

P B T K

PIERCY BOWLER
TAYLOR & KERN

Certified Public Accountants
Business Advisors

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To: Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W., Washington, D.C. 20006-2803
Transmitted by e-mail to: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No.37
Release No. 2011-006, "Concept Release on Auditor Independence and Audit Firm Rotation"

We appreciate the opportunity to respond to the "Concept Release on Auditor Independence and Audit Firm Rotation" that is contained in Release No. 2011-006 dated August 16, 2011 (the Release), of the Public Company Accounting Oversight Board (the PCAOB or the Board). We note that many of our concerns that we believe warrant the Board's continuing serious consideration are already mentioned in the Release and in the commentary of others.

Our overriding concerns are summarized as follows:

- The Board appears pre-disposed to mandate audit firm rotations,
- There appears to be little or no compelling evidence supporting either the need for, or the perceived benefits of, mandatory audit firm rotations, and
- Mandatory audit firm rotations are likely to significantly reduce both audit quality and the number of firms willing to remain in SEC audit practice and play "client roulette," because competition among audit firms based on technical excellence and client service will have been virtually eliminated resulting in significant escalation of audit costs, diminished value to users, and substantial disruption to capital markets.

We present details of, and support for, our overriding concerns and reservations in Part 1 of the attachment. In Part 2, we respond briefly to the 21 specific questions posed in the Release. To reduce the need for redundancies in this regard, in some cases, our responses to the questions in Part 2 include cross-references to relevant numbered paragraphs in Part 1.

Thank you for this opportunity to comment. We hope the Board finds our comments useful and that it discontinues its deliberations on this matter. Please contact the undersigned at hlevy@pbtck.com or 702/384-1120 if there are any questions about these comments.

Very truly yours,

Piercy Bowler Taylor & Kern, Certified Public Accountants



Howard B. Levy, Sr. Principal and Director, Technical Services

Attachment

Part 1 – Overriding Concerns and Reservations

1. We are concerned that the overall tone and structure of the Release makes it appear more like a well-engineered argument, heavily researched and documented (with “supporting” footnotes), in favor of a pre-determined conclusion, rather than an objective and neutral presentation of observations intended for consideration by commentators in developing and communicating their own views to the Board for evaluation in its deliberations. It seems that the PCAOB has taken the statutory instruction that is embedded in SOX merely to examine the feasibility of mandatory audit firm rotation as a congressional mandate to justify such a requirement. It is apparent in the Release that the PCAOB has failed to do so, most probably because mandatory firm rotation is inherently a bad idea.
2. We believe the PCAOB’s argument appears to minimize the significance of the highly compelling assertions made historically over many years regarding adverse consequences relative to audit quality that would be inherent in a rotation requirement, despite some language to the contrary that appears in therein. Its argument is effectively constructed such as to characterize the alternate views of auditors and organizations composed of auditors (the AICPA, particularly) as appearing grounded primarily in cost and efficiency concern but, in fact, highly protective of the status quo, and overly defensive, self-serving and biased in support of holding on to what is termed a “continuous stream of audit fees” (as if audit firms were made up of weak-willed used car salesmen instead of professionals who have devoted their lifelong careers to the principle of integrity). However, particularly among larger firms, the economic reality is that mandatory rotation would protect the interests of auditors by insuring, rather than denying them, a reasonably continuous stream of revenues (because of the probable revolving door of clients) and drive up auditor costs while eliminating incentives to control such costs or hold the line on billing rates (see paragraph 10) because of reduced competition.
3. The virtual elimination of an incentive to compete in the marketplace among firms, particularly among the largest firms (already too small a group that are capable of servicing the largest issuers) would likely disrupt both the clients and the capital markets by driving audit costs immeasurably higher and reducing the quality of service to issuers, most likely, impairing their ability to meet filing deadlines as a result.
4. Despite the sheer weight of the documentation provided in the Release in support of arguments for mandatory firm rotation, the PCAOB subtly acknowledges its inability to justify mandatory rotation by couching its otherwise exaggerated claims of both the need for, and benefits to be expected from, such a rotation in cautiously soft and unconvincing language, such as “*may*,” “*might*,” and “*could*,” while its descriptions of circumstances purportedly demanding regulatory action are presented in equally unconvincing and inconclusive terms. For example [*emphasis added*]:

*“By ending a firm's ability to turn each new engagement into a long-term income stream, mandatory firm rotation could fundamentally change the firm's relationship with its audit client and **might**, as a result, significantly enhance the auditor's ability to serve as an independent gatekeeper.”¹*

*“... the Board **continues to find instances** in which it appears that auditors did not approach some aspect of the audit with the required independence, objectivity and professional skepticism.”²*

*“... auditors still, **at times**, fail to display the necessary independence in mental attitude.”³*

¹ The Release, p. 9.

² *Ibid*, p. 2.

³ *Ibid*, p 5.

*“Some observations from the engagement reviews suggest that the [inspected firm] is **not always** sufficiently objective and **may not** exercise sufficient professional skepticism.”⁴*

*“The deficiencies identified by the inspection team suggest that [the inspected firm’s] engagement teams **may be** placing too much reliance on management’s responses to the teams’ inquiries and not sufficiently challenging or evaluating management’s assumptions, and that they **may not be** applying an appropriate level of professional skepticism in subjective areas susceptible to management bias.”⁵*

*“...the deficiency **may have resulted** from a lack of sufficient professional skepticism when evaluating management’s plans and the assumptions and assertions underlying management’s analyses when estimates requiring judgment are involved. In addition, a more effective review by the engagement leadership **might have prevented or detected** the deficiency.”⁶*

*“...the deficiencies **appeared to have been** caused, at least in part, by the failure to apply an appropriate level of professional skepticism when conducting audit procedures and evaluating audit results.”⁷*

*“... the Board believes that **more can be done** to bolster auditors’ ability and willingness to resist management pressure.”⁸*

5. Although we do not have the resources to support our views with external research, and they are, therefore, necessarily based on our many years of experience in practice and discussions with other experienced professionals, we firmly believe that any connection between a mandatory firm rotation requirement and the frequency of audit deficiencies observed or perceived is largely imaginary. It is clear to us that a mandatory firm rotation requirement is not likely to significantly reduce the instances in practice that truly are (as well as those that are merely suspected to be) the result of any lack of objectivity or professional skepticism by an auditor. In fact, primarily in view of the formidable threats of adverse consequences to individual auditors and their firms, both internal and external, that are already in place and well-known in the United States (not the least of which include litigation risk (with unlimited personal liability), damage to one’s professional reputation, career curtailment or even jail time), we do not see any meaningful enhancement of auditor independence, skepticism or objectivity, or reduce the willingness to resist management pressure, that is likely to come from this or any other such regulatory action. We believe these perceived deficiencies occurred primarily because of inevitable human failures that, in our judgment, are much better addressed in other ways (discussed below) but which are not likely ever to be totally eradicated.

6. We firmly believe that the Board should more seriously consider the probable significant adverse effects on audit quality of a mandatory firm rotation requirement, many of which have been articulated frequently by opponents of such rotations rather than falsely and hastily concluding (a) that insufficient objectivity is the likely cause of the historically observed differences in judgment deemed by inspectors to be audit deficiencies, and (b) that mandatory firm rotation will be effective in reducing the frequency of such perceived deficiencies in the future. We point out that the Board has not yet had the opportunity to evaluate the effect, if any, on the frequency of such observed or perceived deficiencies of the newly

⁴ *Ibid*, p. 8.

⁵ *Ibid*, p. 8.

⁶ *Ibid*, p. 8.

⁷ *Ibid*, p. 6.

