The next one, No. 5, I want to talk about with No. 8, which is identification of the engagement partner and identification of other firms participating in the audit. We've proposed this initially as -- well, we had a concept release on whether or not the engagement partners should sign the audit report. And then we put out a proposal of identifying the engagement partner in the report, and in that proposal also identifying other
firms that participate in the audit.

The nature of some of the comments we got back on the two different issues were different, so we decided to separate them, but we continue to think about them as whether or not we should, if we adopt this, adopt it as one item. Jim spent a lot of time on this. I won't spend too much more, but there is a great demand for investors to know who is the audit partner who had primary responsibility for this audit?

The audit partner is identified in many countries around the world. It's becoming increasingly common throughout the European Union, Australia, other places. Investors in the United States want that information. And that information can be very valuable over time, just like knowing which firm did the audit; and different firms have different audit quality; knowing which partner led the audit; and different partners have different skills; investors think has great value. In addition to that, academic research has indicated the identification of the name of the partner in the audit report could increase the accountability of that engagement partner in the performance of his or her procedures.
Right now, as noted in our inspection reports -- and I was reading today the Australian ASIC, their inspector was saying that in 20 percent of their audits they're finding deficiencies. I don't know the exact percentage off-hand in our audits, but it's potentially possibly around 20 percent of the audits that we inspect are not up to PCAOB standards. If auditors felt more accountable by having their name identified in the report, hopefully that number would decrease greatly. So we think that's a very important aspect.

Also, knowing what other firms participated in the audit and the extent of their participation is very important. There can be things as dramatic as some of the reverse mergers that have taken place -- well, I'll just use China as an example -- where an operating company in an emerging market may have merged with a shell company in the United States and there's an auditor signing that report in the United States, but nobody knows that 90 percent of the audit work, or 95 percent of the audit work, is being performed by a firm in that emerging market, or maybe that that firm is not inspected by the PCAOB because the PCAOB can't inspect in that
1 country.

2 So identifying other participants and their
3 extent of participation, I think, is very important, not
4 just in those scenarios, but also in many U.S.
5 multinationals. A great extent of the audit, it could
6 be 60 or 70 percent of an audit, can be done in other
7 countries by other auditors. Some of those countries we
8 can inspect in. Maybe some we can't. Even if we can,
9 the different firms that are involved in the audit may
10 have very different inspection reports with respect to
11 the quality of their work.
12 In any event, we think all of that is very
13 valuable to investors. So we are moving forward with
14 improving the transparency of who does the audit, both
15 the engagement partner and other firms employed in the
16 audit.
17 Denny Beresford?
18 MR. BERESFORD: I guess first a question. From
19 both yours and Jim's comments earlier, do I gather that
20 this is going to be a final statement as opposed to a re-
21 exposure?
22 MR. BAUMANN: We are working our way through it.
And a lot of important issues were raised by commenters, including questions around if we're identified does that trigger consent issues? And if there are consent issues, does that trigger additional liability issues? And we're working our way through all of these issues ourselves. In NOCA, with our Office of General Counsel, with the Board. We're in active discussions with the SEC. We have it on here as adoption or reproposal. And I think the final decision on that will still have to be made.

MR. BERESFORD: Okay. The concern I have -- I guess, really, it's hard to respond with just verbal comments without seeing what you have in writing. When you make the comment "great user demand," I know this was in the earlier document as well, and then particularly the comment about "academic research could increase the accountability of the auditor," that's of some concern. I guess almost anything could increase accountability.

This I know was a concern that some people had expressed in both comments at SAG earlier and in comment letters, that many people believe that the accountability of auditors is pretty high now when they have to sign off their responsibility statement in their firm's internal
1 documentation and so forth. And there are some who
2 assert that if their name is stated that they somehow or
3 another will have greater accountability.
4 I am not aware of the academic research that
5 indicates somehow or another that they could increase
6 accountability. That's something that I guess I would
7 be interested in seeing, not that I would necessarily be
8 qualified to judge that. But any time I hear terms like
9 "could increase accountability," I always get concerned
10 about that, Marty. Anything could do that.
11 But I remain concerned about the great user
12 demand for naming the audit partner and this notion that
13 somehow or another that the naming of the individual is
14 going to increase the accountability of the auditor.
15 Both of those assertions, particularly the latter, just
16 don't necessarily work for me completely.
17 MR. BAUMANN: Thanks, Denny. That's probably my
18 word, could increase accountability. I think some of the
19 academic research that we've seen, the academic would
20 probably take exception with me also and say that my
21 research has shown that it does increase accountability
22 if somebody is signing a document in their own name. So
that was probably my error in saying it could. But we are carefully looking through research to identify research on this subject, both directions, as we carefully think through this issue.

Chairman Doty?

MR. BAUMANN: You yield to Elizabeth Mooney.

Okay. Elizabeth Mooney.

MS. MOONEY: Oh, I just briefly wanted to say, you know, that this project is very encouraging. And from my work with investors internally, they would really welcome this information. Long overdue.

MR. BAUMANN: Thank you, Elizabeth. Jim?

