

December 13, 2012

Via email to comments@pcaobus.org

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Subject: PCAOB Rulemaking Docket Matter No. 37

Ladies and gentlemen:

Thank you for the opportunity to comment on Public Company Accounting Oversight Board (“the Board”) Release No. 2011-006 (“the Release”) on auditor independence and audit firm rotation.

Weyerhaeuser Company (“Weyerhaeuser”), one of the world’s largest forest products companies, was incorporated in 1900. We have offices or operations in 10 countries, with customers worldwide. We are principally engaged in the growing and harvesting of timber; the manufacture, distribution and sale of forest products; and real estate construction and development.

We changed independent auditors from Arthur Andersen to KPMG in April 2002. This change was made because of questions about the viability of Arthur Andersen, not because of financial reporting issues, auditor-client disagreements, economic issues or any other factors that might indicate that our experiences would be materially different had the change been mandated. We currently have employees on staff that participated in the auditor selection process and that managed Weyerhaeuser’s transition activities. Our current employees also include people that managed the Arthur Andersen engagement prior to, and the KPMG engagement after, Weyerhaeuser changed independent auditors. The experiences of these employees provide a basis for our comments on the Release.

We believe that auditor independence is necessary for our capital markets to operate effectively. However, we are opposed to mandating audit firm rotation. As discussed in more detail below, we believe:

- It is not clear that the change would address the root causes of audit failures;
- Costs associated with such a change would be significant;
- The number of audit failures would increase; and
- Implementation would not be practical given the limited number of qualified audit firms.

Root Cause

The Release stated the following related to evaluating the root cause of audit failures:

The root causes of audit failures are complex and vary in nature and continue to be explored by the Board. The Board plans to deepen its understanding of root causes in upcoming inspection seasons. At the same time, although the Board attempts to determine root causes, it is not always possible to do so. Because professional skepticism is a state of mind, its absence may be particularly difficult to detect unless evidenced somehow in the audit workpapers or elsewhere.

Weyerhaeuser has been using LEAN—a set of process improvement philosophies and tools modeled after the Toyota Production System—over the last few years to successfully eliminate waste and improve flow in administrative processes. Effective root-cause analysis is an important part of the LEAN discipline. We do not design and implement changes to processes until we are convinced that we have identified the root issues that are causing problems. Factors that allow us to successfully get to the root of issues include establishing a no-blame environment, including all of the needed subject matter experts, utilizing skilled facilitators who are independent of the process being evaluated and a tenacious approach that keeps asking why until the root issues are identified.

Given the foregoing perspective, is the inspection process the right forum to determine the root causes of audit failures? What changes in approach would allow the Board to identify the root causes of audit failures? The potential benefits of mandated changes in independent auditors cannot be evaluated without understanding whether the proposed solution would address the root issues.

Individuals, not firms, complete audits. We are not convinced that mandating changes in independent auditors would result in a reduction in bias and an increase in professional skepticism. The desire to get along well with others is deeply rooted in each of us as human beings; it is not necessarily caused or exacerbated by a fear of losing an audit client. We believe that there are opportunities to educate independent audit staff about things such as individuals' propensity towards bias, ensuring that the Board's expectations about what constitutes a quality audit are well understood, and to make sure that the appropriate mechanisms are in place to identify and hold individuals accountable for subpar performance.

Cost

The Release included information from a GAO report issued in 2003 on the potential effects of mandatory auditor rotation that stated, "all of the larger firms that responded estimated that initial year audit costs would increase by more than 20 percent." That would equate to an increase in Weyerhaeuser's audit fee in excess of \$1 million in the initial year of an audit relationship. The total cost would be higher when registrant efforts to onboard a new independent auditor and inefficiencies are considered.

A change in auditors is a significant undertaking that entails activities and a level of effort similar to some of our systems implementation projects. Not to diminish the disruption and cost associated with the proposal process and due diligence, the real work starts after a new auditor is selected. A whole host of mundane activities, none of which add value to the independent audit process, would consume company and auditor personnel time. Examples include completing Weyerhaeuser safety

training, provisioning building and systems access, and learning who is responsible for what in a complex organization.

