

U.S. DEPARTMENT OF THE TREASURY

+ + + + +

ADVISORY COMMITTEE ON THE AUDITING PROFESSION

+ + + + +

MEETING VIA TELECONFERENCE

+ + + + +

Friday,
September 26, 2008

The meeting was convened pursuant to notice, at 10:00 a.m., Arthur Levitt, Jr. and Donald T. Nicolaisen, Co-Chairs, presiding.

ADVISORY COMMITTEE MEMBERS PRESENT:

- ARTHUR LEVITT, JR., Co-Chair
- DONALD T. NICOLAISEN, Co-Chair
- ALAN L. BELLER
- TIMOTHY P. FLYNN
- ROBERT R. GLAUBER
- KEN GOLDMAN
- GAYLEN R. HANSEN
- BARRY C. MELANCON
- RICHARD H. MURRAY
- GARY JOHN PREVITS
- DAMON A. SILVERS
- SARAH E. SMITH
- WILLIAM D. TRAVIS
- LYNN E. TURNER
- ANN YERGER

ADVISORY COMMITTEE OBSERVERS PRESENT:

- ROBERT HERZ
- MARK OLSON

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

TREASURY OFFICIAL PRESENT:

HENRY PAULSON, Secretary of the Treasury

TREASURY STAFF PRESENT:

KELLY AYERS
GERRY HUGHES
TIMOTHY HUNT
KRISTEN JACONI
STEVE LAUGHTON

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

TABLE OF CONTENTS

Opening	
Co-Chair Nicolaisen.....	4
Roll Call	
Ms. Jaconi.....	4
Secretary Paulson.....	6
Co-Chair Nicolaisen.....	9
Human Capital	
Mr. Previts.....	14
Firm Structure and Finance	
Mr. Glauber.....	19
Concentration and Competition	
Mr. Silvers.....	30
Vote	
Ms. Jaconi.....	33
Closing Remarks	
Co-Chair Levitt.....	35

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

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

2 10:10 a.m.

3 CO-CHAIR NICOLAISEN: All right.
4 Let's get started. We do have a quorum. Good
5 morning, everybody. We apologize for the
6 confusion in getting this meeting underway.

7 OPERATOR: Excuse me, sir. Are you
8 ready for the public to be listening as well?

9
10 MS. JACONI: Yes, we are.

11 OPERATOR: All right. I will go
12 ahead and transfer you over so that all
13 parties can listen at this time.

14 MS. JACONI: Thank you.

15 CO-CHAIR NICOLAISEN: Excellent.
16 Thank you.

17 Let me start over. Good morning,
18 everyone and again, I apologize for any
19 confusion.

20 Now what do we have on?

21 MR. PREVITS: I'm still here, Don.

22 Gary Previts.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 CO-CHAIR NICOLAISEN: Okay. I
2 assume then that that was just the joining
3 then of the public call. So but let's be
4 sure. Let's do a roll call one more time.

5 MS. JACONI: Okay. Alan Beller?
6 Alan Beller?

7 MR. BELLER: Here.

8 MS. JACONI: Amy Brinkley? Mary
9 Bush? Rodge Cohen? Tim Flynn?

10 MR. FLYNN: Present.

11 MS. JACONI: Bob Glauber?

12 MR. GLAUBER: Here.

13 MS. JACONI: Ken Goldman?

14 MR. GOLDMAN: Yes.

15 MS. JACONI: Gaylen Hansen?

16 MR. HANSEN: Yes.

17 MS. JACONI: Arthur Levitt? Barry
18 Melancon?

19 MR. MELANCON: Here.

20 MS. JACONI: Ann Mulcahy? Rick
21 Murray?

22 MR. MURRAY: Yes.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 MS. JACONI: Don Nicolaisen?

2 CO-CHAIR NICOLAISEN: Here.

3 MS. JACONI: Gary Previts?

4 MR. PREVITS: Here.

5 MS. JACONI: Damon Silvers?

6 MR. SILVERS: Here.

7 MS. JACONI: Rick Simonson?

8 Sarah Smith?

9 MS. SMITH: Here.

10 MS. JACONI: Bill Travis?

11 MR. TRAVIS: Here.

12 MS. JACONI: Lynn Turner?

13 MS. TURNER: Here.

14 SECRETARY PAULSON: Hi, it's Hank.

15 Can you all hear me?

16 CO-CHAIR NICOLAISEN: Yes, good
17 morning, Hank. It's Don Nicolaisen.

18 SECRETARY PAULSON: Oh, hi. Good
19 morning. You know, I so much wish I was there
20 in person with you and there today because
21 this is something that's very important that
22 I've been looking forward to. But as you

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 know, I'm spending my time differently these
2 days.