CHAIRMAN DOTY: On the subject of the academic research and the relationship between disclosure and conduct, to partly address what Denny's concern is, there has been a question of whether, in fact, disclosing this information would make the partner more accountable.

In our formulation of this and our view of it, this is a disclosure rule. The interesting thing about the academic research, and if you look at what Ann Vanstraelen at Maastricht and her colleagues at Florida have done, they have situations in which you have a
1 continuous long record of identification of the engagement partner. And the important thing about that is that patterns of conduct, patterns of error, omission and success by the engagement partner emerge over time, just as they do with firms.

This is principally a disclosure rule. The market wants to know whether, in fact, the partner that's on their account is someone who has a long history of bungling audits, restatements that have trailed or followed him or her, or whether this auditor has a history of making tough calls and being an objective auditor.

All academic research, as Denny will I think agree, all academic research has limitations. There are limitations in the sample. There are limitations in the location of the research. There are limitations in what is available in the archival record. That said, I'd just say it is an impressive piece of research on the patterns of conduct in an area in which we are constantly told this is a matter where judgment matters, judgment is called into question, individual aptitude, individual training, individual ethics all matter. And what
Vanstraelen's research shows is that if you start stretching this out over time, investors can go back and see where the behavioral patterns or the qualifications of the auditor lie.

It is very hard for me to see why -- since in much of the world the memory of man runneth not to the contrary, to the point where investors didn't know their engagement partner -- why would it be true that in the United States of America in the 21st Century you don't know the name of your engagement partner unless you go to the annual meeting? If an investor in BNP Paribas has not only the name but the signature, how can we possibly go forward in a world where we know that emerging markets have different cultural assumptions about what auditors will, in fact, call or do to check the validity of audits and not, as Marty said, know what percentage of our work was performed by auditors in these other cultures?

It is at root a disclosure. It is a disclosure principle. To the extent that anyone says, well, it will mean that auditors have to do more work, it will affect their conduct. What I was trying to say earlier is any good disclosure rule has an indirect effect on conduct.
Our system has rested on the principle, the sunlight principle that is so often cited, that generally the effect of that disclosure, if it is an effect on conduct, is beneficial. It's salutary. What drives this one is it requires no new work by the auditor.

So I would cast it that way, Denny. I think we do know that other people get it, that other people want it, and that in societies and in nation states where it has been made routinely available, there are meaningful conclusions that can be drawn from it.

MR. BAUMANN: Thanks, Jim.

Bob, is your card up from before or again?

MR. GUIDO: It's new. Actually, Denny beat me to it. And I've got a couple observations.

First, I like the idea of bifurcation of this issue. I'm all for transparency, but I do think we're mixing apples and oranges when we talk about signators versus accountability of firms involved, especially if the individual firm that we're talking about is outside the scope of the quality control system of that firm on a global basis. I think that's really important.

On the signator, that troubles me, because if
1 we're talking about the competency of the audit partner's
2 sign-off, to me that is the audit committee's
3 responsibility to do their homework to really ensure
4 you've got the right partner and he or she has not got
5 a bunch of baggage in their background. That is the
6 accountability that's needed in the capital markets. I'm
7 not sure that additional sign-off of an individual in a
8 report means a lot. And, as Jim said, go to the annual
9 meeting if you want to know that person who has a chance
10 of maybe speaking at that meeting. But, more
11 importantly, be careful of unintended consequences with
12 this. I'm really concerned about that. Thank you.
13 MR. BAUMANN: Thanks, Bob. One of the things
14 that I think we ought to take into account is at meetings
15 like this we have the audit committee members, who are
16 some of the best audit committee members in the world,
17 and not all audit committee members of 11,000 public
18 companies are the same. And investors say they
19 appreciate the work greatly that the audit committee
20 does, as do we, but investors feel they need this
21 information. And not all audit committees apply equal
22 rigor around some of these things. But I understand your
Richard Breeden?

MR. BREEDEN: As a member of a variety of audit committees over the years, I think all audit committees are underappreciated for the immense amount of work they do, but I just wanted to respectfully disagree with the previous comment that the audit committees ought to do all the investigative work and not ask for a simple approach of disclosure of the name and a sign-off from the audit partner. I think there are a number of benefits that can flow from that. You've identified some of them. I think particularly in some of the offshore countries there is a benefit from -- having this identification may give additional focus and stature and a little leverage to the audit engagement partner inside their firm, because they now have certain identification and certain responsibilities as being disclosed directly to investors. And if their firm is telling them or pressuring them to do certain things for certain clients, it may help that they are not nameless and faceless. And it may give them a greater sense of the importance of their individual accountability without actually changing
liability. I think that's good. And I just think it's very hard to argue that something as simple as this identification can't be given to investors without the world collapsing around us. Not every investor will think it's relevant. Some investors may be perfectly happy with the work their audit committee may have done, but others may want to have it. And why not err on the side of giving investors as much relevant data as possible?

MR. BAUMANN: Thanks very much, Richard, for those good comments.

Steve Buller?

