NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board’s Standing Advisory Group meeting on November 15, 2012 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 15, 2012 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD
STANDING ADVISORY GROUP
MEETING
THURSDAY
NOVEMBER 15, 2012
MR. BAUMANN:

(...)

After that, we will introduce the two main topics to be addressed at this SAG meeting, the first being the auditor's reporting model and consideration of a possible approach to that auditor's report. And there is a briefing paper discussing that.

We have discussed the auditor's reporting model a number of times at this meeting. Obviously, we have had roundtables and concept release, but here we are talking about a specific possible approach, and we want to get views on that approach at that breakout session.

(...)

So there will be a report back from Group A on the audit reporting model, Group B on the reporting model, and other members of the SAG who participated in those discussions will be encouraged to comment on those reports with respect to, you know, how we characterize the comments made and emphasize any points that you think need further emphasis.
MR. DOTY:

(...)

As we have discussed, the audit reporting model several times, as has been focused on in these meetings, it will be focused on again. It is a significant part of the program here, and there will be a lot of good information and good opinion coming out of this meeting, I am confident.

MR. BAUMANN:

(...)

The third project on here for the first half of 2013, we are going to spend more time this afternoon talking about, is the auditor's reporting model. Obviously, we have spent a lot of time talking about this matter at prior sessions of the SAG, at roundtables.

Of course, our concept release discussed a couple of possibilities for enhancing auditor reporting, including something that we called an auditor's discussion and analysis, required emphasis of matter paragraphs, auditor responsibilities, maybe auditing other aspects of financial information such as MD&A, as well as potentially clarifying certain aspects of the auditor's report.
As you know, we have received a lot of comments back on this. At the same time, you are going to hear today about what other standard setters are doing, IAASB and others, on their projects in this regard as well. So I think everybody believes that changing the auditor's report is an important project, but changing it appropriately is equally important.

And so we have obviously spent a lot of time thinking about approaches, and today we want to talk about at least a possible approach, and that would be the required use of emphasis paragraphs. But we want to hear from the SAG members in the breakout sessions about, if that were the approach used, how could that work to provide all the interested parties with a reasonable amount of information that they want while not yet making it impossible to achieve auditor reporting.

Some commenters feel that certain of the other projects, such as auditor association with other documents like MD&A, is -- there is not a demand for it, plus it would increase audit costs substantially. Sometimes we hear that the auditor's discussion and analysis, more of a free-flowing document, would need significantly more
rulemaking on our part to describe how an auditor would do some of the things that are described in ADNA.

The document -- the Board has not made a conclusion yet on how we are going to amend the auditor's report. We are still working on a variety of approaches to look at this, but this is certainly one approach that we are taking a careful look at.

The IAASB -- and Dan Montgomery is here from the IAASB -- had a document they put out, Invitation to Comment, where they included something called "auditor commentary" and will look at how that concept relates to matters of emphasis and how we could possibly look at all of these ideas and come up with something that everybody feels achieves the right balance.

So we are looking for valuable input during this breakout session this afternoon about this one possible approach and how it could possibly work for all of the interested parties.

(...)

MR. RANZILLA: Thank you, Marty. I will be quick. On the going concern project, I, like Bill, applaud you and the FASB for taking this on collaboratively. And my only
recommendation is, as you look at the FASB's timing, which I understood from Larry is first half of 2013, with a proposal, you might also consider whether the going concern project ought to be folded into the broader auditor's reporting model, because, again -- and I think your timing fits well, because I think once you go down those two processes, you are going to find a fair amount of intersection regardless of which way you go with respect to enhancing the overall auditor's reporting model, and I think the going concern, especially the portion if we end up in a model like FASB's where the more-likely-than-not trigger is additional disclosure, I think that will also trigger something in the auditor's report beyond a substantial doubt paragraph.

So just something for you to consider as you look at those two particular projects, because I do think you will find intersection.

MR. BAUMANN: Thanks, Sam. We have given thought to that, and we will continue to. But that is certainly on the reporting end of the going concern standard. We also think that the audit procedures end, which doesn't deal as closely with the FASB aspect, is something we are working
on separately that may not fit as well into the reporting project. But we agree with your comment generally to think about them together potentially.

