From: Frank Cesario [mailto:fcesario@nanophase.com]
Sent: Wednesday, September 07, 2011 4:48 PM
To: Comments
Subject: PCAOB Rulemaking Docket Matter No 37

Re: Audit Firm Rotation

Thank you for the opportunity to comment on the proposals surrounding Mandatory Audit Firm Rotation ("MAFR"). In order to require MAFR, one must conclude that an expected increase in independence overwhelms the loss of continuity and free choice to transact business with a preferred vendor. I question the presumption that independence would be improved by MAFR.

Whatever incentive that exists in preserving future revenue would continue to exist if that period were capped. Preserving even a limited number of years of revenue would continue to be a value to the audit firm, as opposed to being terminated after a shorter period of time. Additionally, the audit firm would likely prefer a favorable referral upon concluding the engagement, and would further have some level of propensity to become engaged in a form of referral network that moved business around a known group within a region. Those factors that may incent non-independent behavior would continue to exist in a MAFR scenario. How does limiting the number of years a revenue stream is available change the priority of a firm that chooses to value it? Does anyone truly expect a firm that was willing to act without required and desired levels of independence due to profit motive would instead choose to act more independently because the revenue stream is capped? Do we think an entity willing to act in an undesirable manner for $100 would act responsibly if the value were $50 plus the implicit value of an expected referral? That must be the presumption, and it seems illogical.

The cost of implementing MAFR is much more straightforward. Continuity between an enterprise and audit firm would be lost. Companies would not be able to hire their preferred choice of audit service provider, which might mean paying higher fees or losing actual/perceived quality. Turnover would require more cost in bidding and building engagements, which would provide both a fresh perspective and incremental resource consumption for a non-value added purpose. From a philosophical perspective, to prohibit free trade should require an expectation of value, not the hope of value.

Finally, please note that we do not practice this form of mandatory rotation in most aspects that would require professional behavior to supersede pure profit motivation. Doctors are paid by the visit/procedure, yet we don't rotate them. Elected officials are supposed to put the best interests of the electorate ahead of their own desire for re-election, yet in few offices do we have term limits (President of the United States being the significant exception, but note it is one of very few exceptions, as term limits do not apply to the Legislative Branch and are expressly removed from the Judicial Branch, nor are they predominant in state or local governments overall). So if we do not, as a society, feel that mandatory rotations are appropriate for most service providers from which we expect a level of professionalism above a profit motive, then why apply such a filter solely to the audit community? I respectfully request that the concept of MAFR be rejected. The current system of safeguards seems appropriate and generally effective, and the incremental value of MAFR seems dubious at best while incremental costs are certain.

Sincerely,

/s/ Frank Cesario

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