whether others get to try it elsewhere in the world.

Thank you.

MR. BROWN: Thank you, Linda. Jim or Barb, do either of you want to, do you want to comment on -- no, Jim, let me turn to you first. Do you want to comment on the specialist standard? And I think it probably fixes everything Linda just said, doesn't it?

(Laughter.)

MR. KAISER: And gives apple pie, too. No, we have a goal before the end of this -- closer? Okay. We have a goal before the end of the calendar year to adopt the specialist standard. And it will address not only specialists employed by the audit firm, but also specialists engaged by the audit firm, and also looking at the work of the specialist that the auditee has.
So, hopefully, that will address the concerns you mentioned. And we'll also have, hopefully, the estimate standard approved, which the two in my mind kind of go hand in hand and really bring together a lot of the different standards that are integrating three standards right now from the estimate standpoint.

So, hopefully, we're going to address that in what we adopt later this year. Barb, I don't know if you want to add anything to that.

MS. VANICH: Well, Jim has taken all the pressure off of me. So that makes it quite easy.

But, you know, today we don't look at someone with expertise in any kind of accounting matter, they're not a specialist. They would -- that's within the jurisdiction of accounting and auditing.

But we do have a number of findings where people inappropriately use the work. And so those are some of the things that our proposal back from a few years ago sought to overcome. And so we're very hopeful that we can move the bar forward.

MR. KAISER: The other item I would say is the third standard that we're dealing with is auditor,
supervision by the auditor. We're hoping that once we get into '19 we also adopt that standard, too, which I think will have some significant changes in terms of how audits are managed domestically and internationally.

MR. BROWN: Yeah, and I just want to add, so, Jim, as a Board member, is the Board champion of standards. And so he is very focused on this, so, and you can see just from the comments.

Well, let me -- so I don't see any tent cards up. So let me ask another question, which I think, you know, we really could use your input on.

So Goal Three is enhanced transparency and stakeholder engagement. That's something I think everybody in this room would have thoughts on.

You know, stakeholder engagement, I think it's sort of self-evident. Transparency, you know, for me personally very important in this organization, how do we become more transparent?

My belief is that if we're more transparent in what we do, we can actually do -- we don't ever want to do less outreach. But outreach, there's an element of involvement from you all that we don't have to instigate
because you see what we're doing and then you come in and comment and you give us your feedback, because what you can tell from this meeting and our interaction, that we want to hear it, we're open to it.

So really what you need is sometimes the catalyst, you know, for wanting to do that. And I think transparency and catalyst, those are probably two different words or whatever. So I can't say they're the same, but two different types, you know, grammatically.

But anyway, those two go together.

So what thoughts do you have for us on transparency and stakeholder engagement? Bob.

MR. TAROLA: Sure. Thanks for teeing that up actually. You know, transparency is critical. It's important. It might be apple pie.

But if you look at transparency from a data perspective, meaning you put out some facts about an audit situation. And maybe it's an inspection finding. That's a fact.

If you're sitting on a board, then you have to interpret that fact. You know, what does it mean to me? What does it mean to the auditing firm sitting in front
1 of us?

2 And unfortunately, the interpretation of that fact often comes from the audit firm itself, kind of don't worry, be happy. It's not a big problem. We've already solved it. It doesn't pertain to your company.

3 Now, information would be a lot better if you could get there, as opposed to pure facts. I know that could be difficult because it means forming some judgment as to whether or not you've uncovered something pervasive. It affects, you know, more than just that one audit that you took exception with.

4 But that kind of color commentary would be very helpful to the governance of corporations.

5 MR. BROWN: Thanks, Bob. Sara?

6 MS. DEANS: Thanks. I mean, I think it's incredibly important. And one of the things, which, you know, I have to say is that the awareness of the PCAOB's work, at least certainly overseas, is very, very limited. It's harder for me to comment here. And people can't engage with you who aren't aware who you are, what you do, and why it's relevant to them.

7 And I know that, in particular, investors are a
notoriously difficult group to engage with. I mean, you hear it again and again from the accounting standard setters and so on. But, you know, of course, you're going to hear from the audit firms naturally. That's no problem. But engagement with investors is very, very hard.

And I think to be seen where investors are, so, you know, outreach in terms of speaking at investor events, highlighting why this is relevant to them, why they should care, you know, that would really improve -- I think it would be a real virtuous circle.

The more you can get out there, make people aware of what you're doing, what's new, what's changing, why it's relevant to them, and explain it in terms that investors can engage with -- and again, I think the profession generally has a problem with enthusiasm for talking in technicalities that scares off the rest of the world. And then no one will engage when they don't really understand what you're talking about.

So I think, you know, very simply to try and be high profile on the investor side, to publish everything you can, and again, I understand there are restrictions,
in ways that are user-friendly.

And early in my career I was told publish or perish. You know, you've got to get stuff out there, because nobody's going to talk to you. You know, you can be having the cleverest thoughts in the world, but if people don't know about them, they're not going to engage with you. And it's true everywhere.

So, you know, and I understand it takes resource. But to the extent things can be tailored to that audience, that's incredibly helpful.

So I know that's asking a lot. But I think it's, it could be incredibly beneficial, because, again, I think various people have alluded to the fact that, you know, if auditors don't understand the investor perspective, we also discussed this at dinner last night, and if the audit regulators don't understand the investor perspective, you know, there's going to be a lot of efforts focused perhaps in not the key areas. Thank you.

MR. BROWN: Thank you, Sara. Pete?

MR. NACHTWEY: Yeah, thanks, Chairman. So, having just spent a week in Asia -- somebody thought it was a really good idea we take our whole corporate board
and do our quarterly meeting in Tokyo until they found out how hard that was. But fortunately it went very, very well.

But it's interesting. I don't know that the needs of overseas investors are dramatically different than ones in the U.S. But that's, you know, admittedly just putting a very American spin on it.

