



**BlueCross BlueShield
of Illinois, New Mexico, Oklahoma & Texas**

December 12, 2011

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

Re: PCAOB Rulemaking Docket Matter No. 37

To Whom It May Concern:

Health Care Service Corporation (HCSC), a Mutual Legal Reserve Company, (doing business as BlueCross BlueShield of Illinois; BlueCross BlueShield of New Mexico; BlueCross BlueShield of Oklahoma; and BlueCross BlueShield of Texas) welcomes the opportunity to comment on Release No. 2011-006: "Concept Release on Auditor Independence and Audit Firm Rotation" (the Release). As an insurer, we are required to comply with the regulations issued by the National Association of Insurance Commissioners (NAIC) as well as the Illinois Department of Insurance (IL DOI). The NAIC and the IL DOI often consider whether they should adopt regulations similar to those issued by the regulatory bodies that govern public companies. For example, the NAIC and the IL DOI adopted regulations applicable to insurance companies referred to as the Model Audit Rule in response to the Sarbanes-Oxley Act. Although HCSC is not a public company, as a result of the NAIC and the IL DOI often considering regulations applicable to public companies and HCSC's service to the public interest in general, we felt it was important for us to express our views on the Release.

While we support the efforts of the Public Company Accounting Oversight Board (PCAOB) to improve auditor independence, objectivity and professional skepticism, we do not support the concept of mandatory audit firm rotation for the following reasons:

- ***Changing audit firms on a regular basis will reduce the vast knowledge obtained by an audit team over time.*** Through our 75 year history, we have only changed audit firms once. We value our auditor's deep knowledge of our business and industry. We believe an increased knowledge base enhances professional skepticism. As our business becomes more and more complex due to increasing technology demands, a changing regulatory environment and expanding business operations, we believe it is critical for our audit firm to have a thorough and continuous understanding of our operations and the challenges we face. A better understanding of our business environment allows the auditor to focus on the critical risks and ways we mitigate and control these risks. The steep learning curve a new audit firm must overcome will reduce the audit quality, particularly in the first year or two of an engagement. In fact, we believe changing audit firms on a regular basis will increase rather than mitigate risk.
- ***The significant disruption caused by changing audit firms*** diverts staff, management and audit committees attention from financial reporting, internal control and other risk

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management efforts. If the required rotation occurred during a significant transaction, such as an acquisition or debt offering, the disruption would be even greater. Could this disruption be so great that it could impact the timing of a company's business decisions such as whether to proceed with a transaction?

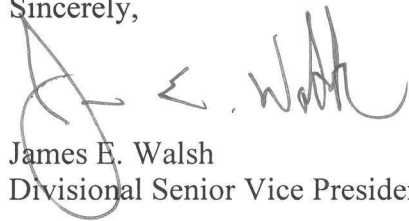
We experienced firsthand the learning curve a new audit firm must overcome when we changed auditors in 2002 as a result of the collapse of Arthur Andersen LLP. Our financial accounting and internal audit staff spent significant time educating the new team of auditors on our business operations, processes and controls even though certain audit firm staff were from the previous Arthur Andersen LLP team.

- ***Difficulty in managing and retaining non-audit services.*** We currently use all of the other Big 4 firms to provide various non-audit services. Many of these firms would likely bid on our audit during a rotation period making it difficult to manage our non-audit services relationships. An unintended consequence of rotating audit firms would likely be a change in another firm providing non-audit services causing more disruptions within our organization.
- ***Reduced audit committee authority.*** We believe the audit committee is in the best position to select our audit firm. Mandatory audit firm rotation may result in situations where the audit committee must select an audit firm which they may not believe is the best choice for our business. A firm may not have the qualifications or industry knowledge that the audit committee would prefer.
- ***Lack of evidence indicating that mandatory audit firm rotation will enhance auditor independence and professional skepticism.*** A 2003 study by the US Government Accountability Office (GAO) concluded that the benefits of mandatory firm rotation were not certain.¹ We believe a more effective way to increase auditor independence and professional skepticism is for the PCAOB to continue their inspections and use those results to work with specific audit firms and the public accounting industry to change procedures, training, etc. We also believe that the current professional, regulatory and enforcement framework provide sufficient support to ensure the profession's independence and professional skepticism.
- ***Increased cost associated with changing audit firms.*** In addition to the significant staff and management time spent with a new audit firm, transition costs sometimes referred to as "first-time through costs" will be incurred. Audit firms will likely no longer consider transition costs as investments in their clients. Since firms will be rotating clients on a regular basis, they will be more likely to bill a client for these transition costs when the relationship will be finite.

Finally, while we oppose a mandatory audit firm rotation requirement, we do support PCAOB's ongoing efforts to increase auditor independence, effectiveness and rigor. We believe the current PCAOB inspection process, audit firm quality review processes and mandatory partner rotations strengthen and promote auditor independence and objectivity. We do not believe that mandatory firm rotation will achieve the PCAOB's goal of increasing auditor professional skepticism. We believe mandatory rotation may in fact decrease audit quality and not justify the additional cost and disruption.

Thank you for the opportunity to provide these comments. Health Care Service Corporation appreciates your consideration of this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "James E. Walsh". The signature is written in a cursive style with a large initial "J" and "W".

James E. Walsh
Divisional Senior Vice President and Chief Accounting Officer

Cc: Kenneth S. Avner, Senior Vice President, Chief Financial Officer and Chief Actuary
Michelle L. Collins, HCSC Audit Committee Chair
Timothy L. Burke, HCSC Audit Committee Member
Robert T. Clarke, HCSC Audit Committee Member
James R. Corrigan, HCSC Audit Committee Member
Jack A. Griggs, HCSC Audit Committee Member
Thomas R. Hix, HCSC Audit Committee Member
Milton Carroll, HCSC Audit Committee Member, Ex Officio

Endnote:

¹GAO Required Study on the Potential Effects of Mandatory Audit Firm Rotation (November 2003).