3 But again, Don and Arthur, thank
4 you very much. So this is very important and
5 you know, this industry's terribly important.

6 I know all of you have devoted a
7 lot of time to the Committee and Subcommittee,
8 you know, many of you have demanding full-time
9 jobs. All of you are busy and I also want to
10 thank Mark and Bob and Conrad for serving as
11 observers. Thank you very much.

12 You know, I was thinking as I
13 looked at my schedule this morning, I
14 remembered back at -- March 2007 sounds like a
15 long time ago. You know, that -- I remember
16 George Schultz telling me the days will be
17 long and the years will be short. But for me
18 the days have been long and the years have
19 been long.

20 But I remember we got together. We
21 had the conference at Georgetown University.

22 What's that? Someone is -- I'll

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 keep going.

2 CO-CHAIR NICOLAISEN: Please do.

3 SECRETARY PAULSON: Someone is --

4 CO-CHAIR NICOLAISEN: We can hear
5 you just fine, Mr. Secretary. Go ahead.

6 SECRETARY PAULSON: Okay. When we
7 thought about competitive U.S. capital
8 markets, I think all of us thought that
9 accounting was right front and center because
10 you know, you got -- the lifeblood of capital
11 markets are the financial statements and the
12 sustainability of the auditing profession,
13 critical to investor confidence in our capital
14 markets and you know, since that time, this
15 has only become clearer given some of the
16 developments.

17 So I'm grateful for you, you know,
18 continuing with your efforts here and all the
19 work you've done. I am going to very much
20 welcome and be here to receive your final
21 report next week after you vote today and I
22 hope and believe what you're going to do is

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 going to contribute to shape the necessary
2 work of improving investor confidence in our
3 financial markets.

4 And I know you're going to vote on
5 several very significant recommendations
6 including a market stability recommendation
7 and I think that's very important and again, I
8 thank you.

9 I look forward to reading your
10 recommendations and I really, really
11 appreciate what you've done and thank you for
12 your service to the United States as, you
13 know, the best place in the world to do
14 business.

15 And we've got a lot of work to do
16 in a lot of areas to get us back to where we
17 should be, but your work is an important part
18 of it.

19 So Don or Arthur or anyone else,
20 any comments, questions for me before I go
21 out?

22 CO-CHAIR NICOLAISEN: No, we

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 appreciate it very much that you've joined us,
2 Mr. Secretary. It's extremely kind of you and
3 we wish you all the best as you move forward
4 in your undertakings today.

5 SECRETARY PAULSON: Okay. Thank
6 you all and I really appreciate it. Thanks.

7 CO-CHAIR NICOLAISEN: Thank you.
8 All right. Let's try it.

9 MS. JACONI: I'm going to renew
10 taking roll. I think I was at Ann Yerger?

11 MS. YERGER: Here.

12 MS. JACONI: And Arthur Levitt has
13 joined us. Anyone's name I haven't called?
14 Thank you.

15 CO-CHAIR NICOLAISEN: All right.
16 We have an echo in ours. Does it sound all
17 right to the rest of you?

18 MR. PREVITS: It's okay here, Don.

19 CO-CHAIR NICOLAISEN: Perfect.
20 Then I'll live with the echo. It's like we're
21 broadcasting from a chamber some place.

22 Again, good morning. Thank you

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 very much for a year's patience and hard work
2 and a lot of effort in exchanging views in
3 areas where I know we've had some very long
4 and enthusiastic and thoughtful discussions
5 and inputs.

6 I'm quite confident that what we
7 have today is a very good product and I think
8 that in the balance we'll be able to go
9 forward with some recommendations that will be
10 very helpful in improving an audit profession
11 that has already made great progress
12 particularly with guidance and standard
13 setting and oversight of the PCAOB.

14 Our meeting today, I wanted to
15 comment first on two areas of additions that
16 came in in your package that you should have
17 all received over the weekend or Monday
18 morning and in that package, we've included a
19 background section. The background section is
20 intended to be a neutral discussion of the
21 auditing profession that provides background
22 on certain basic information such as revenues,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 of the source of those revenues, some
2 commentary about governance practices of the
3 firms, some commentary as best we were able to
4 gather at the global networks and other
5 background information.