There are some incredibly sophisticated investors overseas. I mean, and, you know, we met with several of them last week at Hong Kong Monetary Authority, the Monetary Authority of Singapore. And we very often meet with the largest sovereign wealth funds out there.

So I do think, you know, if you reach out, I definitely think they'll have a view and they'll want to engage. And, but you don't have to boil the ocean. It's not like having to try to reach out to -- there's billions of investors out there. I think you can kind of engage with a handful and start, you know, start kind of getting a perspective.

MR. BROWN: Can you after this meeting give me a list of names of all the investors that you know and have met that we can reach out to?
MR. NACHTWEY: Actually, I could if you want them.

MR. BROWN: I --

(Laughter.)

MR. NACHTWEY: But maybe, but only if you don't tell them when you call them where you got their name from.

MR. BROWN: Fair, fair enough. Damon.

MR. SILVERS: I think that this question of how to reach out to stakeholders, pursuant to what Sara said, there is this sort of fundamental challenge that I think the Board needs to be sort of creative about, which is that the, from investor's perspective -- and obviously the investor landscape is very diverse, right.

There's lots of different kinds of institutions and lots of different -- there's chains, there's sort of chains of, there's investment chains between ultimate beneficial holders and people making decisions down the line and different investors with different types of time horizons and different levels of interest in the financial statements. So you've got a lot of different communities potentially to relate to.
And then you've got a fundamental problem that I think that in the audit policy space we often kind of forget, although it lies behind some of the issues that Lynn raised earlier, which is that on the one hand the financial statement itself is a very complex, multidimensional document with a lot of thought -- I mean, a, the document itself is complex and multidimensional. And then what goes on underneath it in terms of preparing it and auditing it is complex and multidimensional.

And yet the audit letter itself, which is all the investor sees of the audit, is a binary -- other than very exceptional circumstances such as an imminent bankruptcy, it's effectively a binary instrument.

So all that complexity is invisible, right, from the investor perspective. The investor is largely judging the audit based on the usefulness of the financial statement. And the investor has a very hard time knowing, in doing so.

What's the, in looking at the usefulness of the financial statement, what's the contribution of the preparer? What's the contribution of the auditor? What
role does the PCAOB play? I mean, these are completely opaque issues from investors' perspective. What might be a good way of trying to meaningfully engage with investors and potentially other stakeholders -- you know, we forget often the degree to which all sorts of entities, policymakers are dependent on audit and financial statements. Academic researchers are dependent on them. There's a lot of people using financial statements beyond investors. But that -- and I would particularly suggest engaging with business and finance academics in that respect.

But I think that the thing, the kind of thing to do here is not to ask them, well, what do you think of the PCAOB's work, because they don't know, right. And there's no way for them to know. It's not just an indifference or -- you know, it's that there's a fundamental opacity.

It's rather to ask them the following question. As you read through financial statements and as you have engaged in the business of representing your clients, managing money, et cetera, what's problematic, right?
What are the signs that you see that something might be wrong with the audit?

You also don't have to necessarily engage in this type of kind of critical way, right. There's ways of asking them more, a less edgy question, which is, you know, what about, what is there about financial statements that, what should auditors be paying more attention to?

What is -- how does -- and this comes back to what I said earlier. How is it -- what should be done inside that opacity? What are the outward indicia of relevance that the people inside the opaque process need to be paying attention to? How should the financial statement be more relevant to what you're thinking about, right?

But I think you have to be proactive in reaching out to people and ask them what they see in terms of the output, because they can't -- I mean, they, we can't, we don't have anything to, we don't have any knowledge about the internal workings of the audit process. All we have is that letter, right.

And in terms of the Board, all we have is -- we
have the standard setting -- we have the rulemaking process. But the inspections process, which is really the issue, again, is largely opaque. And that's not something you have any control over.

MR. BROWN: Thank you, Damon. You know, I would just add, the Chairman, when he gave his most recent speech, he said in there we plan to deploy one or more additional teams of inspection professionals focused on performing targeted procedures across firms on specific topics.

You know, my suggestion, kind of consistent with what Damon was saying, you know, one way to ask the question is what topics, you know, sort of what are the areas in the financial statements that you think if we were to take this step would be worth examining kind of across the board on a comprehensive basis.

And that is an easier -- easier is not the right word. It's an answerable, a more answerable question, you know, as Damon put. Lynn.

MR. TURNER: I would agree with Damon that very few of the people managing money have much, if any, understanding of the PCAOB and its process. There are
like five letters to it. And that's pretty much it, yeah.

And I think your annual report, perhaps getting wider distribution in the investor community would be helpful, because there's usually very good stuff in the annual report, but getting it distributed out to that broader investor horizon.

The other thing to keep in mind is on the large institutional asset managers, they're not the people with the money actually in the market. They're managing it.

So it's critical to get out to their people who are actually managing or doing the analysis for specific portfolios and deal directly with the people who are making those decisions and actually using the financial statements. I think you'll find they have a better understanding.

There's a couple groups that represent retail investors. And I've never seen one of these organizations in D.C. really reach out to the retail investors.

So I'd try to reach out to -- and there's only a couple of the groups. But I'd try to reach out to the
groups that deal with retail investors so that you're really trying to get to the core of the investment side. I think that's important.

I think Pete made some comment about when you go to investors you'll get different perspectives. If you go to one of the large asset managers, if you go to the people putting together their financial statements, you'll typically get a vastly different response to a question than you will if you go to the CIO or the people managing the portfolio.

The two answers will be different as black and white. And it's almost in every asset manager I've ever gone into. And so one becomes the preparer. The other one becomes the person actually using the information to make investment decisions, and the same thing with the CEOs unless they came up on the CIO.

So I think you have to -- just because someone says they're at a large asset manager doesn't necessarily mean you're going to get the perspective of the people making the investment decisions. So I think you have to be very cognizant of that difference, if you will.
As far as transparency goes, I think you guys are going to probably get a good report card out of those people managing and analyzing the data in the portfolios when the audit reports start popping out. We don't know what they'll say. We know the firms are taking steps and strides to get ready for it. But I suspect, just as within Europe, when we see those reports, there's going to be some positive news and some good information just like when Europe first went to it.

