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Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C., 20006-2803

**PCAOB Rulemaking Docket Matter No. 037**  
***Concept Release on Audit Independence and Audit Firm Rotation***

Dear Mr. Secretary:

Members of the Cree, Inc. (the Company) Board of Directors appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB or the Board) Release No. 2011-006, "*Concept Release on Auditor Independence and Audit Firm Rotation*;" (the Release) that considers ways to enhance auditor independence, objectivity and professional skepticism. Specifically the release exposes the concept of mandatory audit firm rotation, however has also requested input and comments on other approaches as well. Significant points of consideration raised by the Board include:

*General Advantages and Disadvantages of Audit Firm Rotation*  
*Cost to Implement and Oversee such Rotation*  
*Disruption in the Audit Process*  
*Effects of Such Auditor Rotation Implementation*  
*Scope of Applicability to Public Companies, based on size and tenure of a firm*

The contents of this response are limited to our general observations on consideration for enhancing independence and a view on the costs associated with the proposed mandatory rotation.

We agree that independence is critical in assuring that the audit process is effective in achieving the expected results of an independent, objective, and appropriately skeptical evaluation of the Company's financial statements and the effectiveness of the internal control environment over financial reporting. However, the reliability and accuracy of a company's financial statements is derived from a process much greater than the external audit opinion that is presented on an annual basis.

Multiple layers of oversight and general practice already exist to ensure auditor independence including that of the annual review by the PCAOB of firms who conduct audits of SEC registrants. Additionally, the firms mandate partner rotations, peer reviews by other independent accounting firms and frequent staff rotation.

Preservation of shareholder value is a fundamental result of the external audit process however reliance should not be placed solely on the external audit firm. The audit though, by design, is a selection of a very small representative portion of the entire population. An overall opinion is expressed based on this subselection. Execution of transactions in accordance with the Company's internal processes and procedures coupled with the appropriate level of management oversight and financial statement review, and the tone at the top are the key activities that ensure the financial statements are accurate and thereby able to be relied upon to make prudent investment decisions.

As required under the original scope of the Sarbanes-Oxley Act of 2002, public companies are required to design, implement and operate under a strict environment of internal controls over financial reporting. Resulting impacts to public companies included significant investments of capital, both financial and human. Companies have created new functions and departments, specifically internal audit and compliance administration functions, which are specifically designed and commonly chartered to ensure the internal control environment is maintained and operates effectively.

Additionally, it is the responsibility of a Company's Board of Directors, led by the Audit Committee to select an independent auditor, generally on an annual basis, a decision which is subject to ratification by the shareholders of the Company. This process is executed by the Audit Committee, an elected group of independent directors with high degrees of financial acumen.

In our opinion, the resource investments which would be required to sustain audit firm rotation as outlined in the Release outweigh the incremental benefits that may be attained. Certain assumptions are being made in the general concepts of the Release, foremost is that the external audit firms are not independent. It is our belief that our external auditors base their opinion on a series of comprehensive control and substantive testing. They consistently challenge positions taken by management, where alternative guidance or practice may exist and consult their firm leadership and subject matter experts on these topics. If alternative views are identified, these options are presented to the Audit Committee of the Board of Directors. Mandatory firm rotations would likely not substantially enhance auditor objectivity or independence.

Costs to implement a program within the Company to administer such mandatory rotation could be significant. These costs include those which would be incurred in the selection process; the training of new auditors on the Company's policies, procedures and estimates; establishment of international relationships within the firm and the time spent reviewing previously audited transactions. The accumulation of these hard and soft costs could easily top \$1.5 million in a given year, an amount which approximates a negative impact to earnings \$ .015 per share for our Company.

The Company's key relationships are developed and administered through the lead engagement partner. Accordingly, we believe that the focus of the Board would be better applied in assessing or ensuring the objectivity and independence of the individual engagement team members and their respective rotation, and not on the firm through mandatory rotation. A partner in a public accounting firm is measured by the revenue generated. If the Board were to require firm rotation, what is to prevent the engagement partners moving across firms in order to retain their clients? This behavior would likely require greater scrutiny and would be much more difficult to identify and review, while likely increasing concerns over objectivity and independence.

As an appendix we are providing responses to specific questions raised by the Board in the Release. The original questions raised by the Board have been *italicized* in the responses below. The responses are organized on the two key concepts presented by the Board and the select questions which we believe are the most critical to public companies:

- Considerations on Audit Firm Rotation
- Terms of the Audit Engagement

We appreciate the opportunity to respond and look forward to the continuing deliberation and roundtable discussions on this topic.

