December 14, 2011

Office of the Secretary
Public Accounting Standards Board
1666 K Street N.W.
Washington, DC 20006-2803
Via email to comments@pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 37

NIKE, Inc. ("NIKE") appreciates the invitation to comment on the Concept Release on Auditor Independence and Audit Firm Rotation ("Concept Release") issued on August 16, 2011, by the Public Company Accounting Oversight Board ("PCAOB," "Board").

NIKE's principal business activity is the design, development, worldwide marketing and selling of high quality footwear, apparel, equipment and accessory products. We are the largest seller of athletic footwear and athletic apparel in the world, employing over 38,000 people worldwide. Revenues for our fiscal year 2011 ended May 31, 2011, were over $20 billion. We sell our products to retail accounts, through NIKE-owned retail stores, internet sales, and through a mix of independent distributors and licensees, in over 170 countries around the world. NIKE prepares consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and files financial statements with the Securities and Exchange Commission ("SEC"). Our securities are listed and traded on the New York Stock Exchange.

We appreciate the PCAOB's continued efforts to improve audit quality and preserve auditor independence. We believe those efforts have been valuable in improving and sustaining audit quality since the enactment of the Sarbanes-Oxley Act in 2002 ("the Act"). Not only did the Act improve auditor independence and create a solid foundation for the profession by requiring the rotation of lead client service and review partners, but non-audit service independence rules have also been effective in maintaining independence in the company-auditor relationship. Most importantly, the establishment of the independent Audit Committee as the responsible party for auditor appointment, compensation and oversight has improved the governance of auditors while maintaining the independent relationship between auditors and management. This structure has worked well and is effective. We believe our Audit Committee is in the best position to assess the quality of the audit we receive, the independence of our auditor, and to determine when auditor rotation is necessary. We are not in support of any additional regulation, including mandatory auditor rotation, limiting the ability of our independent Audit Committee to select the most appropriate audit firm and ensure auditor independence. The proposal would seem to usurp the very authority and responsibility the Act specifically placed with Audit Committees.

As a financial statement preparer, our position on mandatory auditor rotation likely does not come as a surprise to those in favor of the proposal. We understand the relationship between the auditor and client is not well-understood and recognize the negative press associated with pre-Act audit failures such as Enron and WorldCom has not provided any meaningful insight into the independent relationship between a company and its auditor. We believe that because of the lack of understanding of the strength of the post-Act regulations, some may incorrectly believe mandatory auditor rotation would substantially improve auditor independence and audit quality. To the contrary, we believe the costs would outweigh any benefits, and in some cases, rotation of an experienced, independent auditor may result in lower audit quality.

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The Act has upped the ante for both companies and auditors. There is too much at stake for individuals, companies and audit firms to put independence at risk or to intentionally or willfully misrepresent financial statements. The penalties are severe. Our executives are both civilly and criminally liable for the financial statements filed with the SEC and auditors can quickly lose audit engagements if either the company or the auditor is negligent in maintaining independence. Further, audits are subject to the rigorous PCAOB inspection process, in addition to peer reviews and internal firm reviews. Any failure by companies or auditors to act in accordance with the governing SEC, PCAOB and AICPA guidelines can result in significant financial and criminal penalties for both, providing a powerful incentive to maintain independence and objectivity. We believe this robust combination of regulation, oversight, review and sanctions has worked effectively over the past decade.

Our auditors and management understand the penalties for non-compliance and we believe mandatory auditor rotation would have no effect in stopping individuals so inclined from disregarding professional skepticism and objectivity in evaluating audit evidence. Professional skepticism and objectivity, and ultimately independence, cannot be legislated from outside the audit firms. If an audit firm fails to instill an organizational culture of independence and professional skepticism, independence will break down, regardless of firm rotation.

We believe the Board's efforts would be better served by continuing to improve the PCAOB inspection process to focus more specifically on the higher risk financial statement areas of each audit inspected, with a targeted focus of identifying lapses of professional skepticism. This focused inspection would help deter unprofessional conduct by motivated individuals, while further protecting investors by centering the review on the most risky and material audit areas. We believe the current PCAOB inspection process, while robust, has not consistently focused on the most critical areas of the audit for each company inspected; and although the process has identified corrective action for audit failures, we believe the inspection findings have not always balanced the operational feasibility of the audit process with financial statement risk. Refining the inspection process to focus on the larger audit issues and adding detective measures to identify where audit failures have occurred due to a lack of independence will provide added value to the audit process.

There does not appear to be empirical evidence indicating the risk of audit failure increases with auditor tenure. The Board's inspection process has shown thus far no correlation between auditor tenure and audit quality. Further, the Board indicated audit failures are not only the result of poor professional skepticism, but also staffing pressures, inexperience with client's business and transactions, audit methodologies and audit firm cultures. All of these factors, especially inexperience with the client's business and transactions, could become a more significant problem if mandatory audit rotation were required.

We have considered the Board's proposal, reviewed the perceived advantages and disadvantages of mandatory audit rotation, and weighed the costs and benefits of each below. We considered the perceived advantages and disadvantages based on a mandatory rotation period of 10 years. The impact of each disadvantage exponentially increases as the mandatory rotation period decreases.

Perceived Advantages

Less "Management Pressure" on Auditors

The Concept Release noted supporters of mandatory auditor rotation believe audit decisions will be made with less consideration of client retention and auditors will feel less compelled to side with management when issues arise. We do not believe that because our auditors are long-tenured that they challenge our estimates less or fail to heavily scrutinize our areas of judgment. To the contrary, we welcome any additional examination of our judgments and estimates as it would provide greater assurance that our estimates and judgment areas were all-encompassing and considered all necessary factors. It is our belief that because our auditors have a long history auditing our company and have developed a corresponding in-depth understanding of our business and industry, they challenge our estimates and judgments more, seek appropriate evidence and ask probing, insightful questions about these higher risk areas. Professional skepticism is best employed by knowledgeable parties; and auditors less familiar with the business and industry would have more difficulty, not less, in questioning management in difficult or complex estimates and judgments. We believe less "management pressure" on auditors is an illusory benefit without empirical support.

