NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board’s Standing Advisory Group meeting on November 9-10, 2011 that relates to the Board’s concept release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards. The other topics discussed during the November 9-10, 2011 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

STANDING ADVISORY GROUP MEETING

Thursday, November 10, 2011

9:06 a.m.

1201 15th Street, N.W

Washington, D.C.
<table>
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<tr>
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<th>PARTICIPANTS</th>
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<tr>
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<td>MARTIN BAUMANN</td>
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<td>4</td>
<td>ARCH ARCHAMBAULT</td>
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<td>5</td>
<td>MICHAEL AUERBACH</td>
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<td>6</td>
<td>DENNY BERESFORD</td>
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<td>NERI BUKSPAN</td>
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<td>8</td>
<td>ELENA BOZHKOVA</td>
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<td>9</td>
<td>JOE CARCELLO</td>
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<td>BRIAN CROTEAU</td>
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<td>BOB DACEY</td>
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<td>12</td>
<td>LEW FERGUSON</td>
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<td>13</td>
<td>MIKE GALLAGHER</td>
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<td>14</td>
<td>LIZ GANTNIER</td>
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<td>15</td>
<td>DAN GOELZER</td>
</tr>
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<td>16</td>
<td>HARRISON GREENE</td>
</tr>
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<td>17</td>
<td>MICHAEL GURBUT</td>
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<td>18</td>
<td>ARNOLD HANISH</td>
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<td>19</td>
<td>GAYLEN HANSEN</td>
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<td>20</td>
<td>GAIL HANSON</td>
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<td>STEVE HARRIS</td>
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<td>22</td>
<td>MARY HARTMAN MORRIS</td>
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PARTICIPANTS (CONTINUED)

JOHN WHITE

DENISE WRAY

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MR. BAUMANN: Our final session, as I mentioned, is a discussion about our comment letters and then further follow-up on the auditor's reporting model, and I'd like to ask Dan Goelzer to share with us some thoughts to kick this off.

MR. GOELZER: Thanks very much, Marty.

As Marty has just indicated, the last topic on the agenda for this meeting is the Board's review of the auditor's reporting model. I don't suppose that project requires much explanation for this group since it's been discussed here previously.

The objective is to determine whether the
Board should expand what the auditor's report to financial statement users conveys. That is, whether the end product of the audit should be something other than the traditional standardized pass/fail report.

We have saved this as the last item on the agenda, but I will say that at least in my view, this initiative is the most significant item on the Board's docket. I think that it raises fundamental questions about the purpose and value of the audit, and expanding the contours of what auditors communicate could have profound impact on investors, auditors, public company financial reporting, management, and directors.

Just a bit of background. Again, I know it's relatively familiar to this group. This is not a new project for the Board. It originates, I think, with the suggestion in the ACAP report. In any event, the Board has been looking for almost 2 years now at how it can increase the relevance of the information that auditors provide to financial statement users.
That effort on our side has included public discussion with both this advisory group and with our Investor Advisory Group. In addition, during 2010 and early 2011, we had a series of focus group sessions with investors, preparers, auditors, others.

And then, in June, we issued the concept release that we're going to be talking about this morning, which contains some alternatives for expanding the auditor's reporting responsibilities. We also held a public roundtable in September of this year at which those alternatives were debated.

We're now at the stage where the staff is analyzing the comment letters that we received on the concept release. And certainly, at least by PCAOB standards, the comment file is very voluminous. The last count we have was 151 letters submitted, and I believe, although the comment period ended some time ago, submissions are actually still coming in. So that number will increase.

We've heard from a very wide range of
participants in the financial reporting process or
those influenced by the financial reporting
process. And Jennifer Rand is going to summarize
the comments in just a minute.

Before she does that, I thought I would
just highlight some of the issues that I think the
letters suggest the Board will have to grapple with
as this project moves ahead. Of course, my views
are solely my own.

First, if the comment file makes one
thing clear, it's that investors deeply believe
that they deserve more from auditors than they're
currently receiving. There is very strong support
for requiring the auditor to provide insight into
things like financial statement risk, audit risk,
significant judgments and estimates that management
has made in preparing the financial statements, and
the quality of the accounting choices that
management has made.

Certainly, clearly, if we were to treat
the comment process as solely an investor
plebiscite, it's clear that a broad auditor's
discussion and analysis requirement would be the winning choice. However, I think it has to be added that we've also received some views and other comments that raise some warning flags. A couple of examples.

A theme expressed in many of the comments is that management, not the auditor, should remain the primary source of information and insight regarding company financial reporting. Certainly many managements and directors see a risk of investor confusion if there are competing analytical presentations from the company and its auditor.

Also, some commenters have told us that the audit committee's governance role in overseeing financial reporting could be undermined by a broad auditor reporting requirement. In particular, we've heard from some audit committee members who believe that the quality and candor of the information that they receive could be compromised if the kind of information about financial reporting risk and accounting judgments that the
Further, questions have been raised about whether the training and standards that traditionally currently define the auditing professional equip auditors to create and communicate new information, as opposed to providing assurance on information created by others. Some auditors fear that the effect of that kind of responsibility could be to widen rather than narrow the expectations gap that has traditionally bedeviled the profession and perhaps ultimately to decrease public confidence in auditing.

I won't go on with those examples, but I think maybe it's important to emphasize that our mission is to protect the interests of investors and further the public interest in the preparation of informative audit reports. In light of that mission, we obviously need to give considerable weight, great weight to the investor views that we've received.
We also need to test potential changes in the reporting model against the goal of promoting full and fair disclosure. While I'm not speaking for the other members of the Board, I think I can confidently say that we're all committed to increasing the usefulness and the relevance of the information that the auditor reports.

But at least in my view, despite the volume and sophistication of the comments that we've received, the solution to the issues raised in the concept release is not self-evident, and creating a workable new reporting model will require the Board to make some very difficult judgments.

I'm looking forward to the discussion this morning and to hearing any additional thoughts that SAG members may have on how the Board should modernize the reporting model. And with that, Jennifer, let me turn the floor over to you so you can give a more detailed presentation about what we've heard in the comments.

MS. RAND: Well, thank you very much,
Dan. And thank you for your very thoughtful remarks.

What I plan to do this morning is provide you with a high-level overview of the comments we received, who provided comment letters and the types of themes we're seeing in those comment letters, as well as provide you with an overview of where we're headed in the next steps.

First, key milestones. Dan talked about the concept release that was issued on June 21. That concept release was informed by a lot of work that we did and outreach to many of you all, including investors, auditors, preparers, audit committee members, academics, attorneys, previous and current other regulators, et cetera. So we had very robust outreach, which helped inform our concept release.

The concept release was seeking input on changes to the auditor's reporting model, asking a basic question -- should the model be changed? And also asking, as far as options for supplemental or additional reporting, and the options we presented
in the concept release included auditor's 
discussion and analysis, emphasis -- required and 
expanded emphasis paragraphs. Should there be 
additional reporting on other information, such as 
MD&A, earnings releases, et cetera? And also 
whether the report should be clarified?

We held a roundtable toward the end of 
our open comment period. That roundtable was held 
on September 15th. We had 32 participants and 2 
observers, and those included the SEC and FASB.
The comment period ended September 30th, 
and Dan mentioned 151 letters, but we just received 
an additional letter yesterday. So now we're up to 
152, which gives me great excitement because I am 
-- I do think we've received a very robust comment 
letter file and quite appreciative of all the 
comments, very thoughtful comments that we've 
received.

I feel like in each letter that I've gone 
through, there is gems in there that we need to pay 
careful consideration to. So I appreciate 
particularly those of you that took the time to
write comments. They're very much appreciated.

The next slide gives you an overview of who we received the comment letters from. As I said, it was very robust, and we're considering each of these comments. As you can see up here, it's kind of listed somewhat and who provided the most comments to the least, and then we have a category for other.

Preparers provided the majority, sent us the majority of comment letters, followed by accounting firms, and then investors. As I said, we are giving considerable comment -- consideration to each of these letters. I'm going to provide a high-level overview of the different categories, the themes that we're hearing from the different categories.

