NEUBERGER BERMAN FUNDS
605 Third Avenue
New York, NY 10158

December 13, 2011

Sent Via E-Mail at comments@pcaobus.org

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

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

Dear Board Members:

As members of the Audit Committees of the Neuberger Berman Funds ("Funds"), we appreciate the opportunity to respond to the request for public comment from the Public Company Accounting Oversight Board ("PCAOB") on its concept release relating to mandatory audit firm rotation, dated August 16, 2011. The Funds whose management we oversee include both open-end and closed-end registered investment companies with a total of 43 separate portfolios totaling approximately $28 billion in assets. We fully support any efforts to enhance the quality of the audit process for the benefit of our Fund shareholders, and we fully support the objectives highlighted by the PCAOB to enhance auditor independence, professional skepticism and objectivity. However, we do not support a proposal that would make audit firm rotations mandatory, particularly in the registered investment company context.

Our experience with the Funds' auditors has shown that they consistently meet the standards of being independent, objective and professionally skeptical in the work they perform for our Funds. In addition, we have found that the Sarbanes-Oxley Act already effectively addresses auditor independence by requiring that the audit committee hire the auditors and oversee them; by requiring audit partner rotation; and by prohibiting all but a few non-audit services.

In our view, the PCAOB has not presented sufficient evidence that the current system is broken. Moreover, it is not clear that the issues raised by the PCAOB in its concept release regarding professional skepticism would be remedied by mandating auditor rotation or that the potential disadvantages would outweigh any benefits.

We have summarized below the reasons we believe mandatory audit firm rotation should not apply to registered investment companies. In this connection, we ask that the PCAOB consider *Chamber of Commerce v. SEC* where the court concluded that, because the Investment

Company Act of 1940, as amended ("1940 Act") applies additional substantive regulation to registered investment companies, the SEC had to consider separately whether the same cost/benefit factors justified application of the "proxy access" rule to investment companies.[1] We believe such additional cost/benefit analysis is also necessary in the context of mandatory audit firm rotation as it may be applied to registered investment companies in particular.

I. Reasons Mandatory Auditor Rotation Should Not Apply to Registered Investment Companies.

A. Fund Accounting Standards.

Fund accounting is more straightforward than other types of public company accounting so there is less room for manipulation, interpretation and foul play. Specific regulations dictate what is required to be in fund financial statements. As a result, fund financial statements tend to be more uniform than those of other industries. We are also not aware of any examples of material problems with fund audits of the kind that have been seen in other industries, such as those in Enron or WorldCom. The occasional efforts by wayward fund managers to inflate artificially the prices of portfolio holdings have collapsed very quickly, because of the transparency of fund holdings, which are required to be reported periodically in public filings.

B. Nature of Fund Structure and Regulation under the 1940 Act.

Funds are investment pools – and are basically pass-through entities through which shareholder money is invested in portfolio securities. Funds must be transparent in that they are required to disclose portfolio holdings on a periodic basis in filings with the SEC and in shareholder reports.

Funds are highly regulated; the 1940 Act limits the types of activities in which funds can engage. For example, the 1940 Act restricts the capital structure of funds and limits how much a fund can borrow and who the fund can borrow from. There is no room for an intricate and ever-shifting capital structure that can be used to hide mistakes and misdeeds, as has happened in some industries. Open-end funds are also required to price their portfolio securities every day

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[1] In *Chamber of Commerce v. SEC*, the U.S. Court of Appeals for the District of Columbia Circuit explained:

> We agree . . . that the [SEC] failed adequately to address whether the regulatory requirements of the [1940 Act] reduce the need for, and hence the benefit to be had from, proxy access for shareholders of investment companies, and whether the rule would impose greater costs upon investment companies by disrupting the structure of their governance. Although the [SEC] acknowledged the significant degree of "regulatory protection" provided by the 1940 Act, it did almost nothing to explain why the rule would nonetheless yield the same benefits for shareholders of investment companies as it would for shareholders of operating companies.

and calculate a net asset value of the fund's shares. This exerts a tremendous pressure toward good accounting, on a daily basis.

Moreover, to the extent a fund invests in more exotic or illiquid securities that have to be "fair-valued," the 1940 Act places responsibility for the fair value process on the fund's board. Fund boards take this role very seriously, establish procedures, approve methodologies, and have hired independent consultants to assist in the fair value process.

Like those of other public companies, fund audit committees are typically composed entirely of independent directors who provide effective oversight of the auditors and who have the authority to hire and fire the auditors. Given the independence of audit committees, there is no incentive for them to influence the auditors for their own financial gain nor any conceivable reason why an audit committee member would have a pecuniary reason to influence an audit. Even where a fund audit committee member is invested in one of the funds for which he or she is responsible, given that the fund's NAV is calculated daily and every individual investment held by a fund is valued daily, there is little to no room for the auditors to influence or affect the fund's NAV for the director's benefit by using questionable practices or colluding with management.

C. Increased Audit Risk and Expense.

We believe mandatory audit firm rotation is likely to reduce the efficiency and effectiveness of the audit and to lower audit quality. In our experience, there is a steep learning curve at the beginning of any audit relationship, which is more pronounced in the case of fund complexes which often have multiple portfolios or series, each of which is separately audited. (In the Neuberger Berman Funds complex, there are 43 portfolios to audit, each of which has multiple share classes).