⁸ *Ibid*, p. 15.

effective AS 7, which we believe will likely be significant, and the not yet effective risk assessment standards. All of the foregoing notwithstanding, we caution PCAOB and other regulators to continually keep in focus the fact that the audit process is necessarily intended to result only in reasonable but not absolute assurance as to the absence of material misstatements. Frankly, professional judgment is exercised in virtually everything we do, and two highly competent professionals may choose different courses of action or arrive at different conclusions in the same or similar situations. As accounting and standards become more principles-based and less rules-based, this fact will become more evident. There is simply no way to legislate that all minds think in absolute parallel.

7. We understand that others have observed that the large majority of audit failures occur in the first two years of an audit engagement, which we believe is consistent with reasonable expectations. We firmly believe that these observations and expectations support the idea, long embedded in auditing standards, that an auditor's knowledge of the financial statement issuer's business and industry, its inherent risks, motivators and operating practices, is of near paramount importance (second only to independence) in conducting a quality audit. We believe that to deepen and enhance such knowledge, no amount of reading or training can substitute for experience with the client. Further, we support the views of many others that the value of such experience in relation to audit quality increases over time and far exceeds any perceived threat to independence created by long-term association and the limited benefit, indeed, if any, that one can expect to be realized from any additional so-called "fresh look." To the contrary, we believe that mandated firm rotations would substantially heighten the risk and frequency of audit failures resulting from lack of depth of such knowledge in the early years following a rotation. In this regard, we particularly support the views expressed by Professor Dennis R. Beresford in his letter (no. 29) of October 11, 2011.

8. We firmly believe that audit committees (which, unfortunately, are unregulated and largely unaccountable) should bear the sole responsibility and be accountable to an issuer's stockholders for determining when to change auditors, and their decisions should be based on an evaluation of individual facts and circumstances and not driven by any arbitrary, one-size-fit-all, line-in-the-sand rule (or even a suggestion in that regard) that, in this case, would be grounded in unverifiable causal relationships and perceived benefits.

9. The Board is quite correct in stating that an "accounting firm is a for-profit enterprise that is paid by the company being audited to provide a service."⁹ Therefore, until the unlikely event (if ever) that Congress is ready to mandate that an agency of the federal government take over the audit function with regard to issuers, or one that hires and pays auditors out of a fund designated for this purpose, this condition will always persist. Nevertheless, there is little more than speculative evidence upon which to base a conclusion that such circumstances significantly contribute to an independence issue, and there will always be opportunities for, and instances of, human lapses in judgment whether such an extreme step is taken or not.

10. We believe it is virtually certain that audit billing rates and fees will necessarily rise if mandatory firm rotation is required because it costs far more to develop new relationships and acquire new clients than it does to retain those that you already have, and because (as discussed in paragraph 2) of the effect of diminished competition on the incentive to hold the line on billings. Far more troubling to us (a firm that believes that there is no substitute for technical excellence and has had no audit deficiencies identified by the PCAOB in its last two triennial inspections), is what we see as also a severely reduced incentive, in this case, to compete for client retention based on technical excellence and service quality. Instead, of directing energies to client retention, smaller audit firms would incur more (not less) marketing time and costs to continually "fish" in the stream for replacement clients. Such an environment would result in lower productivity and utilization of our staff necessitating higher billing rates that would, because we are for-profit enterprises, be passed on to issuers in the form of higher fees. If mandatory

⁹ *Ibid*, p. 4.

rotation were to be required, we have serious doubts as to whether we would choose to play the “client roulette” game. However, the choice not to continue to practice at the highest level of our profession would be a difficult one but one that we would be forced to evaluate because our primary competitive edge (technical excellence and client service quality) would have been eliminated. In addition, spending more time and money on marketing efforts is simply not why most of us entered the profession or choose to stay. We chose to be auditors.