Overall, we heard pretty consistently was a desire to retain the pass/fail model. So that's what auditor reports currently are today. Some of you call it pass/fail opinion. We've heard kind of resoundingly that that should be retained, but really also resounding need for change,
particularly in the area of supplemental reporting.

In that area of supplemental reporting, whether it be an AD&A type report or an emphasis type report or reporting on other information, we saw quite a range of support on the type of change or the amount of change, depending on the commenter -- the person or group that provided comments to us -- and I'll go through that over the next few slides in more detail.

Starting with investors. In reviewing the investor letters, we saw kind of different themes coming from investors, and we kind of saw two different category of investors.

The first we saw coming from investor associations, pension managers, and analysts. In that, we saw clear support for auditors reporting on their assessment of areas of high financial statement risk; significant judgments; quality, not just acceptability, of accounting principles; and disclosure of significant changes or events impacting the financial statements.

Commenters in this group said that it
could be -- the form of reporting could be an AD&A type report or emphasis type report, kind of that form didn't matter as much, but the type of information mattered. So they're looking for more expansive, the auditor's assessment, more than just identification.

Investors in this category supported other disclosures by auditors, including audit procedures, so the procedures performed on those significant financial statement areas or areas of high audit risk. Also in this category, as far as information about the audit included materiality. So information about the audit, unrecorded differences was another area of interest about the audit.

And really, regarding other information or reporting on other information, commenters indicated that they're really interested in telling us more to having the auditor say more about what they're doing today on the financial statement audit rather than necessarily a desire to have the auditor report on other information. So the view
was clearly, "Just tell us more about what auditors are doing today."

The next category investor we categorized as large investment companies and advisers. Here, clearly, some desire for information, but it's less in the area of auditor assessment and more toward identification or pointing to those areas of significant areas in the financial statements.

So looking more for -- we saw some comments about tell us what the five largest areas of risk are, and where are those disclosed in the financial statements? So it was more of pointing to than a discussion of merit of discussion from the other category.

This group of investors indicated a preference that management be the primary source of financial information. So that's why not looking for an assessment or description of themes, but rather a pointing to where that information is disclosed by management in the financial statement.

There was some interest in information regarding audit procedures, but not as much as we
saw from the other category of investors. And as far as other information, just again like the other group, preferring information about financial statements rather than assurance on other information.

Moving on to then preparers, clear view from preparers that management should be the primary source of information. Did not get support for AD&A or expanded and required emphasis type reporting.

As far as assurance on other information, concerns about that costs would exceed any benefits on that type of reporting, preparers don't object to clarification of the report, but didn't see a strong need that that would be necessary.

I saw some similar, but different views from Board members, including audit committee members, similar to preparers believe that management should be the primary source of information, not supportive of AD&A type reporting.

But we had some mixed views regarding expanded and required emphasis reports. Some support some
other, some less supportive, but not overall opposed.

There was some support for assurance on other information, not real strong support, though. And there was some support for clarification of the report, if that was considered to be useful to investors and other users of the financial report.

As far as accounting firms, saw some overall themes with some differences based on the type of accounting firm that provided a comment letter. Overall consistency, though, that management should be the primary source of information. Overall support or opposition to AD&A type reporting.

And here, we start getting into differences based on the type of accounting firm. Large and regional firms were supportive of emphasis type reporting, emphasis required, expanded emphasis reports. Also supportive of attestation on critical accounting estimates of MD&A.

Smaller accounting firms really were not
supportive of either of those, didn't think it was that additional type of reporting, either through emphasis reports or reporting on other information, was necessary. So not supportive of that type of change. And then as far as clarification, that was supported by all types of firms.

Just have a slide up here to highlight comments we received from academics, other regulators and standard setters, and other individuals. We couldn't really see how we could group them because we got different types of comments within these categories.

So, academics, we saw some different views from certain academics that may have been longstanding academics versus other academics we saw that had been retired partners in an accounting firm and then an academic. So some different themes among there.

The other regulators and standard setters also had different views, depending on their own particular perspective. And other individuals and organizations include, in that bucket, we had
actuaries. We have law firms. We have retired CPAs. So just a real mix kind of within each category.

So we didn't think it would be appropriate to summarize those like investors, preparers, et cetera. But we certainly are giving consideration to all comment letters that we have received. And we'll continue to receive if any should come in.

I wanted to point to some other comments that came through, the other I talked about kind of views from investors, preparers, auditors, others on the types of reporting, like AD&A and emphasis reports, other information, clarification. But there were some other themes that came through that we thought were worth highlighting.

Some themes came through, particularly from preparers, auditors, audit committee members, about working with other regulators and standard setters, particularly FASB and the SEC. So, as far as comments were coming through, that if there's need for additional information on financial
information, that we should have a coordinated approach with the FASB and the SEC on what that might be to not duplicate disclosures that are already provided by management.

Also support for working with the IAASB and ASB and others as they're considering changes to the auditor's reporting model. There is also some support for additional reporting by or some reporting by audit committees. There was noted efforts in the UK, for example, on audit committee reporting and thought that might be an area of consideration, although recognizing that's not within the PCAOB's purview. And some comment support for considered field testing of any changes to the report.

There was also -- in addition to overall themes or considerations, there were some concerns that were noted. And again, these principally came from preparers, auditors, audit committee members, others rather than investors. But certain concerns about changes to the report, such as dueling information between the preparer and auditor, such
that if the auditor were to have expanded report
either through emphasis type reporting or AD&A,
that how would that be in line or could be out of
line or dueling with what management has said in
the financial statements?

There were some concerns about this
additional communication and the report impacting
the audit committee's governance role for the
oversight of financial statements to how would that
play in? Where would that be if there's additional
disclosure by auditor?

Some concerns about just impacting the
overall three-way communication between the
auditor, management, and audit committee. Some
expressed concern about just with an expanded
report there could be more boilerplate information,
and that would not be desired. So concerns about
that coming into play.

A number of concerns about maintaining
confidentiality of company information. Some
concerns that if the auditor had expanded
disclosures in the report whether any of that
company information that's otherwise confidential could be disclosed.

Concerns about increased costs, the increased costs were mostly described in terms of additional audit cost. But there was also concerns about costs being incurred, additional costs by preparers and also audit committees in having discussions or review or what's being said or what then might management say in the report in their financial statements.

Also concern about increase, potential increase in auditor liability, potential adverse effect on auditor independence. If auditors are saying here is the preferred view of accounting, then whether management feels they need to default to that. And then whether or not if that's the view that, in fact, it becomes more auditors' financial statements than management's financial statements. So concerns in that light regarding independence.

And then comments we're talking about all this additional disclosure, while it may improve
communication, it's not doing -- there's little incremental effort or benefit on audit quality.

Our next step, what we've provided to have some discussion with you today is an overall high-level analysis. As I said, there's many different gems that we see in the comment letters. It's impossible to include all of the additional thoughts in these slides. So we will continue our analysis and our discussion with our Board in connection with next steps forward.

We cannot -- we're still in the process of digesting that information and discussing with the Board. So aren't in a position today to say what that will be as far as that it would come through in a proposal.

As we move toward a proposal, we will also be considering related projects of other standard setters, such as the IAASB. We'll also be having discussions, continued discussions with the SEC, as we have throughout, and also have discussions with FASB and what they're doing in terms of disclosures.
Our plan is to issue a proposal in the second quarter of 2012. I think, as Dan mentioned, our overall objective is to improve communication to investors, but certainly, we'll be considering thoughtful comments from others in determining our way forward.

So, with that, I see Barbara Roper has raised her tent card. But I'll open the discussion not just to Barbara, but to all others for any questions or comments on the auditor's reporting model project and comments we've received to date.

So, Barbara, I'll start with you.

MS. ROPER: Well, first, when I put my tent card up, it was specifically in response to that last slide, which went through and listed a number of other concerns with not necessarily any concrete backing behind them that have been raised. It could hurt independence. Well, it could improve independence.

