

NOTICE: This is an unofficial transcript of the portions of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on June 18, 2015 that relate to the Board's proposal on improving transparency through disclosure of engagement partner and certain other participants in audits. The other topics discussed during the June 18, 2015 meeting are not included in this transcript excerpt.

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PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

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STANDING ADVISORY GROUP

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MEETING

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THURSDAY
JUNE 18, 2015

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The Standing Advisory Group met in the Federal Hall of the Washington Plaza Hotel, 10 Thomas Circle NW, Washington, DC, at 8:30 p.m., Martin Baumann, Standing Advisory Group Chairman, presiding.

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MR. DOTY: Thank you, Marty. I've assured Marty

1 on several occasions that to preserve this slot of an
2 important meeting it requires that some of you find this
3 useful and helpful. So you can get me off of this with
4 the appropriate advice to Marty.

5 But it is my chance to thank you again for coming,
6 for giving us your guidance, for providing the kind of
7 critical insight on our standard setting projects that
8 we require.

9 I would note, of course, at the outset I speak
10 only for myself here, in this overview of where we're
11 going and what we're doing. I express no views about the
12 -- other than my own, none on behalf of the Board or other
13 members. But as I said last night, your participation
14 gives us a critical piece of input and guidance.

15 We'll be discussing these significant standards
16 that Marty has discussed, and consulting on work on
17 auditing as we go forward. But I want to briefly touch
18 on the progress of a couple of projects that we've
19 discussed a number of times.

20 And one is enhancing transparency by naming the
21 engagement partner and certain other firms in an audit.
22 And also, our project on audit quality indicators, which

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1 we'll say something about.

2 As discussed in the last meeting, we've been
3 considering using a form, a PCAOB form, as an alternative
4 to requiring that names and information be provided about
5 the engagement in the audit report.

6 And it's my hope that this will allay auditors'
7 concerns on liability issues that they perceived in
8 connection with the disclosure of the audit engagement
9 partners' name, and the other participating firms.

10 We're ready to seek comment on a potential form
11 that could be used. And I hope to do that through a
12 supplemental request for comments later this month. And
13 with something to be said later on the AQI project, we
14 may well be in a position to proceed on both with the help
15 of our colleagues at the Commission.

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9 MR. BAUMANN: Thanks very much. Ken Goldman.

10 MR. GOLDMAN: Thank you. This is my first
11 meeting, so I'll just be brief in terms of a couple of
12 thoughts relative to Chairman Doty's comments.

13 First of all, I think when the auditing standards
14 change, I would just recommend, it's helpful for issuing
15 companies to understand more of how those changed.
16 Sometimes we see the impact of those, but it's actually
17 during the auditing process. And I see this both as a
18 CFO, as well as a chairman of a couple of companies, in
19 terms of the audit committees.

20 Two is just a comment. You talked about
21 enforcement actions. One thing I've noticed, just again
22 in my brief tenure here is I see a lot of the enforcement

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1 actions, from what I see anyway, on firms that to me are
2 relatively small. And it just brings to my thought as
3 to whether certain firms should be doing audits. Or too
4 is are we spending so much time on relatively smaller
5 firms, versus larger firms.

6 Three -- and this is going to be contentious, but
7 I'll say it anyway. I was on the treasury committee with
8 some others here, when we looked at a number of factors.
9 This is back in the '07, '08 timeframe. I have about 20
10 binders still from that period, which now are nicely on
11 the shelf.

12 But one of the things we did talk about was the
13 partner being -- you know, signing the opinion. We're
14 still talking about it. And to me, I'll just make this
15 comment. I am proud to sign on behalf of my company when
16 I sign. And to me, you know, it should be the same --
17 I think it should be the same in terms of the auditing
18 profession. They should be proud too.

19 And to try to put it on some other piece of paper,
20 which is hard to find, it will be found anyway. I don't
21 quite see the benefit of doing that, versus signing
22 somewhere very visible, like under the opinion. Those

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1 are my comments.

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MS. MOONEY: Thanks, Marty. Well first, I would echo Ken Goldman's comments about the transparency project, and really urge PCAOB to move forward, I mean, without delay on this.

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For the vast majority of annual reports that I've looked at in other countries, in the major countries, they include the audit partner names. It hasn't been a problem.

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So these are -- you know, except Canada, I think all the other major countries do this. It seems like it doesn't look so great on the profession to continue to try to hide this information here.

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But anyhow, just in respect to China, Jim, your comments on China, the audit work paper proposal. Is there any difference from what's required of the U.S. companies, or companies listed here, you know, that are from other countries, in terms of, you know, audit work papers in the U.S. securities law?

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10 MR. TWEEDIE: Thanks, Marty. It's really just
11 to back up what Ken and Elizabeth were saying. I mean,
12 I don't know the facts of the situation. But like many
13 auditors, the fact that I don't know the facts doesn't
14 stop me expressing an opinion.

