



December 12, 2011

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, D. C. 2006-2808

Subject: PCAOB Rulemaking Docket Matter No. 37

Valhi, Inc. is a global manufacturing company with annual revenues of over \$2 billion. We appreciate the opportunity to provide our comments on the PCAOB's Concept Release regarding auditor independence and rotation.

We oppose mandatory audit firm rotation, and do not believe it would lead to an enhancement of auditor independence. If imposed, we believe mandatory audit firm rotation would lead to increased costs without any corresponding benefit, and reduce audit quality. The PCAOB will undoubtedly hear many reasons why registrants and their audit committees oppose mandatory audit firm rotation, and we would generally agree with most of them. Some of the reasons why we oppose mandatory audit firm rotation are noted below:

- An unspoken premise of Concept Release appears to be that audit firms are fungible and easily interchangeable. Particularly for large, multinational registrants, that would be a faulty premise, as the number of audit firms with the worldwide presence that could potentially undertake the audit is limited to the Big 4. And when you factor in the need for expertise in certain industries, the potential number of audit firms can be less than four. In addition, with the significant limitation on non-audit services that the independent auditor can provide, it is not unusual for many registrants to employ two, three or all four of the Big 4 firms in different capacities; mandatory audit firm rotation would therefore have to also result in costly and inefficient mandatory rotation of the firms providing non-audit services.
- The Concept Release notes that by ending an audit firm's ability to "turn each new engagement into a long-term income stream," mandatory audit firm rotation could enhance an auditor's ability to act independently. But given the constraints on the potential number of audit firms that some registrants could employ as discussed above, an imposition of mandatory audit firm rotation would likely result, in many cases, in registrants having a back-and-forth rotation between two firms. Such back-and-forth rotation would minimize the disruption to the registrant's management and staff when firm rotation occurs, on the basis that a prior audit firm would be better able to "get up to speed" on the registrant and their current business as opposed to an audit firm never engaged by the registrant. If the PCAOB's premise that the fear of losing an audit client (and the associated fee) leads to a bias for the auditor to have less than the required degree of skepticism and objectivity, such potential for bias would still be present with a

back-and-forth audit firm rotation, particularly if the registrant chose a back-and-forth rotation between two firms for their audit and non-audit services.

- The Concept Release also notes that a potential benefit of mandatory audit firm rotation would be that an auditor would know their work would be scrutinized at some point by a successor/competitor, and thus would have an incentive to ensure that the audit is done correctly. Based on our experience, we would think that the potential for review of the audit workpapers by PCAOB inspectors provides just as much, if not more, of an incentive for the auditor to ensure that the audit is done correctly as opposed to the possibility for audit workpaper review by a successor/competitor.
- We are unclear as to whether the PCAOB has the authority to impose mandatory audit firm rotation, as it would represent an encroachment upon the audit committee's statutory authority to select the audit firm, and could be viewed as hindering competition in the marketplace (particularly for large, multinational registrants for which the potential number of audit firms is limited to the Big 4). There should be no constraints imposed on the audit committee's ability to undertake its statutory authority to select the audit firm. Imposing mandatory audit firm rotation would undercut the committee's ability to fulfill its fiduciary responsibilities.

Whatever issues the PCAOB has with certain audit engagements and the perceived failure by certain auditors to exhibit the required degree of skepticism, objectivity and independence, the imposition of mandatory audit firm rotation would be a draconian, system-wide response to an issue that is not systemic. It would penalize thousands of registrants for something they have nothing to do with. Rather than imposing mandatory audit firm rotation, the PCAOB should focus on improving its auditing standards and implementation guidance in the areas giving rise to its concerns. For example, because many of the purported audit deficiencies found in recent inspections appear to relate to auditing management's judgments and estimates (which could be partially associated with the increase in the use of fair value measurements for financial reporting over the last several years), the PCAOB should focus on improving its auditing standards and implementation guidance in this area. Perhaps the perceived failure to exhibit the required degree of skepticism, objectivity and independence in certain of these instances is more the result of a failure to appropriately understand the nature, type and extent of audit evidence required to comply with the PCAOB's standards.

Thank you for your consideration of our comments.

Sincerely,



Gregory M. Swalwell
Vice President & Controller
Valhi, Inc. (NYSE: VHI)