

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

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1 (9:01 a.m.)

2 MR. BAUMANN:

3 (...)

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

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

14 (...)

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

22

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1 MR. DOTY:

2 (...)

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

8 (...)

9 MR. BAUMANN:

10 (...)

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

16 Of course, our concept release discussed a couple
17 of possibilities for enhancing auditor reporting,
18 including something that we called an auditor's discussion
19 and analysis, required emphasis of matter paragraphs,
20 auditor responsibilities, maybe auditing other aspects of
21 financial information such as MD&A, as well as potentially
22 clarifying certain aspects of the auditor's report.

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1 As you know, we have received a lot of comments back
2 on this. At the same time, you are going to hear today about
3 what other standard setters are doing, IAASB and others,
4 on their projects in this regard as well. So I think
5 everybody believes that changing the auditor's report is
6 an important project, but changing it appropriately is
7 equally important.

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

17 Some commenters feel that certain of the other
18 projects, such as auditor association with other documents
19 like MD&A, is -- there is not a demand for it, plus it would
20 increase audit costs substantially. Sometimes we hear
21 that the auditor's discussion and analysis, more of a
22 free-flowing document, would need significantly more

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1 rulemaking on our part to describe how an auditor would do
2 some of the things that are described in ADNA.

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

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

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

19 (...)

20 MR. RANZILLA: Thank you, Marty. I will be quick.
21 On the going concern project, I, like Bill, applaud you and
22 the FASB for taking this on collaboratively. And my only

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1 recommendation is, as you look at the FASB's timing, which
2 I understood from Larry is first half of 2013, with a
3 proposal, you might also consider whether the going concern
4 project ought to be folded into the broader auditor's
5 reporting model, because, again -- and I think your timing
6 fits well, because I think once you go down those two
7 processes, you are going to find a fair amount of
8 intersection regardless of which way you go with respect
9 to enhancing the overall auditor's reporting model, and I
10 think the going concern, especially the portion if we end
11 up in a model like FASB's where the more-likely-than-not
12 trigger is additional disclosure, I think that will also
13 trigger something in the auditor's report beyond a
14 substantial doubt paragraph.

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

18 MR. BAUMANN: Thanks, Sam. We have given thought
19 to that, and we will continue to. But that is certainly on
20 the reporting end of the going concern standard. We also
21 think that the audit procedures end, which doesn't deal as
22 closely with the FASB aspect, is something we are working

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1 on separately that may not fit as well into the reporting
2 project. But we agree with your comment generally to think
3 about them together potentially.

4 (...)

5 MS. RAND:

6 (...)

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

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

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

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1 the financial statements and the audit.

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

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

16 We plan to issue the proposal in the first half of
17 2013, so that's coming up soon.

18 As part of working on the project, we've also been
19 monitoring the activities of others. Several other
20 regulators and standard setters have been working on
21 similar projects as the PCAOB. Our briefing paper provides
22 some information about their approaches to auditors'

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1 reporting and I'll just highlight on that briefly.

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

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

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

22 Rather than stopping and getting back into the rest,

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1 I thought I would continue talking about what we plan to
2 cover and the objectives this afternoon and then provide
3 an opportunity for Dan to provide you more information to
4 reflect on and then we'll open it up for questions regarding
5 anything that we've discussed.

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

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

22 Regarding our approach and the focus of our

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1 discussions this afternoon, our approach this afternoon is
2 focused on emphasis paragraphs, but at this point I'd like
3 to stress that the board has not eliminated any of the
4 alternatives described in the concept release. Based on
5 comments received to date though, the staff believes that
6 there is more support for an emphasis of matters approach.

7 Today, we'll be exploring the potential approach
8 that considers matters communicated to the audit committee
9 as possible areas for emphasis regarding the financial
10 statements.

11 In August of this year, also as Marty described, the
12 board adopted Auditing Standard 16, Communications with
13 Audit Committees. AS 16 is designed to enhance the
14 relevant and quality of the communications between the
15 auditor and the audit committee. It requires to
16 communicate to the audit committee many of the same matters
17 that investors have most frequently suggested for
18 additional auditor reporting such as areas of high risk to
19 the financial statements in the audit, the most significant
20 matters in the financial statements such as significant
21 management judgments and estimates, and areas with
22 significant management uncertainty and quality of the

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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

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1 are considering mandated use and expanded content for the
2 emphasis paragraphs.

