NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board’s Standing Advisory Group meeting on November 16, 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 16, 2012 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD
STANDING ADVISORY GROUP
MEETING
FRIDAY
NOVEMBER 16, 2012
MS. CEYNOWA: Good morning, everyone. I'd like to report that my group was very lively. We applied the street rules, as Marty had suggested yesterday, and I'm happy to report that there were no serious injuries after all the debates that we had. There were no fist fights, so everything turned out okay.

So, there was a considerable amount of discussion about the merits of the emphasis paragraph, or expanded auditor discussion in the report, and whether AS 16 should really be a starting point.

One issue that was mentioned was that starting with the auditor communications may cause a chilling effect between the auditor and the audit committee, and that was sort of cited as something to consider as an issue.

With regard to whether financial statement matters or auditing matters should be emphasized, the group generally favored financial statement matters, and did not favor auditing matters such as specific auditing procedures because describing this type of information could be extensive, may result in information overload, and may not appropriately reflect the amount of effort that went into an audit area.
And, of course, I just want to reiterate what Marty said. If anyone in our group, if I said anything wrong please, obviously, chime in, or if I left anything out, please chime in.

Participants generally believe that the emphasis of the audit process was not as important as the robustness of the disclosures in the financial statements. With regard to financial statement matters to emphasize, it was recommended that the PCAOB look to what analysts look at in developing their models and their cash flows.

We heard that there was interest in knowing the following in emphasis paragraphs; that is, what has changed, areas subject to sensitivity, areas that are not apparent to users; for example, a disclosure that may be subtle, information that goes beyond what is required by GAAP to provide more valuable information to the user.

In terms of what should be communicated, there are certain matters communicated to the audit committee that are required to be included in the auditor's report. We had heard that investors want the following four things, which is insights on the quality and not just the acceptability of the accounting policies and practices,
significant unusual transactions, high financial statement risk, the appropriateness of critical accounting estimates.

There was debate regarding the amount of insights with this regard -- the amount of insights that the auditor would provide to the audit committee that would be different information provided to users by management.

There were also factual matters, you know, in terms of what is not specifically required in AS 16 should be included in emphasis paragraphs. We heard that there are factual matters that should be emphasized. These include material fraud, violations of law, and instances where there's impaired independence.

A counter to that, there are also things that investors do not care about that is included in AS 16 and, therefore, should not be emphasized. Some examples of these are difficult or contentious matters, disagreements with management as these would be presumed that these would be resolved.

In terms of if things were left to the discretion of the auditor, what are the factors or the criteria that the auditor would use in determining those -- the things
that they would highlight. It was suggested that auditors look at what investors demanded through the PCAOB's outreach, what we had heard, that the PCAOB should consider whether we use data points, such as audit effort or time spent discussing with the audit committee versus factors, such as impact on future cash flows.

If the PCAOB would provide specific topics that the auditor should emphasize and allow the auditor to use their judgment, we had heard some people, or one person say that this approach may result in firms competing via emphasis paragraphs by conveying the quality of their work.

In terms of what is the appropriate level of detail that should be provided in the emphasis paragraphs, we heard that it should include the description, it should include why it's important, and it should include the location.

We had a considerable amount of discussion in this area. The disclosures, we heard some believe that they should just point to disclosures in the financial statements serving as a roadmap for investor's attention to those areas. And as a consequence to that, we also heard that by emphasizing certain of these areas that these areas
would most likely be the best written disclosures. Some
did not think a roadmap was necessary. Instead, they prefer
to receive specific detail from the auditor whether it was
original or not. We also had heard communicated to us that
investors will be disappointed if we only require a
roadmap.

But others indicated that there would be concern
about confusion between what management reports and what
the auditor emphasizes, so the question was posed how are
users supposed to reconcile the information when it's
different. However, others believed again that this would
not occur because management would probably not allow that
and adjust their disclosures.

And to that point then the question was okay, so
if management suggests their disclosures and we auditors
have the emphasis paragraph, then there would be a repeat
of information, the information would be shown twice.

We also heard are you driving GAAP through
auditing, believes that the auditor should only attest to
the information. Another challenge noted was that free
writing would take negotiating the language in the
emphasis paragraphs -- would cause negotiation of
language in emphasis paragraphs, and that would add some
more time causing constraints with trying to meet your
reporting deadlines, your already tight reporting
deadlines.

When asked whether there should be specific reasons
to cite in the emphasis paragraphs as to why the auditor
chose to emphasize a certain matter, we heard that the
reasons should be self-evident because they would probably
be related to matters that are volatile, material,
subjective, and have an effect on the future.

With regard to the question on whether there should
be special reporting considerations for auditors of
smaller and less complex companies, brokers and dealers,
and emerging growth companies we heard the following. We
heard consider making it scalable, possibly consider a
phase-in period starting with large accelerated filers.
Investment companies should be excluded because they are
simple and their infrastructures are outsourced, exclude
wholly owned subsidiaries which brokers/dealers may fall
into that. And in deciding what types of audits to exclude
look to who the users of the financial statements are and
the complexity of the organization.
And then a question was raised, what if you have a company that is not complex or doesn't really have anything significant to report, what should the auditor say in that situation?

With regard to the last question, are there specific elements of the project of other regulators that standard setters at the PCAOB should consider for its auditor's reporting model project? There were no specific elements noted. However, it was recommended that the PCAOB continue to monitor these activities of other regulators and standard setters.

There were also some other points that were made, and I'll go over those, as well, that were not specifically on point with the questions. We heard some want the auditor to indicate that the financial statements are presented fairly and not just that they are presented fairly in accordance with the accounting framework.

We heard that this project should not be viewed in a vacuum. When auditor partner identification becomes effective along with the required and expanded use emphasis paragraphs, the market or investors will start tracking disclosure of the emphasis paragraphs by partner
to glean any trends associated with that partner.

We heard auditor liability concerns relative to emphasis paragraph, and then we heard some points regarding cost benefit, that the PCAOB should continue to issue standards that are in the best interest of investors and should not be fearful of cost benefit analysis, that auditors should do a better job articulating costs of what investors want in auditor's reports including impact on audit quality.

And then, lastly, we heard a recommendation or suggestion that we do a five-year Sunset provision for implementation of this with retrospective -- with a retrospective cost benefit analysis. Hopefully, I got that right.

MR. BAUMANN: I especially like the part about don't worry about a cost benefit analysis. Was that authoritative?

(Laughter.)

MS. CEYNOWA: I think Mike Gallagher has his card up.

MR. BAUMANN: Again, so thank you very much, Lillian. That group was led by Keith and Jeanette was in
there, as well, and Lillian. Mike.

MR. GALLAGHER: Yes, thanks, Marty. Good summary, Lillian.

Marty, let me start by complimenting you on the format of yesterday. I think it was incredibly conducive to a substantive dialogue, and I would hope that we would take this forward to future discussions in having the break outs, because I think it really is conducive to a good back and forth where we can grab a lot of substance. I know we have to balance what we do in the public versus what we do privately, but I think that was a really good balance.

In terms of the subject, I think it was a really good session. I think it was a good dialogue. I think Lillian summarized it well. I do think it's important that the emphasis matters I think is the way to go. I think it's important, however, to stick with the principles. We laid out some principles both as a firm and as a CAQ particularly around the original information about the company and where that should come from, respecting roles, the different roles of management, audit committee, and the auditor, and at the same time making sure that investors and users get the information they need. And the role of
the auditor is critical in making sure that that information is high quality. And we all know that the auditors play a significant role even in the financial statement footnotes that occur today in working side by side with management making sure they're as transparent and clear as they can be. And I think that this would move it even to a higher level. As you said, Lillian, anything that the auditor would emphasize, those are likely to be the best written footnotes in the document. I think there's definitely value there.

