

UNITED STATES OF AMERICA
 DEPARTMENT OF THE TREASURY
 ADVISORY COMMITTEE ON THE AUDITING PROFESSION
 MEETING

OPEN SESSION

MONDAY, OCTOBER 15, 2007

The meeting came to order at 10:00 a.m. in the Cash Room of the Department of the Treasury, 1500 Pennsylvania Ave, NW, Washington, DC. Arthur Levitt Jr. and Donald T. Nicolaisen, Co-Chairs, presiding.

PRESENT:

ROBERT K. STEEL	UNDER SECRETARY FOR DOMESTIC FINANCE
DAVID G. NASON	ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS
ARTHUR LEVITT, JR.	COMMITTEE CO-CHAIR
DONALD T. NICOLAISEN	COMMITTEE CO-CHAIR
ALAN L. BELLER	COMMITTEE MEMBER
AMY WOODS BRINKLEY	COMMITTEE MEMBER
MARY K. BUSH	COMMITTEE MEMBER
TIMOTHY P. FLYNN	COMMITTEE MEMBER
ROBERT R. GLAUBER	COMMITTEE MEMBER
KEN A. GOLDMAN	COMMITTEE MEMBER
GAYLEN R. HANSEN	COMMITTEE MEMBER
BARRY C. MELANCON	COMMITTEE MEMBER
RICHARD H. MURRAY	COMMITTEE MEMBER
GARY J. PREVITS	COMMITTEE MEMBER
SARAH E. SMITH	COMMITTEE MEMBER
DAMON A. SILVERS	COMMITTEE MEMBER
WILLIAM D. TRAVIS	COMMITTEE MEMBER
LYNN E. TURNER	COMMITTEE MEMBER
ANN YERGER	COMMITTEE MEMBER
ROBERT H. HERZ	OBSERVER
MARK W. OLSON	OBSERVER
ZOE-VONNA PALMROSE	OBSERVER

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P-R-O-C-E-E-D-I-N-G-S

10:03 A.M.

1 UNDER SECRETARY STEEL: Well, good
2 morning, everyone, and welcome to the Department of
3 Treasury. Thank you for being here today at the
4 initial meeting of the Advisory Committee on the
5 Auditing Profession. I want to extend my gratitude as
6 well as that of Secretary Paulson and the Department
7 to all the members of the Committee. We appreciate
8 the generosity of your service.
9
10

11 I want to thank in particular the Co-
12 chairs of the Committee, former Securities and
13 Exchange Commission Chairman Arthur Levitt, Jr. and
14 former SEC Chief Accountant Donald T. Nicolaisen. The
15 high regard in which these two gentlemen are held is
16 reflected in the willingness of the distinguished
17 individuals gathered around this table to serve as
18 members of the Committee. As many of you
19 know, this Committee stems from capital markets
20 competitiveness initiatives that Secretary Paulson has
21 spearheaded throughout his time in Washington. Nearly
22 a year ago, the Secretary delivered a speech on the
23 need to maintain and enhance U.S. capital markets
24 competitiveness. He specifically pointed out the
25 sustainability of the auditing profession as a vital

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1 component to this competitiveness. The link between
2 the auditing profession and capital markets
3 competitiveness was established during the adoption of
4 the federal securities laws almost 75 years ago. To
5 assist in restoring investor confidence and
6 encouraging capital development after the 1929 crash,
7 the auditing profession itself lobbied for independent
8 audits of financial statements as a key part of the
9 legislative reforms that Congress was then
10 considering.

11 Agreeing with the profession, Congress
12 mandated in the federal securities laws independently
13 audited financial statements for all public companies.

14 Certifying financial statements, the independent
15 auditor would help accomplish the aims of the
16 Securities Act of 1933, "To restore the confidence of
17 the prospective investor and his ability to select
18 sound securities and to bring into productive channels
19 of industry and development capital which has grown
20 timid."

21 Congress has decided then -- had decided
22 then to bestow on the public company auditor a
23 critical role of trust, integral to investor
24 confidence, integral to the flow of capital. This
25 trust clearly broke down at the beginning of the

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1 century when public company accounting scandals
2 challenged the credibility of the auditing profession.

3 Congress, then considering what would eventually
4 become the Sarbanes-Oxley Act of 2002, harshly
5 reminded the profession, "The franchise given to
6 public accountants by the securities laws is
7 conditional. It comes in return for the CPAs'
8 faithful assumption of a public trust."

9 To restore credibility in the profession,
10 the Sarbanes-Oxley Act mandated several major
11 changes, the most prominent being the move from self-
12 regulation and peer review to a system of federal
13 oversight. The Public Company Accounting Oversight
14 Board, whose creation has been termed the centerpiece
15 of the Act, now registers and inspects all public
16 company auditing firms and sets and enforces auditing
17 standards. The Sarbanes-Oxley Act also enhanced
18 auditor independence standards, required mandatory
19 auditing firm partner rotation and strengthened the
20 audit committee's role in monitoring the auditor and
21 the audit process.

22 Five years have passed since the passage
23 of this landmark legislation. The profession
24 continues to adapt to these changes as it reasserts
25 its role in enhancing investor confidence and the

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1 competitiveness of our capital markets. At the same
2 time, the profession faces considerable challenges.
3 Secretary Paulson outlined these challenges in his
4 competitiveness speech last fall. I repeat his
5 precise words. First, given the performance of
6 accounting to our financial system, is there enough
7 competition? Secondly, will our reformed accounting
8 system produce the high quality audits and attract the
9 talented auditors we need? And lastly, do auditors
10 seek detailed rules in order to focus on technical
11 compliance rather than using professional judgment
12 that could be second-guessed by the PCAOB or private
13 litigants?

14 In conclusion, the Department has charged
15 this Committee with developing recommendations taking
16 into consideration issues impacting the sustainability
17 of the auditing profession including but not limited
18 to those raised by these questions. Neither the
19 difficulty nor the importance of this task should be
20 underestimated. Again, we at Treasury are most
21 grateful for your service. Secretary Paulson and the
22 Department eagerly await your recommendations and I
23 now yield the floor to the Co-Chairs for their
24 meeting. Thank you very much.

25 CO-CHAIR LEVITT: Thank you. I hereby

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1 convene this exercise with Don. In terms of meetings
2 and timings, I know how precious your time is and how
3 much you have given to this effort. I promise you
4 that with your cooperation, we will stay right on
5 schedule. Five minutes means five minutes. As is
6 evident from the working discussion outline, our
7 charge is considerable. All of us want robust markets
8 and a vibrant and effective accounting profession.
9 Yet, our responsibilities are fairly serious ones.

10 Investors are willing to commit capital to
11 our markets because they have confidence in the
12 quality and the integrity of financial statements that
13 are prepared by public companies and certified by
14 independent auditors. Investor confidence in that
15 financial information does not merely fuel markets but
16 makes them possible. We can't afford to break the
17 trust and confidence of investors in our markets
18 today. That's absolutely the most critical
19 ingredient. We must keep in the forefront of our
20 analysis and debate the public responsibility that the
21 independent auditor assumes.

22 One area that we will be considering in
23 greater depth is the auditor's responsibilities in
24 searching for and discovering fraud. What can we
25 learn from past billion dollar financial statements

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1 blow-ups so that our recommendations address those
2 problems and insure as best as possible that they
3 won't happen again. If there's a billion dollar
4 error, investors must be able to rely on auditors to
5 try to discover it. In my view, the best protection
6 for auditors against investors looking to recover
7 losses from them is to insure that the audit has
8 provided reasonable assurance that the numbers can be
9 trusted. I think investors are willing to come to the
10 table and discuss ways to limit unnecessary litigation
11 against the profession, but only if the profession
12 measures up to its obligations when finding fraud.

13 This includes detecting billion dollar
14 errors in financial statements. It includes telling
15 investors the whole truth with respect to their
16 findings. That type of frank communication will
17 better serve the interests of both investors and
18 auditors. Likewise, a culture of audit quality
19 requires individuals who are willing to and do call
20 out of bounds. Even the most brilliant auditors
21 superbly trained and infinitely resourced will not
22 achieve our objective of a quality audit unless the
23 auditor is willing to and does act as the referee. In
24 my vision, this isn't a passive reporting role. It's
25 an act of running up and down the field calling it as

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1 it is role.

2 Also, we need to keep in mind that even
3 the best resourced audit performed by the best-
4 trained, most brilliant auditors will not meet the
5 need of investors if independence is compromised. It
6 takes dedicated, talented, knowledgeable people to
7 perform quality audits. That means the profession
8 needs to be able to attract talent into their ranks.
9 In the past century, other professions such as the
10 legal and medical, have found that they've had to
11 substantially upgrade and extend their system of
12 education in order to meet the increasing needs of the
13 public.

14 Manny Cohen, one of my many predecessors
15 as Chairman of the SEC, noted in a report almost three
16 decades ago that the profession needed to make
17 significant improvements to the studies of those who
18 desire to enter the auditing profession. I hope we
19 can find a way for the accounting profession and
20 educators to accomplish this challenging task before
21 another decade runs its course. Finally, balanced
22 oversight and a culture of auditing quality are
23 necessary to avoid the kind of lapses that led to
24 Arthur Andersen's tragic demise that can shake the
25 very foundation of our economy. Competition,

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1 while important, does not always promote the values of
2 objectivity and transparency which must be the
3 hallmarks of the auditing profession. Efficiency is a
4 false objective if the public trust is compromised or
5 lost as a result of lack of effectiveness. It's
6 important that we preserve as Leonard Spacek described
7 it, "The greatest social value of the auditor's, the
8 honor in carrying out the auditor's duties and the
9 privilege of bearing such a critical public
10 responsibility."

11 Don?

12 CO-CHAIR NICOLAISEN: Thank you, Arthur.
13 I'm delighted to be here and I'm most appreciative of
14 the commitment that all of you have agreed to make in
15 working with this Committee. I think we're here at an
16 opportune time in that unlike certain other points
17 when the auditing profession was look at, we're not in
18 an absolute period of crisis, so we can take the time
19 to give some considered and measured thought process
20 to what we go through. It's obvious that the auditing
21 profession has long been studied. There have been
22 plenty of reports that have been issued. Each of you
23 received a bibliography of four or five inches of just
24 touching on the surface of articles that have been
25 written about the profession. So I think it's clear

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1 that it is important, it is important to our capital
2 markets. It's the life blood of integrity and trust
3 that investors depend on as they make their investing
4 decisions.

5 The profession is not static. It has
6 changed dramatically over the past five years. Post-
7 Sarbanes-Oxley there have been a number of changes,
8 not the least of which is the PCAOB oversight.
9 There's also been additional consolidation. We're now
10 with four giant firms that serve a very substantial
11 piece of the capital markets. Audit committees are
12 more deeply engaged. There's an interest spreading
13 around the globe in the use of international
14 accounting standards and that certainly is an interest
15 that's being looked at here, the auditor's report on
16 internal controls, not just on financial numbers.

17 Accounting standards have not become any
18 simpler. They remain incredibly complex and as we
19 move to greater and more use of fair value and mark to
20 model numbers, the auditor skill sets are changing as
21 well. I think we're looking at the complexity of
22 rules that have developed and evolved over the years
23 within the auditing profession. There probably are
24 some opportunities to take a look at whether that can
25 be simplified as well. Everyone that I've talked to

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1 has expressed the view that they believe audits are
2 better today than they were five years ago. At the
3 same time, there is some concern out there that,
4 perhaps, the auditor has become overly interested in
5 protecting its interest and in some of the checklists
6 and some of the things that are being done seem to be
7 redundant and have a cost impact and should be studied
8 as well.

9 The environment to do this, as I said
10 earlier, I think is appropriate. It's a great time
11 because we're not under absolute crisis or we'll be
12 able to look at this in a very studied way. My hope
13 is that we would focus as a committee on development
14 of recommendations that are more principles-based than
15 rules-based. Any rule that gets written for the
16 auditing profession and for that matter, the
17 accounting profession tends to have a life to them and
18 I think we can do most service if we focus on those
19 attributes, those traits, those concepts, those skill
20 sets, those things that the auditor brings to the
21 table that are unique and that can be most valued by
22 investors if looked at on a principles approach.

23 So, I'm enthusiastic about this. I think
24 we have a great opportunity to move forward the
25 auditing profession and to deal with a number of the

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1 complex issues that that profession faces. Arthur.

2 CO-CHAIR LEVITT: I'd like to introduce a
3 number of members of the group this morning. First
4 Amy Woods Brinkley is the very important Global Risk
5 executive for Bank of America based in Charlotte.
6 Mary K. Bush to my immediate right is President of
7 Bush International, serves on the boards of a number
8 of publicly traded companies, Briggs and Stratton,
9 Discover Financial Services, ManTech Corporation and
10 United Air Lines and the Pioneer Family of Mutual
11 Funds.