3 I'd like to briefly go over the nature of the
4 questions for which we'll be seeking your input and we'll
5 be going over these in much detail this afternoon. I want
6 to make sure we're all on the same page as far as the
7 questions and the type of input for which we're seeking.

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

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

19 Let me give you an example. One requirement under
20 AS 16 is for the auditor to communicate disagreements with
21 management. An emphasis paragraph might highlight the
22 matter in the financial statements for which there was a

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1 disagreement, perhaps financial instrument valuation, but
2 not that it was a disagreement. Any disagreement with
3 management that the auditor has would have had to have been
4 resolved if the auditor was able to issue an unqualified
5 report, therefore the disagreement would have gone away.
6 But the auditor may feel it's appropriate to highlight the
7 matter that caused significant discussion of the audit
8 committee.

9 We're seeking your input on whether AS 16 would be
10 an appropriate source for considering matters of emphasis.
11 If so, should any of those matters in AS 16 be required to
12 be reported. So just mandated to be included in emphasis
13 paragraphs or should the auditor have discretion for some
14 or all of them as far as which items to highlight in the
15 emphasis report. If certain things were left -- should be
16 permitted to left to the auditor's discretion, should there
17 be any factors that the auditor should consider in
18 determining which matters are most important to the
19 financial statement users? For instance, factors could
20 include subjectivity, the level of subjectivity,
21 measurement uncertainty, degree of interaction with the
22 audit committee, or something else. Could be some of the

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1 above that the auditor would consider or none of the above.

2 So we're interested in your input on that.

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

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

20 Finally, we're interested in whether there are
21 specific elements of the projects of other regulators or
22 standard-setters such as the activities of those of the

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1 IAASB, that the PCAOB should consider for its auditor's
2 reporting model project.

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

12 Tomorrow morning, the PCAOB staff that are at the
13 breakout session will present a summary of each one of the
14 breakout sessions so even though you weren't in the other
15 three, you will certainly hear what happened in those other
16 groups. But when that summary is presented for the group
17 in which you're participating, you will have an opportunity
18 to add any commentary that perhaps may have been left out
19 or to emphasize any particular area and then also have an
20 opportunity to comment on themes, issues that came up in
21 the other groups, so we are very much looking forward to
22 a robust discussion tomorrow as well.

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1 With that overview of what we hope to accomplish,
2 I will turn it over to Dan Montgomery so that he can provide
3 you with information, further information about the IAASB's
4 activities and then after Dan is finished, we'll open it
5 up for any discussions about anything that we plan to
6 continue or the PCAOB's projects or if you have any
7 questions for Dan.

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

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

20 I'd like to give you a very brief overview and
21 current status of the auditor reporting project. And
22 Jessica, if you could go to the next slide, focusing in

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1 particular on the IAASB's most recent consultation
2 document. It was an invitation to comment that was issued
3 in June of this year. It was the second consultation for
4 the IAASB. There was a previous consultation paper issued
5 in May of 2011. And that first consultation focused on
6 obtaining views and input about some of the concerns that
7 had been raised about auditor reporting as well as some
8 very broad suggestions for types of changes that could be
9 made.

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

18 The ITC served as a basis for three public
19 roundtables. You see them there. Several of you either
20 attended or in fact participated in our roundtable in New
21 York and in fact, in Paul's case, in Kuala Lumpur. And we
22 appreciate that input.

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1 The IAASB has to date received 164 responses. That
2 number is relevant to us, to the IAASB because it really
3 is about three to four times the number of comment letters
4 that we normally would receive on a project and it is double
5 the number, exactly double, the number of comment letters
6 that were received on the original consultation paper. I
7 might add that the IAASB continues to monitor and be
8 informed by the efforts of the PCAOB, the European
9 Commission, and others as well.

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

19 With respect to the specific suggested improvements
20 in the ITC, broad support across stakeholder groups for
21 various of these suggested changes, but not all of them,
22 but clearly some divergent views in terms of how best to

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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,

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1 in governance, and also in education. So consider all of
2 these elements as well.

3 Next slide, please, Jessica.

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

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

20 Secondly, some said if you have a concept of auditor
21 commentary or expanded emphasis of matter, that it should
22 be more than just a reference to management's disclosures.

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1 That's the reference to additional audit context here. So
2 some said at least provide an indication of why the auditor
3 believed this matter was important.

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

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

16 Clearly, a need for robust guidance criteria to help
17 inform the auditor's judgment in this regard, concerns
18 expressed about having the right language here to indicate
19 that this is information in the context of the audit of the
20 financial statements as a whole to avoid any concerns about
21 piecemeal opinions, hidden qualifications or separate
22 assurance.