MR. BULLER: Thanks, Marty. I don't want to beat a dead horse here, but just a few thoughts. We talk about who the users are of this information, and there are multiple users. There is of course the regulator, the PCAOB. And that information may be useful to them. I'm not sure that disclosing the name of the auditor as a public disclosure is the only way that the PCAOB can get the information. There is a preparer, which is of course the company and the audit committee, which I think has a responsibility to understand who their auditor is
and their background. And again, I'm not sure that
public disclosure helps that.

What I focus on is information that is actionable. And so we talk to our analysts and to our
people who vote proxies. We say is this information actionable to you? So if you see an auditor name and the
auditor is associated with a past failure, would you vote
a proxy no or would you as an analyst fail to invest in
that company because an auditor is associated with a
failed audit in the past? And the answer probably is no.
What you look to to see is whether or not the firm has
adequate controls and procedures in place and look to the
integrity of management, but the name of the auditor
probably is not something that's going to impact your
ultimate decision.

MR. BAUMANN: Thanks, Steve. Well, you can see
this topic has engendered interest in our proposals any
time we bring it up in conversation, so we're continuing
to work deliberately on this project.

I'm not sure whose card was up over there. Oh,
Roman Weil. Okay.

MR. WEIL: I'm going to take 45 seconds to remind
Denny of an anecdote. Twenty years ago you were chairman
of the FASB and I was on the FASAC. And the FSAB members
were complaining that you weren't getting enough
information, feedback, thoughts from academics about
proposals, exposure drafts and so on. And I said to you
the way to get us to write you is to acknowledge our
names in the exposure draft. Instead of saying somebody
said X, Roman Weil said X. Bill Beaver said Y. And you
heard me and you didn't do it and we academics didn't
respond. All we have is our egos. If you don't stroke
our egos, we're not going to do the work. So there's no
empirical evidence here, but my belief is that if you put
somebody's name on a comment, they're going to be more
careful about the comment. Perhaps give them more.
Maybe that doesn't apply to auditors. Maybe it does.
So that's the end of the anecdote.

What I don't understand about this discussion is
how we can have an auditor who -- bumbling was the word
that I think Jim used in describing contents of research.
How does an accounting firm let somebody persist who's
got a record of bumbling? I would think that publicizing
the bumbling will make the auditor go away. No firm's
going to let that happen. So we're probably not going to see a history of bumbling. We'll see a history of people being taken off the audit. What I can't figure out is why the bumbling persists even when it's secret.

MR. BAUMANN: Thanks for the anecdote and the views.

I'm sorry, Jerry De St. Paer?

MR. DE ST. PAER: It seems to me that if the name of the auditor is put into the report that people like Roman will soon do academic research to do correlations between restatements and so forth and names of people. It will create a body of data. That body of data does not exist at the moment. So if they're sitting on an audit committee; I've been through this, as many people here, in large companies a number of times, you know a lot of information about the person. And if you're a big client, you really have the resources to dig into that. It seems to me if the body of data that research could provide from this was available, that that would be an additional tool that would be helpful to the audit committee.

MR. BAUMANN: We agree with that. I think that
body of data is going to be developed over time. There are probably plenty of companies that want to develop that and think it can be useful to investors, audit committees and others over time.

Jeff Mahoney and then Jennifer Paquette. And then I'd like to move onto another topic.

MR. MAHONEY: Thank you, Marty. As you know this was a recommendation of the Department of Treasury's Advisory Committee on the auditor signature. There was general support within that group from the user community for this proposed change. But also one of the strongest and most articulate supporters of this proposal was a former auditor from one of the largest accounting firms. He pushed very strongly for this to be a proposal of the Committee.

MR. BAUMANN: All right. Thanks. Jennifer Paquette. And it was pointed out to me that I missed -- Damon had his card up, too. So Jennifer, then Damon Silver. And then we'll move to the next topic.

MS. PAQUETTE: Thank you. I just wanted to circle back to the comment whether the release of the
name of the auditor in itself would be a value to investors. And I think I'd like to highlight the fact that investors are making decisions based on a mosaic of information. And any one piece of information may not be the determinant of a buyer/seller whole decision, but what's the importance or value of any of those pieces of information that formulates that eventual decision.

I think that having the name of the engagement partner is important and I think it's a component that investors should be allowed to consider, as well as academics, to evaluate over periods of time. I think it's not something to be discarded in that. It may not impact one particular decision, but it is an important component potentially for investors to make decisions going forward.

MR. BAUMANN: Thank you, Jennifer.

Damon?

MR. SILVER: I just want to follow up on what Jennifer just said and add to it that while this issue is obviously part of a complex mosaic of information involving buying and sell decisions, it is a central piece of information around corporate governance for
long-term investors, and particularly for investors who are asked to vote on the audit firm, as is the case typically in medium to large-cap companies. I mean obviously there are firms that do not ask investors to do that, but almost everyone does.

And it's not clear to me, although it's never been raised in this way -- but it's not clear to me that given that the identity of the managing partner in an audit is a known fact, although investors are entirely complying with their fiduciary duties around voting on the audit not knowing who that person is.

MR. BAUMANN: Thanks, Damon. And thanks, everybody, for contributing to the ongoing dialogue around disclosure of the engagement partner and other firms.