12 Timothy Flynn is Chairman and Chief
13 Executive Officer of KPMG. Robert Glauber, with whom
14 I've worked for many years served as Chairman and CEO
15 from September 2001 to 2006 after becoming NASD's CEO
16 and President in November, 2000. Bob is currently a
17 lecturer at Harvard's Kennedy School of Government.
18 Ken Goldman is Chief Financial Officer of Fortinet.
19 Gaylen Hansen, another one of our western delegates,
20 serves on the Colorado State Board of Accountancy and
21 board of directors of the National Association of
22 State Boards of Accountancy. He's also an audit
23 partner at Ehrhardt Keefe Steiner and Hottman, P.C.

24 Alan Beller was the Director of the
25 Division of Corporation Finance of the SEC, Senior

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1 Counselor to the SEC from 2002 and 2006. Alan is
2 currently a partner with Cleary Gottlieb Steen and
3 Hamilton and I would say that in talking about Alan
4 the words that most readily come to mind are wisdom
5 and balance, words I think all of us would like to
6 have associated with our efforts.

7 Barry Melancon is the President and Chief
8 Executive Officer of the American Institute of
9 Certified Public Accountants. Richard Murray is
10 Managing Director and Chief Claims Strategist of Swiss
11 Re. Gary Previts is President of the American
12 Accounting Association and a Professor of Accountancy
13 at Case Western Reserve University.

14 CO-CHAIR NICOLAISEN: Let me continue with
15 the list, Damon Silvers is an Associate General
16 Counsel for the AFL-CIO. He has experience with
17 corporate governance, pensions amongst many other
18 things. Sarah Smith is a Controller and Chief
19 Accounting Officer of Goldman Sachs. She also serves
20 on a number of committees at Goldman Sachs, including
21 the Risk Committee. William Travis is currently on
22 the Board of Directors of McGladrey & Pullen. He was
23 previously Managing Director and Chairman. William
24 has been President and CEO of Bailwick Data Systems
25 since 2007.

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1 My good friend, Lynn Turner served as
2 Chief Accountant at the SEC from 1998 to 2001,
3 currently serves as a Senior Advisor to Kroll Zolfo
4 Copper. Ann Yerger, CFA, is the Executive Director of
5 the Council of Institutional Investors and Ann, we're
6 very glad to have you here. Also there are several
7 members who were not able to make this first meeting.

8 Let me introduce them to you and I'm sure we'll see
9 them at our next session. H. Rodgin Cohen is Chairman
10 of Sullivan & Cromwell. Anne Mulcahy is Chairman and
11 Chief Executive Officer of Xerox Corporation. Richard
12 Simonson is Executive Vice President and Chief
13 Financial Officer of Nokia Corporation and Paul
14 Volcker, who has served as Chairman of the Board of
15 Governors of the Federal Reserve System and was
16 recently Chairman of Trustees for the International
17 Accounting Standards Committee is also serving on this
18 Committee.

19 Let me also introduce those who are
20 observing on behalf of various important bodies and
21 constituencies. First, Robert Herz, who is the
22 Chairman of the Financial Accounting Standards Board
23 in Norwalk, Connecticut. Mark Olson, who is the
24 current Chairman of the Public Company Accounting
25 Oversight Board, the Board that oversees the auditing

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1 profession. Zoe-Vonna Palmrose, whom I've known for a
2 very long time, I've been on the Board of Advisors out
3 at USC's accounting school for many years and Zoe-
4 Vonna is a Professor at USC. She's currently the
5 Deputy Chief Accountant for Professional Practice in
6 the Office of Chief Accountant at the SEC.

7 There are also several observers who could
8 not make this first meeting. Let me introduce them as
9 well. Conrad Hewitt, who is the Chief Accountant of
10 the SEC. Michel Prada, who is Chairman of the
11 regulatory agency in France, Sir David Tweedie, who is
12 Chairman of the International Accounting Standards
13 Board. So at this point, I'm going to turn the
14 program over to Alan Beller. Alan, who is a member of
15 the Committee has also agreed to serve as counselor to
16 this Committee and I had the great pleasure of working
17 with Alan for several years at the SEC and I
18 appreciate the intellect and comments that you're
19 about to deliver at this point, Alan.

20 MR. BELLER: Don and Arthur, thank you
21 very much. I've been asked to explain in a few
22 minutes going over the discussion outline that is in
23 the materials that have been provided to the
24 Committee. This is a discussion outline, to be clear,
25 that was prepared by the co-chairs and by -- with the

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1 assistance of Treasury staff and some other
2 contributors. The Committee does not have to take
3 ownership of it. It's been provided as a beginning
4 guide to the Committee's thinking and work. It
5 obviously is not intended to control the Committee's
6 thinking and work but rather to provide a starting
7 point. As it says, it's a working discussion outline.

8 It will be made available to the public on
9 the committee website. It is a -- since it's a
10 working discussion outline, I guess it's also
11 potentially a work in progress. As comments develop
12 about this outline, it will be left to the co-chairs
13 to decide if they want to make further revisions or
14 move onto other matters. If there are revisions, they
15 will also be made available on the Committee website.

16 And the outline will be published in the
17 Federal Register as I understand it. So that's sort
18 of where we are in terms of process. In terms of
19 substance, as a guide to the Committee's thinking and
20 work at the commencement of our process, I think it's
21 evident from the outline that we face a serious,
22 difficult and complex subject. The outline divides
23 our work or the thinking about our work into three
24 general topics. There is a section of the outline
25 that I think is quite important but is largely, by

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1 reference.

2 There has been prior work done in the area
3 of studying the audit profession. Indeed, we couldn't
4 quite fill this room but we could certainly fill the
5 space inside this table with the studies and
6 publications and thinking that have been done in the
7 past about this and one of the things that we'll --
8 this Committee will be charged with is thinking about
9 those prior studies and that prior history and what we
10 can learn from it.

11 In terms of the three areas into which the
12 outline and the -- preliminarily the work of the
13 Committee will be divided, those three are first,
14 human capital and its impact on audit quality.
15 Second, the auditing firm and the audit organization
16 financial resources and finally, the structure of the
17 auditing profession, competition, concentration,
18 independence and other professional standards.

19 Now, digging into those three separately
20 for just a moment, drilling down a little bit further,
21 in the human capital section, the outlines suggests
22 that the work of the Committee will include
23 consideration of recruitment and training by the
24 auditing firms, that it will include consideration of
25 education, accounting education. It will consider

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1 issues of retention by audit firms and it will include
2 consideration of the impact of complexity and
3 globalization on the various human capital issues.

4 In terms of audit firms and the audit, the
5 outline suggests that the Committee's work will
6 include consideration of licensing standards and
7 supervision and monitoring of the profession, both
8 individuals and firms. It will include consideration
9 of issues of liability. That's already been touched
10 on by both Under Secretary Steel and Don and Arthur.
11 It will include issues of insurability and it will
12 include consideration of issues of transparency and
13 governance of the auditing firms.

14 Finally, the section on professional
15 standards will include consideration of independent
16 standards, consideration of other professional
17 standards and rules. Just an example would be
18 rotation for example. It will include consideration
19 of the economic model that the profession currently
20 operates under and it will include consideration of
21 issues of concentration and competition.

22 Again, the issues of complexity and
23 globalization are part of the context and the backdrop
24 against all of those various issues will be
25 considered. I believe it is fair to say that the

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1 purpose or the approach of this working discussion
2 outline has been to be value neutral. It does not
3 espouse any particular positions on any of the
4 particular issues that I've just mentioned. The word
5 "consider" appears more often than any other word in
6 the outline, including the word "audit". And that
7 really is the intent here. The purpose of this
8 working discussion outline is not to provide a
9 direction for the Committee's thinking. That's the
10 Committee's job. It is to provide a series of issues
11 that at least as an opening matter, it was thought
12 that the Committee might wish, would wish to consider.

13 The last thing I'd say about the
14 discussion outline is that it begins with a -- I'll
15 end at the beginning, it begins with a set of
16 overarching principles. And the purpose of that is
17 really, I think, quite simple. There's a lot of
18 detail in this outline. There's a lot detail about
19 particular kinds of things that need to be looked at
20 as part of a consideration of the auditing profession
21 and how it goes forward, but there does seem to be a
22 relatively small series of principles that ought to
23 provide at least in the thinking of the outline's
24 authors, a context and a backdrop for all of those
25 various complicated questions. And there are a series

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1 of about six bullet points that set out the
2 overarching principles. Rather than summarize them,
3 I'm just going to read the first three, because I
4 think they do provide the overarching principles for
5 the Committee's work. The first one, "To further the
6 mission of the Department of the Treasury, to promote
7 and encourage prosperity and stability."

8 Those of you that are familiar with the
9 Treasury's mission statement will hear -- know that
10 those words are exactly the Treasury's mission
11 statement. "To promote and encourage prosperity and
12 stability by" and there are two thoughts here, "both
13 improving the quality of the audit process and audits
14 and insuring the viability and resilience of the
15 public company auditing profession."

16 The second bullet point links those two
17 main themes, "Enhancing the quality of the audit
18 process and audits should contribute to the viability
19 and resilience of the public company auditing
20 profession." You can't think about the viability and
21 resilience of the public company auditing profession
22 without thinking about the quality of the service they
23 provide, the quality of the audit process and audits.

24 And finally, "Confidence in the public
25 company auditing profession is enhanced and

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1 strengthened when the profession operates in a manner
2 transparent to investors and market participants and
3 adopts governance best practices." The remaining
4 bullet points talk about some subsets of what would be
5 generally viewed as improving the quality of the audit
6 process and audits and a series of sub-points as to
7 things that should contribute to the viability and
8 resilience of the auditing of the public company
9 auditing profession.

10 But again, as I say, speaking for the
11 authors of this outline, those overarching principles
12 are sort of the starting point against which the
13 various detailed items would be assessed. I think
14 that's a description of where we are to start with and
15 I'll turn it back to Arthur and Don. Thank you very
16 much.

17 CO-CHAIR LEVITT: Let's each of us have a
18 five minute opening session. I'll introduce first Amy
19 Woods Brinkley.

20 CO-CHAIR NICOLAISEN: Maybe just a
21 reminder to everyone that you push the button on the
22 right. When you see the green light come on, you
23 know, you're ready to speak.

24 MS. WOODS BRINKLEY: Thank you for that
25 tip. To the Co-Chairmen and members of the Committee

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1 on behalf of my teammate the Bank of America, it is a
2 pleasure to join you. I want to thank Secretary
3 Paulson and Under Secretary Steel for assembling this
4 Committee and for focusing the efforts on improving
5 the competitiveness of the United States in the global
6 marketplace. The effectiveness of the audit
7 profession is indeed an issue that relates directly to
8 the health of our economy. Our capital markets rest
9 on a foundation of investor confidence and that
10 confidence relies directly on the credibility and the
11 quality of the audit process. As important, the
12 viability and resilience of the audit profession is
13 essential to the competitiveness of US industry.

14 As a major financial institution, our
15 prospective on these issues is two-fold. First as
16 with other companies represented on the committee, we
17 are a large consumer of auditing services and like
18 other large companies spend tens of millions of
19 dollars for services provided by auditors.

20 Second, as a bank, we are a provider of
21 financial services. In extending credit and other
22 financial services to our clients, investing for our
23 clients or investing for our own needs, we rely on the
24 quality of audited financial statements as part of our
25 decisions and our judgments. So as with other

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1 financial services providers, we are effected by the
2 issues facing the audit profession, both directly and
3 indirectly. Now, as the discussion outline makes
4 clear, the challenges facing the auditing industry are
5 complex and interconnected. We have all witnessed the
6 stress on the profession induced by the vast increase
7 in the complexity of accounting rules, a multi-
8 jurisdictional oversight environment, heightened
9 regulatory activity, and significantly increased legal
10 exposure. The concentration of audit firms leaves
11 large public companies with limited choices among a
12 few large firms. And this impact moves
13 downstream to middle market companies which, in turn,
14 face more limited choices among qualified firms to
15 handle their business because some large firms have
16 mostly exited the middle market. Now, the problem of
17 limited choices becomes compounded when a global
18 company needs additional external audit capacity in
19 the event of a special circumstance. Most often, the
20 additional services must come with global reach and
21 deep technical expertise. Add to this the requirement
22 that the supplemental audit resources must be
23 independent and free of conflicts and the choices are
24 concerningly few.