A handwritten signature in black ink, appearing to read "J. A. Wegner, Chairman". The signature is fluid and cursive, with the last name "Wegner" being the most prominent part.

Members of the Cree, Inc. Audit Committee of the Board of Directors

## **Appendix**

### **Auditor Independence**

#### **General Questions Audit Firm Rotation**

*Should the Board focus on enhancing auditor independence, objectivity and professional skepticism? How significant are the problems in those areas relative to problems in other areas on which the Board might focus? Should the Board simply defer consideration of any proposals to enhance auditor independence, objectivity and professional skepticism?*

Consistent with the stated purpose of the Board, the focus should be on matters that 'protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports'. The purpose of requiring such independence should be the reliability and accuracy of the financial statements presented by management and opined upon by the external auditors, such that investors may make prudent decision. Recognizing that independence, objectivity and professional skepticism are expectations of the investor, it is reasonable to expect that the Board would consider this topic on its agenda.

At the forefront of the internal control framework its objective, is to ensure that the financial statements are prepared accurately and completely, and in compliance with accounting standards generally accepted in the United States.

General rotation of resources within the firm, provides our auditors opportunities to consistently challenge the positions and practices implemented by management. A series of factual rotations within our external auditors, all the same firm, supports this conclusion and is as follows: 1) in 2006 we changed audit firms, 2) After the 5 year service of the lead engagement partner initially assigned to engagement, in 2011 we were assigned a new firm lead partner with industry specific experience, 3) for FY 2012, the local engagement partner retired and provided us the opportunity to obtain yet another set of views and opinions through a new local partner, 4) also for FY 2012, we will have a new senior manager on the engagement. It has been our experience that the observations by the engagement team have varied over their tenure and they consistently challenge our management

team and the accounting decisions they make. As such, the desired results achieved through the Board's proposal on auditor rotation are effectively in practice through the current environment.

Rotation of audit firms within a company frequently occurs by default as a result of changes in a company's business. Significant business changes such as acquisitions, divestitures and changes to the company's core business drive management and the company's board of directors to frequently evaluate the effectiveness of its' external auditors. Additionally, the Company may employ several different auditors as we have locations and legal entities in many foreign jurisdictions which require statutory audits.

Other areas, in which the Board could potentially invest resources, include developing or evaluating ways in which specialized industry knowledge could be enhanced within audit firms. Also, if the Board has developed specialized evaluation techniques used to uncover previous misstatements further education on the topic to the firms and public companies may be of benefit.

Lastly, the Board should consider an evaluation of whether it is the firm they are most interested in the rotation requirements, or rather then individual engagement team members.

*Would audit firm rotation enhance auditor independence, objectivity and professional skepticism?*

Audit firm rotation would not enhance auditor independence, objectivity and professional skepticism at a level that would outweigh the cost and time associated with such rotation.

Currently, a myriad of rules and regulations, guide and dictate requirements on auditor independence, objectivity and professional skepticism. The incremental layer of mandatory audit firm rotation would likely not increase the level of auditor independence, objectivity and professional skepticism

Under SEC regulations, the Board of Directors of a Company are delegated the authority to select an independent auditor, a decision which is then subject to shareholder vote and ratification either by proxy or in person meetings at annual shareholder meetings. Upon engagement and subsequently every quarter-end period thereafter, the public accounting firm selected is required to disclose and discuss very specific matters with the audit committee of the board of directors of the company. These include but are not limited to

confirmation of independence, significant accounting matters and any disagreements with management, alternative accounting treatments discussed with management. Additionally, the lead engagement partner must confirm their independence to the Audit Committee in writing.

The Audit Committee of public companies meets regularly with members of management, internal auditors and the external auditors. These meetings occur in joint session and in executive sessions between management and the audit committee and the external auditors and the committee. The audit committee is responsible for overseeing the accounting and financial reporting processes of the Company and audits of the financial statements.

Additional measures that enhance accuracy of a company's financial statements, many public companies employ other functions such as the internal audit activity. In best practice, the lead member of this department reports directly to the Board of Directors, most commonly through the Audit Committee. Charged with oversight and independent validation of the company's internal controls, the accuracy of the financial statements and general governance and to provide independent, objective assurance and services designed to add value and improve the organization's operations.