I just think the important part of sticking to the principles is to avoid the idea of moving to auditor discussion and analysis just by a different name, one paragraph at a time. And I think that those principles kind of stick to driving the value that you can get out of emphasis of matter. It's something that's practical, it's doable, and I think it provides significant value to investors.

So, thanks again. I thought it was a great session yesterday.

MR. BAUMANN: Thanks, Mike. Joe Carcello.

MR. CARCELLO: Let me start by saying I agree with
Mike that it was a great session yesterday. I think it was very productive. We may depart in terms of the second part of what we said.

I think if all you end up with, Marty, at the end of the day is the standard as currently written with some wording changes and reference to two, or three, or four paragraphs in the notes that the auditors emphasize and that's it, I think the Board really runs the risk of having this project viewed as an abject failure in the investor community.

I have rarely seen so much commonality in terms of feedback the Board has received both directly and indirectly in terms of multiple studies in terms of what investors want. Yesterday when we talked, and Steve Buller from Blackrock was very articulate, but if you go back and you look at the transcript of the roundtable on auditor reporting, Marty, I would say Blackrock, although supportive of changes among the investors who spoke at that meeting, were probably among the more cautious investors. The other investor groups and investor advocates wanted even more information than they seemed willing to accept.

So, I think that's -- it's very important to keep in mind.
And the thing that keeps coming through to me in terms of three major areas, if at the end of the day investors don't know more about risks, if they don't know more about judgments and estimates, and if they don't know more about unusual transactions, there's going to be a significant percentage of the investor community that's going to say you have failed. I don't know how to be polite but more direct than that.

MR. BAUMANN: Jeff, your card was up. Are you -- did Joe speak for you?

MR. MAHONEY: Just to add to what Joe just said. In developing the concept release that was issued last year, the PCAOB staff did extensive outreach to the investor community. And their conclusion was, and I'm quoting from the concept release, "There was consensus among investors that the auditor has significant insight into the company and that the auditor's report should provide additional information based on that insight to make it more relevant and useful."

So, if that view is correct, if that is the consensus of investors, and there seems to be some other surveys and studies that suggest that that is accurate,
I think that raises the question, if you move forward and you're just pointing to other footnotes and you're not providing auditor insights, I think when you get to the cost benefit analysis that you have to perform, I think there's a question as what is the benefit if this change that you're making to the auditor's report is not responsive to the consensus from investor's, consensus view. Thank you.

MR. BAUMANN: Rick Murray's got his card up. I know, Rick, you weren't in that group, but did you want to --

MR. MURRAY: Marty, I think we need and deserve your guidance at this point for making the best use of this morning as to whether we're going to, in fact, run through the reporting cycle as you outlined, or take the deep dive into what's the right answer at this point of the discussion.

MR. BAUMANN: I think each group member here has had an opportunity in their group to make key points, as we heard an issue from Mike, and we've heard the other side of the equation from Joe and Jeff, and that group. So, I think we got a lot of benefit of hearing a summary from Lillian, but then maybe some emphasis from the others. So,
I would like to keep with the path of going through the groups and letting people who were in that group comment on that.

We'll have more time after that to kind of delve into your point, which I think is get to a solution, but I think that would be -- if that's what you said, I think that would be a challenge in this room.

MR. MURRAY: I was hoping we weren't going to do that at this point.

MR. BAUMANN: I misunderstood your point, Rick.

MR. MURRAY: My concern was that we seem to be drifting quickly into searching for final summaries of position rather than going through the process you had outlined.

MR. BAUMANN: Okay. Well, we will try to go through the process I outlined, but as we said, after each team reports as to what they heard in their group, we did want to give people who were in that group an opportunity to say I think I have a little different color than maybe what you said in your summary. So, we'll try to stick with that and see how it works.

The second -- sorry, Steve, were you in that group?
MR. BULLER: Yes, thank you, Marty. So, I just wanted to clarify the one point you highlighted. I think that the group felt that the PCAOB should not feel constrained about cost when considering solutions initially so that they have the chance to come out with what they think is the best solution. But we agreed, I thought, that cost still is an important factor that needs to be considered at some step along the process. We just thought the initial process has to be free flowing, it has to be -- make sure all ideas are on the table.

And Lillian, by the way, did a wonderful job summarizing our group, and made us sound much better than we were, believe me.

MR. BAUMANN: Lillian has a way of doing that, so very good.

The next group is going to be summarized by Elena Bozhkova, which included Jennifer and Steve Harris.

Thanks.

MS. BOZHKOVA: Good morning, everyone. The discussion in our group was a little bit different from that in Group A. It was a little bit more free flowing, so I will not necessarily be associating each one of the
take away from our group to a specific question. But the
key take away from the discussion in Group B are the
following.

The majority of participants in Group B suggested
staying away from the list of required communications in
Auditing Standard 16, and instead focusing on a more narrow
list of areas that could be considered for emphasis
paragraphs in the auditor's report.

Some consensus seemed to emerge around a list of
four items that would generally be of interest to
investors, such as, one, how comparable are the financial
statements to those of peer companies in the same industry?
Is there any reason for them not to be comparable? Two,
how different would the financial statements be if
management used other reasonable estimates and judgments?
Three, what are some of the unusual transactions and
events? And, four, what is the auditor's view about whether
there are any unusual risks related to the company?

It was recognized that there are a number of
challenges with respect to this list, such as potential
litigation. Upper discipline suggested a safe harbor for
auditors in the case of expanded reporting. Another
challenge that was discussed was the historical nature of
the audited financial statements including the auditor's
report versus the more current financial information such
as earnings releases and quarterly reports that are often
used in investment decision making. Another challenge that
was mentioned was whether the auditor is motivated to make
any of these disclosures.

A few SAG members in Group B thought that Auditing
Standard 16 may be a source for determining the kinds of
considerations and factors that would go into a framework
for what should be disclosed in the auditor's report which
should be based on the auditor's judgment, and not
disclosing the actual communication with the audit
committee.

It was further discussed that a reasonable investor
might want to know those items that were contentious
between the auditor and management. Many participants also
thought it was very important not to chill the discussion
with the audit committee as a result of any additional
auditor reporting.

Some participants said that an argument can be made
for management to provide information of interest to
investors rather than the auditor. Other participants pointed out that there are reasons for auditors to be the source of that information, such as their independence. A key point of discussion was whether any emphasis paragraphs should be focused on audit-related or accounting related matters, and many of the participants in our group supported a view that management should be providing any accounting-related information and the auditor should be focused just on audit-related matters. While there was a general support that the auditor could provide audit-related information there was no consensus on what that information could actually be, but it was mentioned that it could be related to the four items described earlier.

The group discussed that the current reporting model does not give the auditor a voice. It was acknowledged that at the heart of this project is whether in order to serve investors better we should provide the auditor a voice and consider on which topics the auditor should provide information to benefit investors. Auditor association with management discussion and analysis and with non-GAAP measures was deemed valuable.
by many participants as this type of information is typically used in investment decision making.

It was also noted that there will be some cost associated with anything of value that the auditor can provide, and there is also a time aspect to the auditor providing more information in the auditor's report.

A few participants believe that it would be worthwhile to combine the going concern project with this project due to the reporting of risk and uncertainty elements. And last but not least a participant thought that certain brokers and dealers should be exempted due to their ownership structure and nature of operations.

So with that, any comments from Group B? And I see Rick. No. Steve?

MR. BAUMANN: Wayne Kolins.

MS. BOZHKOVA: Oh, Wayne. I'm sorry.

MR. KOLINS: Yes, a good summary, Elena. One thing, in terms of the audit process and the focus being more on the audit rather than financial reporting was a view taken by some. But in terms of the audit process, I believe it was the results of the audit process, not the -- the results of the audit, not the process itself. In other
words, no detailed listing of audit procedures that
resulted in an auditor's view.

MS. BOZHKOVA: Thank you.