(...)

MS. RAND:
(...)

This next session we'll be talking about the auditor's reporting model which is a very important project for us. We will be spending over the next two days a significant amount of time on the auditor's reporting model project which is as Jim Doty mentioned, a very significant and important project of the PCAOB.

This morning, I plan to provide you with brief background on the project, as well as to describe what we'll be covering in more detail this afternoon, as well as tomorrow.

Getting into the project, the auditor's reporting model is a subject we've been considering for a number of years. The main objective of the project is to enhance the value of the auditor's report. Many have said that the current pass/fail audit report is valuable, but it provides only limited information about the significant matters in
the financial statements and the audit.

Last year, we issued a concept release on possible changes to the auditor's report. The alternatives presented for changing the report included auditor's discussion and analysis, required and expanded use of emphasis paragraphs, auditor assurance on other information outside the financial statements, and clarification of the auditor's report. The Board also held a roundtable to entertain further insight on the alternatives.

Since then, we have been considering the feedback received and developing a proposal for public comment. Your input to us over the next couple of days will inform us greatly with respect to next steps regarding the proposal.

We plan to issue the proposal in the first half of 2013, so that's coming up soon.

As part of working on the project, we've also been monitoring the activities of others. Several other regulators and standard setters have been working on similar projects as the PCAOB. Our briefing paper provides some information about their approaches to auditors'
reporting and I'll just highlight on that briefly.

In the European Union last year in November 2011, the European Commission introduced proposed legislation that relates to audits of public interest entities and includes specific requirements for the auditor's report. There are a number of changes included in that proposal.

In September of this year, a counter proposal was issued containing amendments to that November proposal. It was introduced at the committee level of the European Parliament. The EC's proposal is advancing through their legislative process, but as of this point, we have no indication of when that process will be finalized.

The IAASB also has an active project on auditor reporting. A comment period on their most recent invitation to comment document ended about a month ago. Dan Montgomery, who is here a couple seats from me, is an IAASB board member, but he's also the chair of the IAASB's Auditor's Reporting Task Force. He is here today and will provide a brief overview of the current status of the IAASB's project, including highlights of feedback received today.

Rather than stopping and getting back into the rest,
I thought I would continue talking about what we plan to cover and the objectives this afternoon and then provide an opportunity for Dan to provide you more information to reflect on and then we'll open it up for questions regarding anything that we've discussed.

The other regulators that we've been monitoring is the Financial Reporting Council. In September, so just a couple of months ago, the UK's Financial Reporting Council concluded their consultation on the Effective Company Stewardship project and issued revised auditing standards intended to enhance auditor reporting. Under the revised auditing standards, the auditor is required to report, by exception, if a required statement in the annual report issued by the board is inconsistent with knowledge acquired by the auditor. So in that instance, the auditor would be commenting if there's an inconsistency with what has been communicated by the company's board.

The auditor would also report if matters discussed in the annual report by the audit committee do not appropriately address matters communicated by the auditor to the committee.

Regarding our approach and the focus of our
Today, we'll be exploring the potential approach that considers matters communicated to the audit committee as possible areas for emphasis regarding the financial statements.

In August of this year, also as Marty described, the board adopted Auditing Standard 16, Communications with Audit Committees. AS 16 is designed to enhance the relevant and quality of the communications between the auditor and the audit committee. It requires to communicate to the audit committee many of the same matters that investors have most frequently suggested for additional auditor reporting such as areas of high risk to the financial statements in the audit, the most significant matters in the financial statements such as significant management judgments and estimates, and areas with significant management uncertainty and quality of the
1 company's accounting policies and practices. And finally, 
2 significant changes or events affecting the financial 
3 statements, including unusual transactions. 
4 In the briefing paper, we provide a list of the areas 
5 that are required communications by the auditor to the audit 
6 committee. We will use that list to start our discussion 
7 this afternoon about matters that might be appropriate for 
8 the auditor to communicate in the auditor's report through 
9 emphasis paragraphs about the financial statements.
10 I'd like to clarify that an emphasis paragraph, as 
11 currently used in the PCAOB auditing standards, is not 
12 required. It is only added solely at the auditor's 
13 discretion. The auditor may use emphasis paragraphs to 
14 emphasize a matter regarding financial statements. And 
15 several investors have commented to us in the comment letter 
16 process that emphasis paragraphs today seem infrequently 
17 used.
18 Although we are using that same term in our project, 
19 we envision the new emphasis paragraphs could be used in 
20 a very different way. As described in the concept release, 
21 we are considering required and expanded emphasis 
22 paragraphs for the auditor's report. This means that we
I'd like to briefly go over the nature of the questions for which we'll be seeking your input and we'll be going over these in much detail this afternoon. I want to make sure we're all on the same page as far as the questions and the type of input for which we're seeking.