6 That will be a part of the report
7 and to the extent that there's any Committee
8 commentary as to are the facts not right in
9 that, please feel free to get to Kristen or to
10 raise it today. We certainly do want that to
11 have the same rigor that every other part of
12 this report has had.

13 Secondly, Arthur and I have added
14 our commentary. That is not part of the
15 Committee's report. That is separate and
16 apart and we want to make it very clear that
17 we're not asking the Committee to approve what
18 we have to say. What we're trying to do in
19 that is simply express our appreciation for a
20 lot of hard work that was done by a great many
21 people as well as to provide the encouragement
22 to continue the process and I think we're

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 better equipped with a regulatory environment
2 of today with the PCAOB being in place to be
3 able to see continuing progress in the quality
4 and ability for the public to place confidence
5 in the auditing profession.

6 There are a couple of comments in
7 there that have caused some of you to say that
8 you would want us to be careful to label it
9 our views, the views of the co-chairmen, and
10 that they're not necessarily views shared by
11 other members of the Committee and we
12 certainly will do that. We've taken that
13 under advisement. We certainly will do that.

14 With that, I would like to begin as
15 we have in each of these previous meetings to
16 review the changes that each Subcommittee
17 chair would care to comment on. Those things
18 that are deemed of significance since the last
19 draft which was dated July 22nd.

20 So let me begin with the Human
21 Capital Section and Subcommittee Chair Gary
22 Previts, I'll turn it over to you.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS
1323 RHODE ISLAND AVE., N.W.
WASHINGTON, D.C. 20005-3701

1 MR. PREVITS: Thank you, Don.
2 Thank you, Arthur and I want to express my
3 appreciation on behalf of our Subcommittee, to
4 Co-Chairs for your support and guidance and of
5 course, to the staff and particularly to the
6 members of the Subcommittee. It's a
7 hardworking group and it's a pleasure to work
8 with them.

9 I'll try to be brief in this
10 summary. It is the final summary on our
11 Subcommittee activity.

12 A significant change, there was a
13 12-line addition plus some footnote support
14 amended in the prologue to our section to
15 recognize and acknowledge the work place
16 successes of the profession in recent years.
17 Those came through in the comments since our
18 July meeting and with the assistance of staff,
19 those successes have been appropriately
20 acknowledged.

21 The remainder of the text in the
22 recommendations aside from some wordsmithing

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 in the summary black-letter language under
2 recommendation 5 is almost identical in all
3 respects to prior versions and I'll just
4 briefly summarize those recommendations since
5 we are going to vote.

6 Recommendation 1 and its sub-parts
7 emphasize the need for current and market-
8 based content in the curriculum and
9 professional examinations going forward. It
10 touches on aspects such as availability of
11 low-cost or no-cost access to develop -- in
12 developing authoritative searchable databases
13 and there are proposals on that matter in the
14 hopper right now as Bob Herz is well aware and
15 we're hopeful with support of that nature we
16 can go forward and begin to really drive
17 change in the curriculum. Not an easy thing
18 to do.

19 The second item I personally
20 consider to be the centerpiece which is the
21 focus on improving the representation and
22 retention of minorities and in this

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 recommendation, there are several specific
2 actions depicted and encouraged including
3 Historically Black Colleges and Universities.

4 That's the second recommendation as
5 I said. I just personally view that as the
6 centerpiece.

7 The third deals with the faculty-
8 supply issue which we all have been focused
9 on. David Leslie's study provided us with
10 uniquely crafted information at the time of
11 our meetings in January including how to best
12 find a balance point in a variety of
13 backgrounds most valuable to higher
14 education's role in preparing individuals for
15 the profession.

16 Cross-sabbaticals have been
17 suggested. The need for access to research
18 data to unplug the pipeline into doctoral
19 research at doctoral institutions as Bill
20 Kinney pointed out especially in the auditing
21 areas and of course, the new doctoral scholars
22 program launched with support of the firms and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 the institute. Suggested actions are already
2 under way and that's very positive.

3 The fourth recommendation is simply
4 a reminder that we need regular information to
5 address the irregular nature and lack of data
6 upon which good decisions can be made about
7 orienting and guiding important decisions
8 about demographics in academic profiles and so
9 forth.