11. Accordingly, we firmly believe a prospective mandatory firm rotation requirement would be a gross overreaction to the PCAOB inspection observations and like Prof. Beresford, we strongly recommend and request that the Board consider its obligation to Congress in this regard to have been met and to discontinue any further consideration of mandatory firm rotation as a means of strengthening auditor independence and audit quality. However, although we do not believe that a mandatory firm rotation requirement would likely enhance auditor independence, skepticism and objectivity beyond the safeguards that are already in place (in the form of formidable threats of adverse consequences) or that would significantly alter the probability or frequency of such occurrences in the future, we do believe paragraph 11, below, describes possible regulatory actions that would more likely be effective in reducing such perceived deficiencies and enhancing audit quality.

12. More than a lack of objectivity and/or skepticism attributable to client loyalty, we believe that putting aside relatively few instances of inadequate professional proficiency and inevitable human lapses in judgment, audit deficiencies occur far more frequently as a result of the effects of time and fee pressures from competitive bidding and/or contractual fee limits on engagements. Fee pressures from management, often with the support and assistance of audit committees that see their primary objectives more as cost containment than financial oversight (particularly common among issuers having income and cash flow difficulties), cause auditors to miss issues and/or to take shortcuts. We believe that regulatory actions to address these conditions that are most likely to be effective would be rules that:

- Prohibit auditors from competitive bidding or from entering into arrangements with clients that have fee limits or provide estimates that are in-substance fee limits, or
- Impose specific and robust constraints on audit committees that would include, among others, prohibiting them from selecting auditors based primarily on price considerations, negotiating fee limits or estimates that are in-substance fee limits and otherwise effectively preventing them from placing undue fee pressures on auditors. (This, however, would necessarily have to come from the SEC rather than the PCAOB.)

13. While such rules would necessarily eliminate, or at least reduce, competition among audit firms based on fees, unlike with mandatory firm rotation, firms would still be likely to compete for business effectively based on quality of their auditing and other aspects of service.

Part 2 – Responses to Specific Questions Presented in the Release

Although we have expressed our most significant views in the foregoing comments (Part 1), our direct responses to the 21 specific questions presented in the Release (and below) are presented here, in Part 2. To facilitate analysis and summary by the PCAOB staff of the comments received, in some cases, we have included parenthetical cross-references to our relevant comments in Part 1 and between overlapping questions wherever we believe they provide useful additional information as to the basis for our responses to these questions.

Q1. If the Board determined to move forward with development of a rotation proposal, what would be an appropriate term length?

Since we believe that the value of familiarity with the client's business and industry far exceeds any probable benefit to be achieved by mandatory rotation, if it were to be required, we would be in favor of the longest term that may be deemed acceptable which, at a minimum, should be several times longer than the current engagement partner rotation requirements. (5)

Q2. 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?

We are not in favor of any arbitrary "line-in-the-sand" defining conditions that would enable varying term lengths. We believe client audit committees should bear the responsibility to the stockholders of determining when to change auditors solely based on an evaluation of individual facts and circumstances. If mandatory rotation were to be required, smaller audit firms should be permitted a longer rotation cycle because of their limited resources and because the costs and disruptions to both their practices and to the smaller issuers who are their clients would be disproportionately higher. (8, Q6)

Q3. 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?

Although we would never assert that auditors must overcome a reasonable predictable "learning curve" before they can "become" effective, once again, our experience tells us that their intuitiveness and effectiveness is less in the early years of a client relationship and improves measurably and significantly with each successive year on any particular client engagement. (7)

Q4. 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?

It is our opinion that auditors often view the probability of being succeeded by another firm as a business risk factor to be evaluated and considered in planning an audit; however, without regard to the length of the term for any mandatory rotation, we do not believe that such considerations are likely to predictably or measurably (after the fact) result in any significant differences in the scope or quality of the auditing. (We see it as more likely to result in greater sensibility to relationship-preserving behavior than to matters of audit quality.) We believe this is likely attributable to the tone at the top and the other quality control safeguards in place and under continuous internal and external scrutiny at any high quality American audit firm. Moreover, we point out that the effect on engagement quality of a threat of being succeeded by another audit firm is far less than that of the more serious threat of the engagement being selected for inspection by the PCAOB, which for the largest firms is certain to be an annual threat.