25 The result of all of the issues facing the

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1 audit firms is that many public companies are
2 experiencing an increase in the cost of audit
3 services. Now, as a company that is intensely focused
4 on attracting, retaining, and developing world class
5 talent, that we need to compete, we are also concerned
6 about the significant challenges the profession faces
7 in building human capital. Because of the growing
8 scope and complexity of the needs of their clients,
9 audit firms truly need the best and the brightest.
10 However, I am told a variety of issues is clogging the
11 talent pipeline for the profession and raising
12 questions about the intermediate to near-term
13 viability of the industry.

14 At colleges and universities, many
15 students face increasing educational requirements to
16 enter the profession. A generation of accounting
17 professors is nearing retirement with insufficient
18 replacement in sight and curricula need updating to
19 produce students with both the general and the
20 technical skills required.

21 Now on the other end of the experience
22 spectrum, audit firms face supply challenges of senior
23 partners with the experience and the ability to
24 inherit the accounts of their major clients. It is
25 incumbent on all the stakeholders to guide the audit

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1 profession to new solutions that will provide value
2 for the client and instill confidence among investors.

3 Again, I look forward to working with you as we all
4 strive for a strong sustainable audit profession that
5 is truly essential to our economic well-being.

6 CO-CHAIR LEVITT: Thank you. Mary.

7 MS. BUSH: Thank you. I am also delighted
8 to be here and I congratulate also Secretary Paulson
9 and Under Secretary Steel for having the foresight to
10 take a good hard look at the future of the auditing
11 profession which, of course, as many have said here,
12 is vitally important to US capital markets, to global
13 capital markets and as well to everyday people who
14 have their savings, their retirement plans invested in
15 the capital markets through mutual funds, 401(k)s and
16 the like.

17 Coming to participate with this Advisory
18 Committee for me is like coming home, since I worked
19 at the Treasury in the early '80s. And I just want to
20 tell you a little story because it relates to what
21 we're doing here. I had been a banker in New York. I
22 was on the corporate side of the banks and of course,
23 had every 10Q and 10K and every bit of financial
24 information one might want when trying to do a
25 transaction, and of course, first to analyze the

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1 company and its ability to handle the financing and to
2 repay it. So here at the Treasury, as I said, this
3 was 1982, on August 13th, the Mexican Finance Minister
4 walked to the door of the Treasury and he said, "We
5 are out of reserves. We have no money to pay our
6 creditors, our banks, our suppliers". And then of
7 course, the Treasury had to get into the business of
8 bridge loans, bridge lending.

9 Later Brazil and Argentina came along.
10 But here's what was really shocking to me. What was
11 shocking to me was when a couple of CEOs of major
12 international banks walked in the door a few months
13 later and they said, "We have absolutely no idea how
14 much we, the banks, combined have outstanding to
15 Mexico, to Brazil, to Argentina". And having been a
16 corporate banker with access to financial information,
17 that to me was very shocking. And as you know, I'm
18 sure, that led eventually with the Treasury's support,
19 to the formation of the Institute of International
20 Finance to begin to gather that information.

21 I tell that story simply because it is an
22 indicator of how important reliable, thorough,
23 complete, transparent information is to the capital
24 markets, whether it's a company or whether it's a
25 country. We are going through, I think, a shift,

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1 change in financial reporting which Don eluded to. I
2 do believe that we will eventually shift over time
3 from GAAP to the International Financial Reporting
4 Standards. Of course, it is going to take some time.

5 It's going to take a lot of study. I suspect that we
6 will also be looking into that issue.

7 With that change, of course, more of a
8 change to principles-based accounting. So as those
9 shifts occur, and as we try to assure quality audits,
10 which is emphasized in our discussion outline, I think
11 that it's going to make judgment all the more
12 important. It has always been important in the audit
13 profession. The latest revisions by the PCAOB with
14 regard to 404 again, put judgment more back in the
15 picture but I think that as that shift takes place to
16 principles-based audits, that judgment will be even
17 more important. Now, it's not easy to figure out how
18 someone gets good judgment. There's no easy
19 definition. Time and experience, of course, are
20 important, but what else? Is there learning
21 surrounding judging the economic value of transactions
22 that would be useful. Is there additional learning
23 surrounding understanding transactions that would be
24 useful and what are the methodologies that might be
25 important, might case studies and apprenticeships be

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1 more important? These are some of the issues that I
2 think we should address.

3 Secondly, Amy mentioned attracting the
4 brightest and the best. I think that in order to
5 attract the brightest and the best, that it is
6 important that people who are considering getting
7 educated in this field and coming into this field to
8 work, that they understand the huge value added that
9 the audit profession provides to the global capital
10 markets. It is not just a service. It is not just
11 bean counting as accounting was traditionally referred
12 to. But it is really fundamental to the reliability
13 of financial statements, to protecting the value of
14 those trillions of dollars that many people invest in
15 our markets.

16 I think in view of that also, we do need
17 to take a look at the curricula of the schools of
18 accountancy, especially for those of us who do not
19 have degrees in accounting. Are the curricula focused
20 enough on the complexity of financial transactions, on
21 complex financial markets and the interactions and on
22 also complex global businesses?

23 Two other points I would like to make.
24 And one is integrity. And that's another one of those
25 things that, you know, it's very difficult to figure

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1 out how you get at integrity. It's not necessarily
2 something that can be taught. It has always been
3 important. I think that as judgment takes on an even
4 bigger weight in what auditors have to do, that it
5 will be even more important. Integrity has always had
6 high social value in the financial world but how is it
7 transmitted? Is it only through cultural values? I
8 think it's very tough issues like that, that we need
9 to address as well.

10 And lastly I will mention the issue of
11 competition and the big four. There are hundreds of
12 smaller firms. I've learned from Mark Olson that they
13 audit at least 1,000 firms in the United States alone
14 and 800 abroad and the question that I think we might
15 want to address seeing is that we are down to just
16 four major firms, is how can the reliability,
17 credibility and capabilities of the smaller and medium
18 sized firms be made more transparent. Thank you.

19 CO-CHAIR LEVITT: Thank you. The monitors
20 will stay on. She just used some of your five
21 minutes. And if we could each kind of pay attention
22 to the monitors we will stay on time. I just used 10
23 seconds of your time.

24 MR. FLYNN: I really am glad to be here,
25 Arthur and Don, thank you for inviting me to this very

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1 important discussion and I look forward to working
2 with all of you in the months to come.

3 I've been a member of the auditing
4 profession for 28 years. I saw a lot of change in my
5 profession over that period of time, but nothing
6 compares to the change that my profession has gone
7 through in the last five to six years, driven, I
8 believe in the first instance to restore public
9 confidence in the audit profession because of some of
10 the issues that happened in the late -- early 2000,
11 late 1990s.

12 Over 100 years of self-regulation has give
13 away to an oversight body. The PCAOB, I think, has
14 had a positive impact on our profession and overall
15 audit quality. Audit firms have rededicated
16 themselves to core service, to a core mission,
17 providing audits and protecting the integrity of the
18 capital markets, in strengthening the audit process,
19 the risk architecture, enforcing and reinforcing
20 ethics and compliance in everything that we do.

21 But improvement is a continuous process
22 and the pace of change has accelerated. The forces of
23 globalization, integration of stock exchanges around
24 the world, the competition for talent across our
25 profession and industry, the expansion of oversight

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1 bodies throughout the world, the rise of emerging
2 markets like China and India. The growing complexity
3 of financial instruments and financial transactions,
4 the explosion of private equity and the money being
5 important to companies across the globe, the
6 convergence of IFRS and US GAAP, all these factors
7 will signal a time of greater change going forward.

8 I believe that the changes that we'll talk
9 about over the next couple of months, the continued
10 strength and sustainability of the auditing
11 profession, will be as important to that strength and
12 sustainability as the changes the last five years have
13 made to overall reliability and relevance of what we
14 do in the auditing profession. So it's fitting for a
15 time for serious discussion around these issues of
16 sustainability, and accountability.

17 I commend Secretary Paulson and Under
18 Secretary Steel for having the vision to assemble this
19 outstanding group of individuals for this purpose.
20 We've organized our work, as Alan talked about, in
21 three areas, around the supply of talent, around
22 concentration and competitiveness and around the
23 business structure itself for the profession. Each of
24 these are critical to the overall point of
25 sustainability and they all must be addressed

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1 together. They can't be separated. The accounting
2 profession's ability to deliver quality audits and
3 serve the capital markets begins and ends with our
4 people. I ran human resources for KPMG for five years
5 before I took over running audit and now CEO. Every
6 day I lived the reality of the importance of our
7 people. I traveled across the country and would go to
8 campuses and talk to students. They want to join our
9 profession.

10 Enrollments are up in the accounting
11 profession across the campuses. They are excited
12 about the opportunities in front of them. I also
13 spent time talking to our people. Most of the time I
14 talk about retaining our people and keeping them
15 within the profession and convincing my most senior
16 partners and managers this profession is right for
17 them. And the risk and pressure they feel about their
18 job, while real, are important, and that their
19 judgments are valued by the capital markets and
20 regulatory environment.

21 I'm proud of the progress the profession
22 has made in retaining our people. All the big firms
23 are recognized in the Fortune 100 best places to work,
24 Working Month's best places to work, and Business
25 Week's 50 best places to launch a career. Small or

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1 medium sized firms are recognized in local communities
2 and the states with innovative employee recognition
3 programs. We've made tremendous progress in retaining
4 our people but turnover remains in the high teens and
5 low twenties in our profession.

6 As hard as it is to attract our talent,
7 retaining them is difficult as well. And the turnover
8 is highest at the senior management ranks, our most
9 experienced people in executing our audits on a daily
10 basis. So we have to look at the talent of our
11 people, no question about it, in retention. We have
12 to make sure that the opportunities for talent should
13 exist across the entire spectrum of firms. We must
14 look to remove any tangible barriers to entry of the
15 audit market and promote market-based policies that
16 encourage choice among auditors.

17 As we consider the question of competition
18 and concentration, a couple of things should be kept
19 in mind. Of the companies listed on the US Stock
20 Exchange, the number of companies, almost half are
21 audited by firms other than the big four. But when we
22 get to market capitalization, almost all market
23 capitalization is audited by the big four. We must
24 not confuse concentration though, with competition.
25 There is tremendous competition among the

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1 professionals today in winning new work. You only
2 have to ask the partners and managers on the
3 marketplace every single day. But it's important to
4 have robust competition within our profession. We
5 must look for ways to increase and encourage
6 competition and expand choice.

7 We must also understand that there is
8 great risk of concentration if it continues to
9 contract below the four firms today. We have to make
10 sure that there aren't litigation or other regimes
11 that threaten the existence of major firms. We have
12 to take a hard look at the business structure of
13 auditing firms. We need to ask ourselves, is the
14 business model developed decades ago the right model
15 for today in the 21st Century?

16 Does the model allow for sufficient
17 investment in talent, specialization in skills,
18 technology, methodologies? Does it permit an adequate
19 integration to deliver constant high quality services
20 across the entire globe? Are we nimble enough to
21 respond to fast changing markets to evolve our
22 services and investment information that's needed in a
23 digital age? If not, we need to look at our structure
24 itself. I would challenge this group not only to look
25 at litigation reforms such as that but look beyond the

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1 substantive litigation. Look more to the basic
2 structure of the firms today. How do we free up the
3 marketplace, get access to capital?

4 Most firms are partnerships today. Should
5 we look at a corporate model? Let's look at
6 complexity. Other things are driving litigation costs
7 and the structure itself and say, "How can we as a
8 profession do a better job". And let me just close by
9 saying, whatever we do, I've got to stop here but
10 whatever we do, whatever we do, there's two tests we
11 should make against every decision. Does it improve
12 audit quality and does it help the investor?

13 CO-CHAIR LEVITT: Okay, Bob, Tim took two
14 minutes of your time.

15 MR. GLAUBER: Okay, I'm going to talk
16 about some of the things Tim didn't. I'm very
17 flattered to have been invited by the Secretary and by
18 the Co-chairmen to participate in this. I'm not sure
19 why they asked me because I know relatively little
20 about the auditing industry. I was a financial
21 markets regulator and self-regulator and, perhaps,
22 it's the perspective that I can talk from. I wanted
23 to pick up where Tim left off and talk about the
24 organization and financial resources and concentrate
25 on that portion of the agenda.

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1 As all of you know, and know better than
2 I, I think, Congress decided to out-source corporate
3 auditing back in 1933 to independent public
4 accountants rather than have somebody else do it,
5 particularly the SEC.