I also worry, though, that you're going to have some negative reaction if the reports in the U.S. give less information than the reports in Europe. And given that there's a clear-cut difference between the two standards, I suspect that there will be less information coming out of the reports in the U.S. than in the U.K.

So I think you're going to have to be able to address that and respond to that, because if that happens, then Europe will get one report card and you're going to get another report card. And I think being on top of that and managing to that is going to be very important.
As far as transparency with the Board, the Board in the past, version 1.0 so to speak, did their meetings in a way almost like the SEC. They'll have a public meeting to vote out a proposal and then have a public meeting to vote out a final.

And the two times I was at the Commission we had a joke that we were basically the bastion of darkness, wanted everyone in the sunlight and we stayed in the darkness. And I think there's some truth to that. To the PCAOB, they've operated in the same way.

I compare that to the FASB where they go out and in a public meeting sit around at public forums in a room like this and debate the standard and what is the development and what are the key issues and what's their reasoning for voting on specific issues.

I think that's a much more transparent process than what you currently have. And I think you need to seriously consider going to a FASB type project. If you really honestly want to become transparent, you need to go to the FASB type process versus what the Board has adopted and used to date.

It's a little more cumbersome. I acknowledge
that. It's a little bit more of a pain in the you know
what. But if you're serious about transparency, that's
the way to prove it to people, to go to that type of
process.

Lastly, you have got tremendous amount of data
inside here that you gather and collect. But you guys
operate that you never turn any of that out to the
public. It's like if any of it gets out to the public,
oh my god, we'll go after someone for disclosing
confidential information, you know.

And some of that data, there's no reason it
shouldn't be disclosed to the public. There's no damage
from it.

And I think, again, if you're serious about
transparency, you need to consider all the data you got
and how some of that data might very much so enhance the
confidence of investors if they were to see that and put
that type of data out there publicly.

When you hold it back, it always asks the
question why are you trying to hold it from all of us.

MR. BROWN: Thank you, Lynn. Tony, before I turn
to you, let me check on the phone. Amy and Gary, either
of you want to jump in here and make a comment?

MS. MCGARRITY: Yeah, I would. Thanks for
asking. My tent card's been up for a while, but you
can't see it.

Anyway, so I think that this idea of investor
outreach is very important. And I think that frankly
there is potentially a wide gap in expectations as far
as what investors view as being done on the audit and
what may actually be done on an audit. So I think
there's a lot of educational work to be done here, which
I'm sure you're all probably on the same page there.

But one suggestion that I would put out there is
to potentially work with the CFA Institute on maybe
adding it to their curriculum. I think they could add it
in pretty easily. And it would help at least establish
a base of knowledge of what the auditors are doing, what
the PCAOB's role is in that process, et cetera, and what
they, what is actually audited and what may not be.

And I think there's really potentially an
expectations gap there that could really be filled pretty
easily. And that's just my viewpoint as an actual buy
So I think there's a lot of investors that potentially take for granted that everything in the financial statements are 100 percent clean and audited. And I think there's some work there.

In addition, I think that potentially increased disclosure like CAMs and AQIs could really improve the relevance of the audit letter, et cetera and increase the amount of investor views there.

So I think there's some work that's already being done and potentially some work that you could potentially do with the CFA Institute that could really improve the investor outreach. Thank you.

MR. BROWN: Thanks, Amy. Gary, just going to check in, make sure you don't have your tent card up as well.

MR. WALSH: You know, Amy took all of my material. I would really encourage us to work with the CFA Institute. I think that's a great route at the educational process and would just encourage that. I think that's the answer to a lot of what you're talking about.
MR. BROWN: Great. Thanks, Gary. I'm going to go to Tony and then Pete. And then we're going to go to priorities. So, Tony.

MR. SONDHI: Thanks. It's interesting how the comments have shifted to the CFA Institute because that's what I was going to mention.

I've been working with the corporate disclosure policy committee, which is the main group that writes the comment letters on standards and writes to the FASB, the SEC, the IAASB, and so on.

And we've actually in the last three years or so done a fair number of surveys of our analysts asking them what they think about audit reports and so on because there was a question as to whether investors actually cared.

So, having said that -- and by the way, I've been involved in that particular group since about the early 1980s, and I've chaired it a few times in between. And so we've been involved in it. We've been trying to be as active as we can.

Part of our problem is that, for a while there at least, we weren't being considered as the voice of the
analysts. So we've started turning to more and more surveys.

But I come from academia and empiricism is a little bit different. And we don't think that much of surveys in that sense because it's very hard to gauge what the quality is.

But then I was thinking back when Sara was talking about some of the things, some of the issues she mentioned. When I look at the comment letters that the standard-setters get -- and I don't know that much about it. I haven't done the same kind of work on the IFRS.

But at the FASB, there aren't that many investor groups that write to them. And that's been part of our problem, because we were getting sidelined because they felt it was, it wasn't really representative, which is the reason, as I said, we've moved on to more and more of these surveys.

But the CFA Institute does do a lot of this work. And I think it is the right place and the right group for you to be working with in terms of expanding your reach into the investor community.

And I think it would also help if there was some
more outreach to these different states where they have CFA societies. Not every state's CFA society is a place to go to.

Unfortunately, for example, my local society: I've been there now as a part of it for more than ten years. And I don't think, with the exception of one presentation I gave, that we've ever discussed any accounting issues over there. It's very, very difficult to get those.

But the New York society does something very, very different. And they do a lot of that kind of work.

So I think working with the CFA Institute would be a very good place to be.

MR. BROWN: Thank you, Tony. Pete.

MR. NACHTWEY: Yes, thanks, Jay. Actually, something that Lynn said triggered a thought here because the CIOs -- you know, it's interesting.