Q5. How much time should be required before a rotated firm could return to an engagement?

Because of our view as to the lack of probable beneficial results of mandatory firm rotation, we are unable to formulate a judgment as to any ideal “cooling-off” period.

Q6. Should the Board consider requiring rotation for all issuer audits or just for 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?

Although some might believe that the larger the audit firm, the less significant any particular client relationship will be to the firm in relation to the total picture, regardless of the client size or the size of the fee. If this were true the less likely realization of any perceived benefit in terms of increased auditor objectivity would be from any mandatory firm rotation. This phenomenon would be most evident among large issuer client engagements that, because of their size and the highly limited number of firms large enough to meet their needs, would most likely be returning eventually to the rotated firm. The foregoing notwithstanding, we believe smaller firms should be exempt from any mandatory rotation requirement because of their limited resources and because the costs and disruptions to both their practices and to the smaller issuers who are their clients would be disproportionately higher. (3, 10, Q2, Q7, Q9)

Q7. To what extent would a rotation requirement limit a company's choice of an 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?

We believe that it is, in fact, highly likely that a mandatory rotation requirement would cause many smaller firms to conclude that the costs of maintaining proficiency with a dual set of auditing standards (or a triple set for those engaged in governmental practice), a plethora of other PCAOB and SEC rules and regulations, preparing for and participating in periodic PCAOB inspections in addition to peer reviews for their non-issuer practices, and incurring substantial additional marketing costs to participate in replacement client “fishing” frenzy will outweigh the potential for fee revenues and other benefits of engaging in SEC issuer audits. Primarily for this reason, and not because of uncertainty, we believe a mandatory firm rotation requirement would have the undesirable economic effect of further reducing the number of audit firms in SEC practice and, hence, the competition among them, in the marketplace. (10, Q7, Q9)

Q8. 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 on auditor choice?

For the largest clients of the largest audit firms, the issue applies without regard to mandatory firm rotation. For others, the challenge of finding alternative firm to rotate to would inherently be exacerbated by a reduction in the number of such alternative firms. We do not see any means of overcoming such a significant problem.

Q9. 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?

Audit firms currently engaged in SEC audit practice typically seek to expand the number of issuer clients now, but the result swings either way as to both number of clients and fee volume. This is more manageable now than it would be under a mandatory rotation model. In the face of mandatory rotation, although firms would theoretically have to rotate off as many clients as they have the opportunity to rotate to, the number and frequency of changes would increase creating more and wider swings in the cycle. It

takes time to train and integrate talent. Many smaller audit firms would likely be unable to maintain consistent talent and resources through such longer or more frequent downsize periods or to adequately staff up during periods of expansion, again adversely effecting audit quality and increasing both cost and the elapsed time necessary to complete audits. We also see no easy solution to the inevitable effect of the probable consequential reduction of the number of smaller firms engaged in in SEC audit practice. (10, Q7)

Q10. 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?

We have little experience with multinational so any response we could make to this question would be purely intuitive.

Q11. 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?

Overall staff productivity and utilization would decline and marketing costs would increase significantly, most particularly for smaller firms. It is simple; developing new relationships and acquiring new clients requires more effort and costs than retaining engagements through technical excellence and quality service. In addition, initial year audits generally involve more time and costs because of the well-known "learning curve" phenomenon involved in bring auditors up to speed on the client's business practices, if not the industry, itself. Absent any future regulatory action against competitive bidding and other fee constraints commonly placed on auditors, most significantly in the initial year or years of an engagement, much of this learning time is presently unbillable but without the prospect of long-term client relationships, would likely be passed on. Accordingly, increasing the frequency of auditor changes in SEC practice will not only likely reduce audit quality, it will increase costs to issuers through necessarily higher billing rates, and these adverse effects would likely be more significant in smaller firms, another incentive for them to exit SEC audit practice and reduce competition among those that remain. (10)

Q12. Would audit firms respond to a rotation requirement by devoting fewer resources to improving the quality of their audits? Would firms focus more on non-audit services than on audit services?