6 CO-CHAIR NICOLAISEN: Please put the
7 Blackberries away.

8 MR. GLAUBER: Thanks. Over the years,
9 accountants migrated into a set of diversified
10 consulting services and, of course, those twin facts
11 that independent accountants were paid for their
12 opinions by the firms that they evaluate and that they
13 provided a wide range of consulting services for these
14 firms, lead inevitably to conflicts of interest. The
15 parallels for example, to rating agencies, are obvious
16 and indeed, Arthur has written about that on occasion,
17 but the point I want to make is the conflicts in
18 interest exist everywhere. Many of them simply can't
19 be eliminated and the challenge is to manage them
20 effectively.

21 In this industry the choice was self-
22 regulation. And I believe obviously, and I'm very
23 biased, that self-regulation can work. It needs to be
24 independent and I think in the late `90s there was
25 some evidence that it didn't work as well as it could

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1 and the result, of course, the answer was SOX.
2 Sarbanes-Oxley, I think, clearly produced market
3 benefits. I think everybody would agree that the
4 quality of audits is just much better now than it ever
5 was before. Certainly, the number of earnings
6 restatements has decreased markedly. But to
7 put it a bit politely, I suppose, there were a number
8 of unintended and often times negative consequences of
9 SOX for its costs. I recall your memory back to the
10 SEC's statement on the cost of SOX and particularly
11 Section 404. The estimate was \$91,000.00 per firm.
12 It turned out to be something of an under-estimate.
13 Auditors clearly expended far more resources to do
14 their job than was anticipated. As a consequence and
15 despite the elimination of many of the consulting
16 services auditing firms provided or were permitted to
17 provide, clearly audit firm revenues have gone up
18 dramatically.

19 And despite PCAOB inspection, there is
20 still serious concerns, I think, with auditor internal
21 organization in governance. Why these outcomes?
22 Obviously, a number of reasons. Audit costs and
23 resources used have been so high because first of all,
24 the ambiguity of the PCAOB audit rules, which great
25 steps forward have been taken to deal with those.

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1 Second, auditor liability; as some of the material we
2 were given pointed out, the liability and litigation
3 costs in the industry have gone from a little under
4 eight percent of revenues in 1999 to over 14 percent
5 of revenues in 2004. And most importantly, this has
6 made auditors quite naturally extraordinarily risk
7 averse and careful in what they do. It's just a
8 natural reaction.

9 On auditor governance, despite PCAOB
10 oversight of audits, governance is still subject to
11 limited oversight and quite opaque. What to do about
12 both governance and cost, particularly those arising
13 from the risk aversion and conservatism of auditors?
14 On governance, I think there is a need for both more
15 transparency and perhaps some other mechanism for
16 outside oversight. On the risk aversion conservatism
17 of auditors, there are a number of possible steps that
18 I know we will consider, some of which -- all of which
19 have been considered from time to time, some have been
20 put in place.

21 As I mentioned before, the PCAOB has
22 replaced AS2 with AS5 which has gone a great deal in
23 the direction of clarifying the rules of engagement.
24 Other approaches that need to be considered by us, I
25 think, are better access to insurance for audit firms.

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1 Liability caps on auditor suits has been done in some
2 of the EU countries; Germany, Belgium, Austria, and
3 some others permit this.

4 Limitations imposed by companies
5 themselves on the amounts for which the company or its
6 shareholders will sue auditors. This is done in the
7 UK. And finally, incorporation, as Tim mentioned, as
8 an organizational form to replace the current LLP/LLC
9 structure. This could provide both capital to attract
10 insurance, diversify risk in the marketplace and
11 introduce shareholders and boards of directors as a
12 device for affecting corporate governance. I hope and
13 I'm sure that this Committee will consider all of
14 this.

15 CO-CHAIR LEVITT: Thank you. Great. Ken?

16 MR. GOLDMAN: Thanks. Maybe I'll cut my
17 time by going fast and talking fast. I thought I
18 would do a couple things and thank you for inviting
19 me. I thought I'd give you a quick rundown, a little
20 bit of who I am just to give you a perspective of some
21 of my comments. Then I'm going to give six or seven
22 observations just to get us thinking. But I have been
23 on the West Coast practicing finance since 1974. I've
24 been CFO of private and public technologies companies
25 since 1981. I actually have something like 90

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1 quarters of a public company CFO. I've taken a couple
2 of companies public. I'm on a number of both public
3 and private boards. By the way, I did leave Siebel a
4 year and a half ago and started a new company but I'm
5 on a number of public and private boards, all of which
6 I end up as the, for lack of a better way, always the
7 audit committee chair, mainly because no one else
8 wants it.

9 I served on FASB's Advisory Council for
10 four years back in 2000, 2003 time frame. So I've
11 sort of been a practitioner here relative to -- really
12 since 1981 as a CFO. Let me give you my thoughts and
13 again, I really have thought long and hard about this
14 as I was traveling out here last night. First, I
15 think it's been a mistake when we went from eight
16 major firms to four firms. It makes it very hard if
17 you're inside a company, you want to use one for your
18 auditors, one to help you on your various 404 matters,
19 one for taxes, so forth. So I think that has been a
20 challenge for us.

21 Two is, we talked about it in terms of
22 SOX, as someone said one to 403 were great. When we
23 got to 404 we had a little challenge. Actually, I
24 think frankly a lot of 404 was things you should have
25 been doing anyway. So I think it was directionally

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1 correct. I think the issue there was frankly,
2 implementation and how we did it. Also, there was
3 always a question of definitions. I would have defied
4 anyone to understand what material weakness, the
5 definition of material weakness or significant
6 deficiency used to be and understand the double and
7 triple negatives.

8 Three, I think the concept of PCAOB is
9 great. On the other hand, as I watch it from day-to-
10 day, and I see this from being a CFO, I see it from a
11 board. Very frankly, I see, frankly, over the years
12 accounting firms, quote unquote "running scared"
13 sometimes over how PCAOB is going to look at
14 everything they do. It causes -- it changes how they
15 think and some of it I'm not sure is always good.

16 Robert, you mentioned a number of
17 restatements going down. Actually, the number of
18 restatements has gone way up. I think maybe it's now
19 starting to go down but the number of restatements has
20 gone up dramatically as also is in some of the
21 materials and I think -- it isn't just by the way,
22 quote, unquote, "the small tech companies people like
23 to blame". It's by some very, very large companies
24 and so you have to question why.

25 My own point of view is two things. One

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1 is I think the whole materiality concept and the
2 threshold, but I also think the real biggest issue and
3 this is probably the number one point I really want
4 to make, is really the complexity that we have today
5 in accounting, both in terms of the new pronouncements
6 which are in many cases, hundreds of pages long, as
7 well as the fact there's really -- this is probably
8 the only profession where there's no one rule book. I
9 was sort of going through it last night, if you want
10 to go figure out how to do something, where do you go?

11 Well, you go to FASB pronouncements or
12 FAS's. You go to the FASB interpretation notes of
13 FINs. You go to APB opinions. You go to EITFs, you
14 go to TPAs, you go to SEC speeches. You go to staff
15 accounting bulletins, statement of positions, SOPs.
16 There's no one place to find an answer in this world
17 of accounting that we have developed over the years.
18 And so again, both the complexity and the fact that
19 there's no one rule book result in basically one
20 thing, virtually anything of a complicated nature goes
21 to the national office. Very rarely can you get
22 anything complicated resolved at the local level. It
23 goes to the national office and then for them to get
24 it resolved, they go to the SEC and they have a
25 dialogue there and then they decide how they want to

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1 account for it. And then the question is, is it going
2 to be a precedent or not a precedent. So that is
3 made, again, the complexity very, very hard.

4 So my sixth point from what I see, and
5 again, I see all four firms in terms of my being an
6 audit committee chair, I also see non-four firms. My
7 own opinion is the level that I see of accounting
8 personnel is very uneven. I see it in terms of people
9 -- the number one thing I do as an audit committee
10 chair is I look for the strongest engagement partner
11 that can be in that company. As Tim Flynn knows,
12 there's one guy he has who I love, who I bring every
13 time I can to -- as I become a chairman of an audit
14 committee because again, I want the strongest
15 individual I can but again, I see the quality does
16 vary.

17 The seventh point, I'd say is clearly
18 litigation is a challenge, I know my time is up. I've
19 got one more point. Litigation is a challenge. I
20 think that's already been made. The last point I'd
21 say is -- and I have some kids, and I -- that are in
22 middle school, high school and now college, and the
23 one thing I think would be a great idea would be to
24 have accounting taught at the high school level and
25 have it taught at the college level and have a

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1 required course which would help children as they
2 become adults take more responsibility for their own
3 personal investing, understand accounting and not
4 always rely on someone else.

5 So with that I'll stop.

6 CO-CHAIR LEVITT: Gaylen.

7 MR. HANSEN: Thank you. I'm Gaylen
8 Hansen. Thank you so much for inviting me to
9 participate in this esteemed Committee. I've been a
10 practicing auditor for over 30 years now, and I'm with
11 a small firm in Denver. We have about 250 CPAs in our
12 firm and to Ken's point, I am the national office of
13 our firm. So we don't have to go very far hopefully
14 to get answers to those questions. I am recognizing
15 that the reason I am on this committee is because of
16 my involvement with state boards of accountancy.

17 I'm a member of the Colorado State Board
18 of Accountancy. I'm also on the Board of Directors of
19 the National Association of State Boards of
20 Accountancy. I thought I would briefly give a very
21 quick overview of state regulation of public
22 accountancy in the United States. It starts with the
23 Constitution, surprisingly and the 10th Amendment of
24 the United States Constitution. And there,
25 professional licensing is reserved to the states.

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1 This amendment in only one sentence long. Sometimes
2 it's referred to as the commerce clause. It states,
3 in full, "The powers not delegated to the United
4 States by the Constitution nor prohibited by it to the
5 states are reserved for the states respectively or to
6 the people."

7 Through their constitutional authority
8 states have chartered and empowered Boards of
9 Accountancy with the sole statutory oversight to
10 establish licensing and practice requirements for all
11 CPAs in each of the 50 states and five territories.
12 Pursuant to this authority, State Boards of
13 Accountancy are engaged in the regulation of all
14 auditors of publicly traded as well as privately owned
15 governmental and not for profit organizations. In
16 addition, the Sarbanes-Oxley Act of 2002 contains
17 specific provisions for cooperation between federal
18 and state regulatory authorities in the inspection,
19 investigation and discipline of CPAs and CPA firms
20 auditing public companies.

21 State boards set accounting, auditing and
22 ethical practice standards for all CPAs and their
23 firms. Although not required to, and I repeat that,
24 although not required to do so, they have historically
25 exercised the option of adopting standards developed

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1 by recognized private sector standard setters,
2 including those of the Financial Accounting Standards
3 Board and the American Institute's Auditing Standards
4 and Ethics Boards.

5 Working with State Attorneys General State
6 Boards have the authority to prosecute and discipline
7 CPAs and their firms for violation of SEC, PCOB,
8 GAO, DOL and other federal agency standards.
9 Disciplinary actions range from reprimands and
10 sanctions, mandated continuing education, monetary
11 fines, and practice restrictions all the way to
12 license suspension, revocation, and suspension of a
13 firm's practice privileges.

14 State boards set minimum requirements for
15 moral character, higher education, experience and
16 examination for licensure. Boards are statutorily
17 responsible for administering the uniform CPA exam
18 required of all those who desire entry to the
19 profession. They also set standards for mandatory
20 continuing professional education and peer review.
21 Members of state boards are drawn from a diverse
22 spectrum of volunteer CPAs and public members coming
23 from all levels and types of CPA practice, industry,
24 government, not-for-profits and academia.

25 Most are appointed by state governors and

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1 serve subject to term limits. With respect to NASBA,
2 all 55 Boards of Accountancy are members of the
3 National Association of State Boards of Accountancy.
4 NASBA's primary role is to serve as a facilitator and
5 forum for the Boards allowing for the exchange of
6 views and providing research and guidance. Most of
7 NASBA's activities are directed towards cooperative
8 coordination of federal and state regulatory systems,
9 professional practice standards, practice monitoring
10 and discipline.

11 NASBA was founded in 1908 to aid states in
12 developing uniformity of licensing procedures. Since
13 that time, it has evolved into a broad-based
14 organization that deals with all aspects of state
15 regulation of CPAs. With the passage of Sarbanes-
16 Oxley, the activity of NASBA with the SEC on behalf of
17 the 55 state boards has increased significantly.

18 I really appreciate being invited to
19 participate in this program and I think that we have a
20 lot of ground to cover and I look forward to working
21 with each and every one of you.