There are five questions in the briefing paper. The first three questions relate to whether emphasis paragraphs should be required for certain matters communicated to the audit committee under AS 16. As I mentioned, AS 16 requires a number of matters to be communicated related to the audit and financial statements.

Our consideration of AS 16 is that it might be a source for the auditor to consider areas for possible emphasis. Not that necessarily the communication in the emphasis paragraph would be the same as that communicated to the audit committee.

Let me give you an example. One requirement under AS 16 is for the auditor to communicate disagreements with management. An emphasis paragraph might highlight the matter in the financial statements for which there was a
disagreement, perhaps financial instrument valuation, but not that it was a disagreement. Any disagreement with management that the auditor has would have had to have been resolved if the auditor was able to issue an unqualified report, therefore the disagreement would have gone away. But the auditor may feel it's appropriate to highlight the matter that caused significant discussion of the audit committee.

We're seeking your input on whether AS 16 would be an appropriate source for considering matters of emphasis. If so, should any of those matters in AS 16 be required to be reported. So just mandated to be included in emphasis paragraphs or should the auditor have discretion for some or all of them as far as which items to highlight in the emphasis report. If certain things were left -- should be permitted to left to the auditor's discretion, should there be any factors that the auditor should consider in determining which matters are most important to the financial statement users? For instance, factors could include subjectivity, the level of subjectivity, measurement uncertainty, degree of interaction with the audit committee, or something else. Could be some of the
above that the auditor would consider or none of the above. So we're interested in your input on that.

And finally, regarding emphasis paragraphs, we're interested in what's the appropriate level of detail that should be provided in the emphasis paragraph? What information is important to be included and why? For instance, should it describe the area and provide reference to the information and the notes to the financial statements or provide other information? If so, what information would be appropriate?

Moving on to question 4, question 4 asks whether there should be any special reporting considerations for audits of smaller and less complex companies, brokers and dealers, and emerging growth companies. As you are aware, the PCAOB writes standards for audits of issuers including emerging growth companies as well as for audits of brokers and dealers. We are interested in your input on whether a standard requiring emphasis paragraph should have special considerations for certain types of entities.

Finally, we're interested in whether there are specific elements of the projects of other regulators or standard-setters such as the activities of those of the
IAASB, that the PCAOB should consider for its auditor's reporting model project.

When we get together this afternoon, we will have breakout group discussions on these questions which are included in your paper and we're very much looking forward to your input. We will have four breakout sessions this afternoon, so this group will be divided into a fourth. Each one of you should have in your folder a note indicating which session you will be joining. And each breakout session will be led by PCAOB staff, and as I said, will include approximately a quarter of the group.

Tomorrow morning, the PCAOB staff that are at the breakout session will present a summary of each one of the breakout sessions so even though you weren't in the other three, you will certainly hear what happened in those other groups. But when that summary is presented for the group in which you're participating, you will have an opportunity to add any commentary that perhaps may have been left out or to emphasize any particular area and then also have an opportunity to comment on themes, issues that came up in the other groups, so we are very much looking forward to a robust discussion tomorrow as well.
With that overview of what we hope to accomplish, I will turn it over to Dan Montgomery so that he can provide you with information, further information about the IAASB's activities and then after Dan is finished, we'll open it up for any discussions about anything that we plan to continue or the PCAOB's projects or if you have any questions for Dan.

So with that, Dan, I'll turn it over to you.