10 Still a challenge, but the filings
11 in January that provided some information
12 about hiring on the part of the firms and the
13 restatement of the AICPA's supply and demand
14 data are hopeful signs that we can begin to
15 build forward.

16 The final recommendation is kind of
17 strategic and vital. It's a keystone to the
18 future and that's the recommendation to create
19 a commission to study accounting higher
20 education. It calls upon the AAA and the
21 AICPA to undertake this activity and hopefully
22 that will occur sooner and not later.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 Even in light of the extreme focus
2 on current market conditions, I think this is
3 -- these recommendations fit in the generic
4 category and while we're hopeful that they can
5 be addressed, you know, relatively soon,
6 everyone's aware of the fact that we're in
7 unchartered waters and hopefully as we see our
8 way through those, we'll come back and
9 recognize the importance of these as well.

10 I would leave it there and ask the
11 Co-Chairs if they have any other questions or
12 any members do.

13 CO-CHAIR NICOLAISEN: Thank you
14 very much, Gary. Committee members, any
15 comments? Questions?

16 If not, Gary, thank you very, very
17 much for your efforts and we think that the
18 contribution that's been made by you and
19 members of your Subcommittee has been
20 outstanding. Tremendous amount of data that
21 has been digested and then converted into some
22 very, very good recommendations. So again,

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 thank you very much.

2 Let's move next then to Chairman
3 Bob Glauber. Bob has been the Chairman of the
4 Firm Structure and Finances Subcommittee and
5 Bob, we certainly want to express our
6 appreciation to you in working through some of
7 the areas that have been most energetic and I
8 think you have done an outstanding job and
9 your committee has been deeply engaged and
10 we're appreciative of that as I believe
11 investors and others around the world are. So
12 I will turn it over to you at this point.

13 MR. GLAUBER: Thank you, Don. Can
14 you hear me?

15 CO-CHAIR NICOLAISEN: Yes.

16 MR. GLAUBER: Well, good. Let me
17 begin by thanking the Subcommittee members for
18 their perseverance, their commitment, their
19 endlessly professional behavior and their
20 enduring good humor throughout this very
21 difficult task.

22 I also want to thank most

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 profoundly and profusely the staff headed by
2 Kristen. The staff have been simply unending
3 in their support of us and responded to all
4 that we've asked of them.

5 And finally, I'd like to thank the
6 Co-Chairs for their guidance and support
7 throughout this effort.

8 With your permission, the
9 permission of the Co-Chairs, I'm just going to
10 note the changes rather than the entire
11 recommendation since I think we've been over
12 this a number of times and I'm sure you want
13 to keep this meeting as short as functionally
14 possible.

15 CO-CHAIR NICOLAISEN: Certainly.

16 MR. GLAUBER: First of all, there
17 is a change to Recommendation 1 which
18 recommends a fraud detection and prevention
19 center. The center has been looking for a
20 home and it has happily found one. The PCAOB
21 has agreed to host that and I want to thank
22 Mark Olson and the members of the PCAOB for

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 working hard with us to find terms and
2 conditions under which they would feel
3 comfortable hosting that. So that now is part
4 of the recommendation.

5 The other major change in what you
6 have is not a recommendation, but it is a
7 section on page 24 and following of changes --
8 dealing with changes to the litigation
9 liability environment and as I say, it does
10 not contain specific recommendations.

11 The Subcommittee discussed over a
12 number of weeks and months a wide range of
13 possible changes most of them bearing on
14 basically catastrophic litigation risk.
15 Things like caps on damages confronting audit
16 firms, caps on appeal bonds, the right to
17 appeal, denial of motions to dismiss,
18 Government insurance of audit firms, bilateral
19 indemnification agreements between companies
20 and audit firms and also which is referenced
21 in the co-chairs' chapter, the possibility of
22 federalizing some of the claims against audit

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 firms although that doesn't really deal with
2 catastrophic litigation risk.

3 The Subcommittee I think agrees
4 that litigation and that the environment of
5 the litigation should be fair and rational in
6 serving the needs of audit firms and the
7 investing public. But it really could reach
8 no consensus on whether or not the current
9 system is indeed fair and rational or on any
10 proposed changes.