22 CO-CHAIR LEVITT: Barry?

23 MR. MELANCON: All right. We're skipping
24 you, huh? You already had your shot. Thank you,
25 Arthur and Don, the Co-chairs, and Secretary Paulson

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1 and Under Secretary Steel for inviting me here. I had
2 the opportunity to and maybe the distinct honor of
3 representing the broadest spectrum of what it is we're
4 talking about here. We have about 335,000 members of
5 the American Institution of CPAs and about half of
6 those work in corporate America and about half of
7 those work in public accounting firms. We're the
8 largest professional accountancy body in the world.

9 Alan, in his opening remarks, talked about
10 how you could fill up the center part of the tables
11 with papers and previous reports on all of the issues
12 that are in our outline. And the fact of the matter
13 is that we have been involved in most of those and in
14 fact, we could probably fill up three because there
15 are actually three elements to it. There are
16 obviously the elements of which we're here to talk
17 about, which is the public company environment and the
18 auditing of those.

19 There is sort of an equal perspective on
20 every one of those issues that relates to the private
21 sector which is about half the US economy and clearly
22 today, there is sort of an equal debate which overlaps
23 in many instances on the international side. I think
24 that as we sit here today, the positive thing about
25 this discussion is that we are talking about a lot of

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1 these issues in the relative calm of an environment
2 that has already produced a significant amount of
3 change and one in which I think the profession and
4 corporate America and the investing public and
5 obviously regulators have all adapted to in the past
6 five years and in fact, I think our profession has
7 demonstrated over its 120-year history an incredible
8 ability to be adaptive to change and we look forward
9 to the work of this Committee and believe me when I
10 say that we take the work very seriously and we will
11 take the output very seriously in dealing with any
12 proposed changes that come about from our discussion
13 and our debate.

14 I do want to address just a few points and
15 many of them have been talked about as we've gone
16 around the table. The top two priorities of our
17 profession clearly reside in the notion of people, or
18 as we refer to the pipeline of people into our
19 profession, and quality. They are obviously inter-
20 related and quality has many aspects as well. As has
21 been mentioned, the pipeline of students, at the
22 college level, is an issue that we clearly began
23 focusing on in the late 1990s and have invested
24 significantly as the AICPA alone, not to count the
25 firms and all their individual investment in that

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1 area. We have invested more than \$30 million in the
2 last five years in this particular endeavor. Today
3 college enrollments in accounting are at record
4 levels. And our real challenge, as we look at the
5 demographic changes of America and of the world, is to
6 make sure that we leverage what is in that pipeline of
7 students in the most positive way for the profession
8 and thereby for investors in shoring up the auditing
9 process.

10 A full pipeline does not necessarily mean
11 success in that process and as I like to say, a full
12 pipeline doesn't mean that it will be there tomorrow
13 and so our challenge in making sure that that is
14 achieved on a going forward basis is very important.
15 My friend Gary Previts, I'm sure, will comment on the
16 PhD issue to some degree but having people in front of
17 those classrooms that are qualified to teach whatever
18 the curriculum is designed to be is a major challenge
19 that we have.

20 The fact of the matter is that when we
21 look at the demographic realities of the firms, when
22 we look at the demographic realities of the
23 profession, and society as a whole, and I think it's
24 easy to point just to the profession, the CPA
25 profession here, but it is society as a whole facing

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1 significant demographic challenges because of the baby
2 boom population, the aging of that relatively small
3 two generations that follow the baby boom generation
4 and a comparatively larger but still smaller than baby
5 boom generation in the millenniums. So people is a
6 very critical element of our profession going forward.

7 And I said the second point was quality.
8 Clearly we have to have the quality people in order to
9 do a quality job but in doing a quality job we have to
10 have a renewal, I believe, which has been the theme of
11 many commentators, on the issue of sort of a re-
12 entrenchment into professional judgment. Professional
13 judgment, however, has many, many different attributes
14 to it. And one is the word and actually, Arthur, you
15 used it in your opening comments, the issue of balance
16 and balance in the system that professional judgment
17 is delivered in. The regulatory system, the standard
18 system, the -- clearly the legal system that has been
19 mentioned as well.

20 Also, the issue of balance from the
21 standpoint of expectation from an investment
22 perspective which I'm sure we will touch on as well.
23 That being said, the profession today, after going
24 through these significant changes, and what I like to
25 say is that we have gone through a more difficult

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1 challenge than any other profession in the history of
2 the United States over about a two to three year
3 period, we have survived that very well. And the good
4 news is, is that in the concentration point, there is
5 a lot of evidence to point that the next tier of firms
6 are going through a very similar process that occurred
7 in the `60s and `70s when those networks that began to
8 get developed in that time actually produced what was
9 then the big eight and now it's the big four firms.

10 It is a different environment today for
11 them to grow, but the US leadership in that is very,
12 very, very prevalent and in fact, more active today
13 than any other time since the 1960s when the big eight
14 did grow through that process. The difference is, is
15 that we have to have an environment that allows that
16 to happen. Thank you.

17 CO-CHAIR LEVITT: Richard.

18 MR. MURRAY: I share the honor of being
19 among you and thank Under Secretary Steel and the Co-
20 Chairs and the staff for having brought us to an
21 opportunity point at a critical time to address these
22 issues. The audit liability crisis was first
23 discussed and recognized in 1967 when, with the
24 collapse of one of the major railroad systems at the
25 time, auditors were required to pay the magnificent

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1 sum of \$2.3 million in liability and it was deemed
2 threatening to the continuity of the profession at
3 that time. I was just beginning practice about that
4 time, was involved and have spent the last 40 years
5 either representing, practicing, managing or insuring
6 auditors nearly always with a high degree of pride in
7 the work that I was supporting or trying to serve.

8 I note that in the comments thus far, Don
9 Nicolaisen has said we're not in a period of crisis,
10 which is helpful. Barry has just noted that it's a
11 period of regulatory calm. I do hope that you are
12 correct but I am concerned that the relative calm
13 really is a product of five years of economic growth
14 and that we may be in the eye of a five-year period of
15 calm in a commercial storm that doesn't really
16 represent the comfort that we're taking from it.

17 I would commend all of those involved in
18 preparing the discussion outline. I think it's an
19 excellent tool for us to work forward from. I'll
20 focus only on those aspects that I think are critical
21 to all three components of the projects. The
22 liability and insurability of the audit profession,
23 these are issues that have been wrestled with by the
24 European Union studies in the last couple of years, by
25 the several studies conducted in the US last year and

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1 they have been a frustration because it has been
2 extremely difficult for any of the serious attempts
3 made in those exercises to obtain real meaningful and
4 guiding information that would allow the design and
5 the development of real solutions. So I would like to
6 focus on those issues, particularly the elements of
7 them that lie outside the control of the firms or the
8 profession to help bring an additional dimension of
9 understanding to this project.

10 There are three specifics I would very
11 briefly address. We must have and obtain credible
12 current data about the liability dynamics and the
13 liability regime performances as they bear upon the
14 accounting profession. What is available to us and to
15 those working this issue in recent years has been
16 dated information based upon public sources rather
17 than sufficiently current private sources and we tend
18 to measure the wrong thing. We measure today's
19 spending on liability which reflects acts performed on
20 average five to seven or eight years earlier. What we
21 should be looking at is the acts performed today and
22 what the cost of them will be five years from now when
23 those liabilities mature and become a further
24 challenge to the profession. That 10 to 15 year gulf
25 of mismeasurement is a serious deterrent to

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1 understanding the problem. I would also hope we can
2 focus on an understanding of the obstacles to
3 effective insurability because the insurance
4 profession does wish to perform its role in the public
5 interest but there are obstacles and there are
6 difficulties in dealing with the dynamics of audit
7 liability that are not generally understood. You will
8 find in the bibliography bits and pieces of insight
9 but no comprehensive recognition of what the
10 interactive dynamics between insurance and audit
11 liability will be.

12 And finally, something that Tim Flynn
13 commented on, which is the business model of the
14 profession and how it relates to those other factors,
15 liability regime behaviors and insurability
16 potentials. It is interesting that the major crisis
17 recognized by the profession on insurance began in
18 1985 at a time when the insurance market collapsed
19 around the profession. The solution then was
20 mutualization of risk on a global basis between the
21 then eight firms.

22 Mutualization is no longer an option.
23 Four firms simply can't mutualize and regulators
24 wouldn't let us if we tried. So we are at a point
25 where it seems to me one of the challenges facing this

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1 Committee and one of the opportunities it has is to
2 link a sound study of the business models, the
3 regulatory regimes, the liability regimes, and the
4 genuine interest of the insurance industry in trying
5 to adapt to and provide solutions compatible to our
6 business dynamics that will allow quality audits and
7 investor services to be enhanced.

8 CO-CHAIR NICOLAISEN: Great, thank you
9 very much. Some of you probably are wondering why we
10 skipped Alan. We haven't really. He just is
11 positioned to speak just before Chairman Levitt and I
12 do. So Alan, so you don't walk away either. Let's
13 move onto Gary.

14 MR. PREVITS: I want to thank everyone for
15 the opportunity to serve. It's certainly going to be,
16 I think, a challenging experience and the kind of
17 thing that is going to demand a lot of our care and
18 attention. We're probably at that tender point where
19 just about everything that needs to be said has
20 already been said, just not everyone has said it. So
21 I want to try to cut down on my comments to say that
22 this is, as an educator, a career educator, an
23 opportunity to share with you some perspectives about
24 where I hope we can go with these studies particularly
25 in the area I would focus on in the human resource

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1 area.

2 CO-CHAIR NICOLAISEN: Could you speak up a
3 little bit?

4 MR. PREVITS: Certainly. Whatever
5 solution we do propose, I hope, will have the
6 characteristics of being global, long-term and of
7 course, strategic. Having said that, we have a lot of
8 data gathering to do if we're going to substitute for
9 our best guesses some things that are based on facts.
10 It's already been suggested that the demographics of
11 this particular period are not -- are challenging not
12 only to our discipline but to all the disciplines and
13 some of them have been more active than others in
14 addressing it.

15 There are data bases which our
16 organization, an organization which I currently am
17 involved with, the American Accounting Association, is
18 currently assessing and that data, I hope, will be of
19 interest to the organization that goes forward. Tim
20 mentioned the enthusiasm that he finds when he meets
21 on campus with individuals who are probably already
22 accounting majors. I think that I can best summarize
23 the concern I have in the HR area and conclude my
24 remarks by saying, often when I encounter students in
25 the first accounting course, particularly after

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1 they've tried to master debits and credits, as one
2 student came up to me after one exam and said, "Why
3 would anyone want to be an auditor of a public
4 company"? And that's the answer that I had to come up
5 with to inspire talented young people and that gets to
6 the sense of purpose of what accounting and auditing
7 does in our capital market system. And there is an
8 answer to that, that students respond to and it's a
9 very noble professional answer. Thank you.

10 CO-CHAIR NICOLAISEN: Thank you.

11 MR. SILVERS: Gary wasn't kidding, he was
12 going to be brief. I'm Damon Silvers and I represent
13 -- I work for the AFL-CIO. Our 10 million members
14 have about \$5 trillion in capital invested on their
15 behalf, largely to provide them with a secure
16 retirement which they feel very strongly about as I
17 think most Americans do who look to the audit
18 profession to insure that the financial statements
19 they read for all sorts of purposes are largely
20 accurate.

21 The breadth of that reliance is not
22 actually limited to investors. Any time anyone thinks
23 about doing business with a company in any respect and
24 a public company, and doing business is a very broad
25 category, the financial statements' accuracy is at the

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1 bedrock of all the decision making in that area.
2 Public authorities in thinking about tax policy,
3 workers in thinking about both from a collective and
4 individual perspective what their employment decisions
5 are going to be, customers, suppliers, in addition to
6 both debt and equity investors. So the importance of
7 this project is -- cannot be underestimated.

8 Of course, like everyone else, I would
9 like to thank the secretary for inviting both me
10 personally and the people that I represent as an
11 institutional matter to be here. I think it shows the
12 sort of leadership and we've come to rely upon,
13 Secretary Paulson, Bob Steel and to our Co-chairs.

14 The real problem that underlies all the
15 complexity that many of the prior speakers have eluded
16 to is that auditing, like many aspects of corporate
17 governance is a profound principle-agent problem. The
18 people who select the auditors and negotiate with them
19 day-to-day on behalf of public companies, are not, by
20 and large, the people who ultimately are relying upon
21 the accuracy of the financial statements and as a
22 profound and irresolvable conflict of interest that
23 occurs in a short term basis, in terms of the desire
24 of the management of companies to get comfortable
25 answers, which is in direct conflict with both the

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1 interests of all the people I eluded to earlier and
2 getting accurate answers and hopefully, the commitment
3 of the profession to doing the job right. That
4 problem breeds everything else that we are dealing
5 with, all the complexities and effort to manage that
6 conflict.