It could, you know, do this. But it could have exactly the opposite effect. And I would just say I would hope that there would be --
as an investor advocate, we face this all the time, that industry raises concerns and they are given a credibility that advocates' expressions of hope about positive effects aren't given the same attention.

So I would hope that we don't -- I mean, I would like to see us go through the letters and find the same type of list of possible benefits to the rules. So that was sort of my initial emotional response to that slide.

But beyond that, I think the presentation is quite useful in separating out what sort of groups made what kind of comments. And the thing that comes through loud and clear from that is that investors think the system is broken. And if the document is designed to communicate to investors, the fact that investors are fundamentally dissatisfied with the document ought to carry a fair amount of weight.

And then I would add to that just we spent a lot of time talking yesterday about how can we promote greater professional skepticism among
auditors? And it seems to me that one way you can
do that is by forcing auditors to speak directly to
their clients, the investors, about their views
about the financial statements and that that has
the potential to, one, make them focus on who it is
that they actually work for, other than management,
and it makes it more likely that they might be less
willing to just go along to get along if they have
to actually make an assertion of views.

So I think there's in an environment
where investors have clearly indicated that they
don't think a document that's designed to
communicate to them communicates effectively to
them, we should be looking at not just tinkering
around the edges, but significant changes to the
auditor's report.

MS. RAND: Thank you, Barbara.

I just wanted to comment on what you were
-- one of your comments initially on the listing of
considerations or concerns about changing the
report. Certainly, we are giving consideration if
there is a negative, could there be a positive, and
trying to weigh and balance all of that. And recognizing what have investors said for a need for change and how can we effect such a change? So we are taking those points into consideration.

MS. ROPER: And I realize that. I just think it's fairly typical, as an investor advocate, in this process that you look at a long list of statements from industry about their concerns for which they aren't really required to offer any backing except their expression of opinion that it could have this effect. It could chill communication here. It could do whatever. And yet an investor advocate who makes a comparable set of assertions about what they think the benefits would be is asked to come up with a 100-page document of cost-benefit analysis to -- not by you, but as a general matter, as an investor, to justify that the regulation might somehow not end capital formation process as we know it.

So it's just a frustrating feature, but I
recognize that you are balanced in your consideration. So --

MS. RAND: Thank you.

Arnold Schilder?

MR. SCHILDER: Thank you, Jennifer.

I would like to give a brief update of our similar project at the IAASB. First of all, many compliments for your presentation. I thought it was very interesting to see this overview of all your comment letters. And actually, we issued a consultation paper in May that had a lot of similarity, I think, between the concept release and our paper.

We also received many more comments than we usually do. We are currently at 82 comment letters, and usually there will be 40 to 50.

Many of the messages that you have shared with us came also across in our comment letters. I would say that particularly users seem to place most value on supplementing the information in the auditor's report with a discussion about auditor's insights on matters that include risks and views on
the quality of management's financial statements,
et cetera.

I'll never forget a quote that I once got from an investor representative. "We want more about the soft stuff." And that's basically about the judgments and the uncertainties and the ranges and the estimates, and that's what I see coming back both in your comment letters and ours.

Some striking points in letters that we have seen. One, of course, is, and you have mentioned it also, that a number of respondents urged us and the PCAOB to work together to develop a common global solution to audit reporting. And maybe it's a bit symbolic that my fellow Board member Arch is seated amidst CalPERS and the CFA Institute, two examples who are very vocal on this, and of course, we agree to that.

And another one was BlackRock, also familiar. Just quoting, "It's critical that the IAASB work with the Public Company Accounting Oversight Board to minimize the confusion and expectation gap that may be created if different
auditor reporting models are adopted.

So that's the important message. I received similar messages from our CAG and regulators and others.

Also, and maybe a bit more than I learned from your presentation, there's a great deal of importance placed on other information that accompany financial statements. There was strong support for clarifying and enhancing the auditor's role and responsibilities with regards to that other information.

We have a project on that, revising our Standard 720. Hopefully, agreeing to an exposure draft in March, but that was an important item as well.

And thirdly, there was one difference, I think, between concept release and our consultation paper in that we asked more explicitly comments also about announced corporate governance reporting model, role of audit committees, et cetera, illustrating that, among others, we have the FRC proposals in the UK.
And we noted that respondents generally expressed support for exploring ways to help enhance management and corporate governance reporting and including that, of course, the role of audit committee reporting. I think the comment from CalPERS about cooperation between the two of us was also in that area.

And also many respondents urged that increased audit communication requirements would likely require additional auditor guidance to ensure consistent and appropriate application, but also let's say education of users and readers of that information, if it will be different from now.

And of course, one example would be where now the case will be that if an auditor expresses an emphasis of matter, usually there's a bit of a reaction. "Oh, gosh, there's a problem." And if you would like to change that into a direction that it would be more normal, that auditors would express more EOMs, other matters, AD&A, whatever you call it, then it should also be received in an appropriate way.
I will not -- I have a list here, but as I said, there are other similarities in many of the specific comments. And of course, also difference of views, as was clear from your presentation. We see it as well how far can you go?

Some specific challenges that were also identified in addition to yours. How one is maintaining global consistency in auditor's reporting while at the same time providing additional customized information? And then, of course, avoiding that it will be boilerplate in the end.

Also the issuing of dueling information, the risk of blurring responsibilities. On the one hand, those charged with governance providing the information. On the other hand, auditors attesting to that or doing more. That's a key issue for further consideration.

Understanding impact of changes not only in terms of cost, but how would it be understood and how would it be appreciated and how would it be done? And then also how to allow for developments.
in different jurisdictions. So should it be all
the same, or could it be different depending on
developments in, for example, UK, France, here,
Australia, et cetera?

So, all in all, we will discuss in our
board meeting in December -- 5 through 9 December
in Los Angeles. For those that are near to LA, if
you want to attend, I mentioned it already to Mary,
our meetings are fully open. The agenda papers
will soon be published, and we will discuss this.

And there will be a project proposal from
our task force, and I figure just a draft version.
But the project objectives are here described, and
that may change, but the direction is clear.

First, to determine whether and how the
IAASB reporting ISAs and their design can be
modified to accommodate evolving national financial
reporting regimes while at the same time ensuring
that common and essential content is being
communicated. And second, appropriately enhance
the communicative value and relevance of the
auditor's report through proposed revisions to the
ISA requirements that address its structure and content.

So, basically, there is a need for change, and that would be in particular regarding ISA 700. And I think this is a great momentum to move into that direction, and I would be fully supportive to those that have urged us to cooperate in particular on this line between the PCAOB and us, but also if standard setters and regulators and I'm sure that we will come somewhere, although I realize that it will not be an easy process.

That's my summary of where we are. Thank you.

MS. RAND: Thank you, Arnold.

Joe Carcello?

MR. CARCELLO: Jennifer, I'd like to ask a question first, and then I'd like to make a couple of comments. Can you go to your second or third slide? Can you go back to your second or third slide?

MS. RAND: I'm not in charge of the clicker after my yesterday challenge.
[Laughter.]

MS. RAND: Which slide in particular?

Was it on the investor overview?

MR. CARCELLO: Well, you had the buckets of who responded. The number --

MS. RAND: Okay. The overall number?

MR. CARCELLO: Yes. Okay. That one right there.

MS. RAND: There you go.

MR. CARCELLO: Here's my question before I make comments. When you classified the third bucket there, investors, including investor associations, pension managers, analysts, and large investment companies, and advisers. So when you got a comment -- and let's say for hypothetically, we'll use Vanguard -- did you put them in that bucket, or did you put them in the preparer bucket?

MS. RAND: What we looked at, there were some we had to read the overall comment letter, and sometimes just overall classification was not easy. Sometimes very straightforward, but sometimes not easy.
There were certain things that I picked up a letter that seemed like it may have been an investor, but recognizing the organization was signing it from it was more the preparer house, the CFO or their accounting function. So, in that case, we would have put them in the preparer if they were essentially issuing it as a preparer.

MR. CARCELLO: Okay.