It depends on the size of the platform. And it depends, as Amy said, you know, are you on the buy side, true buy side, which is actually representing constituencies who are going to benefit from whether you, you know, invest the money wisely or not, and is there
a third party.

So I look at the CIOs in our platforms, and we have nine different affiliates. And there's several of the CIOs that you could probably engage with and they might, you know, want to engage on this.

There's some that are managing such huge amounts of money. Their focus is much more on the macro environment, broad investment themes, you know, getting the right talent in place. They're not looking at the financial statements let alone, you know, audit reports.

So the question is, you know, what level do you engage with at some of these places. And a lot of times it's the portfolio managers or the PMs and the analysts who are the ones where the rubber meets the road.

And then if you do engage with them, then you've also got to prepared to talk about what they care about, frankly, which is more market-moving information. And while the audit's important, they're looking at, you know, non-GAAP information. They're looking at KPIs. They're looking at did the company hit, you know, analysts' consensus and what does analysts' consensus even mean. They generally are analysts if you're talking
to the sell side. But, so, you know, it's complicated.

But that's why I do like the idea of the CFA, I mean, educating at that level, what is -- you know, they absolutely know their way around financials. But what does the information mean and how much stress is placed, you know, by the auditor on some of that information that they're relying on, and particularly, the things, to a certain extent, that are outside of the financials?

And this is where I think engagement with audit committees is also important, because, you know, I've seen the better, best in class audit committees both from my days as an auditor at Deloitte and then from our own committee are the ones that are involved with the press releases. They're involved with the non-GAAP things that get put out, et cetera, because those tend to be market moving, as Lynn said, you know, not only the reports, inspection reports from PCAOB but, you know, the audit report that gets issued out on public companies coming out, you know, 40, 45 days after the news already hit that moved the market.

So it's a little bit of again trying to figure out, being, taking a rifle shot at, you know, where
1 you're engaging, if you're going to engage with investors
directly, and then maybe a broader, you know, kind of
shotgun approach with the CFAs, the CFA Institute. And
having an education program there I think would be
valuable.

MR. BROWN: Thanks, Pete. Bob, but you must end
your comment with a priority.

MR. TAROLA: Actually, I was going to go to
priorities. Is that okay?

MR. BROWN: So then that's the beginning and the
end. So you were -- that's good.

MR. TAROLA: And it's a bit of piling on, because
I think you're hearing from the members of the Investor
Advisory Group that, and I'm going to quote Amy from the
phone, there is a possible expectation gap developing or
maybe even currently exists.

We presented in the past here that investors are
surprised when they hear the information that they use
may not be audited.

So I would encourage you to reach out and try to,
one, understand that gap. Is it -- does it relate to the
type of information they're using? Does it relate to how
they get it? Does it relate to the timing, you know, an earnings release versus a filed report?

But to the extent to which you can move the auditing profession to fill that expectation gap, close that expectation gap, that would give confidence in my view not just to the profession but to the whole system of financial reporting and would raise the, in my view, raise the effectiveness of the whole system.

MR. BROWN: So how do we do that?

MR. TAROLA: I think you've got a lot of recommendations already, reaching out to the CFA Institute to see how their members are viewing, you know, information that they use to make decisions and does it matter if it's audited or not.

As you know, you know, how information is consumed, whether it's structured data or, you know, just paper, is important.

Disseminators of financial information, there's a presumption that it's accurate. There's no validation that it's accurate. There's just presumption that it's accurate. You could create something behind that presumption that it's a good presumption.
MR. BROWN: Thanks, Linda.

MS. DE BEER: And I'll make it my priorities role, my priority point. And it is still on this point of cycle, the engagement, because I think that is really important.

And it just struck me. I've been involved, as you know, in the IAASB process for a long time. I was the chairman of the advisory group.

And the difficulty with engagement like this is you almost start on a clean slate every time you start with sort of a new round of engagement, because it depends which investors you get to, it depends which is the person that you're facing. And you somehow just never get the momentum going.

And the IAASB in their process over 15 years or so actually I think had pulled up a really sensible way of engaging, because stakeholder engagement becomes a relationship. And maybe what you want to think about is how do you deal with your advisory groups and how do you structure those to start getting the right stakeholder organizations around the table, because there are organizations like the CFA Institute, I see them invest
their perspective.

But there are also other important organizations, the director type of organizations, audit committee organizations that you can get the right people around the table and over time there's a common understanding of what they can add to your process and what they would like to get from you, the transparency both ways, the give and take.

So maybe part of that solution is to not just do a shotgun approach from time to time, but to formalize and think through how you do it a little bit better. And I would suggest have a chat maybe and have a look at some of the engagement processes and the advisory process of the IAASB, because I think that has over the years developed into something that becomes quite sensible where there's a mutual understanding and agreement and a mutual agenda in some way.

The CFA Institute has been at the CAG, at the time fundamental, ISGN has been fundamental in the quality of their comments because they, the person that you engage with deal and understand what you want. But they can then also disseminate the information and get
1 the information out of the organizations and out of their
2 membership body.
3         MR. BROWN: Thank you, Linda. Lynn.
4         MR. TURNER: So, on priorities, I go back to or
5 harken back to your number one goal, improve audit
6 quality. I think you have to look at that being a top
7 priority.
8         Ultimately, improving the quality of audits is
9 what everyone looks to this organization to do. And if
10 you aren't doing that, then people are going to turn
11 around and say why are we spending the money in the first
12 place.
13 But along those lines then, I think everything
14 emulates from inspections. I think inspections that get
15 to the heart of the issues, identify issues is the number
16 one issue.
17 So I think your number one priority has to be
18 inspections. If it's something else, I think you've
19 missed the target by a long shot.
20 Within transparency, the things you have all
21 highlighted yourself are things that are important.
22 Transparency to the audit firms about things you're
finding and ways for them to prove, I think that's, I think that firms have a legitimate request that you get more transparent about that.

