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Tom Ballard
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October 31, 2011

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 37

Dear PCAOB:

National Oilwell Varco (NOV) appreciates the Board providing the opportunity for stakeholders to respond to PCAOB Release No. 2011-006, Concept Release on Auditor Independence and Audit Firm Rotation. NOV is a worldwide leader in providing mechanical equipment for land and offshore drilling rigs, complete land drilling and well servicing rigs, tubular inspection and internal tubular coatings, drill string equipment, lifting and handling equipment, and downhole drilling motors, bits and tools. National Oilwell Varco also provides supply chain services through its network of distribution service centers located near major drilling and production activity worldwide.

We agree with the Board's view that longstanding auditor / client relationships present a risk of loss of auditor independence. We however also believe that current rules regarding independence and the enhanced rules supporting independence introduced by Sarbanes Oxley regulations adequately mitigate the risk. To improve auditor independence, SOX section 301 includes a requirement that audit committees be solely responsible for all the aspects relating to selecting, hiring, and replacing external auditors. It also requires that external auditors report directly to the audit committee. In addition, we believe there is a real value added due to the increased knowledge base built by a longstanding auditor / client relationship when the client operates in a complex environment. Over an extended number of years the auditor develops increased knowledge of the client's business, especially within large multinational organizations. This increased knowledge enables the auditor to provide higher quality audits each year as that knowledge base increases.

We believe that the introduction of mandatory rotation would add a substantial unnecessary expense to mitigate a risk already adequately mitigated and reduce the opportunity for improved audit quality enabled by the auditor continuously building increased knowledge of the client. Should the Board elect to move forward with mandatory auditor rotation, we have provided our comments to the questions posed by the Board in anticipation of such a move.

Board questions / NOV responses:

1. If the Board determined to move forward with development of a rotational proposal, what would be an appropriate term length?

The value gained from the rotational proposal is added independence due to a shorter auditor / client relationship and the introduction of a fresh view with the transition to a new auditor (as is now accomplished by partner rotation). Disregarding any added cost associated with a change in audit firm and the added knowledge gained through multi-year audits, it is assumed the shorter the term the sooner

the added value is realized. In order to conduct a cost benefit analysis some value gained would need to be assigned to the proposed rotational practice. We believe the added value is real, but impossible to estimate in dollar terms as is the offsetting value of the increased knowledge gained by extended audit terms. The added costs associated with the proposal are the added costs of performing a quality audit when taking on a new client – a time when additional auditor hours would mitigate the client-knowledge lost in the introduction of a new auditor. With the value gained not being measurable, the identification of a preferred term is rendered totally subjective. Our subjective assessment of the appropriate term length is 10 years with partner rotation remaining in effect at 5-7years based on current rules.

2. Should different term lengths for different kinds of engagements be considered? If so, what characteristics, such as client size or industry, should this differentiation be based on?

The values gained by term limits (independence and a fresh view) are not unique to different clients and will always be a subjective amount. However, the added knowledge gained through multi-year engagements, while also subjective, is likely disproportionate to large multinational clients. As a result, longer terms should be considered for large multinational clients.

3. Does audit effectiveness vary over an auditor's tenure on a particular engagement? For example, are auditors either more or less effective at the beginning of a new client relationship? If there is a "learning curve" before auditors can become effective, generally how long is it, and does it vary significantly by client type?

Minimum or adequate audit effectiveness does not necessarily vary over the term of an audit firm's tenure. On the other hand, an audit firm's ability to build upon a minimum or acceptable level of effectiveness will certainly be diminished by limiting the number of years they can build upon their knowledge base of the client. Performing an effective audit of a new client takes more hours than performing the same effective audit in the following year. From a client's perspective the efficiency of the audit is an important part of its effectiveness and changes in the auditor or audit team reduce the efficiency of the audit by consuming more time of both the client and auditor to complete the audit. The inefficiencies caused by minor changes in an audit team are usually overcome within a year or two. Based on this observation, we would estimate (with no actual experience to base it on) it would take 3 to 5 years to regain the efficiency lost by changing audit firms. It should also be noted that with large multinational firms it takes time to build superior working relationships with both the client's key staff members around the world and the audit firm's affiliate offices around the world.

4. Some have also suggested that, in addition to being less effective at the beginning of an engagement, an auditor may be less diligent toward the end of the allowable term. On the other hand, others have suggested that auditors would be more diligent towards the end of the allowable term out of concern about what the replacement auditor might find. Would auditors become more or less diligent towards the end of their term? Does the answer depend on the length of the term?

We have observed nothing that would lead us to believe an auditor would be less diligent at the end of an allowable term.

5. How much time should be required before a rotated firm could return to an engagement?

If the PCAOB does require firm changes, we believe the rules should be written to allow at least three global CPA firms to bid for the work when an engagement must be transitioned. With only four current global CPA firms, that would require the sit-out period to be equal to one engagement term.

We have no data to support such an assessment. However, our subjective assessment is that 5 years away from an engagement would be adequate.

6. Should the Board consider requiring rotation for all issuer audits or just some subset, such as audits of large issuers? Should the Board consider applying a rotation rule to some other subset of issuer audits? For example, are there reasons for applying a rotation requirement only to audits of companies in certain industries?

The value gained by auditor rotation is not limited based on the issuer. The decision should however be based on a cost benefit analysis which as stated in our response to question one, is impossible to make. As a result, we see no reason to exclude any issuer from consideration.

7. To what extent would a rotation requirement limit a company's choice of auditor? Are there specific industries or regions in which a rotation requirement would present particular difficulties in identifying an auditor with the necessary skills and expertise? Is it likely that some smaller audit firms might decide to leave the public company audit market due to the level of uncertainty regarding their ongoing client portfolios?