MS. RAND: But other letters like that, other letters came through, they would say we took a poll of our investors and the people doing the investing in the company. So, therefore, we put that in the investor category.

MR. CARCELLO: Okay. Just, and I'm saying some of this for the public record. I realize that the staff knows this. In the case of Vanguard, it's user and preparer. In the case of Capital Research and Management, it's user and preparer. In the case of BlackRock, it's user and preparer.

In the case of Fidelity, it's explicitly for the preparer. And in the case of State Street,
it's explicitly preparer. So it sounds like you've made that adjustment. But I think it's important to understand that in terms of some of these asset managers, it's at best -- it's two perspectives. It's not purely an investor perspective.

I think it's also important to understand that the resources that the corporate community and the accounting firms can throw at this issue vis-a-vis the investor community, particularly pension plans and analysts and so forth, are so uneven. Talk about a lack of a level playing field. It makes the U.S. versus Russia in 1980 hockey look like a pick 'em hockey game, okay? That's about the scale that we're talking here.

I think it's also important to look at the assets under management in terms of the comments that you received not just from the asset managers, but from the pension funds. It's very, very significant assets under management.

Can you go to the slide that Barbara asked about? Can you click forward to the slide that Barbara asked about?
MS. RAND: That would be cost, I'm assuming, right? I mean concerns.

MR. CARCELLO: Yes, concerns.

MS. RAND: Which included cost as one of them, among others.

MR. CARCELLO: Yes, at the risk of repeating some of what Barbara said, as I was sitting here, I thought exactly the same thing. She just beat me to the punch.

I don't think this was intentional, but it's clearly asymmetric. It's presenting the downside, but not the upside. And there is a lot of potential upside.

So I think in fairness, in future presentations, if you're going to present potential downsides, you also need to present potential upsides. And I'm not saying you're not considering those. But when you present it, it would be more balanced.

When you look at these comments, though, expanding the auditor's role and the possibility of dueling information, if you look at the investor
comments to the extent that they commented on this
almost without exception, they said this is
something they can manage. This is not something
they're troubled by.

Adversely impacting the audit committee's
governance role and the three-way communication,
again there was investor arguments that, in fact,
it may enhance the alignment between the audit
committee and investors. The fact that the audit
committee's perspective almost exactly mirrors
corporate management's perspective bothers me. As
an investor, that bothers me.

I view the audit committee as they ought
to represent me. Corporate management doesn't need
additional representation.

Risk of additional boilerplate language.

That's why you have an inspection division, and
that's why you have an enforcement division.

Increased costs. Let's not lose sight of
the fact that although the company writes the
check, they're writing the check with our money.

At the end of the day, even Fidelity and Vanguard,
that's just 401(k) and 403(b) money. And so, if investors want this information, they are paying for it.

Potential increase in legal liability of accounting firms. There may be validity there. I think that's something that you need to work with with the SEC. There are potential ways of dealing with that that I think would protect the accounting firms from additional legal liability.

Every investor I've spoken with, I have not heard one investor say to me we want this as another way of grabbing for the pockets, the wallets of the accounting firms.

Little incremental improvement in audit quality. Again, if you look at the CalPERS letter, Jennifer, the Vanguard letter, the Capital Research and Management letter, they all argued, in fact, that this additional communication will give the auditor additional leverage with management and, in fact, will increase audit quality rather than decreasing audit quality.

So that's what I mean about kind of
showing both sides, and it's the same point that
Barbara made.

MS. RAND: It's clearly our goal here --
the comment period ended not that long ago, a
little over a month ago, September 30th, with
comment letters coming in like yesterday, literally
yesterday. I take the point that it's impossible
to say everything, as I said early on, to put
everything in a slide.

There were a number of -- this slide is
capturing the frequency, the ones that came through
a lot. Not to say that the points you mentioned,
and even Arnold raised a point that we didn't
highlight in there, but that came through as well
as far as consistency or a type of framework. How
do you, when you say "significant risk," how are we
capturing, getting auditors to think of those risks
on a consistent basis that we would expect to see
in an audit report?

So a lot of those themes came through.

So it can't be perfect, and so I recognize that.

And we take all of those points into consideration.
But our desire today was to share with you kind of some of the things we saw coming through frequently, the type of comments that came through, but recognize that there's other points.

Even like clarification, there was concerns about even doing something that I may think would be the easier thing to do, just clarify language in the report. Some comment letters would talk about fraud is really most important, and that was really the one that came through in ACAP, and all the other types of clarifying language could have the effect or certain comment letters didn't want the effect to be minimizing the auditor's role in any way.

So there's no change that would be easy and a lot of careful consideration, and we did get a lot of good thoughts and comment letters, as you point out and Arnold mentioned. But anyway, I just wanted to highlight we're aware of all those things. So we haven't lost sight of them at all.

Let's see, who's next? Denny Beresford?

MR. BERESFORD: As long as that slide is
up, I'd like to make sure that you add one more
item to it, and that is --

MS. RAND: Once again, it's not intention
to be everything. But --

MR. BERESFORD: I understand.

MS. RAND: I'm going to switch off this
slide after this.

MR. BERESFORD: No, no. Don't -- leave
it. Because I'd just like to make sure that the
Board members do consider one more thing, and it
ties into Sam's point earlier on that I wanted to
make sure that the Board members consider the
effect of slowing down the closing process.

MS. RAND: I was thinking with increased
cost, our thought was it's in addition to money,
it's time. That came through kind of cost of the
time.

MR. BERESFORD: Well, and the focus
really of the engagement partner and the senior
officials, senior people on the team that depending
on the content, depending on what other decisions,

obviously, are made -- if it's an auditor's
discussion, analysis, if it's several emphasis paragraphs -- depending on the complexity of the report, depending on the procedures that an accounting firm would need to put in place, for example, almost certain approval through the national office of the firm. Every report would be lengthy and custom made.

Outside counsel of both the accounting firm most likely. Outside counsel or at least inside counsel, if not outside counsel, of the individual company. And this is going to be a very intensive process that's going to add time near the end of the examination, when we don't have a lot of time when we're dealing with 60 days past year end. And there's not a whole lot of slack in those schedules right now. So we're talking now about having to back up several days from the extremely tight deadlines that we have right now in order to accommodate that, which is just going to eat into our you might say substantive procedure performance time. And I think that has some danger of taking our eye off the ball on the really
important things that the audit partners need to be
spending time on.

MS. RAND: Okay. Thank you.

Wayne Kolins?

MR. KOLINS: Thanks, Jennifer.

I have a comment that's less -- that's more granular and less contentious than most of the
other ones. Just in the discussion yesterday about
going concern, now this one and one of the elements
here is the emphasis of a matter paragraph that's
being considered. It may be that we just put a
placeholder in when we look at the going concern
because of the substance of the discussion
yesterday was is the on/off switch the right thing,
or is it a sliding-scale approach in terms of what
the disclosure needs to be?

And if there is to be a mandated expanded
emphasis of a matter paragraph going to more of a
sliding-scale, qualitative discussion of the
factors that could lead to going concern
uncertainty may fit better into that kind of a
section of the auditor's report rather than just
the one blinking light on/off switch of a going
center by itself.

MS. RAND: Thank you, Wayne.

I seem to have a cluster of open comment
cards to go. There could be others. I see some
others coming up, but I have Arnie Hanish next on
my list.

MR. HANISH: Thanks, Jennifer.

First of all, let me echo what Denny
said. I think those are really important points
that really should be heeded as far as the
timeline.

MS. RAND: Can you move closer to the
mike? I'm just not hearing you as clearly as I had
earlier.

MR. HANISH: Okay.

MS. RAND: Thank you.

MR. HANISH: Is this better? Okay. I've
never been told that I was so quiet.

So I want to echo Denny's comments. I
think, having lived through these timelines, the
accelerated timelines, to get documents filed with
the SEC, the challenges that we have today with
XBRL and all of those issues that are out there, I
think this obviously would put significant
additional pressures upon us, as well as the audit
staffs of our auditors.