MR. BAUMANN: Bill Platt.

MR. PLATT: Thanks, Marty. First, I guess I would
just compliment you also on the format of the meeting. I
think it was very productive. I found both the breakouts
I was in yesterday afternoon to be a very good dialogue
that took I think each of the participants, evolved their
thinking or views as a result of that dialogue. And I found
it to be a more productive way to try to really tackle how
do we best solve issues.

Also, Elena, I don't know how you took the chaos
of our group and turned it into that nice organized
summary, but congratulations. You made it sound like we
were geniuses, but I would say that the point about
focusing on -- and you mentioned four questions or four
areas. And I would say in our group we didn't necessarily
say that -- we didn't have a vision as to whether that was
accomplishable or not, or how one might best accomplish
best adding value in providing an auditor's voice on each
of those items. They are aligned with what investors were
asking for. If you look at page 3 of the summary, I think there's four bullets, and they're generally aligned with those four bullets. But we thought that rather than exploring hundreds of types of things that may be facetious by that comment but hundreds of types of things that might be considered, that maybe if we took a deeper dive on for and really tried to explore to say what's practicable, what's feasible, and what can add value at the same time and maybe value is a more important driver than I implied by the ordering of what I had that that would be a productive exercise to go through. But I think you did a great job summarizing what the group's discussion was.

MR. BAUMANN: Bill, I'm interested in -- or anybody else in your group in the context of the first group I thought I heard a lot of support for emphasis of matters paragraph, and then Joe made an editorial, emphasized that it needed to go further than just pointing to the footnotes. But the listing that Elena gave of matters that maybe would be discussed, and I don't know, Elena, if you could just summarize those one more time, it didn't sound necessarily like matters in the financial statements to
be emphasized. It sounded -- it did sound more of I'll say AD&A like. Can you just say what those four or five items were that you thought there was some support around?

MS. BOZHKOVA: Sure. The first one is how comparable are the financial statements to those of peer companies in the same industry, and is there any reason for them not to be comparable? Second one is how different would the financial statements be if management used other reasonable estimates and judgments? Three, what are some of the unusual transactions and events? And, four, what is the auditor's view about whether there are any unusual risks related to the company?

MR. PLATT: Marty, I think that certainly some of those would be disclosures in the financial statements and are consistent with emphasizing that. One would think that the -- take estimates as an example, that the significant estimates and the ones that if estimates were different would have significant impact on financial statements should have robust disclosure in footnotes, and so the auditor's reporting I think would be complementary with the disclosure you would see in financial statements. I think significant unusual transactions would be the same
aspect.

I think when you get to things like risk, and I think our discussion focused on financial statement risk, not risks to the entity, although some had some discussion about risks to the entity but I think there was a number of people in our group who felt that an auditor is not really the right person to talk about business risks, or environmental risks, but we are -- we do have a special area of expertise in some financial statement risk. That might be something that's not in the notes, that the companies aren't necessarily disclosing that. But I think part of looking at this would be to say what information is useful to investors, and then how best to convey that. And I think, ultimately, it probably is a combination of management reporting supplemented to some degree by auditor statements or auditor's views.

MR. BAUMANN: Thanks for that clarification. And the point you made about risks I think is a good one, too. That word is tossed out a lot, and you clarified that you thought that you were talking about risks are material in the statement of the financial statements.

Joe, you said before three things have to be
included, otherwise we'll miss the boat. You said risks,
significant usual transactions, and significant judgments
and estimates. Is your context of risks the same thing,
risks of material misstatement in the financial statement?

MR. MURRAY: Yes.

MR. BAUMANN: Thanks, Thanks a lot. Wayne.

MR. KOLINS: I just wanted to add one thing. In the
context of the unusual items there was an idea thrown out
about the auditor -- some kind of auditor association with
non-GAAP information, with a non-GAAP earnings number
which might then flesh out unusual items that are reported
by management or unusual items that should be reported by
management and called out by them.

MR. BAUMANN: Kevin Riley.

MR. RILEY: Yes, Marty.

MR. BAUMANN: You were in my group, Kevin. You
forgot?

MR. RILEY: I have a question for Elena and maybe
other members of the group. But one of -- and as Barb gives
the debrief on our conversation, one of the thoughtful
comments that was raised is we don't want to risk turning
auditors into equity analysts. And when I hear the four
issues that Elena raised as things that auditors might want
to focus on, particularly things like what might the
financial statements look like if management had used some
other assumptions or issues, is that we're drifting away
from auditor responsibility more into equity analyst land,
and I just wanted to get some additional perspective or
color commentary on that particular question.

MR. BAUMANN: I agree with your point. That's why
I sort of went to that, as well. That sounded outside of
the financial statements, including how does the
accounting compare to a peer group. I think that was one
of your points, too, so --

MS. BOZHKOVA: Well, I think the way this list was
developed was really points that would be of interest to
investors, and the discussion focused around that. And
there were various points of view as to who may be in the
best position to provide some of this information. And I
wouldn't characterize the discussion as a consensus that
all of this would come necessarily from the auditor, but
there was general consensus that these types of matters
would be of interest to investors, and so it's up to us
to consider how to take that in consideration for purposes
of this project.

MR. BAUMANN: Mike Cook.

MR. COOK: Marty, maybe just to add a little bit of flavor to that, as well. Our group was just wide ranging, very provocative kind of a discussion. I thought it was very good, and capturing it is an incredible task, and well done. But I think this discussion of the four items was not recommending that those four items are going to find their way into the auditor's report. I think it was in the context, and Greg should speak to this because he was the thought leader behind that particular discussion, was about the kinds of things that investors would be interested in and might, if practical, considerations could be or problems could be overcome, might be targets to be moving toward both by management and the auditor in reporting. And I thought there was very good discussion.

I don't think there was a consensus that we're ready to move to those items being included in the auditor's report other than in a transition basis. But I would like to just -- and Wayne picked up one of these items, follow a suggestion which again didn't necessarily garner great hordes of support, but it was suggested that there are
existing disclosures and information outside the basic financial statements that you by auditing or by associating the auditor with them, MD&A, the risk factors that are disclosed and non-GAAP information could be dealing with and giving auditor assurance at some appropriate level to a number of the things that people tell us that they would be interested in. MD&A would take you to critical accounting policies, judgments and estimates, risk factors would deal obviously with that subject, and non-GAAP information would be particularly valuable because the message here is that GAAP isn't telling people what they need to know. And here's what you need to know to assess the results of this company. And the auditors are directly associated with what doesn't tell you enough, but are not associated with what you need to know. And that seemed to me, and perhaps others, to be a bit of an anomaly when I think about how important the non-GAAP presentations are to investor communications, and audit committees. And the time that is spent on them, for the auditors to be detached from that seemed to be missing an opportunity. So, that was kind of where we were coming from, or at least my thought in those three items
is instead of the almost impossible task of identifying all the things that people might emphasize in the future, or auditors might be reporting on in the future, that seems like almost a hopeless task. And I certainly, and I think our entire group almost to a person said AS 16 is not the right framework, and we should not be using AS 16 as a source for what auditors might report on. But I think if you can use existing frameworks that are there well understood, and all we need to do is wrap some part of the auditor around those disclosures, you could accomplish a high percentage of this without the, again, impossible task of trying to define what should be in and should be out.

So, I thought that was an important part of our discussion, but I don't think we should over-emphasize the four items. They were very thoughtful, but I don't think anybody was ready to sign on that we're going to have auditors doing those things in the near future, or maybe ever.

MR. BAUMANN: That's a good clarification, so thanks for sharing that. And I had a feeling it was an engine and caboose discussion coming down the path any moment, as
If there are no more cards up, the third group, Group C was Jessica, Greg Scates and Lou Ferguson from PCAOB.

MS. WATTS: I want to tell Lillian that I had a better group than she did, not as a general comparison, just better.