MR. MONTGOMERY: Okay, well, thank you very much, Jennifer, and good morning, everyone. It's indeed my pleasure to be here and appreciate the opportunity to update you on the IAASB's auditor reporting project. In my capacity as IAASB deputy chair, as well as -- as Jennifer said, as the chair of the Auditor Reporting Task Force, Professor Arnold Schilder, the chair of the IAASB, ordinarily would be here. He had a previous commitment this week. He is attending the IFAC council meeting in South Africa, so was unable to be here, but expresses his best wishes to all of you.

I'd like to give you a very brief overview and current status of the auditor reporting project. And Jessica, if you could go to the next slide, focusing in
particular on the IAASB's most recent consultation document. It was an invitation to comment that was issued in June of this year. It was the second consultation for the IAASB. There was a previous consultation paper issued in May of 2011. And that first consultation focused on obtaining views and input about some of the concerns that had been raised about auditor reporting as well as some very broad suggestions for types of changes that could be made.

The invitation to comment was much more focused on specific types of improvements to the auditor's report. So the ITC, as indicated here, sets out the indicative direction for a future auditor's report and it really represents an amalgam, if you will, of many different suggestions for possible improvements that were received from global stakeholders, as well as presents the IAASB's views on relative value and impediments, including costs.

The ITC served as a basis for three public roundtables. You see them there. Several of you either attended or in fact participated in our roundtable in New York and in fact, in Paul's case, in Kuala Lumpur. And we appreciate that input.
The IAASB has to date received 164 responses. That number is relevant to us, to the IAASB because it really is about three to four times the number of comment letters that we normally would receive on a project and it is double the number, exactly double, the number of comment letters that were received on the original consultation paper. I might add that the IAASB continues to monitor and be informed by the efforts of the PCAOB, the European Commission, and others as well.

So on the next slide, what have we heard so far through these public roundtables and in the very preliminary analysis of the comment letters. And I might add here that these points are representative of a very early analysis. IAASB staff is continuing to go through and digest the comment letters, but overall, I can tell you that there's broad support for change in the auditor's report, broad support for making the auditor's report more informative.

With respect to the specific suggested improvements in the ITC, broad support across stakeholder groups for various of these suggested changes, but not all of them, but clearly some divergent views in terms of how best to
1 proceed. And these divergent views are in some cases very
2 strongly held and the challenge for the IAASB will be to
3 reconcile these divergent views.

4 Some of the very overarching comments that came
5 through that the IAASB will need to consider, one that came
6 through very clearly from all stakeholder groups was to
7 preserve the separation of responsibility between
8 management, those charged with governance, and the auditor.
9 So make sure the auditor is not providing original
10 information about the entity or the financial statements.

11 The second one is reflect back on Marty's earlier
12 comment which is change is important, but changing things
13 appropriately also is important. So identify changes that
14 indeed will move the ball forward, will be viewed as serving
15 the public interest, but with a thorough consideration of
16 the relative benefits and impediments.

17 From an international perspective, making sure that
18 there's flexibility to incorporate different types of
19 reporting regimes in different jurisdictions. And then
20 finally, an acknowledgment that changing the auditor's
21 report alone is probably not the whole answer here. That
22 there may be changes needed also in financial reporting,
in governance, and also in education. So consider all of these elements as well.

Next slide, please, Jessica.

In terms of this suggested improvement on auditor commentary and the invitation to comment describe it as a new separate section of the auditor’s report that would provide information that was based on the auditor's judgment relating to matters that the auditor deemed to be of most importance to users' understanding of the financial statements or the audit. And in that regard, mixed views on that particular objective. There was support for some kind of commentary, if you will, support for the auditor to provide certain additional information, but certain mixed views again, on the best way to do that.

I would say in this regard that there were probably four things that came up. One, acknowledging that there already is a mechanism, emphasis of matter that could be used, perhaps could be clarified and used more frequently, that was point number one.

Secondly, some said if you have a concept of auditor commentary or expanded emphasis of matter, that it should be more than just a reference to management's disclosures.
That's the reference to additional audit context here. So some said at least provide an indication of why the auditor believed this matter was important.

A third point of view here was support for this type of an approach, commentary of some kind, but perhaps also retaining the current concept of emphasis of matter. Those holding that view said there's a certain value attached to those matters of emphasis today, so perhaps keep that and have another category that highlights additional important matters.