So let me sort of raise a couple of
points. It seems to me, and we're definitely -- I
mean, I and our company are definitely not in favor
of the AD&A. I think that it would be, in my view,
a terrible mistake to include this in any
documents.

I think it is, as I think you
articulated, it's management's responsibility to
communicate. I think that it would be in direct
conflict if we choose to keep the pass/fail for the
audit because why have a pass/fail if you're then
going to ask somebody to come in later and try to
articulate the -- what are perceived to be
judgments with regard to accounting within the
overall framework of our financial statements?

We all know that GAAP is not black and
white. There are lots of judgments and ranges of
estimates and outcomes in coming up with accruals.
The SEC attempted to deal with that, with the
initiation of disclosure of critical accounting
policies and requiring us to provide quantitative
explanations as to what would a change in various
assumptions result in.

So I think if you look at our -- if you
look at most companies' critical accounting
policies, if they're articulated in an appropriate
way in accordance with the SEC rules, then you
would see that there are already in those documents
and in those paragraphs quantifications of the
change in estimate. Whether it's a 10 percent
change in various significant accruals or a 10
percent change in pension assumptions or whatever
the case may be, if the disclosures are
appropriate, there should be quite a bit of
information in there to provide the investors with
some assumptions and analysis as to what would a
change in those estimates result in with regard to
our financial statements.

But again, we've concluded that -- at
least maybe we've concluded, I hope we've concluded
that we're going to retain the overarching
pass/fail. And therefore, the financial statements
are prepared in accordance with GAAP.

I certainly would be in favor, as are a
number of preparers that I've spoken with, they are
in favor of an expansion of the report. I don't
necessarily think you've captured that. I haven't
read all the letters, obviously, that have come in.
But I certainly have had discussions with a number
of preparers, and they are in favor of an expansion
of the current report.

They are in favor of including additional
paragraphs of emphasis where the audit is. We
don't think it's absolutely necessary because we
think if you look at the critical accounting
policies and some other things that you can glean
from that where the auditors have spent most of
their time.

But if investors believe that that's
important, then we're certainly happy to have that
included in the expansion of the auditor's report
to make it clearer that areas of emphasis would
generally include those areas that are identified
as critical accounting policies. They would
include probably major acquisitions, divestitures,
areas of impairment of goodwill, areas of emphasis
around the current economic conditions, as we
talked earlier this morning.

I would be shocked if any auditing firm
didn't focus their efforts on those areas of
emphasis. And so, there is certainly nothing to
hide from my perspective as to where our auditors
have spent their time auditing.

But going beyond that I think is a
terrible mistake. Again, I don't believe the
system is broken, as Barbara might suggest. But
she's entitled to her opinion. I'm entitled to
mine.

I think that if we enhance the
disclosures and the paragraphs, but stopping short
of trying to have some sort of an opinion as to
whether our financial statements are either
conservative or liberal based upon the assumptions
that are inherent in numerous estimates I think is where it ought to stop. And if you're going to do that, then you need to change the pass/fail and do something other than a pass/fail because I think trying to provide any expansion through an AD&A undermines the pass/fail that we're suggesting that I think should be retained.

Thank you.

MS. RAND: Thanks, Arnie.

I just wanted to, at the outset of your remarks, you made a comment that I articulated. You said, as I articulated, it's management's responsibility to communicate information about the financial statements. I haven't stated a view. All I've been trying to say is what others have said.

So we're seeing that view reflected in comment letters, but that's not my view, necessarily.

MR. HANISH: I didn't intend it to be your view, I intended -- I believe that it's management's responsibility. And if I said the
otherwise -- it is our clear responsibility to maintain and communicate. They're our financial statements, and auditors can provide some insights, but not to the level that was suggested in this concept statement.

MS. RAND: Okay. Thank you.

Damon Silvers, you're next on my list.

MR. SILVERS: I mean, I found Wayne and Arnie's statements very interesting. Particularly Wayne said something that I was going to say, and I'll say it again, which is that I think there is a deep connection between this conversation and the conversation about going concern and the role of emphasis of matter in relation to going concern.

The more -- and I think there's also a deep connection between this conversation and the larger drift over the life of this Board of the financial reporting system toward more of a fair value approach. Then this is what I mean by this.

By the way, I don't think it's a particularly controversial notion that the preparer prepares the financial statements. The auditor
audits them. I don't think anyone would disagree.

So I don't feel like staff is stepping into any kind of dangerous terrain in asserting that.

But the nature of the audit as a binary exercise was an easier piece of terrain to defend when the financial statement that was being audited was substantially -- where the balance of the financial statement tilted more toward historical cost accounting. You were having an inquiry at that point that -- again, these are matters of degree. It's not absolute.

But the inquiry at that point was more an inquiry into whether things were being -- into whether the financial state of the firm was being, I suppose, accurately reflected in the financial statements in a kind of binary way. Were they or were they not lying? These were kind of like WorldCom questions, right? Did somebody erase one number and put another number in?

As you move toward a fair value system and particularly where you're fair valuing items for which there is not a liquid market, you're very
quickly getting into a whole set of difficult to
assess judgments, and it's harder and harder to
answer the question about the accuracy of the
financial statements in a binary fashion. And
investors, when presented with financial statements
of this kind, are increasingly asking of auditors
something more than a binary opinion.

Similarly, on the -- in relation to the
going concern matter, you have this same issue. If
auditors and firms are unhappy with the prospect of
potentially broadening scope of going concern
anxieties, there's a natural push toward wanting to
have something else to say rather than to have to
express what is in reality, in the real business
world, a very destructive statement that a firm is
not -- that there's a going concern issue.

I think that's what makes -- those are
the considerations, I think, that are at a more
profound level driving the Board's inquiry into
this area, and I think there are reasons for the
Board to push in this direction that are only
tangentially related to the question of whether or
not the system is broken.

I think we get the system we ask for.
And we've asked for a system that has the -- we,
meaning all of us, have asked for a system that has
the features that I was just reviewing. So then
the question is what could the Board seek in terms
of an audit letter that would be appropriate in
relationship to what the role of the auditor is and
would actually convey additional real information?

I've been around long enough sadly now to
have seen a number of disclosure initiatives turn
into mush. And it's not worth anybody's time doing
more of that.

In the comment letter that we filed with
the Board on this matter, we said basically
anything that's going to be real in this area is
going to have some aspect of the forced curve in
it. And it seems to me that where these comments,
where you might find some consensus in the varied
comments you've heard today is in the notion that
there ought to be more -- that it's sort of what
the mutual fund said that they wanted, that there
is a desire here for auditors to be much clearer
and much more precise about where -- in their audit
letter -- about where the areas of concern are,
where the focus was.

I think if that's left free form, I think
it's going to be mush. But I think there is some
reason to hope that properly structured, such a
requirement could actually provide information that
was useful to investors and the public, and that
was responsive to the actual nature of the way the
financial statements and the role of the auditor
have evolved.

So that's what I hear in the
conversation, and I can tell you that I think your
summary of investor interest in these areas
certainly reflects what I know of investor opinion,
that we don't really live in a binary world and
that auditors know a lot of really important stuff
about the quality of financial statements that
would seem appropriate that investors have some
access to.

MR. BAUMANN: Thanks, Damon.
I think all of these comments are very helpful, and we'll get to the other commenters. I did just want to share that, to some extent, what we are hearing, and I did hear it -- at least I thought I heard it -- recently at a meeting over at the SEC in the financial reporting series is that current accounting rules aren't adequately dealing with the measurement uncertainty that you talked about that's pervasive in financial statements.

And especially as there are greater movements to fair value accounting, but measurement uncertainty can also exist with complex allowance for loan losses and other things that are not of fair value. But accounting rules are not adequately dealing with that measurement uncertainty and could require disclosure of not just the point on the financial statements, but the ranges in the footnotes and inputs and assumptions that went into that measurement and give greater insight to investors about that uncertainty to help them sort out how they might model a different value of the company, et cetera.
So, to a large degree, we're hearing that. I heard it quite a bit at that meeting I was at recently. I think then I'm also hearing that since that's not being resolved, then PCAOB, we need to have the auditors communicate that because we're not getting it in any other fashion. And the auditors do have insight into those measurements and uncertainties and difficult issues. And so, resolve this through the auditor's report.