(Laughter.)

MS. WATTS: We did have some similar points to what Lillian pointed out, not as many similar to Elena's group. So, I felt like in our group we had some broad support for emphasis paragraphs, that I think everybody kind of thought that emphasis paragraphs was a good way to go for this project. And in discussing what should be included and what we should think about as a framework, we talked about AS 16, and there was really limited support for using AS 16 as a basis for what to communicate. However, maybe some of the items in AS 16 should be used as a consideration.

And we got into a little bit further about what types of things that are in AS 16 that might be used as a consideration. And, of course, it talks about critical
accounting estimates and critical accounting policies and
practices, as well as significant risks.

AS 16 also includes a lot of information about the
audit. There was limited or no support really for including
a lot of information about the audits, such as audit
procedures or audit strategy. And partially the reason for
that is because it would be very difficult to summarize
the audit procedures into a concise paragraph that would
be understandable to users of the financial statements.

We also talked about whether or not there should
be certain matters that the PCAOB prescribes should be in
an auditor's report, or if a lot of the matters should be
up to the auditor's discretion. And there was really no
support in our group for the PCAOB determining what should
be in an emphasis paragraph; however, that maybe there are
certain matters that we could point out in the standard
that the auditor should really consider and think about
these certain matters but maybe not make it a requirement.

So, we found in our group that there really was more
consensus for the auditors to use their discretion in
determining what to emphasize using an established
framework or some kind of framework, not one that's
currently established. And so, we talked about what kind
of things that the auditor should think about in
determining what to emphasize.

And so, someone in our group suggested that the
auditor should think about the greatest risk of the
material misstatement to the financial statements, and
about significant risks that the auditor identified in
doing the risk assessment procedures. And then you have
other matters such as the estimates, the critical
accounting policies and practices, and the critical
accounting estimates.

We also talked about what kind of details should
be included in the auditor's report, and I think one of
the things we talked about was, obviously, the matter
should be identified, but really why the auditor is
identifying it as opposed to just a roadmap that says go
look at a certain financial statement disclosure, but why
is the auditor identifying it? And one person gave an
example in our group that presenting information to
investors that might be calculable from the financial
statements but maybe not readily apparent may aid
investors in understanding why such matters are important
from an audit perspective. In that instance, it was such
as a percentage of Level 3 assets or the hard to value
assets. And that would at least give information to the
investors about why the auditor is highlighting it but
without providing new information, because that
information can come from the financial statements.

We also heard that the auditor should not be
communicating matters that are not in the financial
statements, so the auditor should be really pointing to
things that are in the financial statements, and also maybe
summarizing them in a manner that is easier for an investor
to understand why the auditor is highlighting it.

There was a broad concern in our group. We think
that these emphasis paragraphs could become boilerplate
over time, and that the PCAOB needs to consider how to avoid
boilerplate disclosures, the same disclosure every year,
or the same disclosure for the different companies that
have similar matters. It should be specific to the company
and specific to the matter.

We also talked about whether there should be
certain reporting considerations for different types of
entities, smaller and less complex, brokers and dealers,
and emerging growth companies, and what we got out of that is really we need to think about the standard as being scalable. As opposed to trying to eliminate or exempt certain companies, maybe we just need to consider that it should be scalable.

And then there are some other suggestions that came out of our group that the Board should perform field testing on the standard and that it should include the auditors, issuers, and investors in our field testing. And then we should also do a post implementation review after the standard has been implemented. So, we could do that through inspections or otherwise.

And then we did have one suggestion that perhaps we should make changes to the auditor's report gradually over time. We could start with a roadmap and then work towards maybe more disclosure in the emphasis paragraphs over a period of time. And then, ultimately, we had a suggestion that emphasis paragraphs or in changes to the auditor's report could increase the quality of the financial statement disclosures if you are pointing to it and could increase the audit quality. So, that was what we heard in Group C. Does anyone in Group C want to comment?
MR. SHOWALTER: Yes, good job of summarizing getting a diverse view. I had two points. I just want to emphasize, really not disagree but emphasize with your point. One was that, and it relates back to what, Lillian, you reported, as well; is we thought when auditors do include an emphasis paragraph it will clearly improve the disclosure in the financial statements. Particularly when we talked about adding the second piece to that disclosure, which, why the auditor thought it was important, would really focus the issue we're on making sure those disclosures are appropriate in that.

The other point you mentioned about liability, we were a little concerned that as this went forward, you could get over disclosure on behalf of the audit firms because they were trying to minimize their risk, as well. So, when we talked about that we were concerned about okay, if one firm has six risks and someone is talking about eight risks, then the next thing you the next firm next year will come out with eight risk because their attorneys have told them what happens if you don't get the risk disclosed in the emphasis matter, so we were concerned about driving those disclosures to the point where they don't become
helpful because it's like the current risk disclosures in
10(k), not very helpful. Thank you.

MR. BAUMANN: Gary Kabureck.

MR. KABURECK: By the way, Jessica, very good
summary of our meeting yesterday. Just one thing we did
discuss, I don't know that we had a consensus on it but
it was discussed in any event, not violently rejected, was
should the audited financial statements and/or the
auditor's report be amended to include critical accounting
policies, that today is resonant in the MD&A. And I think
a lot of the items that the investor community is asking
for about auditor involvement with sensitivity,
alternative accounting policy selections and stuff,
that's what the critical accounting policy section is
designed to do.

Now, there might be degrees of compliance with it
out in the world, but I think what would happen is if the
auditors were associated with it, I think the bar would
be raised, perhaps better critical accounting policy
disclosures more consistent with at least the spirit of
which of the CAP rules were enacted, 10 years or so would
help.
Again, there wasn't necessarily a consensus on it but by sweeping those inside the financial statements and underneath the audit report I think some of the concerns being addressed here about the criticality of accounting policy start to get to be addressed. Again, no consensus but I think something you could put in the work plan for consideration.

MR. BAUMANN: I assume it's recognized that that point, Gary, whether the opinion should be extended to cover critical accounting policies would be really probably outside the scope of -- I think outside the scope of what the PCAOB could do. What's in financial statements is based upon rules that are not ours so, therefore, auditors express an opinion on what's in the financial statements, so somebody else would have to make that determination to put that into the financial statements.

MR. KABURECK: Yes. No, we understand that, I mean, but as your organization, the SEC and the FASB work together. It's just part of the overall process.

MR. BAUMANN: Jerry De St. Paer.

MR. DE ST. PAER: Thank you, Marty. I'd agree also that the summary that you gave, Jessica, was right on the
mark. And the one spin, and it was only that that I wanted
to add, is that the idea that as we were looking -- going
through this process with the auditor determine what was
in and what was not in, it was going to be sort of a
framework, that part of that framework would be something
akin to, I'm not saying it would be the same as, but a
SAD-99, what's important to the investor. So, the focus
here is back on the user, and not just on the accounting
and the numbers, because some numbers can move in material
ways and not have a material impact on what investors are
thinking. And others can move in less ways and have more
impact, so the idea here was to try to get a focus on what
would be important to the user.

MR. BAUMANN: Thanks, Jerry.

MS. PAQUETTE: Thank you. Jessica, very good
summary. I just wanted to underscore one of the points from
the group. We keep hearing comments about potential
roadmaps, and I'm not sure all of us have the same idea
of what a roadmap might look like. And I just wanted to
highlight from a user's perspective that if an emphasis
paragraph is included having some commentary on why it is
important. Our group talked about whether we wanted a "War
and Peace," or we wanted a third-grade reader in terms of the content of what was being added. And I take that point to heart, but I think from a user's perspective why the paragraph is being added is important. And I think the intention is to provide more information and more valuable information, and from my perspective if it becomes an indexing of information that's already provided in the financial statements, that will not be helpful.

MR. BAUMANN: Sam Ranzilla.