In a sense, mandatory audit firm rotation already exists, through the mandatory partner rotation required by the SEC. The relationship, knowledge and in many cases the opinions of the external audit firm are derived by the engagements lead partner. Through partner review, the engagement senior management and staff learn what questions to ask and what risks are present to the specific auditee. This oversight changes with the introduction of a new audit partner already required through mandatory rotation. We recognize this rotation as a benefit because while rotation of the engagement partner on the account drives new questions and a new perspective it's negative impact to the client is somewhat mitigated by recurrence of audit staff and managers that are able to effectively and efficiently navigate through management to obtain the required information.

*What are the advantages and disadvantages of mandatory audit firm rotation?*

An advantage of mandatory rotation is the assurance that 100% of an audit team will be able to provide a fresh evaluation of the Company within specific time frame. Obligatory rotation could also result in the application of different audit procedures and utilization of various audit tools that could uncover irregularities overlooked by a previous auditor.

Disadvantages of mandatory firm rotation include increased audit costs, time spent on a periodic basis reviewing and interviewing bidding firms, training and educating the external auditors on the Company's business and accounting policies. Additionally, positions that have previously been thoroughly evaluated and vetted by one firm are evaluated again by the new firm whereby both the client and the firm incur significant amounts of time and costs to cover those resources. In addition, some firms have stronger specific industry expertise than others, rotating to a firm with less industry expertise could lead to sub-standard audits.

*According to the 2003 GAO Report, large firms estimated that a rotation requirement would increase initial year audit costs by more than 20 percent. What effect would a rotation requirement have on audit costs? Are there other costs the Board should consider, such as the potential time and disruption impact on company financial reporting staff as a result of a change in auditors? Are there implementation steps that could be taken to mitigate costs? Board is particularly interested in any relevant empirical data commenters can provide in this area.*

The efforts of a public accounting firm are likely less effective in year 1 of an audit relationship because the client and the auditor is focused on understanding the business. Detailed transactions could be missed or complicated analysis or judgments could be overlooked because of this allocation.

Mandatory rotations would increase audit fees. Currently, companies have the ability to request proposals of all firms for purposes of opining on future period-end financial statements. The ability to do so drives marketplace competition. If rotation is mandatory, it likely reduces the key competitors for a multinational engagement by 10-25%.

Costs likely to be incurred include auditor selection costs such as people to conduct interviews, preparation of proposal materials. A potential risk is the re-evaluation of significant transaction that have previously been reviewed by the prior firm. Frequently these types of consultations are timely and costly as they go through multiple layers of reviews at very senior level individuals, to do so multiple times is inappropriate, and detrimental to shareholder value. Costs to obtain auditor consents for subsequent periods after a change in auditors, in which the new firm does not re-audit the previously reported financial statement periods, are significant and are non-

value added. These costs would become recurring and likely approximate between 10-20% of the original cost of the annual audit

The cost incurred by the Company to train and educate a firm for the first year of an audit are approximately 30% higher for base audit fees in that initial year. The expectation that the firm would have to develop new documentation and basic client information that could otherwise be rolled from year to year, is substantial. In support of this knowledge development, our Company's finance and accounting functions are spending incremental time with the auditors on education and discussions over materials which would otherwise be known. This time is incremental and placed on the same resources which are otherwise focused on precise execution of the internal controls process to ensure financial information is prepared and presented accurately.

*A 2003 report by the Conference Board Commission on Public Trust and Private Enterprise recommended that audit committees consider rotation when, among other factors, "the audit firm has been employed by the company for a substantial period of time— e.g., over 10 years." To what extent have audit committees considered implementing a policy of audit firm rotation? If audit committees have not considered implementing such a policy, why not? What have been the experiences of any audit committees that have implemented a policy of rotation?*

Annually, as an audit committee we consider and evaluate the effectiveness of our auditors, which could result in engaging new auditors. In 2009 we did issue an RFP for our audit to the 4 largest firms. After extensive review of the proposals we decided to retain our existing firm with the addition of a new engagement partner. Additionally, we meet in executive session with our auditors which provide us with an opportunity to directly assess independence, objectivity, knowledge and the current relationship with management, of our auditor.