But yet others are saying work together with the accounting standard setters and try to solve this together because it is both a disclosure issue and a reporting issue.

So a lot of things on our plate here. We're committed to trying to get a proposal out to improve this reporting in 2012, but I think we're also committed to trying to work with these accounting standard setters to improve the total framework. And I think that's an important message that we've heard.

Thanks.

MS. RAND: Okay. Barbara Roper?
MS. ROPER: So I'll be quick because
between you, Marty, and Damon, you've actually made
the primary point that I wanted to make. So I
won't belabor that point.

But beyond that, reacting to two things.
One, I had exactly the same reaction Joe did on the
responses from the audit committee. And there is
sort of this sense that those who are already sort
of in the tent think everything's fine and we
really don't need to change anything. And those
who are outside of the tent are saying it's not
giving us what we need.

And I think investors might have more
confidence about the role of the audit committees
in overseeing this process if they didn't seem so
frequently to speak with the voice of management.

But I also had a reaction to this point,
this concern that was raised about dueling
information because I thought, well, what's the
implication of that? We're concerned that we would
have dueling information coming from management and
auditors.
Is the suggestion that auditors are routinely signing off on financial statements where they have views that are so significantly different that there would be some sort of conflict raised between what auditors might say in their assessment and what management would say?

And if that's the case -- I mean, because that's dueling information, right? Dueling information is information that's in conflict. Are investors better off not knowing that auditors and management have differences so significant that they would result in dueling information? Or if there's that kind of dueling information, are investors better off if they're informed of that?

And I would suggest that ideally that situation would not arise, but if the situation exists, investors should know about it, or maybe they ought to get their differences resolved. And if they have to publicly comment on it, maybe they would get their differences resolved.

MS. RAND: I think regarding dueling information, I think -- and auditors and others can
speak for themselves. But in coming through the
letters, kind of the sense I got on that point was
certainly any significant differences would have to be resolved. Otherwise, the auditor couldn't issue
the report today.

Talking about any nuances to some extent,
in light of that point, if there's any significant differences, the auditors wouldn't be issuing their opinion. They'd have to -- those would have to be resolved. So then what more additive are they saying because it's points below that line. You know, they have gotten comfortable. There may be certain things that are more minor and then kind of to highlight that wouldn't be fair to their opinion, if that's coming across clear?

So --

MS. ROPER: Right. But that's a fundamentally different issue. If there are nuances, if the auditor is adding a nuanced understanding of the information, that is different from dueling information. And so, you can't sort of -- the people who are making this argument can't
have it both ways. Either we're having dueling
information that's going to come out there and
investors are going to be somehow harmed by that,
or the process of doing this reporting is going to
eliminate the conflicts that result in dueling
information. And what I get is some slightly
different versions of the same truth.

So, I mean, you just have to sort of
chose your argument and go with it, but the
argument that's out there that this results in
dueling information I just don't think works. I
mean, I don't think it's valid.

MS. RAND: I accept that.

Mary Hartman Morris?

MS. HARTMAN MORRIS: Thank you, Jennifer.

I just want to say hear, hear to Barbara
and Joe and Damon and what they said. I think
auditors are in a unique position, and of course,
we are shareowners. CalPERS is a shareowner, and
we use that. We emphasize that we're the owner of
a company.

And I think that only in this situation
that auditors are trying to appear adversarial because in any other industry a customer would help dictate what they would like. And I think that this is an important point. Investors are speaking out and saying that.

CalPERS signed onto two different, separate letters. I don't know if that was -- I wanted to emphasize that. We signed on as a member of IAG, the Investor Advisory Group. We also sent a letter from CalPERS. We also sent a letter to the IAASB.

And I think that it's really important that your numbers, and I think the points I want to make is that it only shows 16 investors. I'm not sure how you categorized the IAG letter, 70 preparers, 35 auditors. But I think identifying assets under management, I think that's probably an important point, asset owners.

I think that one other point -- a couple other points I'd like to make on what, Arnie, you mentioned about the pass/fail. I think investors still want that. I mean, it's a quick way to look
at, and I think from your perspective, you're a
preparer at this point. And the pass/fail is
important to just show quickly what the auditor's
opinion on. But I think it's really important that
auditors then develop and explain to investors as a
customer that perspective. You know, what is the
important issue? What are the risks?

I think that CalPERS and other people in
this room participate, excuse me, in the global
auditor-investor dialogue, and we've been talking
about the auditor reporting. But I think I'll
mention Steve Mazlin, but he's, like, "Mary!" But
I think that he, from his perspective, is trying to
understand and provide a better perspective, a more
balanced end from the auditors and receiving our
opinions more from a customer's perspective. And I
think that there is a role for auditors to provide
more additional information.

On the point about the audit committees,
we definitely respect the audit committees.
They're a fiduciary to us in their responsibility
to shareowners. But I don't think that there's a
problem with the audit committee saying some things
and the auditors providing additional information.
I mean, that's the stewardship of the company.
That's providing information to investors, to the
owners.
So, with that, I'll leave it at that.
Thank you.
MS. RAND: Thank you, Mary.
Jeff Mahoney?
MR. MAHONEY: Thank you.
My analysis may be a little bit too
simplistic, but that's the way I look at things.
I would start off saying that investors
are the primary customer of the auditor's report.
I think everyone would agree with that. They
ultimately pay for that report.
Evidence indicates that they are
dissatisfied -- I think you said that in your
summary -- clearly dissatisfied with the contents
of the standard auditor's report. I think the
evidence also shows that they want more
information, and I believe the evidence shows they
want more information directly from the auditor that they're paying for.

And I think the evidence also shows that, at a minimum, what they would like to see is they would like to see that auditor, as an independent expert, provide their assessment of management's critical accounting estimates and judgments, at a minimum. That information would provide investors with some useful data points to analyze and price risks and make investment decisions.

And as a shareowner, it would also assist them in making their voting decisions, both with respect to the audit committee members as well as with respect to their annual vote on the external auditor.

I think the bottom line is if you continue to ignore your primary customer, the risk is that the customer is going to continue to devalue your product. And I think we can all agree that that's probably not a good result for the auditing profession.

Thank you.
MS. RAND: Just as far as the auditor letters, we certainly saw recognition from many auditors with support for change to the report, too. So if they want to speak for themselves, they're welcome to do that.

Lynn Turner?

MR. TURNER: Let me just start out by saying I give tremendous kudos to the five members of the Board and Marty for taking up these issues we've discussed today and yesterday. These are tough, tough issues. They've been around for a long time.

And as I listen to the arguments, the issues have been around a long time. The arguments have been around a long time. Not a whole lot has changed in the meantime. So I think it took a lot of courage to put these up on the agenda, and I give you all kudos for that.

Having said that, I think what we've just heard from the last few commenters on the investor side is correct. It's a simple question. It is are you going to give the customer what numerous
surveys now have shown that they wanted? Are you
going to build that product or not?

And it is a tough decision, but it's a
tough decision for anyone in business as to whether
or not you're going to build what the customer
wants and satisfy them or not?

It's very natural for members of
management -- I've been there myself. It's very
natural to be hesitant to have someone from the
outside come in and publicly comment on what you're
doing. But we'd have them come in and do surveys
of the quality of our product. We'd have them come
in, and we'd have customers come in and survey us
as members of management.

I've seen other companies do it. GE does
it under the Six Sigma type notion. It's always
queasy. You really don't like it because you can't
control what's going to happen with it. So I think
there is a very, very natural hesitancy here to
push back and say let's not go there because we
want to stay in our comfort zone.

But staying in our comfort zone is what
has got us in the trouble that we're in today. And Marty, you talk about the uncertainties on derivatives and loans and fair values. I worked on Wall Street in the early '80s. We had derivatives then. We had fair values. We had loans. It's not new. Again, it's just one of those things that people discuss.

