American Bankers Association
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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Via website submission: comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 37 – *Concept Release on Auditor Independence and Audit Firm Rotation*

To Whom It May Concern:

The American Bankers Association (ABA) appreciates the opportunity to comment on the *Concept Release on Auditor Independence and Audit Firm Rotation* (Concept Release). ABA brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation's banking industry and strengthen America's economy and communities. Its members – the majority of which are banks with less than $125 million in assets – represent over 95 percent of the industry's $13.3 trillion in assets and employ over 2 million men and women.

The Concept Release seeks comments on ways auditor independence, objectivity and professional skepticism could be enhanced. One possible approach on which the Board is seeking comment is mandatory audit firm rotation. ABA is in a relatively unique position to comment on this, as our members rely on efficient capital markets as a normal course of the commercial banking business. Financial statement integrity is the cornerstone upon which these markets depend. However, our members also are normally subject to routine audits by not only independent public accountants, but also by at least one of several sets of examiners from banking regulatory agencies. Indeed, it is likely that our members are subject to audits and examinations more than any other entities in the United States.

ABA generally supports efforts to improve the quality of financial audits. However, before making any decision to require mandatory auditor rotation, we recommend that the PCAOB perform a much more comprehensive study of the problem of audit failure. Within the Concept Release, it is not clear that a systemic deficiency of professional skepticism exists. While the Concept Release notes a number of "audit failures", it also notes that there is no persuasive evidence that such failures resulted from a lack of objectivity resulting from the incumbent auditor relationship or that the problem is systemic.

Without any persuasive evidence to the contrary, ABA is opposed to the proposal to require periodic auditor rotation. It is difficult for us to believe in today's environment, that the cornerstone of the public accounting profession – independence – must be addressed through regulatory rule-making, especially when true audit failures are normally subject to substantial litigation. We, therefore, believe such an idea will introduce unnecessary costs to many publicly-held banks without any discernable benefit to their shareholders. We also believe that, in the long-run, such a requirement will often decrease the quality of audits and could harm the relationship boards of directors' audit committees have with their auditors. We say this for the following reasons:

- Mandatory auditor rotation will require significant and continuous learning curves of the external audit staff, as well as the banking personnel who must work with them. These learning curves are exacerbated in the banking sector as bankers and their auditors must also adjust to continuous changes in regulatory and accounting requirements as well as changing personnel amongst local banking examiners.

- For all but the largest auditing firms, there will be a predictable and cyclical dislocation of the talented, experienced, and highly-skilled bank auditors required for the highly regulated and technical work needed by banking organizations. We agree with those who believe that the mandatory auditor rotation requirement will detract many employees at audit firms from desiring assignment on a client that will soon be subject to rotation. Over time, this will result in shortages of competent auditors in many markets.

- The costs of rotation do not end with the learning curves. Additional dual auditor coordination is required in obtaining predecessor auditor sign-off on relevant prior year data in most disclosed financial information. These incremental costs provide almost no practical value to a bank's investors.

- Unless the increased costs are passed onto audit clients, mandatory auditor rotation will limit the competition (and, thus, availability) of auditing firms to those large enough to absorb the significant start-up costs required. The impact of this will be felt especially hard by community banks in the many geographic locations where critical masses for qualified banking auditors do not exist. In these areas, it is already a challenge to find a sufficient number of competent banking auditors.

- Current laws and regulations require the separation of certain audit and consulting services by a single audit firm. The combination of those rules with the Concept Release could result in a reduction in audit and consulting quality for large banks. Large banks often must have audits performed by the largest auditing firms, especially those with international or broad U.S. operations, as the largest firms often have comparably broad expertise. Those banks also often have other audit or consulting work done by the largest firms. Because there is a limited number of audit firms with this expertise, and with expertise in the highly regulated banking industry, large banks could be force to accept less qualified auditors and consultants -- whether they be in the large audit firm category or the smaller audit firm category.

If the rationale for requiring auditor rotation is due to a lack of independence from audit firms, then we have difficulty understanding the rationale for exempting auditors of smaller entities, as such independence is important to all sizes of banks. However, we do not believe there is sufficient evidence that there is a need for auditor rotation, and we do not support requiring auditor rotation for any size entity. Instead, we recommend that the PCAOB review its disciplinary authority and practices in order to determine whether its disciplinary proceedings sufficiently address the gravity of the risks inappropriately accepted by auditing firms that commit audit failures.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,

Michael L. Gullette

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