And then finally, there were some that said the auditor shouldn't be providing any information about the financial statements, that the auditor should be providing more information about the audit, how the audit was conducted. Just some preliminary views on the letters.

Clearly, a need for robust guidance criteria to help inform the auditor's judgment in this regard, concerns expressed about having the right language here to indicate that this is information in the context of the audit of the financial statements as a whole to avoid any concerns about piecemeal opinions, hidden qualifications or separate assurance.
And then lastly, the very strong support in terms of applicability for applying this notion to listed entities and in that regard, I might say there were also some that said even for listed entities, perhaps a consideration of how the concept might be scalable or applied proportionately to smaller listed entities.

On the next slide, certain of the other suggested improvements in the ITC, a going concern was a key aspect because there were some very strong calls globally for the auditor to include explicit statements in the auditor's report about going concern. But in this regard, the letters have indicated support for that, but also an acknowledgment of the importance of this area and therefore also support for enhanced reporting and hence disclosures by management with perhaps then the auditor making some reference to those disclosures. Also some concerns about the lack of understanding, common understanding of terminology and encouraging the IAASB to work collaboratively with the IASB in having a look at guidance for both preparers and for auditors.

Across the board, support for some kind of a statement in the auditor's report relating to the auditor's
responsibility for other information that is included with the audited financial statements including identifying the information read and the auditor's conclusion, if you will, on that.

And just yesterday, the IAASB released an exposure draft on an updated standard that includes some reporting language in that regard. Other auditors, basically, the involvement of other auditors, much concern expressed about that, specifically pointing to running counter to the sole responsibility principle in the international auditing standard on group audits.

Finally then on naming the audit partner, basically, there's support in many jurisdictions because it's already done today, but on balance, I think the message was maybe something that's best left for national standard setters to decide.

And then finally, the last slide here just quickly to point to timing and that is the IAASB, this is the number one priority project. It's on a very accelerated time table and the goal still is to have an exposure draft of a revised auditor reporting standard by next June with final standards a year after that.
So with that, I will stop and Jennifer, turn it back to you.

MR. HIRTH: Yes, a question for Dan, kind of given what our charge this afternoon is, in the context of your proposal and thinking, is there any linking to any existing or potential international standard on communications between the auditor and the audit committee or a similar type of governance oversight mechanism?

MR. MONTGOMERY: I would say in that case, clearly yes. Where it has come up is in the criteria for determining the matters to include in auditor commentary and aligning that as best as possible with matters that had been discussed to a significant degree with audit committees. So not dissimilar to I think what has been outlined in the PCAOB paper here.

MS. RAND: Okay, Jeff Mahoney.

MR. MAHONEY: Thank you. I actually had, I think, the same question. If I look at paragraphs 43 to 47 of your document, Dan, would you view that as similar to what's in the PCAOB paper of their proposed approach?

And second, you mentioned this term original
information was on your slide. And I'm just curious about the definition of that. Would that include the auditor's reports on the financial statements? Would that be viewed as original information under that definition? Thank you.

MR. MONTGOMERY: Let me take the second one first, because there has been considerable discussion, I will say, at the task force level and the IAASB about what is meant by original information. And it's in the context of whatever the auditor -- whatever words the auditor uses in the auditor's report, not conflicting with what management has disclosed in the financial statements. So if it's related to the financial statements or the entity, if there's language there that is new information, it could be perceived as the auditor stepping over the boundary, providing original information about the entity and/or confusing readers of the financial statements and the auditor's report about the information that management has presented.