7 Now, in that context nothing is more
8 important than the notion of the profession as a
9 profession. What does that mean? That means
10 fundamentally that auditors are acting not -- auditors
11 are not for sale. It's very simple. All that talk
12 about profession, it just means one thing, they are
13 not for sale. They are not and they should not be
14 thought to act on an incentive compensation basis. So
15 when we talk about human capital as bullet point one
16 in our outline, which in many ways is a good way of
17 describing many of the challenges facing the
18 profession and in another way it's sort of a mistake,
19 right, because it assumes that we're engaged in a
20 fundamentally financial calculus on the profession.

21 And I would argue that in many ways we
22 ought to rethink what we're doing in reality to that
23 part of our work but in our work as a whole to really
24 be more focused on the notion of how do we build on
25 the idea now more than a century old that this is a

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1 profession? It's not for sale, fundamentally
2 different in many ways than capital. Now, these -- we
3 that here are gathered together have to do this if
4 we're going to have any success in what is frankly a
5 very politicized environment, where we bring many
6 different perspectives to bear on this project and
7 where in many ways time is short. The only way in
8 which we will succeed, and by success, I mean, have an
9 impact on the real world as opposed to produce a
10 document, is if we adopt an approach that does not
11 prejudge the factual issues, nor adopt a sort of
12 selective approach to the facts. I'm very heartened
13 by Alan's introduction and his commitment to doing so.

14 It's certainly been my experience with Alan that
15 that's always what you get when you ask Alan to do a
16 job.

17 However, I am troubled by some of the
18 details in the outline in respect to this issue. For
19 example, and here I may shock some people. I don't
20 know for a fact that it's true that auditors can't get
21 insurance. I'm neither an insurance broker nor an
22 auditor, just a representative of investors. I just
23 simply don't know if that's true or not. I recognize
24 that the audit profession has said it's true, but in
25 my experience things are always available. It just

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1 may be for a price you don't want to pay. Secondly --
2 so my point about that is I'm more than willing to
3 investigate that question and more than willing to
4 learn that it is true. But I would prefer not to
5 assume that at the beginning of the discussion.

6 Secondly, the document very prominently
7 notes a liability number, a total liability number.
8 It's reflected in the percentage side of one of the
9 previous speakers, 14 percent, eight percent of
10 revenues. What happens to that number when you take
11 out Enron and WorldCom? As Richard said a moment ago,
12 what is that number today? Those seem to me to be the
13 relevant questions and how does that number compare to
14 the investor losses in those situations. More
15 fundamentally, this is the most controversial issue
16 we're going to deal with, liability, the most, without
17 a question and there are some of our friends from the
18 press who have joined us who are frankly going to
19 write about this as though it's only about liability
20 and we know that's not true but that's how it's going
21 to play in some quarters.

22 All the more reason not to prejudge
23 anything. And I would say that we ought to think in
24 one respect -- many people said there's a liability
25 crisis. I don't know. No committee of this kind was

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1 convened in early 2001, for example, when a liability
2 crisis was about to happen and an integrity crisis
3 that hurt our members very much. So I don't know
4 whether we have a liability crisis, but I will say
5 this; when each of us walk out this door, we are
6 responsible to total strangers for our conduct. And
7 there is no liability cap.

8 If I hit a pedestrian driving in my car,
9 if I drop a brick on someone by accident as I walk out
10 of this building somehow, I'm answerable for the full
11 extent of the injury if I violated my duty of care and
12 that's to a stranger whom I've made no commitment to
13 and whom I hit accidentally. I would suggest that the
14 real issue with liability is what should the standard
15 be because on the other hand, while it would seem to
16 be unfair that there should be no liability for
17 auditors who have taken on and are paid for the
18 enormous responsibility of seeing to it that trillions
19 of dollars in assets are accurately described, when I
20 walk out of this building, I'm answerable to every
21 human being I bump into, on the other hand. On the
22 other hand, it just can't be the case that auditors
23 should be responsible in court for every error that
24 they make because they will make errors and not all of
25 them should be answerable in court.

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1 So, with that point of view, I would urge
2 that we take those two points into account. That we
3 put all the facts on the table and that we not
4 prejudge any of the issues. On that basis, I've very,
5 very grateful to be here and look forward to our work
6 together.

7 CO-CHAIR NICOLAISEN: Thank you, Damon.
8 Sarah?

9 MS. SMITH: Thank you.

10 CO-CHAIR NICOLAISEN: Sarah, a little
11 louder, please.

12 MS. SMITH: How is that better? I
13 appreciate the opportunity to participate in the work
14 of this Advisory Committee and look forward to
15 assisting Secretary Paulson, Under Secretary Steel and
16 the Chairmen in their goal of sustaining a vibrant
17 auditing profession. My own participation will be
18 from the perspective of a preparer of financial
19 statements and a member of the financial management
20 with a large global and public institution and
21 further, one that operates in the complicated world of
22 financial services and I would say that those of us in
23 the preparer community are all too aware of the
24 importance of an independent and high quality audit
25 process in insuring the credibility of our financial

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1 statements and in maintaining the confidence of our
2 investors and we applaud the effort to review and
3 potentially improve the auditing profession.

4 With respect to the working outline
5 provided for our discussion, the list of issues seems
6 far-reaching and comprehensive and frankly quite
7 daunting but given the intertwined nature of many of
8 the concerns effecting the auditing industry such an
9 extensive review is surely to be expected and while
10 one hesitates to add to the task before us, I would
11 make the following observations for consideration.

12 First, with respect to retention, this is
13 clearly a critical issue for the auditing profession
14 and one that deserves a significant focus. However,
15 it's perhaps worth noting that the auditing firms are
16 the training ground for the accounting profession as a
17 whole, not just for future auditors and corporate
18 America is absolutely dependent on a steady stream of
19 qualified accountants who have been trained as
20 auditors and who subsequently moved from the
21 accounting firms to the public to become preparers of
22 financial statements and the financial management of
23 all public companies. This results in a healthy
24 seeding of the accounting audit and control culture
25 throughout the finance functions of corporate America

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1 and it's something we would surely want to insure
2 continues as in and of itself, this contributes to
3 high quality financial statements and assists in the
4 ultimate quality of the audit in question.

5 So I'd say the issues surrounding how do
6 we attract a sufficient number of talented people to
7 the accounting profession as a whole, particularly
8 given continued increases in demand, and how to insure
9 they're sufficiently trained and educated when they do
10 join the accounting firms would seem to be at least as
11 important, possibly more so than insuring that
12 accounting professionals once in the accounting firms
13 can be persuaded not to leave them.

14 Certainly, I'd ask whether the committee
15 should consider whether there are any best practices
16 with respect to insuring audit quality and a
17 sustainable auditing profession that we could observe
18 in countries other than the United States and I didn't
19 see that in the outline and I wonder whether there
20 might be, for example, other approaches to attracting
21 people into the profession or different ways of
22 training accountants or otherwise helpful comparisons
23 that can provide insight into the issue the profession
24 faces here in the United States.

25 And on the subject of international

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1 considerations, should the Committee specifically
2 consider what sort of requirements and training will
3 be needed for auditors in the future in order for them
4 to be able to meet the challenges of an increasingly
5 international marketplace. Consideration of impact
6 and benefit of one set of global accounting standards
7 is, of course, very important, but there are many
8 other specific skill sets that will become very
9 critical in an increasingly international arena and
10 there are steps that can be taken today to insure that
11 the US accounting profession will be considered a
12 leader in being able to produce auditing and
13 accounting professionals able to cope with such
14 complicated demands.

15 And finally, should the Committee consider
16 whether auditors should be required to comment on the
17 extent to which an entity's financial statements
18 reflect overall economic reality in addition to
19 whether or not they're rendered in accordance with US
20 GAAP, in other words, does a sum of the parts compiled
21 in accordance with the existing rule set give an
22 accurate overall picture of the financial health of an
23 entity and if not, what needs to be understood to
24 insure such an accurate picture can be given and that
25 is only a very thinly veiled reference to the further

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1 use of fair value.

2 So thank you for considering these
3 suggestions. I look forward to participating in this
4 debate and I note I'm handing over 45 seconds to Mr.
5 Travis.

6 MR. TRAVIS: I'll try not to use them.
7 First of all, I feel very privileged to be a part of
8 this important Advisory Committee. I look forward to
9 working together to develop recommendations to --

10 CO-CHAIR NICOLAISEN: A little louder.
11 You may need to get a little closer, too.

12 MR. TRAVIS: I'll try again. In response
13 to Gary's remarks, I'd like to say that I'm very proud
14 to say I've been a member of the auditing profession
15 for more than 32 years. It's given me great
16 opportunity and challenge to have a fulfilling career
17 and an enjoyable life and I think that's a message
18 that we can deliver to campuses over and over again.
19 I read the discussion outline and I found it to be a
20 comprehensive summary of the issues that are relevant
21 to our task. One of my responsibilities on the
22 Advisory Committee is to represent the views or help
23 represent the views of mid-sized and smaller public
24 company auditing firms, who will have an important
25 stake in our dialogue.

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1 With that in mind, I'd like to make four
2 specific comments. First of all, I believe one of our
3 greatest challenges for us to consider in the
4 sustainability of the audit profession is that
5 auditing is a public interest service that must be
6 governed by leadership of audit firms with a deep
7 understanding of and commitment to the concepts of
8 expertise, objectivity and independence.

9 Consequently, our work in the audit firm
10 governance area should assess how to insure audit
11 firms and their professionals are committed to doing
12 the right thing to insure audit quality is
13 consistently delivered regardless of the challenges
14 presented in their organizations by growth and profit
15 objectives.

16 The second comment is many mid-sized and
17 small public company audit firms are well-suited to
18 serve certain segments of the public company market.
19 However, these firms typically do not have the same
20 collective brand of the big four that helps them
21 attract top talent and new clients. While I agree a
22 brand is something that is earned through consistent
23 actions, I do not believe the marketplace currently
24 recognizes the expertise and audit quality delivered
25 by some non-big four firms. I believe that there are

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1 opportunities to help the non-big four firms to
2 improve market recognition without being unfair to the
3 big four.

4 The third comment is, I believe that the
5 regulatory structure requirements are unnecessarily
6 challenging for all audit firms. In particular, mid-
7 sized and small public company audit firms have few
8 alternatives to provide better access to the growth
9 capital needed to expand their competitive
10 capabilities and their geographic scale and to protect
11 their individual partners. Firm structure, licensing
12 and regulatory approach are important issues for our
13 group to consider.

14 And finally, the ability to track, develop
15 and retain talent and expertise is the critical life
16 blood of audit firms. A significant challenge for
17 retention of personnel in mid-size and small audit
18 firms is the extreme seasonality of our business
19 during the winter season. This reality places
20 enormous pressure on audit quality and balanced lives
21 of our professionals. During my career, it was common
22 to lose very talented staff who simple didn't want to
23 live through another busy season or didn't want to
24 become a partner and have to work those kind of hours.

25 So I ask that as we consider the issues before us,

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1 that you consider these comments as being relevant to
2 our analysis. Thank you.

3 CO-CHAIR NICOLAISEN: Thank you. Lynn.

4 MR. TURNER: Thank you. Thank you, Under
5 Secretary Steel, Arthur, Don and my thanks also to the
6 Treasury staff who to date have been most helpful as
7 well. So thank you. If I was still teaching, I
8 suppose some of my students in the classroom, having
9 heard the remarks so far today, would turn around and
10 say, "Why would I ever join that profession". So let
11 me set the record straight, somewhat to start with.

12 I joined the profession over three decades
13 ago and I found it to be a wonderful profession and I
14 wouldn't change anything. I'd go back and do it all
15 over again. The firms have just reported -- many of
16 the firms have reported this last year record
17 revenues, record profits. The average partner is in
18 the top one-half of one percent of the economic wage
19 earners in their towns and cities that they come from
20 and since Enron, the passage of the new auditor
21 independence rules, enrollment in the profession has -
22 - or enrollment in the accounting classes has jumped
23 substantially as compared to before that, probably
24 more so because the profession basically guarantees
25 you a job when you get out of school than Enron.

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1 And all this in light of the fact that
2 business has grown extremely complex. I found it
3 interesting the people sit there and say, "We've got
4 an extremely complex situation." I think Mary K. did
5 a wonderful job of laying out the complexity in the
6 transactions and the financial markets today and yet
7 we expect an audit to be something simple. I don't
8 know how you reconcile those two, especially if you're
9 trying to use a principled approach and I hope when we
10 deal with principles, it will be something less than
11 the 450 pages of SEC executive disclosure principle
12 based rules. So I think principles and rules are all
13 in the eye of the beholder.