MR. RANZILLA: I just want to pick up on the point Gary made. And we had very limited discussion as a result of a very effective discussion leader on anything other than the five questions. But I do think, as I have for two and a half years now, that the answer here is somewhere embedded in the critical -- in an attestation by the auditor of critical accounting estimates, critical accounting policies. One very well could argue why do we need both of those terms and, Marty, I fully recognize that such an approach requires the Board to work with other organizations in order to effect such a change. But while I am a supporter of where you're headed, or where I think you're headed in terms of emphasize of matter paragraphs,
I continue to believe that that is the second best option. And that an attestation of some limited portion around critical accounting estimates and using existing interpretations that the SEC has would really drive better disclosures and the auditor's association with those better disclosures I think hits the mark closer to what investors are asking for.

MR. BAUMANN: Sam, do you think there are sufficient rules around requirements and critical accounting estimates, and critical accounting policies that an auditor could attest to that today versus what I'll say is maybe interpretative guidance out of the SEC with respect to those areas?

MR. RANZILLA: I do. I mean, I think that if you look at the existing interpretation that the SEC has, especially -- I mean, my focus has been primarily around critical accounting estimates. And, again, I struggle a bit with why we need three different concepts around a company's accounting policies and estimates. Significant accounting policies, critical accounting policies, and critical accounting estimates, I mean, we ought to be able to come up with a definition of things that when you look
at it you say what are the most important policies and practices of the company with respect to its financial reporting. And, as a result, we end up with I think complications that are unnecessary. But to your point, I think if others don't, I wouldn't object to additional interpretations, to additional frameworks that would help an auditor benchmark against that, but I think today an auditor could do that.

MR. BAUMANN: Thanks, Sam. I'm sorry. Dan Montgomery.

MR. MONTGOMERY: Thanks, Marty. And, first of all, I just wanted to express again my appreciation for allowing me to represent the IAASB at this meeting and in the breakout session yesterday. And, Jessica, great job, definitely a very good summary of the discussion of the group.

I did want to come back to one point, and that is it's been raised by a couple of the other folks on including in the emphasis paragraph at least something to indicate why the auditor believed the matter was of importance to users. And this is something that the IAASB has heard from global stakeholders. And I think in part it speaks
to some of the misperceptions about why this information
is being asked for in the first place.

What we have heard, what the IAASB has heard
internationally is that this is more related to the
relevance and the value of the audit, and it's not about
the accounting. So, while some believe that the auditor
is being asked to provide information to fill gaps in terms
of understanding the accounting or the complexity of the
accounting, the global stakeholders that the IAASB has
talked with have said that is not the case. They recognize
that if there are issues with accounting that need to be
fixed, that that is the role of the accounting standard
setters. What's helpful, though, is to get a little more
transparency into the audit, and by having the auditors
identify those matters that were of the most importance
or considered the most importance in the audit because they
were matters of financial reporting complexity or matters
of significant management judgment, or matters that had
been discussed with those charged with governance, that
that information is what is important to users to get a
better understanding of where the auditors were focusing
their effort. And then in turn by having at least a little
bit of information about why that matter was considered important to the audit, that provides at least a little bit of insight into the auditor's risk assessment process and the way the audit was approached.

MR. BAUMANN: Thanks, Dan. And I'm glad your sort of clarified I think further at the end about the audit, because on the other hand I do think we're hearing that people are not necessarily interested in some sort of brief summary of audit procedures. And I think you've acknowledged that's not the case here. It's about the audit, but why was this particular matter in the financial statements being emphasized because of its importance to the audit. And then why was it important to the audit as opposed to procedures. Thanks. Any cards up?

Okay. Then the final group Barbara Vanich is going to report on, and I was in that group with Jim Doty and Jay Harris, as well, from the PCAOB. I always mix up Steve Harris and Jay. I combine the two of you constantly.

MS. VANICH: Thanks, Marty, and good morning. At least I know I can't screw up worse than that.

(Laughter.)

MS. VANICH: It's always great going last once all
the best jokes have been used, but honestly, Group D, take
comfort in the fact that everyone knows we save the best
for last.

(Laughter.)

MS. VANICH: Group D had a really constructive
discussion. We didn't exactly stick to the discussion
questions no matter how many times I kicked Marty under
the table, but I believe at the end of the day we answered
most of them. So, I tried to summarize the topics we
discussed in that order, which I can just hope does justice
to the thoughtful commentary that we had from our
participants yesterday.

We also had some suggestions that were a little
beyond the scope of the discussion paper but which,
onetheless, were very valuable so I'll try to add them
on to the end. And in the interest of summarizing, I'm
really going to take the first two discussion questions
kind of at the same time because that's how we discussed
them.

So, with respect to what matter is communicated to
the audit committee under AS 16 should be in an emphasis
paragraph and why, and what would not be appropriate and
why, and whether financial statement in auditing matters should be emphasized or only should financial statement matters be emphasized. I think our group focused on what was important, and that it's important to have important matters included in an emphasis paragraph. And given the existing requirements for auditors to communicate important matters to the audit committee, there's likely going to be overlap. However, I didn't hear that we should use AS 16 as a checklist or as a kind of check the box on what should be included.

Our group was fairly supportive of including emphasis matters paragraphs, and focused I think more on financial reporting type matters such as significant accounting estimates and judgments, significant unusual transactions, transactions with related parties that are material, material uncertainties and other matters that affect the risk of material misstatements to the financial statements.

With respect to auditing matters, there wasn't as strong support. There wasn't a lot of dissent on perhaps some very high-level matters such as audit strategy or plan, but we didn't as a group seem to have a lot of value
in communicating audit procedures at that level of detail.

Some participants thought that when you talked about what matters are important to an audit there would generally be overlap with significant accounting matters, so you might actually get to the same place.

With respect to what should not be included, I think our group was generally of the view not to include original material by the auditor, and that while the auditor should have judgment and discretion on what should be emphasized, they should not use judgment in the actual material that's being reported.

We spent quite a bit of time kind of starting with a model matter of emphasis paragraph that would include the matter, why the auditor chose to emphasize the matter, and where the matter is further discussed in the financial statements.

While our group suggested that we could go ahead and require the emphasis paragraph, they were definitely not as supportive of being prescriptive regarding the content. And we had a range I thought that was interesting of kind of at most having a rebuttable presumption that certain matters would be communicated while others at the
other end of the range suggested it should be much more
discretion based on the auditor's judgment.

With respect to if matters to emphasize were left
to the auditor's discretion what factors should the
auditor consider in determining what matters are most
important to financial statement users. I think that we
generally focused on items that were subject to
measurement uncertainty, or that were otherwise
significant to a user's understanding of the financial
statements. You know, it all came down at the end of the
day to where auditors spend their time, and what keeps the
auditors up at night.

With respect to what the appropriate level of
detail that should be provided in the emphasis paragraph,
I think we spent quite a bit of time talking about the
merits and the risks associated with various types of
discussion that the auditor could have. And that
generally, again, auditors would not include new
information, but would rather reference where in the
financial statement information is included. And while I
think we did acknowledge that many investors might find
more information valuable that the risks don't outweigh
the rewards. And that you could potentially, if an auditor
reported inaccurate or -- inaccurate information or made
the wrong judgment, you could have the auditor -- that
paragraph changing the valuation of the company, and that
would not be a good consequence to have.

When we talked about whether there would be any
special reporting considerations for audit of smaller and
less complex companies, broker/dealers, or emerging
growth companies, I think we didn't hear that there would
be any kind of carve-outs. And, in fact, several people
mentioned that they thought it might be particularly
important for emerging growth companies who because of a
lack of a large accounting staff or focus might actually
have more risk of material misstatements related to
significant unusual accounting matters.

And with respect to whether there are specific
elements of projects of other regulators or standard
setters that we should consider, similar to Group A I
believe, we didn't have any specific matters noted.

