PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

STANDING ADVISORY GROUP

MEETING

WEDNESDAY
JUNE 25, 2014
MR. TWEEDIE: I haven't read any IASB Board papers since the day I left office, and I certainly haven't read any FASB papers. I really want to keep the will to live at the moment.

(Laughter.)

The fact that I am ignorant of the fact doesn't stop me, like any good auditor, from giving an opinion.

Basically, what I think the problem really is, it is not so much accounting standards. IAS 1 is a very old one. It is probably the first one. Well, it must be, No. 1, the first one the IASC ever issued. And it exists since 1973. So, you know, I wouldn't put too much weight on that particular standard.

I think the real problem, though, was in the crisis it was so difficult for a going concern qualification; it killed the entity. And so, they didn't go on. And yet, you got terrific criticism about these companies that received the top funding, the ones that went bust, and no going concern qualification.

I am not sure that this is going to solve that problem for you. And when you look at the UK's situation,
and the one that the bank that blew up first, Northern Rock, it had no going concern qualification.

And if you looked about Note 40-something, you could see the business model, which was to borrow from the wholesale markets at three months' notice and lend out for 25 years. And 75 percent of Northern Rock's liabilities were due within three months. And so, the minute the wholesale markets froze, Northern Rock was dead.

And, you know, there was a classic case. What had they based the going concern assumption on? And the going concern was based on the wholesale market staying open.

And I rather think you want to move more towards, what is it that makes us think this is okay, rather than sort of say, is there a doubt? Because there wasn't with Northern Rock until the crisis hit, and then, it came within two or three months. Bang. Gone.

So, I am not sure you are attacking it in the right way, to be honest. I think you are going to have to look at, give people details of why is this a going concern in your opinion.

People didn't criticize the auditor in Northern Rock. Well, they did, but once it was pointed out to
them. Note 40-odd, it was there.

But your new auditing reporting is suggesting -- at least a lot of investors want it -- could you draw attention to significant items in the notes and things like that? And I think this is a classic. And this one actually could save the auditors from a lot of hassle.

MR. BAUMANN: You know, that's a great point, and I appreciate your making it.

We have had a lot of discussion about that because in terms of critical audit matters and the new auditor reporting, a critical audit matter could be whether or not this company has the ability to continue as a going concern. And the auditor would describe that risk and, then, their response to that potentially under our new auditor reporting.

That has been raised oftentimes as the key issue of concern by preparers and others of, well, management determined they didn't have to report that they don't have the ability to continue as a going concern, but, yet, the auditors are reporting something to investors which is now being called original information often, that the auditor is describing their thought process as to, you know,
whether they were or whether they were not in a situation of having substantial doubt about a going concern.

So, I share your point very much, and it has been one of the issues we have been debating on critical audit matters, and getting a lot of pushback that, well, yes, but you can't raise an issue that wouldn't otherwise be required to be disclosed under the accounting framework.

Now we haven't concluded that is the case. There's no law that says that. I am just saying a lot of pushback from commenters about us requiring auditors to report on critical audit matters that would be information that wasn't otherwise required to be disclosed in the financial statements.

So, excellent point and one that we are debating a lot in this issue about enhanced auditor reporting.

(...)

MR. CROTEAU: Yes, thanks very much.

A few things, and I appreciate the comments Bob is making. I think in the first instance certainly we have been staying coordinated with the FASB as they proceed. I think there is a threshold question to be asked as to whether the definition of substantial doubt in the FASB
standard would satisfy the obligation in securities law. So, I think that is an important threshold question.

I guess I would just say, from my own perspective, it is fair to say from a staff perspective that if we thought it didn't, we certainly would have informed the FASB of that. Now that doesn't mean that is all investors are looking for. If investors are looking for something more, including earlier warnings, that doesn't mean that that necessarily satisfies it.

But, from the perspective of whether the definition the FASB is looking to proceed with satisfies at least the requirements of the securities law, again, I think at least speaking for myself, we would have raised our hands and said, "Hey, I don't think it does," if we didn't think it did.

I do want to mention -- and, Marty, you raised the concern that some have raised relative to original information, and I think that is part of what some have raised relative to putting the auditor in the role perhaps of reporting at a different threshold. But I think it is beyond that in this case.

I think in some situations some are concerned that
it may undermine accounting criteria, if you will. So, it is not just a question of whether it is original information. But if the accounting standards define a threshold, having the auditor report at a different threshold for the same definitional term some view might undermine the accounting criteria. And so, I think it was more than just whether or not it is original information.

So, I think there are multiple things to be thought about here. The threshold question is a fair one to be asked, and, then, whether there is additional information investors need or should have.

The last point I will just make is liquidity disclosures, risk factor disclosures. There are other places in a filing that one would expect disclosures that are relevant to investors in this space as well. And so, obviously, when we think of it, we need to think of it in the broader context than just this one aspect. So, I think it is important to recall that, too.