Likewise, on those findings, I think you got to become much more transparent to investors if you expect them to really look to the organization for information. So I think both the investors and the firms got a legitimate request from that side of inspections.

Second priority in my mind is the standard setting. And you all have highlighted some things you're going to try to finish off.

The estimate standard is, would be right at the top of my priority list. Estimates is at the heart of audits. It's the one place where audits just do or do not make it. You either break or don't make an audit because of poor judgment. Good judgment, yes.

And so that standard needs, which has been around for decades, needs some real help and working. It's been identified in inspection findings as the cause of the problems. So that would be there.

Fair market value, I don't know if it was Wes or someone talked about much more substantial use of fair
value in the last, really in the last three decades. As Wes and I were talking at the break, we requested AICPA almost two decades ago to put out a standard, a quality standard on auditing fair values. They never did that. So something in that area is very important as we saw. We don't need another financial crisis with the same issue popping up a second time. We need to get ahead of the game on that. That would be there.

The audit quality indicators in a standard, and then the one thing that I hear, too, time and time again from analysts or whoever, investors, is we need auditor involvement with this other information.

And, you know, you've got limits on what you can or cannot do. You don't drive -- I know that Amy wrote a letter to the SEC and wrote a letter to the FASB asking them to get in gear and do something on that other information. And the CFA Institute has as well.

But you can do something by taking on the other information standard and redoing that. We had big issues with that the first time I was at the SEC, about 1990, on enforcement cases. And we still have the exact same problem today.
So that other information standard absolutely needs some attention and can be redone to scope in any other information that the auditor reads in connection with their work. And let's hope the auditors are reading press releases. Let's hope they're reading the whole 10-K.

And within that, you can -- there are ways for you to scope in, because I got to tell you, and I'm not sure I'm in agreement, but everyone, as Pete said, is reading the non-GAAP numbers. It's probably why 85 percent of them underperform the market.

But nonetheless, they're reading it and they're asking for it. So you ought to do something about that. And then my third priority is this whole notion of using the right data in the right fashion to improve the quality of audits. And that has to be data not only within the clients' databases, but in other available data that would tell you those numbers are wrong. That would be my top three priorities.

MR. BROWN: Thank you, Lynn. In that top 3, I counted about 11. And I think we have the next three years set out for us. But I very much appreciate that.
I don't see any more tent cards up.

MR. TURNER: -- some of those would get on the agenda for the last ten years.

MR. BROWN: I have no comment on that. Sara.

MS. DEANS: Thank you. I'd agree with so much of what Lynn said. And there was a lot of it, indeed, many priorities. Fundamentally, it's all about improving audit quality, and everything else is just trying to achieve that.

I guess, though, one thing where things are changing is for the audit reporting and the disclosure of CAMs. And I think in terms of whatever you can do to make sure that change happens as effectively as possible would be very good, because if that works well -- and I do share some of Lynn's doubts about how effective that will be. But if it works well, then I think that could really drive positive behavior in a whole host of ways.

So I think if information, though, is being reported, I think that changes potentially the work that is done. If you know you're going to have to report it now, I think it could possibly change the relationship a bit between the auditor and the company being audited.
And I think also, again, it will potentially drive investor engagement if there is things in there that are useful and effective.

So that's an area of change in there, so I think it should be a priority because that's something that's different. But fundamentally I agree with Lynn's comments.

MR. BROWN: Thank you, Sara. We were expecting to end at 12:15, but we're not so pressured for time. Let's see.

We have Damon. We have Grant. And we have Larry. I'm just going to give you guys a last shot at priorities for us. Don't feel like you have to.

But, listen, I do this in my classes, right. When I was teaching law, I'd cold call off the roll, so get used to it.

MR. CALLERY: I'll go. I've been looking at the plan. I think the enhancing transparency and stakeholder engagement is really the portion of it that I would view as the 2.0. I mean, the more substantive things about quality and the like are things that have always been there.
I think this is the area where you have the possibility of making some dramatic changes. And I think Linda's suggestion that you bring in some of the right investor groups, whether it's through surveys, through a meeting like this, to talk about what their expectations are, what they think are the important issues, because I think what you may find, particularly as you go down to the less, the groups that are representing the less sophisticated investors, that there is going to be a gap between what the requirements today are and what their expectations are.

And then I think you've got to figure out from that, okay, are the requirements okay but not being properly transmitted, explained, or, you know, so that those investors understand and to narrow that gap, or does the narrowing of the gap, are they right and the standards are wrong, or is it somewhere in between.

But I think if you can -- that's some real meaningful things you could use through that whole engagement and outreach process that might help alleviate some of these things where the reality and the expectations seem to be ships passing in the night.
MR. BROWN: Thank you, Grant. Damon.

MR. SILVERS: Cold calling can be a dangerous business. The --

MR. BROWN: I've learned.

MR. SILVERS: I agree with a lot of what other people have said. Particularly, you know, I served on the treasury committee that Lynn referred to and, you know, a huge process involving all sorts of stakeholders. Now, it seems like a very long time ago. But as Lynn pointed out, many of the recommendations and issues remain highly relevant and unaddressed.

I think, secondly, as I said earlier, that there are things in your strategic plan that sound kind of like, you know, like obviously it's sort of motherhood and apple pie, but are actually very important and somewhat hard to do in terms of particularly the human capital questions.

And then I'll just reiterate and maybe in a different way this issue of how do you take the knowledge that this body has and turn it into a forum that is helpful to investors and then can elicit investor response, right.
That seems like the fundamental institutional challenge that this Board faces beyond the issues of sort of, you know, implementing the human capital challenges and so forth.

And I'll reference something Grant raised earlier. You know, circumstances like Wells Fargo involving, you know, mega cap companies that have big public presences where it just looks like the basic audit and internal controls processes have failed, right, cause -- it goes beyond the impact of those companies.

It feeds a perception, those types of episodes feed a perception that the financial reporting system and the auditing system isn't real, right.