14 But as I look through the materials and
15 the outline, I don't know that five minutes really
16 does justice to 20 some pages of outline, Arthur and
17 Don, so I hope you'll allow us to provide written
18 comments but when I look at it, I do think there's
19 opportunities for the firms to move forward and I do
20 agree with comments that the firms are probably doing
21 a better job today than they certainly were doing on a
22 pre-Enron basis and I commend them, Tim's firm,
23 Travis' firm, for the work they are doing, but they
24 can get better I think, and I think that's important
25 because we need to keep in mind that this is all about

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1 one thing, investors, and investor's confidence. And
2 that's one of the principles that is not, surprisingly
3 at the forefront and top of these so-called over-
4 arching principles. This is a public franchise and if
5 the public didn't need those financial statements we
6 wouldn't need the public audits and I think that needs
7 to be a significant amendment made to the very start
8 of the outline.

9 The other thing is the firms have talked
10 and appropriately talked about the governance for
11 corporate America and the importance of that and
12 they're dead right on that. Serving as a director or
13 trustee of three of these organizations now, I think
14 it's important that the firms need to step back and
15 take a look at implementing the same type of
16 governance procedures that we use in corporate
17 America. It's one of those situations where what is
18 good for the gander is certainly good for the goose in
19 a situation.

20 We talk about transparency. Damon brought
21 up the lack of transparency in the litigation issue.
22 We see the 14 percent in the outline as far as
23 litigation costs but there's no transparency about
24 what caused the 14 percent. If the 14 percent as
25 Damon mentioned, came from the Enrons and the

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1 WorldComs, these situations where we had billion
2 dollar misses. And people talk about PCAOB, Mark
3 second-guessing the auditors. It isn't Mark that's
4 second-guessing the auditors, the public has second-
5 guessed the auditors of Enron, WorldCom, Xerox,
6 Bristol-Myers, Tyco, right down the line, and if
7 that's what's contributed to the 14 percent, then you
8 get a total different outcome and I think what it begs
9 for the outline to get more into is, if you're really
10 going to get to the bottom of this, you really need to
11 do something like the National Transportation Safety
12 Board does when there's a plane wreck. You go out and
13 you take a look at it and you figure out what went
14 wrong, and then you come back with recommendations for
15 how to turn around and make it right. And I think we
16 need more of that notion built in, and that certainly
17 goes with transparency.

18 And I will note that the financial
19 executives recommended over two years ago that these
20 firms should put out the same type of financial
21 reporting that public companies do and I do think
22 that's important as well.

23 On the competition issue, I'll just note
24 the reason we've only got four firms, it's not because
25 of Andersen's demise. It's because each of these four

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1 firms went out with the government's approval, and
2 acquired another one of the competitors. So we went
3 from eight to four principally because of the firms
4 themselves with the government blessing and quite
5 frankly the four are so big and such behemoths you're
6 not going to change that today, so I think I'd go back
7 to Bill Travis' comments and the real question is
8 then, how do you give the other firms an opportunity?

9 Just this last week I saw where one of the
10 major Wall Street banks turned down a small firm and
11 that's just flat out wrong and we need to figure out.

12 If I had my preference, serving as a chair of a
13 couple of these audit committees, I'd take four and
14 divide by two, but realizing there's probably not
15 stomach in this town for that, I do think we do need
16 to find a way to help out the smaller firms.

17 And on the human resource issue, just let
18 me close by noting in this profession, starting
19 salaries this year, depending upon counts, are 50,
20 \$55,000.00 for a new grad hire. If you go into law
21 school or go to Wall Street or you go into the medical
22 profession, you get more than double that. So where
23 do you think the smartest and brightest kids are going
24 to go? They're going to go where the money is.
25 They're not dumb. And they're going to go there.

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1 And for the firms to get competitive, vis-
2 a-vis, other fields, they're going to have to change
3 their structure of how they've done the audit. I've
4 signed -- I'm a handful of one of the people around
5 this table that's actually signed audit reports,
6 having been in the profession for 31 plus years, and I
7 find we're still doing it the same way we did 30 years
8 ago, and that just doesn't work any more and so I
9 think the structure of the firms along with their
10 governance has to change. But they also have to find
11 a way to do that, because if they're only going to pay
12 half of what the other professions pay, they're never
13 going to attract the best and the brightest.

14 CO-CHAIR NICOLAISEN: Ann.

15 MS. YERGER: I don't think there's much to
16 be said at this point except I second everything.
17 First of all, I do second everyone's comments. It's
18 an honor for the Council to participate in the
19 Committee. I look forward to working with everybody
20 here and let me also second the comment that I think
21 this is an appropriate time for the Committee. We are
22 not in a crisis mode which is a good thing, and I
23 think this is very much a transformative time for the
24 industry despite the fact that it's undergone
25 tremendous changes just in the past five years. I

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1 agree with Mary's comments. I think we are going to
2 be shifting from GAAP to International Financial
3 Reporting Standards and that has ramifications, not
4 just in training and the folks that are coming up the
5 pipeline but retraining the folks that are currently
6 performing the audits and I think that's something
7 that this group really should think about.

8 Just to put my comments in context, I
9 thought I'd introduce the Council. We are a non-
10 profit membership association of more than 130 public,
11 corporate and labor employee benefit plans with more
12 than \$3 trillion in assets. Our members are
13 responsible for safeguarding the assets used to fund
14 the retirements of millions of individuals,
15 predominantly here in the United States.

16 They have a very long-term and significant
17 commitment to our US capital markets. Their average
18 fund invests about 75 percent of its portfolio in
19 stocks and bonds of US public companies. Given this
20 financial stake and the fact that quarterly reports
21 and audited financial statements are among the primary
22 sources of information used to guide the investment
23 decisions of Council members, the Council has long
24 been engaged in issues involving the quality of the
25 audit process and the strength and independence of the

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1 audit profession and that would be whether we're
2 talking about internal corporate auditors or external
3 auditors.

4 We share everyone's interest here in
5 showing the strength and sustainability of this very
6 important profession. We believe the well-being of
7 our financial markets and the investors who entrust
8 their financial futures to these markets depends in
9 part on the quality of the information provided by
10 audited financials and the quality of that information
11 in turn, depends on the quality of the audits, the
12 people doing the audits, the audit process and
13 providing investors assurance about the accuracy,
14 completeness, reliability and credibility of financial
15 statements.

16 The audit profession clearly plays a very
17 unique role in our capital markets. It is -- it has a
18 ready-made marketplace because it's the only
19 profession that must be engaged by a company selling
20 securities in the US. However, it faces a host of
21 challenges. Some of them, such as structural issues,
22 seem to be very specific to the industry. Others,
23 such as competition to attract and develop talent, I
24 think are probably relevant to all industries, but we
25 certainly appreciate the unique needs for this

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1 profession to continue to have a robust pipeline of
2 trained, skilled auditors. But uniquely the US audit
3 profession ultimately derives its strength by the
4 public trust it earns serving as an effective
5 independent gatekeeper responsible for high quality
6 audits of companies seeking capital from individual
7 and institutional investors.

8 Unfortunately, public trust in the
9 profession and the integrity of the financial
10 reporting process was severely shaken earlier this
11 decade and it will take time to rebuild this trust.
12 We very much support the overarching principles of
13 this Committee and we believe that the big themes
14 detailed in the working outline represent a very
15 thorough review of the challenges facing the
16 profession.

17 I just want to echo, really Richard and
18 Damon's comments on the liability and insurance
19 issues. Those are of key concern to Council members.

20 I want to stress I come here very much with an open
21 mind. I do think there's been a dearth of credible
22 and current information on these issues and I think as
23 we move forward, it's going to be very important that
24 we get very current information and understand what
25 the ramifications are and be able to put these numbers

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1 in some kind of context because I think that kind of
2 data has really been missing and as we're thinking
3 about public policy considerations, I think it's
4 incumbent on us that we really do a very careful
5 review of actual facts and figures.

6 In the coming weeks and months as we work
7 together to develop recommendations for enhancing the
8 quality of audits and the audit process, I would
9 respectfully request that for each and every proposal
10 we examine, we carefully balance the goal of
11 strengthening the audit profession with the
12 necessities of responding to the needs and demands of
13 the ultimate customers of audits of the investing
14 public and of continuing to rebuild public trust in
15 the profession.

16 So I very much look forward to studying
17 lots of facts and data and working closely with all of
18 you to move ahead. Thank you.

19 CO-CHAIR NICOLAISEN: Well, thank you.
20 You have now heard from each of our Committee members.
21 What I'd ask you to do before we hear from our
22 observers is just stand up in place. Don't leave the
23 room, just stand up and stretch for a minute or two it
24 would probably be helpful. Then we'll hear from our
25 observers.

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1 (Off the record.)

2 CO-CHAIR NICOLAISEN: Okay, we'll kind of
3 wander back to our seats. Okay, well, thank you very
4 much. I think that was very helpful to hear from each
5 of our Committee members and as you can see, we have a
6 range of views. Let's now turn to our observers, and
7 we'll also do this alphabetically, so Bob Herz, would
8 you start?

9 MR. HERZ: Thank you and thank you also to
10 the Treasury folks and to Arthur and Don for allowing
11 my organization, the Financial Accounting Standards
12 Board, to have a seat here as an observer. I think
13 that my role here as I perceive it, is that to the
14 extent that what you're looking at inevitably inter-
15 relates with the financial statements and financial
16 reporting, accounting standards, to help provide you
17 with any information we can in that regard that might
18 help illuminate your discussions.

19 Those of you who know me, and that's, I
20 think most of the people here, also know that from
21 time to time, maybe more than time to time, I may
22 offer my own personal views and insights for whatever
23 they're worth as having been a member of the
24 profession for some 30 years also and someone who
25 obviously, in my role now, continues to be very much

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1 involved with auditors and all the people around the
2 auditing activity. I think it is important, I think
3 Lynn put it, that, you know, auditing is an activity
4 around the financial information, the financial
5 statements, so the world of financial reporting, as
6 Alan noted, the kind of backdrop issues of
7 globalization, of improving the content of financial
8 reports, and of also reducing complexity, there's a
9 lot of things going on in those regards, and I would
10 just encourage you in your deliberations to be
11 forward-looking and start thinking about, as many have
12 done in their comments today, about the world as it
13 might be in four or five, seven years and therefore,
14 what the implications are going to be for the role of
15 auditors. What is it that investors in the capital
16 markets are going to be looking for, demanding,
17 wanting, and the like and think about it in that
18 context. In that regard, I think it's
19 important to note also that there is kind of another
20 important advisory committee going on under the SEC's
21 auspices on improving financial reporting and some of
22 its activities and insights may inter-relate with the
23 activities here because it will be making findings and
24 recommendations relating to the basic accounting model
25 to globalization and where we're going in that regard

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1 and the like. I think fortunately, Kristen from the
2 Treasury staff is an observer on that as are Mark
3 Olson and myself, so I think that hopefully these two
4 efforts can glean from each other as appropriate.
5 Thank you.

6 CO-CHAIR NICOLAISEN: Mark?

7 MR. OLSON: Thank you very much. Bob and
8 I were, as the roundtable here started, were
9 commenting on the five-minute recommendation and we
10 decided that it was a principles-based and not a
11 rules-based standard that you were talking.

12 (Laughter)

13 MR. OLSON: Having observed this Treasury
14 Department under the leadership of Secretary Paulson
15 and Under Secretary Steel, something is very clear.
16 That you have leadership that is very focused on
17 financial markets and the relevance of the financial
18 markets both domestically and internationally and they
19 are good stewards of the resources of this Treasury.
20 And if the audit profession has hit their screen as an
21 issue that is in need of high level attention, that
22 attracts the sort of talent that we see around this
23 table, I think that that's all the indication that we
24 need, that this is a critical issue and this is a
25 critical industry. And therefore, I think that to

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1 have and look at the profession from this perspective,
2 is critical and if we do our jobs even remotely
3 correctly, we -- this should assure that it will be a
4 profession that will attract the best and the
5 brightest or at least the most appropriate people over
6 a period of time. So I'm looking forward to doing
7 that.