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1 And then lastly, the very strong support in terms
2 of applicability for applying this notion to listed
3 entities and in that regard, I might say there were also
4 some that said even for listed entities, perhaps a
5 consideration of how the concept might be scalable or
6 applied proportionately to smaller listed entities.

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

21 Across the board, support for some kind of a
22 statement in the auditor's report relating to the auditor's

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1 responsibility for other information that is included with
2 the audited financial statements including identifying the
3 information read and the auditor's conclusion, if you will,
4 on that.

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

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

17 And then finally, the last slide here just quickly
18 to point to timing and that is the IAASB, this is the number
19 one priority project. It's on a very accelerated time
20 table and the goal still is to have an exposure draft of
21 a revised auditor reporting standard by next June with final
22 standards a year after that.

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1 So with that, I will stop and Jennifer, turn it back
2 to you.

3 (...)

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

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

17 MS. RAND: Okay, Jeff Mahoney.

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

22 And second, you mentioned this term original

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1 information was on your slide. And I'm just curious about
2 the definition of that. Would that include the auditor's
3 reports on the financial statements? Would that be viewed
4 as original information under that definition? Thank you.

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

19 Having said that, there's still some questions
20 about well, if the auditor would summarize some of the
21 information in a note disclosure and include that in a
22 section on auditor commentary or an emphasis of matter

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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 With respect to your other point on paragraphs 43
7 through 47 of the ITC, I will say this. I think there are
8 some definite parallels between what is being considered
9 here and what the PCAOB has outlined and will be discussed
10 in more detail, but the global stakeholders of the IAASB,
11 I think, had indicated a desire for perhaps more
12 information, more and different information. So while
13 there are some parallels, there are also at least in the
14 ITC, there were some differences that need to be reconciled
15 going forward.

16 We might ask Marty or Jennifer to comment on how
17 their proposals or an outlined approach might align with
18 what is here.

19 MR. BAUMANN: We'll look forward to this afternoon
20 in that regard.

21 (...)

22 MR. MURRAY: Thank you very much, Jennifer. A

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1 quick follow up on Jeff's question to help us understand
2 this afternoon's discussion and how we can contribute. It
3 may be an obvious one, I don't know to you or Dan. Has there
4 been any work done thus far that reconciles the IAASB's
5 original information position or at least as that has
6 emerged in your work with the emphasis of matter of
7 suggestion that we are to consider, given that there isn't
8 anything that couldn't be gathered by management and
9 reported out in management's disclosures that might
10 otherwise come from an emphasis of matter issued by the
11 auditor?

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

17 MR. BAUMANN: I think that is what we are addressing
18 today. And I think that both our project and the IAASB's
19 project at least insofar as we're thinking of either
20 commentary or matters of emphasis, starting with the
21 financial statements and what should be brought out. But
22 the question then goes to okay, how far should it be brought

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1 out? What should the auditor be saying about it? How much
2 detail about the matter?

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

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

19 MR. BAUMANN: Let's try to take the cards that are
20 up and then move to the next topic, but I think what we're
21 finding here is many of these questions are the questions
22 we want to address this afternoon in the breakout sessions.

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1 If it's a matter you think we're going to discuss in the
2 breakout session, you think we can leave it until then, and
3 remember we're coming back again tomorrow to talk about it
4 again, maybe you don't need to have that point addressed
5 now. But if it's spot on to something that Dan said and you
6 just want to get clarification, maybe that's better.

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

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

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

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

22 I would add that I believe, personally, that's me

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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.

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

7 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?

15 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

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1 responsibility principle because there is no vehicle under
2 the international standards for a group auditor to divide
3 responsibility.

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

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

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1 in an emerging market.

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

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

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

17 A question for Dan. I was surprised by your
18 comment, Dan, on the people who asked for information on
19 how the audit was conducted. Because when I look through
20 the invitation to comment on the improving the auditor's
21 report by the IAASB, they don't really focus on that issue.
22 I'd be curious as to whether the tenor of those comments

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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.

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1 MS. RAND: Okay, Gaylen Hansen, you have the last
2 word on this subject.

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

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

18 MR. MONTGOMERY: I think, Gaylen, I would just say
19 at this point that there's more discussion that needs to
20 take place. There were several respondents to the ITC that
21 pointed to that particular issue. How does the auditor
22 determine what is, in fact, most important to a user?

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1 Because you could have different users having different
2 needs, different views of what's important to them.

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

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

20 (...)

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