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Mr. Martin F. Baumann
Chief Auditor
Public Company Accounting Oversight Board (PCAOB)
1666 K Street NW
Washington, D.C. 20006

Rulemaking Docket Matter No. 37 – Concepts Release on Mandatory Audit Firm Rotation

Emerson Electric is a global manufacturing company with sales in excess of \$24 billion. The Company appreciates the opportunity to comment on the PCAOB's recent Concepts Release on auditor independence and rotation.

In summary, we oppose mandatory auditor rotation and do not believe it would improve audit quality or enhance auditor independence. The audit committee should remain responsible for evaluating and recommending the appointment of the independent auditor to shareholders. It is our opinion, similar to others knowledgeable in this area and as supported by independent studies, that audit quality may be diminished by mandatory rotation. At best, there would be no change in audit quality, but would likely result in a significant increase in audit costs. In summary, we believe mandatory rotation would:

- Inhibit rather than enhance good corporate governance established under the Sarbanes-Oxley Act,
- Be costly, with that cost ultimately borne by shareholders,
- Make it difficult for the 4 major accounting firms capable of auditing complex global corporations to remain independent,
- Potentially distract the auditor's attention and reduce independence as they may be more focused on selling services to current and future clients,
- Not result in "fresh viewpoints" as the constant interaction among the Big 4 and the FASB on technical issues results in similar interpretations, and
- Not achieve its intended objective of increasing auditor independence and audit quality as there is little to no evidence supporting this notion.

The following discusses these concerns in more depth:

No proposal should limit the audit committee's ability to exercise its fiduciary responsibility to assist the Board of Directors in providing oversight of the company's internal controls and financial reporting process. The enhanced independent audit committee role and expectations created by the Sarbanes-Oxley Act lie at the center of a high quality system of internal controls and financial reporting, and is a key element of overall corporate governance. Mandating auditor rotation would undermine the audit committee's role and authority to evaluate the performance and independence of the auditor, and to make recommendations to shareholders regarding independent auditor appointment. The independent auditor is appointed annually, only after audit committee evaluation and shareholder approval, so there is no guarantee of tenure.

A program of mandatory rotation would be disruptive and costly, with these costs ultimately borne by shareholders. Mandatory rotation would be operationally inefficient for preparers as the new auditor would need to be educated about the company's accounting and financial processes, as well as business operations. Additional costs would be added to the system as audit firms would experience more frequent moving of the right personnel with the right expertise to the right locations as major clients are gained and lost in different cities. There is a clear and steep learning curve before one can understand a company's accounting, systems and processes, operations and structure, culture and competitive environment, regardless of the skills or experience of the successor firm and its partners and staff. Significant continuity and efficiency is already lost when the lead engagement audit partner leaves under the SEC's current 5-year rotation requirement. Replacing the audit firm would only magnify this issue when the entire global audit team is replaced simultaneously, which for Emerson would involve 44 separate audits teams and hundreds of individuals worldwide. There is no substitute for the institutional experience that accumulates with an audit firm over time and the benefit of this experience would be lost under mandatory rotation.

For many complex global companies, the choice of auditor is limited to one of the Big 4 firms – be it the result of depth and breadth of experience, particular industry expertise, international presence or market expectation – and only the Big 4 are truly capable of auditing and providing certain non-audit services to complex global organizations. Given the severe limitation on non-audit services that can be provided by an independent auditor, and therefore the degree of non-audit services (e.g., tax planning, internal audit, valuation services) that must be provided by the other 3 firms, it would be difficult for any firm to remain independent in a mandatory rotation environment. This could be especially problematic if one of the firms is already involved in a long-term consultancy arrangement with the company. Even if independence issues could be overcome, rotation of non-audit services would also be inefficient, costly and could lead to sub-optimal solutions.

The Concepts Release suggests that under rotation auditors would be especially diligent toward the end of their tenure as their work would be scrutinized by the successor auditor. We question this conclusion as there is no process in place whereby a successor auditor evaluates or reports on his predecessor's tenure. In fact, the opposite outcome may occur – toward the end of their tenure, auditors may redirect their focus to selling non-audit services to current audit clients for the years after their audit responsibilities end, or be focused on selling future audit services to current non-audit clients. The result is audit firms may be constantly focused on selling services. In addition, in the

GAO's 2003 Study on Audit Rotation, 59% of respondents from the largest firms reported that as their tenure concluded, they would likely move their best staff away from terminating engagements to work on attracting or retaining other clients. If true, this would not promote higher quality audits and auditor independence.

We are doubtful that rotating auditors would provide a "fresh viewpoint." The Big 4 firms are in virtual lock-step with one another and the FASB regarding technical positions, so it is unlikely a company and its investors would experience a significant difference in audit technique, diligence, objectivity, insight or quality. In addition, the loss of continuity and steep learning curve noted previously make it unlikely another audit firm would provide any new insight in the initial years after rotation.

The PCAOB acknowledges the root causes of audit failures are complex, and the Board's own data shows no correlation between audit tenure and PCAOB review deficiencies. The AICPA opposed rotation in a recent letter to the European Commission regarding "The Green Paper", and as noted in the Concepts Release, the views of several former SEC chairs are clearly divided on the subject. The 2003 GAO Study found no evidence that rotation would improve audit quality while the 2005 International Chamber of Commerce study concluded rotation would actually have adverse effects on quality. Finally, the 2010 COSO study found companies issuing fraudulent financial statements were twice as likely to have switched auditors between the last clean opinion and their fraud.

Summary

We do not believe auditor rotation would have averted the recent financial crisis as the Concepts Release implies, and it may have exacerbated it given several studies have shown audit quality declines in the years immediately following a change in auditors. Removing auditor selection responsibility from audit committees and shareholders is contrary to the fiduciary responsibilities assigned under the Sarbanes-Oxley Act and would weaken a key element of corporate governance. Mandatory auditor rotation would logically also result in mandatory rotation of non-audit services, and we believe this combination would lead to significant administrative disruption and higher costs for companies that would ultimately be borne by shareholders. We see no evidence supporting the notion that mandatory auditor rotation enhances auditor independence or increases audit quality and, to the contrary, could diminish both.

We appreciate the opportunity to respond and trust our comments would be seriously considered in future Board deliberations on this issue.

Sincerely,



Richard J. Schlueter
Vice President, Controller and Chief Accounting Officer

cc: Frank J. Dellaquila
Senior Vice President and Chief Financial Officer