*Are there alternatives to mandatory rotation that the Board should consider that would meaningfully enhance auditor independence, objectivity and professional skepticism? For example, should broader alternatives be considered that relate to a company's requirement to obtain an audit, such as joint audits or a requirement for the audit committee to solicit bids on the audit after a certain number of years with the same auditor? Could audit committee oversight of the engagement be otherwise enhanced in a way that meaningfully improves auditor independence?*



Possible alternatives to mandatory firm rotation include:

- Management and/or audit committee formal evaluation on objectivity, independence and professional skepticism of the audit firm which could be subsequently presented in the Company's annual financial statements
- Periodic evaluation by the PCAOB of specific engagements after the tenure with a specific firm has extended beyond 5 years, with a concentration on the firm's independence, objectivity and professional skepticism.
- Mandatory rotation of the concurring review role on engagements, perhaps a period of 3 years or less

*Should the Board continue to seek to address its concerns about independence, objectivity and professional skepticism through its current inspection program? Is there some enhanced or improved form of inspection that could better address the Board's concerns? If mandatory rotation were in place, could an enhanced inspection, perhaps focused particularly on professional skepticism, serve as a substitute in cases in which it would be unusually costly, disruptive or otherwise impracticable to rotate auditors?*

Yes, this type of focused inspection should be evaluated. The PCAOB could implement measures that require inspection of all areas of management judgment or estimates for example to assess objectivity and reasonableness of the procedures performed by the external auditors. The inspection could also review all critical accounting decisions agreed to by the auditors and management in the year under inspection. This type of inspection could be implemented on firms whereby the client engagement has existed for 5 years or more.

### **Term of Engagement**

*A starting point for consideration of an appropriate term is current data on auditor tenure. For the largest 100 companies, based on market capitalization, auditor tenure averages 28 years. Average tenure for the 500 largest companies is 21 years. Based on these considerations, the Board is particularly interested in comment on the advantages and disadvantages of terms of 10 years or greater.*

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

The length of individual engagements should be based on certain criteria. For large accelerate filers, perhaps the length of engagement is longer due to the increased complexities of the organization and the required training time for new auditors. For international companies, perhaps it may add an additional 2-3 years to the term due to the necessity to identify the most experienced team and bring them into the process, which may require additional time if those resources are already allocated to other engagements.

In a 5 year rotation, there is likely only a one year period where the bid/proposal process is not impacting the Company's ongoing activities and resource commitments. This impact is summarized as follows: years 1 and 2 – training and educating the auditor on your business, significant transactions, critical judgments and estimates, who is responsible for what transactions; Year 3 – auditor should be able to effectively plan and execute the audit with less guidance and input from management; Year 4- start the bid/proposal process by identifying the terms of the engagement and viable firms to use and start receiving bids; Year 5, review all bids, select your subsequent auditors, and start their education for the next years financial statement. The requirement needs to start in the final year of the prior term so that the new auditor will be able to conduct the first quarter review.

*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 lengths of engagement terms should differ based on the following factors; market cap, materiality of international locations, complexity of the Company's financial statements, industry specialization, and presence of historical restatements or disclosed control deficiencies.

*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?*

There is a steep learning curve for an auditor in the first 2 years of an engagement. The effectiveness of the auditor during this term is likely lower as they focused on understanding the business to determine what the key risks might be. With an effective understanding of the risks associated with a specific engagement, the auditor can apply client specific testing procedures to those risks. In the early years of a relationship the focus is likely more of a routine based audit approach and thus less focused on the risk and more complex transactions.

*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?*

A response to this question implies that we believe an auditors approach is specifically designed to ensure someone else doesn't catch them in an error or an overlooked issue. If this were the case then the audit process is not being executed to achieve what is required and expected by the users of the financial statements. We believe the audit approach is designed to ensure the accuracy of the financial statements and the effectiveness of the internal controls of the Company.

## **B. Scope of Potential Requirement**

*Another fundamental decision is whether to consider a rotation requirement for all audits conducted pursuant to PCAOB standards or whether to limit the audits to which the requirement would apply. For example, the Board could consider applying the rule only to audits of the largest companies. Such an approach could minimize the costs of the rule, while preserving much of its benefits. On the one hand, it could reduce market-wide implementation costs because the vast majority of companies and firms would not be affected. On the other hand, by focusing only on companies with the largest market capitalization, could the Board obtain significant benefits for investors?*

*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?*

If a uniform approach is not consistently executed and a required, then by inference the Board is assuming that the largest independence, objectivity and professional skepticism risks, rest with the largest engagements only. These engagements also utilize the greatest amount of accounting firms resources which also means more oversight and different reviews have occurred through the audit process.

The Board should consider if it is more likely that a company with a large market-cap can influence a large public accounting firm with thousands of clients, firm personnel, and large national offices of accounting research teams and thus be more persuasive over the decisions the firm may make or is it more likely to be a greater impact in a situation of a company with a mid-size market-cap and a smaller accounting firm with only hundred's of clients.