And the PCAOB is handicapped in terms of dealing with that public perception by the limitations on what the PCAOB can say about individual cases, because there's effectively nothing you can say about individual cases and individual inspections.

I think being able to communicate in more aggregate terms about what the Board has learned about audit quality and about audit failures in aggregate and being able to communicate, and thinking creative ways
about how to communicate about issues like, as Lynn was saying, issues like non-GAAP financials and issues that -- an issue, for example, that I feel, raised for many years and feel so frustrated about, which is that the audit challenges raised by fair value accounting and the sort of bleeding of, the issue of making sure that you're auditing a company as a going concern, right, which is I think impinged on by fair value accounting in various ways so that you're creating -- in the guise of trying to get more timely data, you end up with data that's not relevant, right, in the context of a going concern business.

But in any case, taking these kinds of things and communicating with investors about your aggregate learning, right, as opposed -- which you can do, I believe, and then soliciting responses from investors about what, about their experience, right, that then can inform what you do, that's where I would -- in addition to the standard setting issues that Lynn raised, that's where I would put your emphasis.

MR. BROWN: Thanks, Damon. Larry, I don't want to put you on the spot. But --
MR. SHOVER: It's no problem. I didn't put my card up because what I wanted to say is what I started the session with.

But, yeah, so I think short term the gain, the transparency that you guys are after really is just education. And I know we live in a noisy world. And the last thing we need is another, somebody on social media, et cetera, et cetera.

But I think there's an incredible interest and also embarrassment by the average investor, who has zero idea if these earnings are right, if these financial statements are correct, how do I get through it.

A most recent example, a very, very large, well-established investment house just got caught for spoofing. And most people don't know what spoofing is. But that's like manipulating markets by putting large orders in that you don't want to get filled.

So the NFA actually, the National Futures Association actually put something out on I think Twitter or something just explaining so that like my mother could understand what spoofing is. And I think that's valuable.
But especially with what you guys are doing, you're doing such a good and great work. And I do believe that the average person is embarrassed by what they don't know and, you know, would like to learn. So that's it.

MR. BROWN: Thanks, Larry. All right. Well, I think this is a good time to stop. So the public portion of the meeting will come, for now will come to an end now.

We'll break for lunch. And then we're going to do the breakout sessions. We will reconvene publicly at 3:30 to have a report back on the breakout sessions.

So I hereby declare the public portion of the meeting adjourned for now until 3:30.

(Whereupon, the above-entitled matter went off the record at 12:26 p.m. and resumed at 3:34 p.m.)

MR. BROWN: All right. Shall we reconvene? The public session is now back in order.

So I hope both groups -- of course, I was in one of them. I hope the other group also had a nice, interesting, and rigorous discussion. Certainly, in the group that I was in, it was quite active I would have to
So, Brian Degano, where are you, Brian? Brian.

And, Stephanie, right next to me, Stephanie Hunter. You guys are going to I think give us the takeaways on the QC discussion. Am I right on that?

And then after you do that, maybe we'll have a little bit of a discussion of that if anybody wants to make any additional comments. And then we'll turn and get sort of a similar report back on the audit report model and Form AP.

And Jennifer Rand, Jennifer --

(Off-mic comments.)

MR. BROWN: Oh, okay, over there. And will be joining us. And, Lisa Calandriello, where are you? And you'll be joining us up here to do the audit report model.

All right. So let me turn it over to Brian and Stephanie. I don't know which one of you want to go first.

MR. DEGANO: I'll go first.

MR. BROWN: Thank you.

MR. DEGANO: So we had a very robust discussion
in the breakout room and a lot of interesting insights
for us to consider.

MR. BROWN: Brian, get close to the mic, please.

MR. DEGANO: Sorry. So, first, I think I'm going
to go through some of the key takeaways from the session
and just give you a high level overview of all the
discussion that was in there. And then we definitely
look forward to IAG members giving additional context if
they'd like on some of these points.

But one of the first points to make was that the
PCAOB should be looking at an outcomes-based approach.
You know, the QC system is really the means. And we
should be really focused on the outcomes of the system,
and this -- because outcomes is what investors are
focused on.

The other thoughts to keep in mind were don't get
too caught up with a checking the box type mentality,
which could be leading to some of the current issues that
are out there, also that systems could be either a top-
down approach or a bottoms-up approach.

Other thoughts for us to consider are how would
you normalize a QC type mentality, how would you best
implement the feedback loop for a continuous improvement system, how do you identify audit quality. And it was noted that some problems come up with either the failure to supervise or a lack of professional skepticism. So those might also be considered.

Another thought was how do you go about sharing best practices across firms so the firms could be alerted to best practices and QC systems. Also, it was considered whether or not the PCAOB should think about utilizing a COSO or an ICFR approach.

And then as to communicating about QC systems to investors, it was noted that investors don't always want too much detail, but information could be very helpful to help firms begin to compete on audit quality. And the thought would be that that could help level the playing field.

And as part of the thought about what types of communications about quality controls might be helpful, the topic of AQIs and performance measures came up. And this would be an important area for the PCAOB to explore. And also the possibility of the PCAOB scoring firms also came up. And there was a discussion of the
potential pros and cons of such an approach. And it was noted that while it could provide helpful information, it could also become a potentially slippery slope. And I think those are the key points that were raised from the breakout session. I think, Stephanie, if you have --

MS. HUNTER: Okay. So we also had a very lively discussion, a lot of good points that came out of our room.

First, I'll focus on a couple of points that are similar I think to Brian's room. And that is that our room as well thought that the outcome-based approach on QC was very important.

One thing that our group particularly focused on was the tie-in between compensation and/or incentives when looking at the outcome-based approach and that we should focus on both what we consider the stick but also the carrot in that compensation and incentives.

Also similar, we talked some about benchmarking. I know Brian mentioned COSO. But our group focused on, particularly on ISO 9000 model or other similar types of models to use whereby we're really focusing on
fundamental principles. And that was really important
to our room and a lot of discussion around that model.

