

NOTICE: This is an unofficial transcript of the portion of the Public Company Accounting Oversight Board's Standing Advisory Group meeting on June 25, 2014 that relates to the Board's Proposed Auditing Standards on the Auditor's Report and the Auditor's Responsibilities Regarding Other Information and Related Amendments. The other topics discussed during the June 25, 2014 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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WEDNESDAY
JUNE 25, 2014

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1 (...)

2 MR. TWEEDIE: I haven't read any IASB Board papers
3 since the day I left office, and I certainly haven't read
4 any FASB papers. I really want to keep the will to live
5 at the moment.

6 (Laughter.)

7 The fact that I am ignorant of the fact doesn't stop
8 me, like any good auditor, from giving an opinion.

9 Basically, what I think the problem really is, it
10 is not so much accounting standards. IAS 1 is a very old
11 one. It is probably the first one. Well, it must be, No.
12 1, the first one the IASC ever issued. And it exists since
13 1973. So, you know, I wouldn't put too much weight on that
14 particular standard.

15 I think the real problem, though, was in the crisis
16 it was so difficult for a going concern qualification; it
17 killed the entity. And so, they didn't go on. And yet,
18 you got terrific criticism about these companies that
19 received the top funding, the ones that went bust, and no
20 going concern qualification.

21 I am not sure that this is going to solve that
22 problem for you. And when you look at the UK's situation,

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1 and the one that the bank that blew up first, Northern Rock,
2 it had no going concern qualification.

3 And if you looked about Note 40-something, you
4 could see the business model, which was to borrow from the
5 wholesale markets at three months' notice and lend out for
6 25 years. And 75 percent of Northern Rock's liabilities
7 were due within three months. And so, the minute the
8 wholesale markets froze, Northern Rock was dead.

9 And, you know, there was a classic case. What had
10 they based the going concern assumption on? And the going
11 concern was based on the wholesale market staying open.

12 And I rather think you want to move more towards,
13 what is it that makes us think this is okay, rather than
14 sort of say, is there a doubt? Because there wasn't with
15 Northern Rock until the crisis hit, and then, it came
16 within two or three months. Bang. Gone.

17 So, I am not sure you are attacking it in the right
18 way, to be honest. I think you are going to have to look
19 at, give people details of why is this a going concern in
20 your opinion.

21 People didn't criticize the auditor in Northern
22 Rock. Well, they did, but once it was pointed out to

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1 them. Note 40-odd, it was there.

2 But your new auditing reporting is suggesting -- at
3 least a lot of investors want it -- could you draw
4 attention to significant items in the notes and things like
5 that? And I think this is a classic. And this one
6 actually could save the auditors from a lot of hassle.

7 MR. BAUMANN: You know, that's a great point, and
8 I appreciate your making it.

9 We have had a lot of discussion about that because
10 in terms of critical audit matters and the new auditor
11 reporting, a critical audit matter could be whether or not
12 this company has the ability to continue as a going
13 concern. And the auditor would describe that risk and,
14 then, their response to that potentially under our new
15 auditor reporting.

16 That has been raised oftentimes as the key issue
17 of concern by preparers and others of, well, management
18 determined they didn't have to report that they don't have
19 the ability to continue as a going concern, but, yet, the
20 auditors are reporting something to investors which is now
21 being called original information often, that the auditor
22 is describing their thought process as to, you know,

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1 whether they were or whether they were not in a situation
2 of having substantial doubt about a going concern.

3 So, I share your point very much, and it has been
4 one of the issues we have been debating on critical audit
5 matters, and getting a lot of pushback that, well, yes,
6 but you can't raise an issue that wouldn't otherwise be
7 required to be disclosed under the accounting framework.

8 Now we haven't concluded that is the case. There's
9 no law that says that. I am just saying a lot of pushback
10 from commenters about us requiring auditors to report on
11 critical audit matters that would be information that
12 wasn't otherwise required to be disclosed in the financial
13 statements.

14 So, excellent point and one that we are debating
15 a lot in this issue about enhanced auditor reporting.

16 (...)

17 MR. CROTEAU: Yes, thanks very much.

18 A few things, and I appreciate the comments Bob is
19 making. I think in the first instance certainly we have
20 been staying coordinated with the FASB as they proceed.
21 I think there is a threshold question to be asked as to
22 whether the definition of substantial doubt in the FASB

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1 standard would satisfy the obligation in securities law.
2 So, I think that is an important threshold question.

3 I guess I would just say, from my own perspective,
4 it is fair to say from a staff perspective that if we
5 thought it didn't, we certainly would have informed the
6 FASB of that. Now that doesn't mean that is all investors
7 are looking for. If investors are looking for something
8 more, including earlier warnings, that doesn't mean that
9 that necessarily satisfies it.

10 But, from the perspective of whether the definition
11 the FASB is looking to proceed with satisfies at least the
12 requirements of the securities law, again, I think at least
13 speaking for myself, we would have raised our hands and
14 said, "Hey, I don't think it does," if we didn't think it
15 did.

16 I do want to mention -- and, Marty, you raised the
17 concern that some have raised relative to original
18 information, and I think that is part of what some have
19 raised relative to putting the auditor in the role perhaps
20 of reporting at a different threshold. But I think it is
21 beyond that in this case.

22 I think in some situations some are concerned that

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1 it may undermine accounting criteria, if you will. So,
2 it is not just a question of whether it is original
3 information. But if the accounting standards define a
4 threshold, having the auditor report at a different
5 threshold for the same definitional term some view might
6 undermine the accounting criteria. And so, I think it was
7 more than just whether or not it is original information.

8 So, I think there are multiple things to be thought
9 about here. The threshold question is a fair one to be
10 asked, and, then, whether there is additional information
11 investors need or should have.

12 The last point I will just make is liquidity
13 disclosures, risk factor disclosures. There are other
14 places in a filing that one would expect disclosures that
15 are relevant to investors in this space as well. And so,
16 obviously, when we think of it, we need to think of it in
17 the broader context than just this one aspect. So, I think
18 it is important to recall that, too.

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