15 It was --- not being a lawyer, I just don't
16 understand the difference between putting an auditor's
17 name on a different piece of paper is going to save you.
18 And as a non-American, we've always looked upon the PCAOB
19 as a leader in this field. It's spawned similar bodies
20 worldwide.

21 And worldwide the auditor puts his name under his
22 opinion. And, you know, I really think it's a shame that

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1 the U.S. isn't showing the same sort of leadership that
2 it's shown in other areas. I really would like you to
3 think again and do it properly.

4 MR. BAUMANN: Thanks, David. Any other general
5 comments, questions? Peter Clapman.

6 MR. CLAPMAN: I'll just echo, since the issue has
7 now been raised for the table, the people that have urged
8 strongly to have the audit partner's name disclosed.

9 To me it's an investor protection issue. It's
10 an -- or disclosure issue to make it easier for investors
11 to understand the audit process in companies they're
12 investing in.

13 And I really don't see, since everybody else in
14 the structure of an audit knows who the senior audit
15 partner is, why this shouldn't be made readily available
16 to the public. And therefore, known to investors who
17 want this information. And it's hard for me to
18 understand why it's not readily understood that that
19 should be given.

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10 MR. DOTY: Well first, on the liability point,
11 as I said, I believe that case law is moving significantly
12 in the direction of supporting Ken and Sir David on the
13 proposition that merely naming the engagement partner in
14 an audit report, or even signing on behalf of the firm,
15 does not expose that engagement partner to liability
16 under Rule 10b-5, under private civil litigation
17 standards.

18 But what I think as a lawyer is not important.
19 I think what we're trying to do at the PCAOB is move the
20 actual form requirement in a manner that will alleviate,
21 address and lay to rest the concerns that the partner
22 might be needing to make a statement subjecting the

1 partner to individual liability, personal liability.

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3 Although suits against individual engagement
4 partners have not been common. And so, I agree with Ken
5 that this information is going to be found if we can get
6 it in an appropriate filing at the PCAOB.

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MR. JUBB: Thank you. In relation to the naming of the engagement partner on audit reports, I wanted to share a very practical testimony relating to how very, very useful this has been in the United Kingdom, in relation to raising questions about audit quality and

1 reporting thereto.

2 Last month on behalf of Standard Life
3 Investments, I attended the AGM of Royal Dutch Shell.
4 And I spoke at that AGM in The Hague, to draw attention
5 to the fact that the named partner for Royal Dutch Shell
6 was also the named partner who signed the Rio Tinto audit
7 reports some five or six years ago, at the same time when
8 the chair of the audit committee of Royal Dutch Shell was
9 the CFO.

10 I was able to do that because we were able to
11 identify the name of the partner. And this was his first
12 year being -- signing off on the Royal Dutch Shell,
13 because he was named in the auditor reports. I was also
14 able to identify that he was the auditor of a company
15 named Bumi. Bumi is a mining company, which its shares
16 are now suspended.

17 And in today's Financial Times, there is a report
18 of a significant regulatory fine due to non-disclosure
19 of certain related party transactions. And I was able
20 to identify that the partner who signs the Royal Dutch
21 Shell was the same person, because he is named in that
22 way.

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1 And if I didn't have the ability to identify that
2 partner, I would not have been aware of the issues
3 involved. And I would not have been in a position to ask
4 the audit committee in the AGM -- or through the chair,
5 to ask and inquire as to why the audit committee had not
6 provided more disclosures regarding the circumstances
7 associated with the selection of that individual as the
8 audit partner for Royal Dutch Shell.

9 And I wanted to share this with the -- in the SAG,
10 as a very practical example of how the naming of audit
11 partners can enable a better understanding of the issues
12 associated with a specific audit. Thank you.

13 MR. BAUMANN: Guy, thanks for those good
14 insights, and we share completely your view of the
15 importance of naming the engagement partner. And it
16 continues to be a very high priority of ours to make sure
17 that that happens. Although a lot of obstacles have been
18 in the way, we believe we'll get there. Joan Amble.

19 MS. AMBLE: Yes. Thank you. I actually wanted
20 to talk on a different subject. Well actually, I do
21 though want to make the point that I don't see what the
22 issue is with the auditor signing the report either. I

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1 look to it analogous as the certifications that the CEOs
2 and Chairman's provide.

3 So if there's some legal issue I'm unaware of, I'm
4 kind of clueless on that. But I'm kind of with the group
5 here that the signature seems to make a lot of sense. And
6 I would think they would be proud to sign it.

7 I was curious if you could offer, Chairman Doty,
8 some further discussion about -- you had mentioned when
9 the paper on audit committee dialogue was issued, you had
10 had some audit committee input from that. And that you
11 would propose on that in other areas to get more input from
12 the audit committee, which I think, is great. I would
13 welcome those opportunities.

14 I was curious as to whether or not that would be
15 sort of a formal process that you would set up? If there's
16 going to be an advisory group? Or if it would be more ad
17 hoc? And so, if you could just talk about maybe what the
18 outreach program might look like, I'd be interested.

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