11 So what we've done in this section
12 after reciting some of the data that were
13 collected to inform us is to express the views
14 of broadly two groups, the audit firm group
15 and the investor group, and that is contained
16 in a series of bullet points in this section
17 and that really is I think a reasonable
18 summary of that section. Again, as I say, we
19 could reach no consensus on any changes,
20 reforms to the litigation liability
21 environment and so we include just this
22 section.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 Don, I think that really is all I
2 need to say and obviously I or the
3 Subcommittee I'm sure would be happy to answer
4 any questions.

5 CO-CHAIR NICOLAISEN: Thank you
6 very much. Any questions or comments from
7 other members of the Committee?

8 MR. MURRAY: Don, it's Rick. Just
9 for clarification, while I would be among
10 those that Bob has identified as expressing
11 audit firm related views, I don't consider
12 myself to be a representative of the audit
13 firms in doing so.

14 MR. GLAUBER: That's a very, very
15 proper point, Rick, and I apologize. We have
16 clustered the points of view in two groupings
17 and it would be wrong to suggest that people
18 whose views are expressed in those two
19 groupings represent specifically audit firms
20 or the investing public and I think you're
21 quite right. Thank you, Rick.

22 MR. HANSEN: Bob, this is Gaylen. I

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 would have a similar sentiment even though I
2 have been grouped as you said with the
3 investors. I don't necessarily view myself
4 that way. I was asked to represent NASBA and
5 the state boards. Also somewhat
6 representative of small audit firms.

7 MR. GLAUBER: Absolutely and again,
8 my apologies to you Gaylen as well as Rick and
9 all the other members of the Subcommittee for
10 my inarticulate characterization.

11 MR. SILVER: Bob?

12 MR. GLAUBER: Yes.

13 MR. SILVER: Bob, this is Damon.
14 I'm happy to be represented as an investor,
15 but I have a question about something else on
16 the document.

17 The discussion of auditor -- of
18 large auditor financial statements that states
19 that they will be -- that recommends that in
20 2011 they prepare GAAP financial statements
21 and prepare and provide them to the PCAOB on a
22 confidential basis.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 Can you explain to me in light of
2 the comments of our chairs which are obviously
3 not for us, but their comments, whether you
4 believe that that statement leaves it open to
5 the -- that the parts in our report leaves it
6 open to the PCAOB as to whether those
7 statements should be made public or is it
8 recommending or are we recommending that they
9 not be made public?

10 MR. GLAUBER: I believe it is
11 silent purposefully on that and I would say my
12 view would be the way to characterize it is to
13 say it leaves it open. It does not recommend
14 that they make it public. It does not
15 recommend that they not make it public.

16 MR. SILVERS: All right. Well, I
17 think it's important that it's clear that
18 that's what we're saying here and I think that
19 the language is not -- the language I think
20 sort of tilts otherwise and we might want to
21 think about how to be maybe more precise that
22 we're not -- that we're not -- that we're

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 silent just as you said in the document.

2 MR. GLAUBER: Is the language not
3 silent? It --

4 MR. SILVERS: It says on a
5 confidential basis and I think that some
6 people who have read this document on my staff
7 have seemed to think that that has an
8 implication of what they would do and that
9 caused concern to me. Although, I mean the
10 position that you articulated was what I
11 understood we were doing.

12 MR. GLAUBER: Well, again, I don't
13 want to step in the shoes of the rest of the
14 Subcommittee, but I believe it was the
15 Subcommittee's intent in this recommendation
16 simply to remain silent.

17 MR. SILVERS: Yes. No, that was my
18 understanding as well. I think we now -- we
19 now have that clear at least on the record of
20 this call and --

21 MR. GLAUBER: Is that -- let me --
22 referring to the Subcommittee, is --

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 MR. PREVITS: I'm with you. I read
2 the silence pretty clearly.

3 MR. SILVERS: Okay. Very good.
4 Well, then I'm satisfied. Thank you.

5 COURT REPORTER: Speaker, who was
6 that?

7 MR. GLAUBER: Just, Don, if I may,
8 let me just query the Subcommittee, does my
9 characterization of our position leave you
10 comfortable as Subcommittee members?

11 MS. YERGER: Yes.

12 MR. MURRAY: Yes, Bob, it does
13 particularly in recognition that the PCAOB has
14 no constraints on what decisions it wishes to
15 take with that information.

16 MR. SILVERS: Okay. Well, very
17 good.

18 COURT REPORTER: Members, this is
19 the court reporter. I need the speakers to
20 identify themselves.

21 MR. MURRAY: That was Rick Murray.

22 MR. OLSON: This is Mark Olson and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 the way I interpreted it and the way that I
2 have understood it is that the recommendation
3 is silent with respect to the disclosure part.