We have invested a lot of time and effort to make sure that we provide quality information to our independent auditors on time so that they do not have to waste time sending reminders or tracking down information. The single most important thing that makes that process run smoothly is effective and regular communication at a granular level about what specifically is needed, the different forms in which the information could be provided, and when it could practically be delivered. It has been challenging to get to the current state and we would effectively be starting over if we had to work with new independent auditors.

Weyerhaeuser operates in a mature industry that is significantly challenged by the historically low level of housing starts. Efforts to cut general and administrative costs to improve competitiveness are never ending. We cannot support a proposal that would impose significant costs and disruption without a clear indication that the benefits to our shareholders would outweigh the increased costs.

Audit Failure Risk

We agree with the conclusion of the studies cited in the Release that the risk of an audit failure is higher in the first few years of an independent auditor's tenure. Without prior experience with a client's reports, personnel, processes and policies, it is a challenge to effectively filter information in order to focus on what is important. In essence everything is new early on and could either be, or point to, something that is important to the audit. Consequently, the risk of not considering something relevant to the audit is higher in the first few years of an engagement.

The KPMG team that started working on the Weyerhaeuser audit in 2002 had worked together as a team on other engagements in the past and had significant forest products audit experience. Even with that background, it took approximately three years for our new auditors to consider all of our significant accounting policies and practices with a fresh set of eyes and to pose questions needed to evaluate whether the policies and practices were acceptable. Had any of the changes that resulted from that process been more significant, we would have been faced with a potential restatement along with what would have technically been an audit failure. Although both Weyerhaeuser and KPMG were making a number of changes to adopt the requirements of the Sarbanes-Oxley Act of 2002 during that time, we believe that those experiences are representative of the types of challenges that would be faced in the future. In more recent years we sold significant businesses and converted to a real estate investment trust. On the horizon are the pending changes to generally accepted accounting principles in the U.S. due to convergence and potential adoption of IFRS.

The Release stated that, "preliminary analysis of [PCAOB's own inspections] data appears to show no correlation between auditor tenure and number of comments in PCAOB inspection reports." This statement does not indicate that longer tenures cause more audit deficiencies and does not appear to support the argument to limit the tenure of independent auditors.

Our past experience transitioning auditors, as management on both sides of the fence, indicates that the learning curve is steep and that the risk of an audit failure is higher in the first few years after hiring a new independent auditor. We believe the risk is high enough that it would not be in our shareholders' interest to mandate periodic changes in audit firms.

Limited Options

Much has been written about the limited number of qualified audit firms from which to choose, particularly for large, multinational entities such as Weyerhaeuser. The need for scale, breadth of subject matter experts, and geographic coverage limit our options to the Big Four. Our choices are further limited by the fact that Big Four firms other than our independent auditor provide non-audit services that cause the other firms to not be independent.

We also believe that it is necessary to have applicable industry experience in order to conduct an effective and efficient audit. For example, timber is a unique natural resource in that it is replanted after harvest and grows over a long period of time. Timber accounting is not addressed in the U.S. accounting literature and the methods of accounting for timber developed in practice. The need for industry experience serves as an additional constraint on viable choices.

The Release included a quote that stated rotation could “operate as a catalyst to introduce more dynamism and capacity into the audit market.” Quite frankly, we do not think it is practical to move forward with the proposal in light of the limited options that exist today and that it would be imprudent to institute mandatory rotation hoping that the audit market will develop.

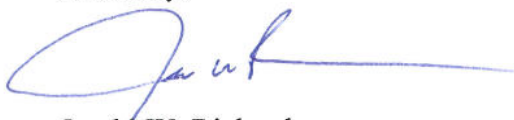
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Weyerhaeuser is opposed to mandating periodic changes in independent auditors. Without a clear indication that the change would address the root cause of issues and result in higher quality audits, there is not a basis for arguing that the benefits outweigh the high cost, disruption and increased risk of audit failure early in an auditor’s tenure. In addition, limited independent auditor options would make implementation highly problematic.

Our audit committee is comprised of independent, well-qualified and active members. Those qualities allow our audit committee to effectively evaluate and oversee the performance of our independent auditors. We would encourage the Board to consider ways to improve the effectiveness of audit committees more broadly, not to usurp the responsibilities of audit committees instituted by the Sarbanes-Oxley Act of 2002 by mandating auditor rotation.

We appreciate the opportunity to comment on the Release and thank you for your consideration of our comments.

Sincerely,



Jerald W. Richards
Chief Accounting Officer