Some of the areas that we I think expanded upon,
there were some thoughts in the room, in looking at the
objective of a QC system, that reasonable assurance may
not be the right focus.

I think some people felt that way, that the goal
of quality control should really be closer to 100
percent, and then if there are issues, those be
communicated and be more transparent about. So that was
some discussion there.

Also very important to our group was that there
should be a customer focus here on the quality control
systems and that those customers or that base of
customers would be the user of the financial statements.
So that was also discussed. Had a lot of good
discussion.

Also, a governance focused, so one of the big
focus in the room was on potential establishment, if they
don't already, for the firms to have what would be a QC
group where there would be, you know, some type of chief
compliance officer, but that the interest there would be
protected from other interests.

And so there might be independent directors, as there may already be, but independent directors that have a dotted line to the board or independent directors within the board but that this quality control group would have reporting there.

And I think Brian may have also mentioned, but we talked a lot about transparency in reports, transparency reports, but that there should be some type of framework for these transparency reports.

Some of the items that could be within these reports that would be important for people in the room might be reporting of clients that had restatements, also clients that received SEC comment letters, and then also AQIs came up as well in our room.

Let's see. And then also, in general, we talked a bit about technology focus within the QC standards, and also a robust discussion around, you know, small and large firms, both small and large firms having to follow the same principles. Okay. So it wouldn't be, you know, the small firms excluded from what the larger firms are following.
So I think those were -- have I missed anything?
Those were the big points in our room.
MR. BROWN: All right. Does anybody want to offer a comment or, so anybody in the groups that wants to sort of add something to the discussion. Amy, you also on the phone, if you want to add anything, let me know if your tent card is up. Or does anyone just want to raise a question, raise a point or a question? Any thoughts on that?
MS. VANICH: I'll take the opportunity, because it sounds like there was quite a bit of interesting and good feedback. I mean, I guess what I would be most interested in is --
MR. BROWN: Barb, pull it a little closer, please.
MS. VANICH: -- is if anyone could differentiate for us what do you view as a best practice that should be suggested versus something that should be required in a rule.
When you talk about the reporting, I mean, should that be optional or are you advocating that that be included in a rulemaking where it would be required?
So, for the suggestions that were brought up, I mean, it's very interesting to us. To do rulemaking, you know, we'll have to gather data and support and put it out for comment, but, so interested in particular views on what is it nice to have versus what should be required by the PCAOB.

MS. DE BEER: We didn't discuss it in our room. But maybe if I can share, we've got some new requirements, I've alluded to it earlier on in South Africa, that was written into the stock exchange rules, which is I guess an interesting place, but that's where it is, that specifically talks about auditors disclosing the firm quality control processes with a conclusion on it that comes from the audit regulator to disclose that to the audit committee, as well as some disclosure regarding the engagement partner as, including the engagement partner's inspection findings, and some additional disclosure around peer review within the firm.

So there is a disclosure to that specific audit committee, which has actually been quite useful. And there are requirements around that, and maybe that's why it's in the stock exchange rules, around what audit
committees should ask for and how they should measure and think about it.

So I think it has focused the mind quite a bit on not just the outcome of the audit, but the duty of everybody in the process to make sure that quality control is actually adhered to.

MR. BROWN: Bob.

MR. TAROLA: Sure. This is a tough subject for you all I think because is it a baseline requirement? In order to practice in the public company auditing arena, do you need a baseline quality control framework? And what does that look like?

Or is it a -- can you set up a system where auditors compete on quality and, indeed, expand the universe of auditing firms that might, you know, might take on, you know, more clients or bigger clients?

My sense is you could do both. But it's going to take some creativity.

MR. BROWN: Thanks, Bob. I assume you're not putting that up again. Okay. Any other thoughts, questions?

All right. Shall we do the audit report model
1 and Form AP? Lisa and Jennifer.

MS. RAND: Okay. Well, I'm going to start. The group talked both about disclosures that are required now, so disclosures on Form AP regarding engagement partner disclosure, other accounting firms that participate in the audit, and also disclosures on the audit report about tenure, which recently went into effect with audit reports for last year.

So the group, the members in my group said that the disclosures on Form AP and then in the audit report today, those disclosures are very useful to investors. They also said they expect that information will continue to be valuable over time, particularly disclosures about engagement partners to see, for example, over a period of time did engagement partners become a partner and a client but then were rotated early before the five years expired, their term. So more information over time and analyzing that will be useful.

The group really thought the PCAOB could add some benefit, some value here by providing greater transparency in an aggregate way about some of the information or the information on engagement partners,
1 for example, number of clients that partners have on
2 average, thought it would be useful to see information
3 about tenure, what are we seeing in the Fortune 500 area,
4 for example, what is the tenure distribution look there,
5 potentially Russell 3000, there might be a number of
6 ways.
7 But for us to, PCAOB to make that public was a
8 recommendation investors had in our group. Those are
9 some of the key things. Lisa, I think I'll turn to you.
10
11 MS. CALANDRIELLO: Okay. This is on. I'll try
12 not to let it make too much noise.
13
14 To add on to what Jennifer said, when it came to
15 the tenure disclosure, we talked a little bit more about
16 that in our room and found that internationally in some
17 spaces that is actually being used as a factor in
18 determining whether or not investors are recommending the
19 ratification of the auditor based on their tenure.
20 It's not always a factor, but it is being
21 considered, and that, in some cases, it's being requested
22 to be added for proxy advisors to consider in making
23 their overall recommendations of the new auditor.
24 So that information is being used and is being
found to be useful. So it's kind of incremental on Form AP and the data that we talked about in our room.

And then we also talked about CAMs. And we had a little bit more discussion about CAMs in our room than we did about the data.

So we talked a lot about expectations and implementation challenges, in particular, thinking about the proper application of the definition of CAMs, whether or not there would be any misunderstandings around how you're applying the part about the definition on relating to accounts or disclosures that are material to the financial statements, and also proper application of the threshold on involved, especially challenging, subjective or complex judgments.