Some of the other things we heard that again our
group, I think, was relatively supportive of matters of
emphasis paragraphs, and that while it might seem like a
small step, we thought that there would probably be a good change generated by having that small step, and whether it focused auditors more on what was most important, or if it improved the disclosures that are referenced to include more important information, that that would be, in general, a very good result, and a very good first step.

We did hear that it was important to strike the right balance of what was important without going overboard, so while there was the view that it shouldn't be limited to one paragraph, we also shouldn't encourage something that was so long that the important details got masked in the level of detail presented.

And another good comment was made regarding just the design and engineering of the opinion, in general, and that's something we could consider as we move forward with this project, that the auditor's opinion is still the most important opinion to investors, and to be careful that it didn't get clustered among other unnecessary information which could, in effect, diminish the value of the report.

With that, please, if there is anyone from Group D that would like to emphasize something they said that I didn't capture, please raise your tent card. Bob Herz.
MR. HERZ: Barb, you captured this, but it's a point that kind of building off of what Dan said about the international view. And I think some of that was in our discussion, too, as to really whether or not the auditor report, the emphasis should be based upon what the auditor viewed most significant to the conduct of the audit versus what the auditor thought was most significant to investors. And there might -- hopefully, the two would overlap, but the issue of what was the point of departure in judging significance, whether it was the audit, or whether it was what the auditor thought investors might think most important, I think there were those little bit of back and forth, a little bit of -- in our group, you know, some people kind of I think framed it more from one point of view, and other people framed it from the other point of view. But listening to Dan, it seems to me that's something important to sort out.

MR. BAUMANN: Is that Kevin, Kevin Riley.

MR. RILEY: Yes, thanks, Marty, and great job, Barb.

The only other thing I just wanted to emphasize coming out of the group, it wasn't a total consensus but recognizing that this project will be a change, and we
should perhaps focus on being more modest out of the gate with respect to the demands placed on the auditors to do things along these lines. See how things develop in practice, take a deep breath down the road and consistent with what I think came out of Jessica's group, then perhaps change on the fly after we've had a chance to take a look at how it's working. So, I thought that was an important concept.

MS. VANICH: Arnie.

MR. HANISH: Barbara, I thought you did a great job, also. I guess the only comment I would make is, I just want to make sure that we all understand that at least from the perspective I believe, and I think others believed in the room, I don't know if we had a total consensus, but that it would not necessarily be fully appropriate on the auditor's part to I'll call it opine or focus on the judgmental aspect of the accounting estimates. I think, you know, to try to stay focused on the emphasis of where the audit was being performed, the nature of the estimates, or the nature of the areas of most significance that would provide a reader with the understanding that these were the areas where there was significant time being spent.
This is where the areas of risk from a material financial statement misstatement existed, but to fall short of necessarily providing additional context around the nature of the judgments and accruals. Again, recognizing that the financial statements are made up of significant estimates with ranges, but it wouldn't necessarily be appropriate for the auditors to -- because they've already given an opinion on the financial statements, that they're in accordance with GAAP. And to go further to try to provide contextual aspects around the nature of those estimates, at least my view is that that would be one step too far.

MR. BAUMANN: Gaylen.

MR. HANSEN: Yes, just as a follow-up to -- and I don't know that we -- Barbara, I don't know that we necessarily discussed it in great detail yesterday in the breakout, but focus on what's important. And I raised that question yesterday, important to whom? And a reasonable investor, that -- and I appreciate your input on that, Jennifer, but we really need to think about who we're talking about here, because there's a wide range of investors. And I hope that wouldn't be overlooked.

MR. BAUMANN: It's very hard to summarize these
comments, but I'm going to take a little bit of a shot. From what I heard, and maybe you all heard things differently, but the notes that I was taking down was there is a reasonable amount of support for an approach that used emphasis of matters paragraphs. There wasn't a lot of support for simply just pointing to those footnotes or those -- just saying what the matter was. There's a desire for some commentary as to why that matter is being emphasized, why it's a matter that was most important to the audit, maybe why it should be considered most important to investors, oftentimes maybe those two should overlap. I think I've heard, but some commentary around that, the emphasis of matters not being tied to AS 16, specifically, but when I hear about the nature of the matters significant unusual transactions, related parties, matters with significant judgments and estimates, complex accounting, they're matters that are discussed with the audit committee. So, I think there's just some tonal aspect to that there about don't use the AS 16 necessarily as a checklist for this, but the types of things you would discuss with the audit committee are likely to be the types of things that you'd emphasize.
I guess in our group we did say could you imagine emphasizing something in the opinion that you had not discussed with the audit committee, and it was really hard to imagine that. You might do that. It's probably the last time you'd issue a report on that client, however.

Whether it's about matters in the financial statements or not in the financial statements, I think I heard more comments that it's emphasis of matters about matters that are in the financial statements versus matters that are not in the financial statements. And emphasizing matters about the financial statements, or about the audit, not about the audit procedures, but maybe why it's important to the audit, but really emphasizing the financial statements and what's in the financials, and not audit procedures.

Some other tangential benefits that seemed to be mentioned from a number of different groups were -- at least I heard it in a couple, that the emphasis of matters paragraphs will likely improve the audit of those critically important things that are being emphasized, and will likely improve the disclosures of those critically important things that are being emphasized. And those are
benefits that are not necessarily directly related to
meeting investor's needs with respect to some additional
information, but I've heard a number of times that that
probably is going to be an outcome of better auditing on
the margin around these important matters, and on the
margin maybe some better disclosures around these
important items.

With respect to the point that Sam raised, and which
I've heard a couple of times, that auditor -- and I think
it came out of another group, as well, maybe it was the
same group, but I know Mike was talking about it. Some type
of auditor reporting on other matters outside the
financial statements, or an attestation on critical
accounting estimates or critical accounting policies.
Don't think we've -- we haven't heard broad support for
that certainly in the 150 or so letters, 155. There was
not much support in the 155 letters for auditor reporting
on other information outside the financial statements. And
maybe, Jay Hanson, I'll give you the microphone. I do think
I recall you attending a conference and coming back and
saying you didn't hear that, as well.

MR. HANSON: A couple of us in the room here, Brian
Croteau and I attended a roundtable hosted by the Center for Audit Quality I think it was in January or so, early in 2012, and the point was to kind of tease out some of what investors wanted around the non-financial information, and there just wasn't a lot of support for it, which kind of surprised me because I came in with the paradigm they would want it. That was just one group that was pretty wide ranging group of investors, some preparers, some auditors.

MR. BAUMANN: So, hard to summarize. And, Joe, you made a very strong comment which I think you used the words "abject failure." I make note of words like that. But an emphasis of matter paragraph that described why it's being emphasized and the importance of it, and dealing with matters that are risks of material misstatement, significant unusual transactions, areas of particular judgment, is that directionally the types of things you think would be important to make this project successful?

MR. CARCELLO: It's hard to know, Marty, without seeing the detail of what the disclosures would have to be. I think the important thing is there needs to be meaningful new information around that either from
management or from the auditor if all we get, as Jennifer said, is a roadmap. And as Jeff said, as well, I don't think the costs, I think the benefits are going to be less than the costs in that situation.

Let me briefly respond to what Jay said, because I think it's relevant. In this year's IAG meeting, Jay, we reached out to investors, as well, asking them about additional involvement for the auditors in some of these other spaces that you're talking about, and some of the feedback that came back, and the Board will remember this from the IAG meeting, was if auditors are not willing to communicate more to us now about what they know given the very significant amounts that are being paid in audit fees, we're not comfortable expanding their mandate. And, again, if I was an auditor I'd be really concerned about that.

This is what customers are saying.