Having said that, there's still some questions about well, if the auditor would summarize some of the information in a note disclosure and include that in a section on auditor commentary or an emphasis of matter
1 paragraph, does that represent original information? So
2 there's still more discussion that needs to happen, at least
3 at the IAASB level about the nature and content of these
4 paragraphs and how that relates to this concept of original
5 information.
6
7 With respect to your other point on paragraphs 43
8 through 47 of the ITC, I will say this. I think there are
9 some definite parallels between what is being considered
10 here and what the PCAOB has outlined and will be discussed
11 in more detail, but the global stakeholders of the IAASB,
12 I think, had indicated a desire for perhaps more
13 information, more and different information. So while
14 there are some parallels, there are also at least in the
15 ITC, there were some differences that need to be reconciled
16 going forward.
17
18 We might ask Marty or Jennifer to comment on how
19 their proposals or an outlined approach might align with
20 what is here.
21
22 MR. BAUMANN: We'll look forward to this afternoon
23 in that regard.
24
25 (...)
quick follow up on Jeff's question to help us understand this afternoon's discussion and how we can contribute. It may be an obvious one, I don't know to you or Dan. Has there been any work done thus far that reconciles the IAASB's original information position or at least as that has emerged in your work with the emphasis of matter of suggestion that we are to consider, given that there isn't anything that couldn't be gathered by management and reported out in management's disclosures that might otherwise come from an emphasis of matter issued by the auditor?

Has that dichotomy between putting the emphasis in the auditor's words as contrasted with those who think original information should not arise from the auditor, has that issue been reconciled or is that part of what we will be addressing today?

MR. BAUMANN: I think that is what we are addressing today. And I think that both our project and the IAASB's project at least insofar as we're thinking of either commentary or matters of emphasis, starting with the financial statements and what should be brought out. But the question then goes to okay, how far should it be brought
out? What should the auditor be saying about it? How much
detail about the matter?

Additional information that's not in the financial
statements about financial information, many have said
that's original information and that should come from
management. So how to bring out additional information,
how to make these paragraphs valuable and not just a
roadmap, I think is what was said by Dan. And I think we've
heard similar things, too. So that's really a subject for
this afternoon's breakout sessions with that point about
how to make these kind of paragraphs, if this is a solution,
make them valuable.

MS. RAND: Well, I have a number of cards up which
is very encouraging as far as our discussions this
afternoon. I expect it to be quite robust. And we also
want to cover fraud. I'm just going to turn to Marty real
quick as far as timing. To my count, I have six cards up
and then the fraud discussion.

MR. BAUMANN: Let's try to take the cards that are
up and then move to the next topic, but I think what we're
finding here is many of these questions are the questions
we want to address this afternoon in the breakout sessions.
If it's a matter you think we're going to discuss in the breakout session, you think we can leave it until then, and remember we're coming back again tomorrow to talk about it again, maybe you don't need to have that point addressed now. But if it's spot on to something that Dan said and you just want to get clarification, maybe that's better.

MS. RAND: Okay, Kurt Schacht, your card went down.

Okay, Bob Guido. I don't see Bob right now. Is his card still up? Okay, right in front of me.

MR. GUIDO: Well, thank you very much. I would encourage as much convergence as possible representing the audit committee community. I would like to see that.

I really put my card up because I wanted to address Roman's question, okay? As an audit committee chair, I really don't want four other financial experts on my audit committee. And the reason I don't, and let me tell you that we work hard in educating all of our audit committee members on current topics and high-risk issues, et cetera, et cetera. So there's a lot going on. There's a lot that's happened since Sarbanes-Oxley and I would not underestimate the power of the audit committee and their knowledge.

I would add that I believe, personally, that's me
1 speaking, that divergence of views on audit committees are 
2 very important. I find some of the best questions of my 
3 fellow audit committee members are those who are not 
4 financial experts and I really wouldn't want to stifle that 
5 at all. So I just wanted to make that observation.

MS. RAND: Thanks, Bob. Next is Harrison Greene.

MR. GREENE: Hi, I have a question for Dan. And if 
8 you could help me understand when you had on your slide a 
9 thing about the sole responsibility where there's inclusion 
10 in the IAASB standards about naming other auditors. I know 
11 in the U.S. we can split that responsibility within the 
12 opinion. And I guess my question is how does naming other 
13 audit firms that participated in the audit violate the 
14 IAASB's principle of the sole responsibility?

MR. MONTGOMERY: In that regard, the views that 
16 were expressed by many commenters related to the fact that 
17 the standard explicitly indicates that the group auditor 
18 has sole responsibility for the opinion and that any 
19 reference to other auditors might confuse that sole 
20 responsibility and raise questions about which auditor, in 
21 fact, was taking responsibility for the group audit 
22 opinion. That's why respondents are pointing to that sole
responsibility principle because there is no vehicle under the international standards for a group auditor to divide responsibility.