In contrast to some public companies which have as long as 90 days from the company's fiscal year-end to complete an audit depending on the company's size, fund audits must be completed within 60 days after the fund's fiscal year-end so, there is not as much time to get up to speed on a new fund client. Many fund complexes (including Neuberger) have staggered fiscal year-ends so auditors would just be finishing one audit for one group of funds and would have to immediately start on the next one.

Due to the lack of familiarity with a new client and the severe time constraints on when the fund audit must be completed, we believe there would be significant increased audit risk at the beginning of each new relationship. It is also possible that there could be increased audit risk toward the end of each relationship because the audit partner is less focused on a client relationship that he or she knows is terminating in the near future.

We also believe that audit fees are likely to increase because of the additional time the auditors will have to spend at the beginning of each new relationship – this is concerning to us because audit costs are directly passed on to our Fund shareholders.

D. Limited Number of Audit Firms Experienced with Fund Industry and Fund Accounting.

The fund industry's structure is unique in that all functions are outsourced – the fund typically has no employees of its own. Rather, the fund is managed by an external investment adviser; its assets are held at a custodian bank; a transfer agent assists with keeping track of the fund shares that are bought and sold and maintaining the fund's records; and prices of portfolio securities are usually obtained primarily from independent pricing services approved by the fund's board of directors. Given this unusual structure, it is critically important that funds have auditors who fully understand the structure and are experienced working with the fund's various service providers. The global audit firms tend to have much more experience working with these service providers.

We are concerned that mandatory audit firm rotation may require that we hire smaller firms who are not as knowledgeable about fund audits and the fund business. Only a few audit firms have meaningful experience with the fund industry. We have also found in specific cases that there are real benefits to being able to hire one of the Big Four global audit firms rather than a regional firm. As complexity of fund products and fund investments increases, many audit committees are more comfortable using one of the Big Four audit firms for more complex products, such as global funds, alternative strategy funds, funds that invest substantially in derivatives, and funds that use an offshore subsidiary for commodity-related investments. The global firms also can draw on their resources from around the world. We have seen this firsthand with the European Union tax withholding issues that many fund groups have faced.

E. Potential Conflict Issues for Some Audit Firms.

Some audit firms are already disqualified due to conflicts, so mandatory rotation would further limit the available options of audit firms who can be hired. In our case, one of the Big Four audit firms is disqualified because one of our Funds is an investment option for the audit firm's retirement plan. Employees of audit firms should be entitled to have mutual funds as investment options in their retirement plans. If audit firm rotation were mandatory, this could be difficult to do because there would be so few qualified audit firms that a fund complex could use in a specific timeframe.

For fund complexes that are managed by advisers that are part of large, global organizations, there are often existing conflicts with certain audit firms because of the limits on non-audit services that can be provided to a broadly-defined group of related entities. When Neuberger Berman was part of the Lehman Brothers organization, certain audit firms were disqualified, sometimes because of relationships that existed with distant affiliates. In addition, some audit committees would at least want to have the option of having a different audit firm be responsible for the funds' audit and the fund adviser's audit. While this is not required, it may be an issue of appearance that the audit committee would at least want to have the flexibility to consider in selecting a fund's auditor.

As a matter of course, our Fund complex has typically retained two audit firms so that in the event one firm has a conflict, there is an alternate firm that is familiar with the Fund complex and management's internal processes and procedures. We believe this keeps each firm on the

top of its game because each firm wants to retain its existing business and obtain the new business when new funds are added. This practice, which we believe ultimately benefits the Funds and their shareholders, might not be possible if mandatory audit firm rotation were required, negating what we believe is a good practice.

II. Other Considerations.

We believe mandatory audit firm rotation would undermine the authority of the audit committee in that it would prevent the committee from keeping an audit firm the committee believes is performing at a high level. It may also provide an incentive to keep an audit firm with which the committee has not been satisfied if the committee knows that it is required to rotate the auditor in a year or two anyway.

Mandatory audit firm rotation would also place a tremendous amount of additional responsibility on the audit committee and the fund's adviser. It would require more time from the audit committee and from fund management, who would have to spend additional time on proposals and getting new auditors up to speed rather than devoting time to their other responsibilities.

Mandatory rotation may also create undesirable incentives for audit partners to switch audit firms, and would make it challenging for auditors to have predictable flows of business and maintain appropriate staffing levels. Similarly, it would make it more difficult for fund management and the audit committee to have regular and reliable contacts at the audit firm. Importantly, audit partner rotation does require that there be a fresh pair of eyes on fund financial statements every few years, while the fund still has the benefit of the institutional knowledge of the audit firm and the audit team.

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We appreciate the opportunity to comment on the PCAOB's request for public comment on its concept release. For the reasons summarized in this letter, we would not support a proposal requiring mandatory audit firm rotation, particularly in the case of registered investment companies.

Sincerely,

The Audit Committees of the Neuberger Berman Funds

George W. Morriss, Chair

Martha C. Goss, Vice Chair

Edward I. O'Brien

Cornelius T. Ryan

Tom D. Seip

Candace L. Straight

cc: Boards of Trustees/Directors of the Neuberger Berman Funds
John M. McGovern, Treasurer and Principal Financial and Accounting Officer, Neuberger Berman Funds