MR. BAUMANN: They were not necessarily saying, though, they wanted auditor association with other information. Right. Right. Can I just open the floor again for -- this is such an important topic to us, happy to at this point in time take additional comments from anybody on any subject on this auditor's reporting model. And I
have, first of all, Denny Beresford.

MR. BERESFORD: Just a brief comment. Marty, in your summary you mentioned that emphasis paragraphs are likely to improve the auditing and disclosure of the items emphasized. And I think that's probably true, but keep in mind, too, that to the extent that there is going to be a lot of work that would go into the wording of emphasis paragraphs, and I think that that would involve both the senior level audit executives, senior lawyers on the side of both the company and the audit firms in many cases, that is going to come at the cost of possibly taking away from some other aspects of the work and/or adding cost which, of course, is always a concern. So, there's always at least the possibility that these procedures are going to detract from other aspects of the engagement.

One of the concerns that I expressed in my comment letter on the invitation to comment was the fact that we already have engagement partners spending a great deal of their time on the wrapping up aspects of the engagement, and word-smithing and things of that nature, and to the extent that they have even more of this type of activity as opposed to the good old down and dirty auditing type
aspects, that I think could be of great concern to a lot of people.

MR. BAUMANN: Thanks, Denny. Mike Cook.

MR. COOK: Marty, I'm just puzzled a bit. And I heard what Jay said, I heard what Joe said about investors don't want auditors necessarily to be involved with other information. But we've spent so much time talking about auditors should be addressing critical accounting policies, and estimates, and judgments, and that's what's in MD&A. It's not new. We don't need to reinvent the wheel. It's been there for, I don't know, 10 years, 15 years, John. I don't know how long it's been there. It can be improved, perhaps, but the same thing is true about risk factors. Well, we'd like auditors to be engaged with risk, and whether the disclosures of risk are appropriate. The disclosure of significant risk has been around for a long time, and it's part of the existing framework.

The one part that doesn't quite fit that, but I think is more telling, and I won't repeat what I said before, is non-GAAP information, because this is management saying notwithstanding this 70 pages of other stuff that we have given you to comply with one requirement
or another, here are the things you really need to know about the operations of this company. So, take the stuff you got in the GAAP financial statements and add this, and subtract that, and add these other two things, and then you'll really know how we performed last year.

What would be more important to have the auditors associated with than information that takes what they live and die by, GAAP financial statements and translates it into what management believes investors need to know to assess the performance, the future cash flows and so on of the company. And if that is being done in a misleading way, or it's not being done fairly, the auditors are the best positioned to make judgments about that. So, we have these three things that are already there, and we're thrashing around trying to define new things that we ought to get people associated with. And AS 16 and all the stuff that's in there, and somebody said well, it's important enough to talk to the audit committee about, management is talking to the audit committee about those things, not the auditors. And the auditors are saying we agree, or if they don't agree they're standing up and saying so.

AS 16, again, perpetuates this myth of a two-way
communication which is not the way the world works. And most of the communication is being done by the people who are supposed to do it, which is the management of the company. So, the auditors coming in at the end and saying we talked or didn't talk to the audit committee about something is almost irrelevant if management has done its job properly. And we hope they have.

But I'm just puzzled by this -- I don't -- do you know -- do all these people know what's in MD&A, and where it came from, and what it's intended to tell? And all you need to do is throw a saddle on that, put the auditor in the saddle, and you'll get them associated with management's having said notwithstanding 49 items in significant accounting policies in Note One, here are the four, or five, or six things you really need to know about to assess our financial reporting. What could be a better place to put the auditors?

MR. BAUMANN: Thanks, Mike. I think you're reacting to what I initially summarized, and I asked Jay because I knew Jay had attended a conference, but it was my summary. And it's just a matter of fact, in 155 comment letters we really didn't get any support for auditor association. We
laid that out as an alternative so, therefore --

MR. COOK: Marty, if you don't ask the question in the right way and you don't know what you're asking about, you won't get the right answer. If you're asking the question of would investors like auditors to be associated with critical accounting policies judgments and estimates, and the answer is no, or they're not commenting, I think you've asked the question in the wrong way, because that's exactly what people are saying they do want people to be associated with. And it's right there in MD&A and it has been for years.

MR. BAUMANN: Okay. Dan Slack, you had your card up for a while.

MR. SLACK: So, I just wanted to follow-up on what Jeff had said, Mahoney had said earlier. And I just think it's important that it should not be just a roadmap if emphasis of matter paragraphs is the path that the PCAOB goes down, that I think that it is important that there be some qualitative approach, some sort of why, into the process of why this matter is emphasized.

And I got a little distracted on my thoughts listening to Mike speak. It's sort of interesting about,
you know, bringing the auditors into the non-GAAP pro forma estimates or whatever. And that is an interesting concept, maybe it's a little bit beyond this auditor's reporting model. I don't know, but I could see that that, in fact, could be useful to us as investors.

MR. BAUMANN: Thanks. No, it wasn't beyond the scope of this project. In our Concept Release we laid that out as one of the possibilities, auditor association with MD&A. And, in particular, we pointed out I think critical accounting estimates as being an aspect of that in the Concept Release. So, we did lay that out for investors.

Jay, you want to --

MR. HANSON: Marty, I just want to make a clarifying comment on some of what I heard at this roundtable I attended a number of months ago, and that was there was acknowledgment of many of the people in the room talking about this auditor association with the press releases and the MD&A, that there already is involvement in most companies with the auditors actually reading the press release, and some of the context around the questions that were asked. And that setting was gee, since the press release often comes long before or at least weeks before
the audit report is completed, the reporting that an
auditor could do if there's actually a report being written
wouldn't say a whole lot because it would say gee, we were
engaged to do an audit. These numbers agree to the
unaudited information. We're not done yet, and that would
give limited value to investor as an additional report,
but there is strong acknowledgment that there was already
substantial auditor involvement in the process and
additional reporting of what that involvement was wouldn't
add a lot of value.

MR. BAUMANN: Thanks for that clarification. I think
Mike pointed that out historically, too. And my experience
is that's the case, as well, that there is auditor
involvement in those things, but the question is
reporting, as you point out. Let's hear from Brian Croteau
from the SEC.

MR. CROTEAU: Thanks very much. I was actually just
going to make a similar point in reporting back from what
I recall hearing back in January, as well, at that meeting,
and very similarly it wasn't -- what I wasn't hearing was
that there was an interest in auditor involvement in that
area of MD&A, but I think the starting point consideration
was that auditors have a role relative to reading that
information and considering material inconsistencies and
material misstatement of fact today. So, the question was
one more of the incremental.

Now, whether an audit of that information versus
what's being done today would get better at completeness
was a question that was put on the table, and I think that's
a question people could continue to give consideration to.
And I know that you all are giving consideration to whether
any improvement or changes to the performance requirements
would be appropriate relative to AU 550. But I don't think
it was -- what I wasn't hearing was people saying we don't
want any auditor involvement, or that we'd want to take
away what auditors do today relative to that information,
but there clearly at least in that particular group wasn't
support for broadly expanding the auditor's role outside
of auditing for financial statements and what they're
required to do today under 550.

MR. BAUMANN: Yes, we didn't include this in the
discussion materials and as part of yesterday's item but
we are spending a lot of time on the existing standard on
other information in audited documents, and maybe
potentially clarifying in the auditor's report what that auditor's responsibility is, and maybe the auditor saying something about that if we can figure out the right tools and mechanism to do that. But we're definitely working on that aspect of other information accompanying the audited financial statements.

A lot of cards up here in the center of the room that I see, but let's start with John White, and then maybe over to Arnie, and Steve Rafferty. Arnie and Jerry De St. Paer.

MR. WHITE: I'm probably just repeating what Jay and Brian said. I was actually moderating that session, and we basically spent six hours with 30 investors in the room, and the real question we were asking was should there be expanded auditor association with MD&A and press releases. And I'll have to say very much to my surprise there was kind of a resounding no. Just to emphasize, I mean, it was just -- I was really quite -- I was very surprised.