But the reason those things keep coming up in the papers is we've never got standards that delivered the information to investors that they wanted, including the standards about risk and uncertainty that you've aptly mentioned a number of times. It's the fact that every time we make incremental changes on these issues. And so, instead of fixing the problem, we go incremental.

And I think the real challenge for the Board here, for the five of you, is, are you going to go incremental, in which case what Jeff just said was absolutely true. You're going to continue to get criticism. You should expect to continue to get criticism, and there will be further degradation of the confidence in the product.
Or are you going to go big, make that tough decision, and deliver a product that people want? These are tough decisions. But that's why the five of you are in these roles. If they were easy decisions, we could have anyone in those five seats.

But we aren't. We've got great people who I think you've shown great courage. And I'd encourage you on this one to swing for the homerun, and I think what you've heard from Mary and Barb and Damon and Jeff is where that homerun is.

MS. RAND: Thank you, Lynn.

And I just see one other card up. So I'll turn it over to you, Arnie Hanish.

MR. HANISH: I'll try not to be redundant here. But this issue of dueling perspectives that was raised, it's hard for me to have a full perspective on that because we don't have dueling perspectives at our company. We have issues, we get them resolved, and -- but I would expect that -- and I would expect my auditors, if there were contentious issues that were dueling perspectives,
that they would communicate those to my audit
committee. I would expect that those be brought
up. I would expect that a discussion would ensue.

And I know at our company, ultimately, I
believe the audit committee would have final say as
to whether or not they were going to side with the
auditors or side with us, as far as management was
concerned, over an issue that was a "dueling
perspective" on accounting issues. But I know that
not all companies are like our company, and I can't
speak for all those other registrants that are out
there, thousands of them.

But again, it's our responsibility. And
I would believe -- I believe that there is enough
in the current literature, whether it's the SEC
literature around critical accounting policies,
around MD&A disclosure, that if something is
"broken," if there needs to be more disclosure for
the investor -- because you are the customer, you
own us -- then, to me, that's where it should come
out.

And you should be pushing us to have
better disclosures with respect to our critical accounting policies, highlighting those areas of risk around the inputs and the outputs with regard to financial instruments or whatever the material aspects are that are of concern to us as well, because they're the same concerns that we have that we have to wrestle with all the time.

But I believe that the current mechanism is there. If something is broken, then it should be dealt with through those existing mechanisms. I believe, as I've stated earlier, we certainly are supportive of an expansion of emphasis in the report. That certainly is not troubling to most of the people that I've spoken with from the preparer community.

Other issues I think with regard to changes and estimates and what are the various inputs that go into those material aspects of our financial statements I think can be dealt with through existing disclosures that should be evident to all of us.

MS. RAND: Yes. Thanks, Arnie.
I see two more cards that went up. Neri Bukspan and then Mike Gallagher.

MR. BUKSPAN: Thank you, Jennifer.

And then, again, apologies if it looks like I missed an important part of the discussion. But what strikes me from the presentation and some of the discussion now that there are certain elements and there is certain desire for information for some reason investors are not getting.

From looking at your slides, there is some discussion stating, you know, not necessarily objecting to this information but suggesting it's not really my role, it's their role. And if it's not their role, it's the audit committee role.

So I think it may be useful to think about it almost as a package and as a matrix, right, because things are moving from one side to another. And think about whose role to deliver what that, ultimately, this information will be presented. And to Arnie's point, nothing falls between the chairs. Because in the current
environment, maybe it's there, but there's a lot of things that falls between the chair in moving between the responsibilities.

And one element would be maybe you need to think about not only changing the auditor report, but suggesting to think about changing some other things. Maybe there should be an audit committee report suggesting how the audit committee executed its responsibility with respect to the audit and what's the dialogue with the auditor itself. So there is not necessarily one thing that you need to solve for, but a broader issue to solve for.

Yes, there will be a change to the auditor report. It will suggest some elements worth some consideration. Whether it's in the auditor report or an auditor MD&A type, that's a packaging issue in my mind.

Then perhaps there is another room for companies to suggest what their view is on these same particular issues and, in fact, also for audit committee. So maybe there is a role for each
element here to be ramped up or notched up rather
than suggesting you must -- there is one silver
bullet that resides necessarily either with the
auditor report or elsewhere.

So I would suggest thinking about it
together as a package and delivering this
information, and whose role. Maybe it's a matrix
thinking, and maybe there's a role for the SEC to
think about it. But I clearly see another element,
which is the role of the audit committee and how
the audit committee executed and its role vis-a-vis
the dialogue with the auditor.

So if it has been mentioned before, I
apologize.

MS. RAND: Thank you. No need for
apologies.

Mike?

MR. GALLAGHER: Thanks, Jennifer.

Neri hit a couple of points that I was
going to mention. I'll reiterate them. We do take
the comments and the views of investors extremely
seriously, and I think we have challenged ourselves
as a profession to come up with some alternatives
and not fight for the status quo. We'll continue
to do that.

I think we need to continue to push
ourselves, and what else can we do to meet the
needs of our ultimate customers? And so, that is
important, and we'll continue to do that.

I think Neri's point around other players
in the system is really important, particularly
audit committees. And if I look at the
communication that occurs today in the audit
committee report to shareholders, it's not very
helpful. And I understand that maybe there isn't
the best appreciation for what audit committees
actually do, if that's the only data point that
people have. So I think that is an opportunity.

But that said, as a profession, we first
wanted to look at what we can do differently. I
think we've done that, and we will continue to do
that.

But I think Neri's point about as we do
that, because there are so many interdependencies
here of other players, I think those should be concurrent projects as well, whether it's the SEC or FASB or whatever. I think looking at it and making sure investors are getting the information they need, and I think we can debate somewhat, a big part of this debate is who provides it, and I get that. I think we just have reasonable people just disagree on that.

But I think it is critical. I think we can agree on what the information is and how we get that information to investors, including what audit committees do on behalf of investors. And I do think that there's room for improvement there. But we will -- as I said, we're going to focus on ourselves as well and continue to look for alternatives even beyond some of the things we've proposed.

MS. RAND: Thanks, Mike.

Gaylen Hansen?

MR. HANSEN: I want to make sure that it's clear that I believe or I hope that the Board comes down weighting these letters and the views of
investors more heavily than anyone because, as has been said many times, they are the customers.

But following up on Neri's comment, occasionally, we do have disagreements with management. I think that maybe they don't rise to the level of dueling, as Arnie pointed out, but they are disagreements. Maybe that could be looked at in the context of SAS 61 disagreements. You don't see those very often. And when you do see them, the only time that they really surface is in an 8-K filing on disagreements when there's a change in auditors.

To what extent are those looked at during inspections, to what extent could it be explored as to whether or not that needs to be taken further, I think, is worth maybe talking about, and I think that speaks to what Neri was -- where he was going.

Thank you.

MS. RAND: Thanks, Gaylen.

Steve, you had your card up. Did you want to have some thoughts, comments?

MR. HARRIS: I was thinking about it,
then I put my card down. But I wanted to first
associate myself with Mike's comments, to the
extent that whose role is it to deliver what? I
mean, I think that is a fundamental issue in what
we're considering. Denny mentioned taking the eye
off the ball and kind of wonder what the ball is.

But, Arnold, I appreciated your update in
terms of what you're considering. Because in
Sarbanes-Oxley, we provided -- the Congress
provided in the law greater independence for the
audit committee, but the audit committee was viewed
as a gatekeeper. But it was not viewed as the
gatekeeper.

And I think the conversation, both abroad
and to a certain extent here, is that the
independent audit committee is the gatekeeper with
respect to protecting investors. The act says, the
very first words of the act are, "An act to protect
investors." And then the mission of the PCAOB and
the establishment of the PCAOB was to protect
investors.

And so, I think what we're wrestling with
here is what's the direct role for the auditor to
investors? And I know that in terms of the
European community, they're focused very directly
on the audit committee and management, and a whole
host of the comments here are directly focused on
the role of the audit committee as a funnel.