4 MR. SILVERS: Very good. This is
5 Damon. Thank you, Bob. I appreciate that.
6 Thank you to the Subcommittee.

7 MR. GLAUBER: Good. Okay.

8 CO-CHAIR NICOLAISEN: Any other
9 questions or comments?

10 MR. HANSEN: Yes, this is Gaylen.
11 Mark, how do you -- you said that you think
12 that it's silent on that particular issue, but
13 how do you see this working going forward?
14 Would there be an interpretive and you'd
15 handle this on a case-by-case basis or how do
16 you see that?

17 MR. OLSON: Gaylen, we, I think,
18 throughout have this -- what we have done is
19 we've been -- we have not taken positions on
20 the recommendations of the Committee.

21 I think our thinking is that it's
22 our role as the regulator to accept the

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 industry or the profession as we find it and
2 regulate it accordingly and our position with
3 respect to the recommendations have not been
4 to try to direct the outcome of them, but to
5 add where we think we are being -- where
6 something is being requested of us that's
7 different from our -- either our role or our
8 mandate and the Board has not tried to look at
9 this recommendation, Gaylen, and suggest what
10 our next steps would be. We're waiting for
11 the report to come out and then look to it.
12 So we haven't taken it to the next step.

13 MR. HANSEN: Thank you.

14 CO-CHAIR NICOLAISEN: Okay. Any
15 other questions?

16 If not, Chairman Glauber and the
17 Subcommittee on Firm Structure and Finances,
18 thank you very much for your hard work and
19 now, I'll turn it over to Arthur Levitt.

20 CO-CHAIR LEVITT: Thank you. The
21 Concentration and Competition Subcommittee
22 chaired by Damon Silvers came up with a number

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 of creative and constructive ideas.

2 Damon, would you want to lead off
3 in terms of your Subcommittee?

4 MR. SILVERS: Yes, thank you,
5 Arthur. Arthur, would you like me to go
6 through the -- summarize each one or merely
7 the changes?

8 CO-CHAIR LEVITT: I think the
9 changes would be --

10 MR. SILVERS: All right. We really
11 only -- I mean I think like my colleagues in
12 the Firm Structure and Human Capital
13 Subcommittees, we really have really only a
14 handful of changes.

15 The only one that's not just a text
16 edit really is that there's a strength --
17 there's an addition of some language
18 addressing how predecessor and successor audit
19 firms and their client relate to each other in
20 the context of a change of auditors and the
21 language while acknowledging that there's a
22 complex set of obligations that are owed among

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 the three parties, the language strongly
2 encourages both the participants in these
3 changes of auditors and the PCAOB to insure
4 that there are not inappropriate costs or
5 barriers placed in the way of companies
6 changing auditors and particularly by the
7 predecessor firm.

8 Obviously, this is a concern that
9 is important in the context of having healthy
10 competition for audit services and encouraging
11 the growth of viable competitors in the large
12 company and big cap auditing markets.

13 So you'll find that there's an
14 additional paragraph or so on that subject. I
15 believe that is the only really substantive,
16 large change that's in the document from the
17 draft version that was made publicly
18 available.

19 Although if my fellow Committee
20 members who are on the call, if I've omitted
21 something, they should speak up now.

22 CO-CHAIR LEVITT: Do any members

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 have comments on --

2 MR. GOLDMAN: Yes, this is Ken. I
3 agree with the characterization of Damon. I
4 think this is the only major change and I
5 think it's just -- the intent again is to make
6 it more transparent and frankly more
7 straightforward for those firms that would
8 like to look at changing auditing firms and
9 make it easier both relative to the
10 predecessor as well as the successor firm. So
11 that was the intent.

12 MR. SILVERS: Arthur, this is Damon
13 again. Let me just say that I want to express
14 my thanks to Ken himself and to Tim Flynn who
15 worked together on devising this language on
16 which I think they did a fine job and were a
17 great help to the Subcommittee.

18 CO-CHAIR LEVITT: I'd like to echo
19 that. I know the chairman's been through a
20 very arduous business schedule and dealing
21 with his colleagues requires diplomatic skills
22 unseen in any form of human endeavor. He's

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 handled it with fairness and grace and I'm
2 particularly grateful to his contribution.