We do not see anything in a possible rotation or any other regulatory requirement that would provide any incentive to consciously seek to reduce audit quality, but the environment would make it more difficult or otherwise less likely for auditors to provide quality client service. As to the second part of the question, other than smaller firms exiting SEC audit practice entirely (about which we have already commented) and needing to replace lost fee volume, or withdrawal of smaller firms from SEC audit practice, we see no other cause for an increased marketing focus on non-audit services (see Q13).

Q13. Would rotation have any effect on the market for non-audit services? Would any such effect be harmful or beneficial to investors?

We see no connection except for the *de facto* mandatory rotation of these services as well, due to the potential for independence problems, particularly with regard to larger issuers.

Q14. 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 would 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?

We think there are adequate controls already in place to address opinion shopping (which is relatively rare and becoming rarer as accounting standard that eliminate alternatives continue to proliferate at an unprecedented rate). We do not expect that mandatory firm rotation would have any significant effect on the frequency of opinion shopping.

Q15. What effect would a rotation requirement have on competition for audit engagements? If competition would be increased, how might that affect audit quality?

We have addressed our views on the expected effects on audit competition. Real competition would actually decrease while the cost to compete would increase. (2, 3, 10, 13 and **Q11**)

Q16. Are there any requirements the Board should consider to mitigate any risks posed by rotation? For example, are there enhancements to firms' quality control systems that might address such risks?

There are always enhancements in quality controls that might be considered in response to perceived risks; however, we believe such risks are best identified and addressed by the individual firms based on their own circumstances rather than by a broad-brushed approach on a regulatory standard-setting level. The soon-to-be-effective group of risk assessment standards, when coupled with AS 7 and the PCAOB firm inspection process, are likely to be the most effective tools for improving audit quality for those not already applying these risk-based methods of scope determination. Mandatory rotation and the current list of other PCAOB initiatives and proposed actions have not and are not likely to have any meaningful effect.

Q17. If the early years of an auditor-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?

We see the need for additional audit supervision and oversight in the early years of an engagement already to be an integral part of both the risk assessment and engagement quality review processes. We believe it is a highly erroneous position to assert that firms are “unable to perform quality audits for them until several years have passed” and equally inappropriate to issue an auditing standard based on such an erroneous assertion. We maintain only, that there is a higher probability of audit deficiencies in the early years of an engagement and that probability diminishes over time. (**Q3**)

Q18. 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?

We have always believed that it is in the public interest that the auditing standards be expanded to place a burden on predecessors to communicate certain matters with successors, rather than only the reverse, as the standards now do. In this respect, our view is without regard to whether mandatory firm rotation were to be required.

Q19. Are there other audit procedures that should be required to mitigate any risks posed by rotation?

We do not believe the standard-setting process should seek to prescribe audit procedures for these or any other risks, but rather that the assessment of risk and determination of appropriately responsive audit procedures should be left to the judgment of the auditor.

Q20. 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?

We view this question as one for lawyers, not auditors. Nevertheless, we think the possible effect of such a restriction on auditor independence would need to be examined if it were to be proposed. If auditor service quality matters (as we believe it should), an issuer's audit committee should be allowed to replace the auditor. Job security does not translate to audit quality.

Q21. What other transition issues might arise in the first year of a rotation requirement? How should the Board address these issues?

Since we are so firmly opposed to mandatory audit firm rotations, we offer no suggestions as to any transition issues. However, we point out that we believe such a sweeping change would have numerous and unmanageable transition issues because it would severely disrupt the business of the issuers, the auditors, and the financial markets in general.