A Company's choice of auditor would be limited by the length of the 'sit-out' period and its relationship to the allowable audit term. If the CPA firm must be changed every five years, and the sit-out term is ten years, and a company is large enough to require the services of a Big-Four CPA firm, then only two firms would be allowed to bid for each audit term after the first two assuming those two firms hadn't been engaged by the client to perform non-audit services. We do not believe this would be a viable situation.

8. If rotation would limit the choice of auditors, are there steps that could be taken to allow a company sufficient time to transition out of non-audit service arrangements with firms that could be engaged to perform the audit? Are there other steps that could be taken to address any limitation of auditor choice?

Should the Audit Committee not be able to identify at least 3 qualified firms, due to past non-audit service performance, the continued use of the current auditor should be allowed until those non-audit services can be reassigned.

9. If rotation were required, would audit firms have the capacity to assign appropriately qualified personnel to new engagements? If they do not currently have that capacity, could firms develop it in order to be able to compete for new clients, and would they do so?

Increased frequency of auditor changes would likely increase staffing requirements to meet the needs of the added work of a first year engagement and increased bidding for new assignments. With adequate lead time allowed to implement the proposed change and a phasing in of the firms requiring rotation, adequate staff and skills would likely be available.

10. Would rotation create unique challenges for audits of multinational companies? For voluntary rotations that have taken place, what have been the implementation and cost issues and how have they been managed?

There are a very limited number of firms capable of handling a large multinational client.

11. Would increased frequency of auditor changes disrupt audit firms' operations or interfere with their ability to focus on performing high quality audits? How would any such disruption vary by firm size? For example, would a rotation requirement pose fewer or more implementation issues for small firms than for large ones?

See response to No. 9.

12. Would audit firms respond to a rotation requirement devoting fewer resources to improving the quality of their audits? Would firms focus more on non-audit services than on audit services?

No basis for an opinion on the use of internal resources within audit firms. Auditing is a business and as long as the return on audit work is acceptable, they will continue to perform the work.

13. Would rotation have any effect on the market for non-audit services? Would any such effect be harmful or beneficial to investors?

As a large multi-national issuer, it would limit the options available for non-audit service providers. Once a large audit firm with the ability to audit the company was employed for non-audit services, it would substantially limit the number of firms capable of performing a large multi-national audit. This would likely force large multi-national issuers to source non audit work through smaller firms.

14. Some have expressed concern that rotation would lead to "opinion shopping," or that in competing for new engagements firms would offer favorable treatment. Others have suggested that rotation could be an antidote to opinion shopping because companies who know that they could not stick with a firm promising favorable treatment forever. Would opinion shopping be more or less likely if rotation were required? If rotation limits auditor choice, could it at the same time increase opinion shopping?

Opinion shopping is a risk today if a client voluntarily seeks a change in their auditor. We see no reason to believe the risk is any less or greater under a mandatory rotation plan.

15. What effect would a rotation requirement have on competition for audit engagements? If competition would be increased how might that affect audit quality?

There will likely be little impact on audit quality as a result of competition. If the mandatory term is short there will be little motivation to substantially reduce price that could potentially influence quality to win business. If the term is long enough to recoup substantial early discounts in future periods, there would likely be minimal pressure to restrict early costs to put audit quality at risk.

16. Are there any requirements the Board should consider to mitigate any risk posed by rotation? For example, are there enhancements to firm's quality control systems that might address such risks?

The greatest client risk to mandatory rotation is added costs with no measurable benefit. Current auditor-client rules, including those added with the Sarbanes Oxley regulation, adequately mitigate the same risks that the proposed mandatory rotation will. The 2003 GAO survey described in the Concept Release indicated large firms would incur 20% greater cost for first year audits and the proposal will significantly increase the number of first year audits.

17. If the early years of an audit-client relationship pose higher audit risks than later years, should the Board require firms to provide additional audit supervision and oversight in the first year or two of a new engagement? Should the Board impose such a requirement for auditor changes even if it does not further consider requiring audit firm rotation? If firms are accepting new clients but are unable to perform quality audits for them until several years have passed, should the Board require enhanced client acceptance procedures? What impact would additional requirements of this type have on audit costs?

The question appears to assume that a higher-risk first year audit must be lower quality. We would suggest that first year audits are higher risk, and that this higher risk is addressed by the CPA firms with more hours, more cost, and lower profit, and not by lower quality audits. We believe firms already unavoidably work more review hours during first year engagements, and no additional PCAOB requirements are necessary.

18. If mandatory rotation were required, are existing standards relating to communications between predecessor and successor auditors sufficient? Should additional communications be required? For example, should the outgoing auditor provide the incoming auditor with a written report outlining audit risks and other important information about the company?

No. We fundamentally believe the interest of all stakeholders is best served by the current "business" auditor / client model and further infringement on that model (mandatory sharing of proprietary information) would not be beneficial.

19. Are there other procedures that should be required to mitigate any risks posed by rotation?

No basis for comment

20. If the Board moved forward with development of a rotation proposal, should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term? Would such a provision be useful? Would there be unintended consequences of such a

requirement? Should the Board work with the SEC on implementation of this recommendation? Are there other matters on which the Board should coordinate with the SEC?

No. We fundamentally believe the interest of all stakeholders is best served by the current “business” auditor / client model and further infringement on that model (a cause restriction on the company’s ability to remove an auditor before the end of a fixed term) would not be beneficial.

21. What other transition issues might arise in the first year of a rotation requirement? How should the Board address these issues?

No basis for comment

Respectfully,

A handwritten signature in black ink, appearing to read "Tom Ballard". The signature is fluid and cursive, with a large initial "T" and "B".

Tom Ballard