MS. RAND: Thank you, Dan. I would just like to point out Dan's project in auditor reporting covers disclosure, naming of the engagement partner in other firms. And as I think you're aware, but just to point out, that that's a separate project for us. We had issued a proposal last year and Marty talked about the timing of it for 2013 regarding the engagement partner and other firms. So we won't plan on covering that aspect this afternoon, but both of those areas are active projects for us.

MR. BAUMANN: I think I would only add that I think we heard a lot of demand and support for naming of other auditors. I think at least as we understood it, that there was still clarification that the view the people understood was that there was a signing auditor that had principal responsibility and they were assuming responsibility for the work of those other auditors. But there's still valuable informational content in knowing who else participated in that audit, especially in situations where you had another auditor who did maybe 80 percent of the work.
in an emerging market.

So in any event, it's a subject that we're thinking about still. And I know the IAASB is still thinking about it.

MS. RAND: Okay, I have two cards left. So Steve Buller, you're next.

MR. BULLER: Just two things. First, from Roman's comment, I don't remember if it was in the European Parliament proposed regulations regarding the statutory audits of PIEs, but I think there it may have actually suggested that you have a requirement to have one person who is a financial expert and one person with auditing expertise specifically. So I'm very sensitive to Bob's comment, but they at least suggested that they need not all the auditors, but at least they have that balance on the committee.

A question for Dan. I was surprised by your comment, Dan, on the people who asked for information on how the audit was conducted. Because when I look through the invitation to comment on the improving the auditor's report by the IAASB, they don't really focus on that issue. I'd be curious as to whether the tenor of those comments...
1 was more about the specific procedures performed or the 2 criteria that they used in performing those such as 3 materiality or if it was information being requested on the 4 evaluation process and conclusions that were used in 5 determining how the audit was performed.

6 MR. MONTGOMERY: Steve, there was no clear 7 indication of the type of information that some would be 8 looking for with respect to the audit. I mentioned it came 9 up in two or three different contexts. One was if the 10 auditor is commenting on matters disclosed in the financial 11 statements that it would be useful to have at least some 12 audit context to that in terms of at a minimum why the 13 auditor believed that matter was important to the audit. 14 And then also some that just say it's not the 15 auditor's responsibility to provide information about the 16 financial statements. That's management's 17 responsibility.

18 I would say that's a smaller number of respondents. 19 And it seemed to be more focused, European focused, I might 20 add in terms of those that said that the auditor should 21 provide more information about how the audit was conducted. 22 Hopefully, that responds.
MS. RAND: Okay, Gaylen Hansen, you have the last word on this subject.

MR. HANSEN: Thanks, Dan, for doing this. I was at your New York roundtable and thank you for that invitation. I do have a question on auditor commentary. And it seems that in New York a lot of the discussion about auditor commentary was how do we know what is likely to be important to users' understandings of financial statements. And so my question is sort of a benchmarking question.

Certainly, that 164 letters and the surveys that have been done already, but from a benchmarking standpoint are we talking about a sole investor or are we talking a sophisticated investor? Is there an intermediary step here? Is more academic research required on that particular point before you're able to go forward and be comfortable about what investor are we talking about here on auditor commentary?

MR. MONTGOMERY: I think, Gaylen, I would just say at this point that there's more discussion that needs to take place. There were several respondents to the ITC that pointed to that particular issue. How does the auditor determine what is, in fact, most important to a user?
Because you could have different users having different needs, different views of what's important to them.

So I think there will be more discussion needed about the objective of this particular section and the types of matters that might be highlighted, and I believe that the discussion that we'll have this afternoon could be highly informative in that regard in terms of the types, the criteria, to help identify matters and then help frame an objective for this particular section or the use of these paragraphs.

MS. RAND: Gaylen, I would just like to add, in our staff thinking, at least, regarding the PCAOB project as far as investors, goes to the reasonable investor concept, which already exists in terms of the audit. The auditors, when they look at materiality and overall disclosures, that goes to the reasonable investor. So we're looking to that test and there's case law, et cetera, that kind of routes that concept in the United States. So that's our perspective, our staff thinking at this point.

(...)