8 My introduction to the accounting
9 profession came when I was added as a partner to the
10 old Arthur Young firm, almost 20 years ago and my
11 introduction to it from a public policy perspective
12 occurred about eight years ago and one of the first
13 visits I had in that role was from Arthur Levitt and
14 Lynn Turner, talking about some of the changes that
15 were about to be taking place. But for even longer
16 than that, I watched the banking industry over a 30-
17 year period change in a very radical way and 30 years
18 ago or even perhaps 25 years ago, it was clear to
19 everybody that it was going to change. What was not
20 clear was what the change was going to be. And to the
21 extent that it happened in a rational sort of a way
22 through a change in the regulatory or oversight
23 process, it occurred not because new rules were
24 imposed but because there was a fundamental look at
25 the purpose of the industry and a fundamental look at

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1 the appropriateness of the rules that were there and
2 the modification of some of those rules to reassert
3 what the important public policy role was, assuring
4 that it would still retain its viability. So I would
5 hope that as we look at our role here, we would have -
6 - we would not start by deciding among ourselves what
7 the end result will be and what we think it ought to
8 look like at some point, but we ought to look at its
9 viability and the appropriateness of the legal and
10 professional and competitive environment that it finds
11 itself in.

12 And I would think if I could wish upon
13 this group a direction, I would just simply go back to
14 the attributes that Arthur gave to Alan Beller, that
15 we should wish for ourselves wisdom and balance. And
16 with that, on behalf of the PCAOB, I look forward to
17 my participation with this group. Thank you.

18 CO-CHAIR NICOLAISEN: Thank you. Zoe-
19 Vonna?

20 MS. PALMROSE: Under Secretary Steel, Don
21 and Arthur, I would like to make a few comments but of
22 course, I must start by saying that the views I
23 express are my own and do not necessarily reflect
24 those of the Commission, any commissioners or staff.
25 That said, let me emphasize that the SEC through the

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1 Office of the Chief Accountant is very pleased to
2 participate as an observer in the important work of
3 this Committee. The mission of the SEC is to protect
4 investors, maintain fair, orderly and efficient
5 markets and facilitate capital formation. The
6 federal securities laws recognize financial reporting
7 with full and fair disclosure as a critical component
8 in this mission. And importantly, these laws
9 recognize that having these financial statements
10 audited by knowledgeable independent, objective
11 accountants is a bedrock principle that enhances the
12 credibility and reliability of the financial
13 information issuers provide to our markets.

14 Even though issuers file audited financial
15 statements to comply with the federal securities laws,
16 many companies actually provided audited financial
17 statements before the first laws were enacted in the
18 1930's. And still today we see companies in
19 unregulated and emerging markets voluntarily
20 contracting for audits. In other words, financial
21 statement audits are viewed as value added. They're
22 not just a compliance activity.

23 The federal securities laws have given a
24 monopoly over audits to public accountants. In turn,
25 audit services are regulated among which are standards

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1 for auditing, quality control and independence.
2 Nonetheless, these standards provide a floor for audit
3 effectiveness. Importantly, audit firms should have
4 incentives to go beyond the floor and compete on the
5 basis of quality. This not only occurs from
6 enlightened self-interest but when, for example, audit
7 quality carries a premium and clients are willing to
8 pay more for higher quality services.

9 Still, it's widely recognized that the
10 regulatory and market changes over the last decade
11 have significantly effected both the audit environment
12 and the audit process. So now does seem to be an
13 ideal time for stepping back to identify and confront
14 the major issues we face for maintaining and improving
15 the value and effectiveness of audits going forward.
16 In addition, next year, 2008, will be the 75th
17 anniversary of the first securities acts, and
18 anniversaries, likewise, represent opportune times for
19 reflection.

20 The draft outline that we're discussing
21 here this morning contains a robust and perhaps, as
22 Sarah noted, a daunting list of important issues. And
23 even a cursory review of this discussion outline makes
24 clear that audit effectiveness involves not just the
25 audit firms and the people that work for them, in

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1 other words, those that supply audit services, audit
2 effectiveness involves those that educate and train
3 auditors over a lifetime learning process.

4 Those that influence the demand for audit
5 services such as clients, including their audit
6 committees, investors and other users and management,
7 the conditions under which the -- the market
8 conditions under which audit services were exchanged
9 and of course, the nature of the regulations that
10 touched a supply and demand for audit services. The
11 SEC is one of the regulators of auditors and audit
12 services. Naturally, it's very interested in the work
13 of this Advisory Committee. In this regard, SEC
14 Chairman Cox noted in a recent speech that, "We
15 appreciate as regulators, we have to be aggressive in
16 our role as market referees and protectors of
17 investors' interests and at the same time, we have to
18 be humble in recognizing that regulation is not the
19 fuel that drives our markets, though it undoubtedly is
20 the oil that greases the gears."

21 In other words, we recognize the
22 importance of regulatory balance for economic
23 vitality. We in the office of the Chief Accountant of
24 the SEC stand ready to facilitate the important work
25 of this Advisory Committee in any way we can. Thank

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1 you.

2 CO-CHAIR NICOLAISEN: Great. Thank you,
3 Zoe-Vonna. Alan, back to you, if you would like to
4 make some comments, we'd appreciate it.

5 MR. BELLER: Don, thanks very much. And
6 I'd also like to join the chorus of those who have
7 thanked Under Secretary Steel and others at the
8 Treasury and for giving us this opportunity to tackle
9 this complicated task. A little bit about me. I was
10 the Director of the Office of Corporation Finance from
11 2002 to 2006. I think frankly, at least as important
12 in terms of my participation on this Committee, I've
13 spent nearly 30 years as a practicing lawyer in the
14 corporate and securities area. I spent seven and half
15 of those 30 years residence outside the United States
16 in both Europe and Asia.

17 So I have taken a lot of American
18 companies public but also taken a lot of foreign
19 companies public and represent both US and non-US
20 companies in their public market activities. Back in
21 the days when foreign companies still listed in the
22 United States, I helped huge numbers of them,
23 significant numbers of them list. Finally, I am an
24 independent director of a Fortune 100 company and I
25 serve as a member of the audit committee of that

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1 company. So what you will hear from me is, I guess,
2 informed by those perspectives.

3 I think the most important comment I'd
4 make is that it's important, and people have eluded to
5 it, that this be a fact-driven exercise and I know
6 that the Co-Chairs intend that trying to get our arms
7 around the facts is going to be one of our early tasks
8 and we're going to try to derive recommendations from
9 the facts and not the other way around.

10 And I think the only way that we have any
11 hope of being successful is, in fact, to be true to
12 that process. Just a couple of other thoughts; we've
13 -- it's clear and others have said this around the
14 table that in doing our work, we can't take our eye
15 off the notion of the primacy of audit effectiveness,
16 that audit effectiveness depends upon a variety of
17 things. Given the structure of the audit process,
18 Damon eluded to it, there are built-in conflicts and
19 one has to deal with those conflicts in some fashion.

20 We have professional standards to deal with some of
21 those, but beyond conflicts, you eliminate all the
22 conflicts in the world, you still haven't addressed
23 the issue of audit effectiveness, because it's the
24 quality of -- it's the quality of the people and the
25 quality of the processes that produce audit

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1 effectiveness even if you have people who are
2 completely unconflicted. That's why this emphasis on
3 human capital is so important and that's why this
4 emphasis on audit firm structure is so important
5 because you will get good -- the right people
6 operating in the right framework is conducive to high
7 audit quality.

8 Arthur mentioned at the very beginning and
9 it's an important issue, it's becoming a front and
10 center issue of audit quality and I think it's hard
11 for us to do our work without keeping it in mind and
12 that's fraud detection and how audits work in the
13 process of fraud detection today and going forward.
14 I've ducked a little bit of an issue when I talk about
15 the primacy of audit effectiveness because what do we
16 mean by an effective audit?

17 That seems to me, itself, to be a
18 complicated question that has two parts, one of which
19 is what are the standards by which we judge audit
20 effectiveness, and secondly, frankly, is what are the
21 expectations of an audit and what should they be? And
22 I don't know if we're going to be able avoid that
23 question in doing our work.

24 Finally, and I'm going to take 30 more
25 seconds, Arthur, even if we deal with all these issues

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1 of audit effectiveness, is that enough to address the
2 future of the auditing profession and I guess I would
3 submit, although it's obviously a very important part
4 and maybe the most important part, it's not the only
5 part. I think there are liability issues that
6 transcend the quality issue. I share Damon's view
7 and others, we ought to try to get enough facts that
8 we can make an assessment of that. I think there are
9 transparency and governance issues at auditing firms
10 that transcend the quality issues.

11 There's a lot of opaqueness in the
12 auditing profession, vis-a-vis, what investors in the
13 rest of the world know about it. Finally, there are
14 concentration and competition issues that I think
15 transcend the quality issues. Even if we have nothing
16 but perfect audits, I'm not sure we can avoid
17 addressing competition and concentration going forward
18 and finally, the issue of complexity and the issue of
19 globalization, it seems to me transcends the quality
20 issue and has to be addressed as part of our work and
21 so those are my thoughts.

22 CO-CHAIR LEVITT: We're winding up and I
23 want to thank everybody for really staying ahead of
24 time. I've got to say that the Secretary and Bob have
25 taken on an extraordinary high wire act toward the end

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1 of the Administration with the odds heavily stacked
2 against doing anything and bringing up a commission of
3 incredibly talented, non-bashful people with very
4 different views on some critical subjects. I think
5 the least we owe to the two of you for this
6 extraordinary gesture and I really believe it's an
7 extraordinary gesture, we're going to look at this de
8 nouveau. We're going to look at this with openness
9 and assume that you've come to us in the spirit of
10 good will and fellowship and we really take that to be
11 the case.

12 The accounting industry, all of us agree
13 is absolutely essential to the continued primacy of US
14 capital markets. Congress gave you a mandate.
15 Congress gave you a trust, and they gave you an
16 obligation. I think that every decision based in the
17 light of that trust and that mandate must be based upon
18 what it does in terms of confidence in the system. If
19 it diminishes confidence, it's bad; if it increases
20 confidence, we should be for it. All of our
21 recommendations, I suspect are not going to be made in
22 a vacuum. They're going to be made in the light of
23 public judgment and political realities, public
24 judgment and political realities.

25 If we keep that in mind, we keep our focus

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1 on the enormous benefits which could come out of not
2 just a consensus result but an effective contribution
3 to the notion of increasing public confidence and the
4 world's confidence in the system, not delegating it to
5 another domicile, not mimicking some other area of
6 expertise, not seeking the lowest common denominator
7 to arrive at an illusory consensus but a real, working
8 consensus.

9 CO-CHAIR NICOLAISEN: Thank you, Under
10 Secretary Steel and Secretary Paulson. We certainly
11 do appreciate the confidence that you've put in us to
12 undertake what is, I agree with Arthur, a real high
13 wire act. A lot of these issues have been around for
14 a very long time. I'm extremely hopeful, being born
15 an optimist, that we'll be able come up with some
16 meaningful direction that will change the course in a
17 very positive manner and so, I'm enthusiastic about
18 it. I've appreciated so much the comments of each of
19 the Committee members and observers. I think there's
20 a tremendous amount of wisdom and judgment that's been
21 exercised here and shared with us. The comments are
22 candid.

23 A couple of things I've thought about in
24 just listening today, the repetitive views that come
25 across, I think, spot on put the investor first, large

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1 or small. Pay attention to the investor but don't
2 lose sight of the fact that there are many, many other
3 interested parties that rely upon accurate and
4 complete and honest financial statements.

5 Pay attention to the governance systems
6 within the firms. Pay attention to the concentration
7 that has developed. Don't prejudge. Let's seek the
8 facts. I was interested in the comment that in the
9 academic world maybe accounting should be required
10 even at the high school level just to get people's
11 appetite whetted. Certainly, a lot of good thoughts
12 as we go forward.

13 I was also trying to jot down some of what
14 I heard about -- I would say they were probably
15 attributes of accounting, accountants and accounting
16 firms. Maybe it's even what a want ad would look for,
17 for hiring an accountant, the terms were there over
18 and over again, they want the best, the brightest, a
19 fellow needs to exercise sound and competent judgment
20 on a consistent basis with consistent quality. You're
21 looking for the professional, someone you can trust,
22 someone who's honest, someone who has integrity, an
23 expert, they're robust in their efforts. They're
24 noble. They protect the interests of the public.
25 They can manage risk. They can deal with complex

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1 accounting matters. They're balanced. They're --
2 they get it right, they're proud, they have wisdom,
3 they add value and they're transparent. They're
4 accurate and you can go on and on with what I heard
5 here. And I think that probably says a lot of good
6 about the accounting profession, about the auditing
7 profession and its future is that it is geared to and
8 it is attracting extremely bright, extremely talented
9 people who do care immensely about the good of
10 society and the best of community.

11 So I'm enthusiastic. I think we'll do
12 well and I appreciate your participation and ability
13 to sit through a fairly long morning. Bob or David,
14 any announcements before we break here?

15 UNDER SECRETARY STEEL: No, that's it.

16 CO-CHAIR NICOLAISEN: Great, thank you
17 very much.

18 (Whereupon, at 12:23 p.m., the above-
19 entitled matter concluded.)
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