   How do we get information directly from
the auditors to investors, and what should that
information be? To me, that is probably the
fundamental point.

Scott, we were discussing it a little
bit. You mentioned earlier on that the audit
committees are backsliding and that there's
backsliding on the part of the audit committees.
If that's the case, I think we ought to get some
empirical data, some academic research on that
issue because if there's backsliding, that goes to
the point that they're a watchdog which may not be
performing part of their function directly to
investors.

But I think the role of the auditor
directly to investors is really what we're talking
about, both with respect to the audit report and in
other issues. So, Mike, I think you put your
finger right on it. And I do appreciate from my
vantage point the fact that the profession is
focusing on it, and Arnold, that you're focusing on
it. But we're coming at it from slightly different
perspectives.

But I wanted to direct my remarks
primarily to you because in terms of the audit
committee and the role of the audit committee, the
role of the audit committee in the United States
and the role of the audit committee in various
jurisdictions, I think, in the European community
is also different, as I heard from Paul George very
recently in the context of IFIAR.

So I would encourage you in your
deliberations not to put all your eggs in the
basket of the audit committee. And I know you're
going through a very deliberative process, and now
you've heard from a wide variety of constituencies
here.

To the extent that everybody can work
together, I think that's extremely positive. But
to the extent that we have an obligation on the
part of the PCAOB to come up with the best
standards we possibly can.

MR. SCHILDER: May I just briefly
respond, Jennifer?

MS. RAND: Sure.

MR. SCHILDER: Steve, thank you very much
for your comments.

We certainly are not putting eggs in one
basket. Actually, we have five categories of
possible options going forward, and this is just
one of them. So we will explore all of those. And
as I said, I hope in much dialogue with yourself
and many others here.

Thanks.

MS. RAND: Okay. Thank you, everyone,
for your very thoughtful comments.

Before I turn it over to Marty, I just
also want to acknowledge and thank my colleagues
working with me on this project, Elena Buzhkova,
who's sitting next to me, and then Denise Wray,
who's sitting next to her. Also recognize the
significant efforts of Jessica Watts, who has a
prior commitment and couldn't be here but has been
very actively engaged in this project.

So we have much work ahead of us,
considering all your very thoughtful comments and
the comment letters and discussions. But we will
be -- we're committed to doing that and very
engaged in working through all these issues.

So thanks to them and thanks to all of
you.

So, with that, I'll turn it over to Marty
Baumann to close up the SAG discussion.

MR. BAUMANN: Thanks, Jennifer.

It's hard to close up this kind of a
discussion over the last day and a half. I gave
some thought to some summary comments, and it's
really too difficult to summarize the varied
comments and the quality of the comments in a few
minutes, and therefore, I won't, except to say the
following.

I think what we heard from you in many
ways, starting with the presentation yesterday of our standard-setting agenda overall, is that we have the right issues on our standard-setting agenda from your view, that we're tackling some very important and very tough issues, as was clearly evidenced by the quality and depth of the discussions throughout yesterday and today on the different standard-setting matters in front of us.

So I appreciate that support that we have the right issues on our agenda and that we're tackling the tough issues. And to a question that Steve Homza asked yesterday, do we have the resources to do that? I'll answer that again and say not only the quantity of resources, but based upon the quality of resources of people that you've seen here today like Jennifer and team, and yesterday Keith and team, and Greg Scates and team, and we have a very talented group of people to support the Board and me in getting through these very tough issues.

And we also have a great Standing Advisory Group here to give us valuable input.
So thanks for all of that. I appreciate all your effort through these day and a half of meetings and look forward to working with you more.

[Whereupon, at 12:02 p.m., the meeting was adjourned.]
Auditor’s Reporting Model – Preliminary Overview of Comments

Jennifer Rand

Deputy Chief Auditor and Deputy Division Director
Key Milestones to Date

- Concept release issued June 21, 2011
- Roundtable held September 15, 2011
  - 32 participants and 2 observers (SEC and FASB)
- Comment period ended September 30, 2011
  - 152 comment letters to date
## Comment Letters Received

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparers, internal auditors and preparer associations</td>
<td>70</td>
</tr>
<tr>
<td>Accounting firms and associations of accountants</td>
<td>35</td>
</tr>
<tr>
<td>Investors, including investor associations, pension managers, analysts, and large investment companies and advisers</td>
<td>16</td>
</tr>
<tr>
<td>Academics</td>
<td>7</td>
</tr>
<tr>
<td>Other regulators and standard setters</td>
<td>7</td>
</tr>
<tr>
<td>Board members, including audit committee members, and their associations</td>
<td>6</td>
</tr>
<tr>
<td>Other individuals and organizations</td>
<td>11</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>152</strong></td>
</tr>
</tbody>
</table>
Overall Themes from Commenters and Roundtable Participants

- Retain the pass/fail opinion
- General support for change to auditor’s reporting model
  - Range of support depends on the type of commenter (e.g., investor, preparer, accounting firm, etc.)
Overall Themes - Investor Associations, Pension Managers, and Analysts

- Support auditors’ reporting on their assessments of:
  - Areas of high financial statement and audit risk
  - Significant judgments and estimates used in the financial statements, including sensitivity analysis
  - Quality, not just acceptability, of accounting policies and practices
  - Significant changes in or events impacting the financial statements

- Support other disclosures by auditors, including audit procedures

- Prefer more information from auditors regarding the financial statements and the audit rather than assurance on information outside the financial statements or clarification
Overall Themes - Large Investment Companies and Advisers

- Support auditor’s identification of significant areas in the financial statements:
  - A reasonable number of significant areas that would be most helpful for investors’ understanding of the financial statements, such as:
    - Significant management judgments, estimates, and areas of measurement uncertainty in the financial statements
    - Significant changes in or events impacting the financial statements
    - Location of disclosure in the financial statements
  - Management should be the primary source of financial information
  - Some interest in information regarding audit procedures
  - Prefer more information from auditors regarding the financial statements rather than assurance on information outside the financial statements or clarification
Overall Themes - Preparers, Internal Auditors and Preparer Associations

- Management should be the primary source of financial information
- Oppose “AD&A” and “required and expanded emphasis paragraph” type reporting
- Costs outweigh benefits for assurance on information outside the financial statements
- No objection to clarification of language, but do not believe it is necessary
Overall Themes - Board Members, Including Audit Committee Members, and Their Associations

- Management should be the primary source of financial information
- Oppose “AD&A” type reporting
- Mixed views regarding “required and expanded emphasis paragraph” type reporting
- Some support for assurance on information outside the financial statements
- Support for certain clarification of language
Overall Themes - Accounting Firms and Associations of Accountants

- Management should be the primary source of financial information
- Oppose “AD&A” type reporting
- Large and regional accounting firms generally support:
  - Objective and factual “required and expanded emphasis paragraph” type reporting
  - Attestation on the Critical Accounting Estimates section of Management’s Discussion and Analysis
- Small accounting firms generally do not support additional reporting
- Wide support for clarification of language
Other Commenters

- Academics
- Other regulators and standard setters
- Other individuals and organizations
Additional Themes from Commenters and Roundtable Participants

- Work with other regulators and standard setters towards a coordinated solution:
  - FASB/SEC
  - IAASB/ASB/Others

- Support for additional audit committee reporting

- Consider field testing of contemplated changes to the auditor’s reporting model
Frequently Mentioned Concerns about Changing the Auditor’s Reporting Model

- Expanding the auditor’s role and the possibility of “dueling information” between preparer and auditor
- Adversely impacting the audit committee’s governance role
- Impairing the three-way communication between auditor, audit committee and management
- Risk of additional boilerplate language
- Maintaining confidentiality of company information
- Increased costs
- Potential increase in legal liability of accounting firms
- Possible adverse effect on auditor independence
- Little incremental improvement in audit quality
Next Steps

- Complete analysis of comment letters
- Consider related projects by other standard-setters
- Issue a proposal in the second quarter of 2012
  - Objective is to improve auditor communications to investors