There's been experiences where some auditors may be actually suggesting that there won't be a CAMs because they already know how to audit an area. But that's not the driver of whether or not the CAM exists or whether it was especially challenging or subjective. So that's something for us to think about in going forward with implementation.

Also, that there should be clarity around
applying the materiality threshold and what it really means.

Our room also talked about the risks related to boilerplate disclosure, something that had come up throughout the rulemaking process, but not just across firms, across industries, and year over year when would it be appropriate, when wouldn't it be appropriate to have similar disclosures on particular audit areas and a particular audit client.

From a financial statement analysis perspective, we discussed that in the global market where the key audit matter disclosure, the K KAM, is actually in play today, that that is being used sometimes, not necessarily for financial statement analysis, but it can be used to look at changes year over year in a company. It helps with governance, considering what the auditor has been doing.

And it might help investors confirm big ticket items that are in the financial statements, where to draw your attention, which would also be helpful with the C CAMs, the critical audit matters that we'll have going into play next year with the large accelerated filer
And then we also talked about the lessons learned and focused a bit on what's happened in the international space with key audit matters and finding that one thing that's been helpful is audit committees reviewing draft versions of those KAMs. That way there's no surprises at the end of the day when the audit reports come out.

Looking at outcome-based KAMs, not just a laundry list of audit procedures, but what's useful and important and informative about that matter that's been disclosed.

And then just generally speaking, investors have been encouraged by what they're seeing in the key audit matter space and are excited to see what will be happening in the critical audit matter space when that happens.

And, Jennifer, I don't know if you want to add on to what was discussed in your room.

MS. RAND: Yeah, some of the things are similar, kind of just to start with where you left off regarding what investors are seeing now with key auditor matters, the K KAMs versus the C CAMs.

I don't know if it was a concern or certainly a
question that was raised in terms of once we start having critical audit matter disclosures, so a year from now we'll be seeing that. Investors said that they will be comparing the disclosures and critical audit matters or C CAMs and comparing that to the K KAM disclosures.

And I didn't hear that the group said they thought one might be better over the other, but wondered how those two would compare, and to the extent there are differences where one might be perceived as providing better disclosures, you know, kind of just wondering how that will play out, so kind of an area to be mindful of, certainly an area that investors will be looking at, and something for us to consider in terms of implementation and our requirements.

In terms of boilerplate, you talked about boilerplate. Our group in general kind of focused on concerns or issues that they're aware of. And boilerplate is also, was a concern mentioned among Investor Advisory Group members in my group.

The group noted that there could be some kind of -- you could think about boilerplate or different CAMs in different ways. So you may have -- year over year
maybe there might be a similar CAM. Allowance for loan
losses might be an example.

The group recognized this should be specific to
the audit, but did wonder, because they've seen just kind
of companies maybe have similar disclosures and may be
copying what they perceive to be disclosures.

And concerns, they didn't want auditors to
similarly do that with critical audit matter disclosures,
just kind of copying similar CAMs, because it may be
applicable but really wanting to make sure that auditors
are making them specific to the audit and not just going
to boilerplate, but some risk of that.

Thought that the PCAOB inspection process could
potentially help with that. And so kind of the
boilerplate was a point we talked about.

One concern that was mentioned in my group, and
I didn't hear that come up in yours, but at least one of
our members said that they'd been hearing from general
counsels of companies. And general counsels are really
encouraging to have involvement over what audit reports
will look like and try to have influence or some effect
on those disclosures.
And so the group's concern is just making sure auditors are not allowing that to happen, that it is the audit report. And so it should be the firm's report and making sure that companies are not trying to influence what's in the auditor's report, that auditors are comfortable with the report that they're issuing.

And another concern that was raised in a different line in terms of if there's an, if an auditor -- I guess really making sure that they're identifying CAMs that they consider appropriate.

They said that if there's a blowup or a restatement, an issue that happens -- and that will happen at some point. There will be things. Just noted that investors will be certainly mindful of or aware of what that blowup was and how the auditor identified a critical audit matter.

Certainly, the critical audit, the audit opinion is the pass/fail. The auditor's got to get comfortable. It's not an out. But they will be, to the extent there is a restatement in an area or an issue that's identified, investors will be mindful to see did the auditor talk about that and what was in their critical
And then finally, our group talked about kind of the dry runs and auditors getting ready for critical audit matters, and said they're really hopeful that auditors are having discussions with audit committees kind of now or early on and kind of once critical audit matters become effective, go into effect and auditors need to write them, they hope that auditors are not waiting for the end of the audit to have discussions with the audit committees and writing that, recognizing that issues can be identified early on and auditors should be having discussions with the audit committees sooner rather than later. And so they hope that was So that was it in my notes. Because of our quick turnaround, interested if, you know, if we left anything out certainly. But that was, that's the end of it.

MR. BROWN: Jennifer, thank you. Lisa, thank you. Anyone have any questions, comments, anything.

All right. Well, I want to do one last quick thank you. You know, of course, to make this happen, we had -- the four people who spoke did a great job I think running the discussions in the respec

But none of this could have happened and the
quick turnaround without our flip chart people. And that
was Nicole Funari in one of the rooms and Saad Siddiqui
in the other. So I want to thank them also for their
yeoman service in this e

All right. If there are no other questions, you
know, I think there's five minutes for sort of, or ten
minutes for final statements from me. And I don't have
any. So I think we can declare this meeting.

(Whereupon, the above-entitled matter went off
the record at 3:57 p.m.)
CERTIFICATE

This is to certify that the foregoing transcript

In the matter of: Investor Advisory Group

Before: Public Company Accounting Oversight Board

Date: 11-08-18

Place: Washington, DC

was duly recorded and accurately transcribed under my direction; further, that said transcript is a true and accurate record of the proceedings.

__________________________
Court Reporter

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