I'll have to say just from my personal experience of being involved with MD&A and press releases and so on, and non-GAAP measures that when auditors are in the room and they're part of the dialogue, I think the disclosures
get better, but they're just -- there was not -- I mean, there was certainly support for the existing association with those, with press releases and MD&A, but not that there should be an expanded association with them. I was very surprised.

MR. BAUMANN: We were equally surprised because we laid it out as one of the possibilities in the Concept Release, and were very surprised by the lack of support in the 155 comment letters. So, a resounding no is what we're hearing. Arnie, and then Steve, and then Jerry.

MR. HANISH: So, just a couple of comments maybe to build upon what Mike Cook was saying. I agree with Mike that -- and I know that document AS 16 talks about two-way communication, but I fully agree that it's really a three-way communication effort. And that I, as management, have that responsibility first and foremost to communicate with the audit committee as to the issues around my financial statements.

The auditors, they complement what I'm communicating, and certainly have every opportunity and every right to agree or disagree, provide additional color commentary, to expand upon my discussion and disclosures.
with the audit committee, but I don't think we need to -- we
need to not lose sight of the fact that management has that
responsibility first and foremost. And to infer that the
auditor should be stepping into the shoes of management
I think is -- and I know you're not saying that, but I --

MR. BAUMANN: Nobody is making that inference, and
that's not what AS 16 says, Arnie.

MR. HANISH: I know you're not saying -- yes, I just
think we need to keep that at the forefront. I think that
the focus, again, should be on -- the focus should be on
objective perspectives. I think if this is a matter of
emphasis paragraph, which I do support the matter of
emphasis paragraph, that it needs to be an emphasis on
where the time is being spent, and areas within the audit.
I think it needs to stay away from the qualitative
assessments.

As I've said, I think that there are ways working
with the SEC, if there are issues around the critical
accounting policies, and people are not describing within
their critical accounting policies the appropriate risks
or the appropriate quantitative analysis for the reader
to understand the changes in those estimates and what can
cause those estimates to change based upon the risks assessment, the various assumptions that go into those, determination of the accounting accruals and other aspects of our financial statements, if we're not describing that appropriately with the required quantitative deviations that I believe are very clear and required within the scope of providing critical accounting policies, then I think the SEC has the responsibility to call us on the carpet, and provide and push us to have more appropriate disclosure within the critical accounting policies that I believe will make the investors, and provide the investors with reasonable and significant information around, again, the range of outcomes that can occur, and the impact that could occur if we've missed our estimates by 5 or 10 percent. At least sufficient analysis to determine what a different answer would be within our financial statements.

And I think a lot of it already exists, and to create something new other than maybe providing the reader with where is the auditor spending their time and the emphasis, and why they are spending their time there, and providing some context as to the framework for their scope and their audit plan, I think would be going too far. Thank you.
MR. BAUMANN: Thanks, Arnie. Steve.

MR. RAFFERTY: Yes, as I've listened to this discussion, I think we have to appreciate the fact that investors are telling us that they want and need additional information. And as I listened to all of the panels' report, there seemed to be something of a common theme on the kinds of information that they want, being identifying material estimates and why those estimates might change, to Arnie's point, other matters that might give rise to future volatility in financial statements, and what those uncertainties are, critical accounting estimates, material uncertainties, unusual transactions and events, perhaps even information about going concern. I would boil that down to investors wanting more information about the subjectivity and volatility in the financial statements potentially in the future.

So, I would -- it would be hard to disagree that there shouldn't be some kind of an emphasis of a matter paragraph around that kind of stuff, but if you -- I think one of the big struggles that we're going to have here if we stick to the principle that auditors shouldn't be providing original information is, that's going to be hard...
to do in an auditor's report. It's almost an emphasis of a matter paragraph or a footnote in the financial statement for that to be original information from management. And I think while you can argue that that information exists today, it's fragmented. Some of that information is in the financials, some of it's outside the financials, some of it's perhaps not required at all. But I think investors might be saying put that one place in the financial statements where I can read about the uncertainty and volatility of these financial statements. And I realize that maybe as a perfect world and requires standard setting beyond the scope of what the PCAOB can do, but I would encourage you to think about pursuing that if it is perhaps more of an ideal answer.

And then I appreciate the fact that investors might also want an auditor's evaluation of that, of those disclosures. And I wouldn't think there would perhaps be anything wrong with modifying the auditor's report to specify that the auditor has, in fact, evaluated the disclosures around uncertainty and volatility of financial statements and report that those disclosures are, in fact, adequate based upon the extent of the audit
MR. BAUMANN: Thanks, Steve. We have Jerry, and then Steve Homza, and Robyn Kravit, and I think after that we'll be due for a break.

MR. DE ST. PAER: Thank you, Marty. I just had two points that I think came out of our group, but one item was only mentioned by our group, and another that was mentioned in a couple that I think are worthy of your consideration for inclusion in your sort of summary, overall summary.

The first was the discussion that a couple of groups have talked to, and that is identifying the target of who we're trying to benefit with this. Who is the investor? And in our group -- and I think that's worthy of some consideration. Our group, I don't remember who it was. It may have been Gary who recommended using the FASB bar for that which is fairly high. It's a fairly sophisticated investor, but I do think it's useful for us in terms of trying to target where we're going to pitch this, to understand the audience that we're pitching it to. That's the first point.

The second point I thought really made a lot of
sense was the idea of field testing. I have to say it was not my idea, so this isn't something I'm promoting, but it came up in our group, and I really think it's a good idea, to pick a few companies, go back, take a few years and see if you can kind of get a sense in a real way of what you would be looking at to inform the process, some field testing.

MR. BAUMANN: Great. Thanks, Jerry. Steve.

MR. HOMZA: Thanks, Marty. I just wanted to suggest that perhaps as I sit here and listen to this discussion there is a role for internal auditors to provide more assurance around information about risks in MD&A and so on and so forth. I hear a lot of gray through this discussion, so it may be appropriate, maybe kind of a compromise position between the investor world that is clamoring for more information and additional assurance, and auditors that may not be able to provide that, perhaps some responsibility could rest with internal auditors because they are inside the companies. They know the companies very well, and I think in the public company world, especially at that level, they're staffed with CPAs, Certified Internal Auditors, that have a deep
background in business that come from major accounting firms, regulators, so on and so forth. So, I think that point is perhaps worthy of some consideration in this process.

MR. BAUMANN: How do you see that working, IIA coming up with a proposal, or companies voluntarily asking their auditors to do that, or what?

MR. HOMZA: That would be my suggestion for the PCAOB and the Institute of Internal Auditors to work together to come up with something around that. I understand that the IA, I have it in front of me, the comment letter to the Concept Release dated September 30th of last year, and it is one suggestion in that letter.

MR. BAUMANN: Thank you. Robyn, I think you get the last word.

MS. KRAVIT: Great. I know this is beyond -- I'm speaking to the PCAOB here, and this may be beyond scope, but in our breakout session I mentioned, and I think there was some support for the fact that really the audit committee's role -- I mean, I understand that investors are clamoring for more information, and I'm sympathetic to that, but maybe it's the audit committee's role to
provide emphasis and additional information, because after all it's the audit committee that hears from an internal audit. It's the audit committee that has robust discussions with external auditors. And to decide where to point investors might be better placed in the audit committee scope working with the SEC, so I just throw that solution out as opposed to mandating certain information.

MR. BAUMANN: Thanks, Robyn. And, of course, as Jennifer commented yesterday, the FRC in the UK has gone down that route with expanded audit committee reporting. Their process and what they've done in the oversight of financial statements in the audit, and to make some commentary about financial statements and the audit, and then for the auditor to actually report on the fairness of the audit committee report. So, there is a model for that in the UK.