3 Any other comments on this chapter?

4 If not, I think we might now then
5 have a vote on adopting the Advisory
6 Committee's final report and I would ask
7 Kristen to call the role, take a vote of
8 members.

9 MS. JACONI: Alan Beller? Amy
10 Brinkley? Mary Bush? Rodge Cohen? Tim
11 Flynn?

12 MR. FLYNN: Yes, in favor.

13 MS. JACONI: Bob Glauber?

14 MR. GLAUBER: Yes.

15 MS. JACONI: Ken Goldman?

16 MR. GOLDMAN: Yes.

17 MS. JACONI: Gaylen Hansen?

18 MR. HANSEN: Yes.

19 MS. JACONI: Arthur Levitt?

20 CO-CHAIR LEVITT: Yes.

21 MS. JACONI: Barry Melancon?

22 MR. MELANCON: Yes.

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 MS. JACONI: Ann Mulcahy? Rick
2 Murray?

3 MR. MURRAY: On the terms as
4 described by Chairman Nicolaisen at the outset
5 of this meeting, yes.

6 MS. JACONI: Don Nicolaisen?

7 CO-CHAIR NICOLAISEN: Yes.

8 MS. JACONI: Gary Previts?

9 MR. PREVITS: Yes.

10 MS. JACONI: Damon Silvers?

11 MR. SILVERS: Yes.

12 MS. JACONI: Rick Simonson? Sarah
13 Smith?

14 MS. SMITH: Yes.

15 MS. JACONI: Bill Travis?

16 MR. TRAVIS: Yes.

17 MS. JACONI: Lynn Turner?

18 MS. TURNER: No.

19 MS. JACONI: Paul Volcker? Ann
20 Yerger?

21 MS. YERGER: Yes.

22 MS. JACONI: Alan Beller, are you

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 on? Anyone who I haven't called?

2 MR. BELLER: Yes. Yes, I am. I
3 was on mute. Yes, I vote to approve.

4 MS. JACONI: Is there anyone I
5 haven't called who's on?

6 The vote tally is 14 to 1.

7 CO-CHAIR LEVITT: Okay. The vote
8 approves the report 14 to 1.

9 I would just like to say that I
10 have rarely encountered a group who combined
11 the diversity of interest on issues that
12 sometimes were fearsomely divisive, that
13 brought to the table the degree of
14 intelligence, probity and most of all,
15 civility.

16 The attitude of this group, I wish
17 this could convey itself to other great issues
18 in our society, but I think we came to the
19 table as colleagues seeking to do a fair and
20 open job and maybe most importantly, prepared
21 to listen and it wasn't always easy because
22 transferring complex ideas into paper and

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 typed becomes very, very difficult, but each
2 of us I think made enormous contributions and
3 I think that we all leave this experience with
4 great respect for one another and I think
5 that's a gift we will treasure.

6 Speaking personally, I would like
7 to say that I am deeply, deeply grateful for
8 the friendship and support of both Kristen and
9 the Co-Chair Don Nicolaisen. In many ways,
10 this is one of the most valuable aspects of
11 this experience.

12 So thank you all for a job that was
13 well done and I now call for a motion to
14 adjourn.

15 MR. GOLDMAN: Arthur, this is Ken.

16 Before we do that, could I just say that I
17 did read and I just -- in all due reference to
18 you and Donald, I think you folks did -- in my
19 opinion, I read the letter. I thought it was
20 well done in terms of explaining the points
21 and maybe adding some color.

22 So I just wanted to personally

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701

1 thank you for putting that on paper. You
2 know, it's a reflection of what the Committee
3 has tried to do. So thanks there and I also
4 would like to echo the Treasury's support of
5 this matter which was more than I think any of
6 us would have known for help before we started
7 on this project.

8 CO-CHAIR LEVITT: Thank you. Do I
9 hear a motion to adjourn?

10 CO-CHAIR NICOLAISEN: I'll move it.

11 CO-CHAIR LEVITT: Any opposition?

12 All in favor?

13 (Chorus of ayes.)

14 CO-CHAIR LEVITT: Thank you.

15 Motion carried.

16 (Whereupon, the meeting was
17 concluded at 10:45 a.m.)

NEAL R. GROSS

COURT REPORTERS AND TRANSCRIBERS

1323 RHODE ISLAND AVE., N.W.

WASHINGTON, D.C. 20005-3701