## **Transition and Implementation Considerations**

*The Board's purpose in adopting any rotation requirement would be to enhance auditor independence, objectivity and professional skepticism, a goal directly in line with the Board's statutory mission "to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports." If a consequence of a rotation requirement were an increase in the number of firms capable of auditing, and willing to audit, the largest public companies, however, that may benefit investors and, more generally, the financial markets.*

*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?*

As a global semi-conductor manufacturing company, we require the resources of a public accounting firm, which are generally only available with one of the Big Four or large second tier firm. If we assume for a moment, that

we would limit our proposal, due to the necessary skill set, to only PWC, KPMG, Deloitte and Ernst & Young (the Big Four), mandatory rotation would limit our options by 25%, thereby decreasing the ability for a broader spectrum of competitive bidding. Companies generally seek fixed terms for periods of many years, whereby the initial costs incurred by the company and the audit firm are the greatest in the initial 1-2 years of an engagement, and result in low firm realizations. These incremental cost runs are generally offset in later years through increased efficiencies, greater knowledge of the business and stronger documentation maintained by the audit firms on the company's policies, practices and procedures.

Additionally, as a multi-national organization we leverage other public accounting firms on many different types of consulting or compliance related projects. By requiring frequent rotation we could be limited in our ability to use firms other than the financial statement audit firm, on these types of projects. This restriction could create greater risk for our Company.

*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?*

Many financial transactions impact subsequent periods. The Board, the FASB, AICPA and other regulatory and oversight bodies would need to agree that an auditor could be independent of a transaction that they may have effected on behalf of the Company which has an impact to the financial statements that the auditor is now engaged to audit. One approach is that the independence analysis be approached from an individual basis, rather than the firm in aggregate, thereby restricting only those individual that effected or assisted in the analysis of a transaction (non-audit services) from providing auditing services for the same client.

*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?*

We believe this is a risk to the public accounting profession. In order to be able to provide such a vast amount of resources and still have resources available to pursue other potential clients, further consolidation of the public accounting industry is likely to occur.

*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?*

The complexity associated with clients that have international operations could further restrict the availability of firms with the requisite resources to provide audit services. Costs associated with global coordination are significant. These costs are incurred by both the Company and the audit firm, most frequently the travel costs incurred by the firm are passed along to the Company. It's recognized that these costs are incurred annually and appropriate, however costs in the initial year are usually the highest. Without direct knowledge to the contrary an auditor will consider each location significant and have an associated level on inherent risk. These risk factors can be reduced by an auditor when they have a comprehensive understanding of the entities business and operations, generally obtained through consistent years of service on an engagement.

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

If mandatory firm rotation were implemented, companies may be more likely to employ smaller, less experienced firms to assist in unique and complex transaction so that the larger firms remain fully independent and a viable alternative in future rotations. As such, the level of oversight and specific knowledge may not be available thereby increasing the risk in the accuracy of the non-audit service or the reliability of the results of a specific transaction.

*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?*

The impact on opinion shopping would depend on how the rotation requirements are implemented. For example, if there are options to return a prior audit firm after one rotation, then perhaps it does increase the risk of shopping for opinions that are consistent with those upheld by the current auditors. If the rotation would require the use of 3 or more firms over a term of 5 years each, it likely reduces it knowing that the Company will be obligated to employ more than one other firm through the rotation process.

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

Competition for engagements is likely to occur and does occur already. All firms are positioning themselves for greater impact in the market place. Second tier or regional firms are developing relationships and alliances with other firms that place them in a position where they can compete globally with a large CPA firm. Regardless, the company would be required to evaluate all bids received and could potentially incur significant amounts of time in frequently evaluating the next audit firm.

*Because implementation of some aspects of a rotation requirement could involve complementary changes to SEC rules, development of any rotation rule could require particularly close coordination with the SEC. The Board would also need to consider how to transition toward any requirement in this area. For example, if the Board determined to move forward, it could stagger a new requirement's effective date to avoid mass rotation in a single year.*

*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?*

If the prior auditor left a roadmap of how they evaluated risk in the engagement, this inherently limit the new auditors due diligence in

understanding the client. Failure to obtain this knowledge on their own, could raise a question as to their objectivity and professional skepticism that they applied to the engagement. If this were to occur, the Board's goal of enhanced auditor objectivity, independence and professional skepticism would be at risk.

*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?*

If a rotational model were mandated, the Board should not affect the company's ability to change auditors at any time they deem necessary or appropriate. If issues were to arise whereby the client-service relationship is not being conducted in an appropriate or professional manner the company must retain the ability to absolve the engagement relationship and identify new auditors.

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

The Board should seek further input on implementation and transition issues once a proposed ruling has been established.