

# Morgan Stanley

December 13, 2011

Mr. J. Gordon Seymour  
Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

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

Dear Mr. Seymour:

The audit committee of Morgan Stanley appreciates the opportunity to comment on the Public Company Accounting Oversight Board (the "PCAOB") Concept Release on Auditor Independence and Audit Firm Rotation (the "Concept Release"). We are fully supportive of the PCAOB's continuing efforts to improve audit quality and of the desire to protect and strengthen auditor independence, objectivity and professional skepticism. The audit deficiencies identified through the PCAOB's ongoing inspection process are of concern to all who invest in or are part of our capital markets; however, we have serious reservations as to whether the introduction of new rules requiring mandatory audit firm rotation would be an effective means to improve audit quality for large multinational entities such as Morgan Stanley.

Morgan Stanley, similar to many other large companies, is subject to a myriad of complex accounting and regulatory requirements around the globe. It is critical that the audits of our controls and financial reporting be objective and robust and that the audit be performed by those with appropriate training. In order to perform a quality audit of Morgan Stanley, we believe it important that the independent auditor maintain considerable resources in a multitude of locations, all possessing an in-depth understanding of the company's business operations, systems, control processes, and regulatory requirements. It is also important that the auditor be familiar with the complexity of the company's industry as well as the personalities and abilities of management and key employees. Thus, a significant learning and development curve exists for audit firms and engagement personnel to develop the expertise and experience necessary in order to carry out an effective audit. For that reason, it appears inevitable that a rule which requires mandatory audit firm rotation would have the potential to reduce audit quality during the early years of an engagement while at the same time imposing significant incremental costs on both the auditor and the company. Equally disturbing is that audit quality could potentially suffer in later years of an engagement when the audit firm has little reason to invest in new audit methodologies and staff development unique to the company knowing that there is no possibility of retaining the audit. Likewise, partners and staff would undoubtedly be concerned about their careers as the audit commitment winds down, and logical career staffing decisions would be affected by uncertainties as to what audit clients may be available to an audit firm when rotation occurs. These are unnecessary distractions.

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Another significant concern for a large company in a complex industry is the limited number of audit firms which would be capable of performing a quality audit. This problem is further exacerbated by the use of the other large accounting firms for non-audit services, thereby limiting altogether the pool of firms which would be independent at a point in time such that they were an eligible candidate for audit rotation. Additionally, the potential that a multinational firm such as Morgan Stanley would be required to comply with mandatory audit firm rotation rules in various jurisdictions further magnifies these issues. The company would either have to a) rotate auditors globally each time rotation was mandated in a particular jurisdiction in order to retain a single auditor globally, or b) rotate auditors in various jurisdictions at various times, resulting in a disjointed global audit. Both approaches are costly and inefficient and could significantly increase audit risk.

The potentially negative implications for audit quality, investor protection and the integrity of the U.S. financial system resulting from rules requiring the mandatory rotation of audit firms are of concern. The Concept Release correctly cautions that numerous studies have concluded that mandatory audit rotation may be ineffective in improving audit quality and may even have the opposite result. In particular, such rules could add to the unhealthy myth that the audit is a commodity, where cost is the principal means of competition. At a minimum, mandatory rotation would change behavior as audit firms would have to commit significant resources to marketing efforts in order to secure an appropriate array of new audits. Those resources could be better invested in improving audit quality.

We believe that current audit partner rotation rules which are part of the Sarbanes-Oxley Act of 2002 (the "Act"), as well as the natural personnel attrition at both companies and audit firms, are adequate to support auditor independence and objectivity without sacrificing the audit firm's institutional knowledge and expertise that is required to perform a quality audit. Our experience has been that new audit partners and staff do take a "fresh look" at audit risks and procedures, all while maintaining the benefit of company and industry knowledge passed down from their predecessors and housed institutionally within the audit firm.

The Act correctly strengthened the role of the audit committee in selecting, overseeing and compensating the independent auditor and significant progress has been made in enhancing corporate governance since implementation of the Act. The audit committee is well positioned to understand the risks facing the firm as well as the concerns of shareholders. Therefore, as contemplated in the Act, the audit committee is appropriately positioned to select the independent auditor and to determine when and if change is appropriate. The Act also created and empowered the PCAOB to issue auditing standards and to register and inspect audit firms, providing the PCAOB with unique insights into the audit profession. These insights are not available to either the investing public or to audit committees. While we understand there are legal limits as to what the PCAOB can disclose about a particular audit firm, perhaps there are limited situations where the PCAOB could meet with an audit committee of a particular company to indicate that the PCAOB has significant concerns about an audit relationship.

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Again, we thank you for the opportunity to provide comments and appreciate the PCAOB's consideration of these matters.

Sincerely,

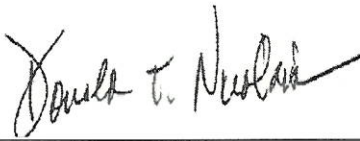
Morgan Stanley Audit Committee:

Donald T. Nicolaisen

Howard J. Davies

James H. Hance, Jr.

O. Griffith Sexton



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Donald T. Nicolaisen  
Chairman of Audit Committee