A "Fresh Look" at the Financials

Another advantage noted in the Concept Release was that there would be a "fresh set of eyes" on our financial statements. Currently, in addition to our auditors, our financial statements are reviewed by internal and external legal counsel, our Disclosure Committee, various internal business groups, and our Audit Committee. Although we recognize each of these reviewers plays a different role in the review of our financial statements, varying perspectives improve our accounting policies, estimates, and analysis of transactions. We are confident the "fresh look" is best provided by auditors who are experienced and knowledgeable in our business and industry and who are capable of understanding and questioning our financials. Given the current diverse review of our financial statements and our belief that professional skepticism is best employed by knowledgeable parties, we see this as only a perceived benefit and not something that will definitively improve audit quality.

We are also mindful that audit partners and staff will switch firms if audit firms are required to rotate out of a client engagement, especially in smaller market cities. Each firm will undoubtedly have non-partner staffing constraints for clients that require industry-specific experience; and it is not unreasonable to believe an incoming audit firm would hire away the audit engagement team from the exiting firm to continue to serve the client. While there would be a partner rotation in this scenario, the persons responsible for gathering and interpreting information and providing analysis used by the partner in making key decisions would be the same.

Subsequent Auditor Review

Another theory noted in the Concept Release was that the auditors would strive to do a better job throughout the audit, especially in the latter part of the rotation term, because the next auditor will be reviewing their work. This situation was described as "scrubbing" the financials. We disagree that this is a real benefit. We are unclear how an auditor can "scrub" the financials if the auditor has been performing audits in compliance with the PCAOB auditing standards and the financial statements are prepared in accordance with U.S. GAAP.

To the contrary, we believe the risk of audit failure could actually be higher in the latter period of the rotation term. During this time, both the company and auditor will be preparing for the transition. We believe there is additional risk associated with transition in any situation. As auditors on the engagement team perceive their work as "drying up," they may become less inquisitive as they are preoccupied with seeking work at other audit firms, eager to obtain a positive reference from the company. Additionally, we believe the exiting auditor may use the last few years of the rotation term to market their non-audit services to the company, trying to derive the next type of revenue stream. In this situation, the auditor may be more compelled to side with management on tough issues to gain future, non-audit business, which would circumvent the intent of mandatory auditor rotation.

Disadvantages

Audit Quality

We value a high quality audit and do not advocate any rule changes that would have an adverse impact on the level of quality we receive. We believe audit quality unquestionably suffers in the early years of an audit engagement, and mandatory rotation could intensify the impact. This is based on our belief that audit quality improves when there is a greater understanding and knowledge of the company and specific industry. Further, we do not believe audit quality deteriorates as audit tenure grows. In fact, we think it improves based on the institutional and industry knowledge gained over time, which provides the ability to identify higher risk areas of the business where greater scrutiny is required.

The Board has asked if there are quality control measures to reduce this risk and we do not see any plausible measure given the time constraints. The amount of orientation and on-boarding time for an auditor is significant. We do not believe a new audit team in the first few years of an engagement can have the same amount of understanding and effectiveness as a tenured auditor. Additionally, we do not believe additional PCAOB supervision and oversight could combat this problem, but rather it is inherent in the risk of a new audit engagement.

Industry Expertise

While companies choose auditors for several reasons, one of the main reasons is for the industry expertise of the firm and audit team. Industry expertise adds value to the audit process in several ways, including the ability to comprehend industry transactions and conditions efficiently, providing helpful insights into industry standards that add value to accounting policies and procedures, appropriately assessing risks in the organization when determining the audit scope, and overall industry understanding that makes the audit more efficient and effective. Reducing the ability of companies to utilize the industry leaders as auditors will reduce the efficiency and effectiveness of the audits, costing companies more in audit fees, and risking less effective audits.

Limiting the Choice of the Successor Auditor

As a global company, our choice of auditor is already limited to a global audit firm. As such, we are not supportive of any new regulation that further limits our Audit Committee's choice. Since the passage of the Act in 2002, all of our non-audit services prohibited by section 201 of the Act are performed by other global firms. While we have the option to switch our non-audit services to another firm, a change in our non-audit service provider would result in significant costs and project delays, which could impair our ability to move quickly and capitalize on new business opportunities. Further, we could run into significant timing issues with our non-audit service providers as project completion dates would need to correspond with auditor rotation dates in the event we were required to rotate auditors. We think project timelines would be based on audit rotation schedules as opposed to business needs, which could be detrimental to business performance and, ultimately, to shareholders.

Additionally, the preservation of industry competitive advantages should be considered when requiring mandatory rotation. We operate in an industry with one large competitor and a host of other competitors in adjacent industries. Several areas of our business and transactions involve proprietary information and we are concerned that mandatory auditor rotation could impair the confidentiality of our innovation, technology, processes, relationships and other key attributes of our business if the same auditor were engaged at our main competitor either prior to or after our engagement.

Business Interruption Costs

While we recognize that compliance is a necessary and valuable part of our business, we believe mandatory auditor rotation would cause significant business interruption. If we are required to devote a substantial amount of internal human capital due to an audit rotation, we will be unable to maximize efficiency and capitalize on new opportunities. In that case, mandatory auditor rotation would, in fact, be detrimental to shareholders, who are the primary beneficiaries of the audit. Due to the decentralized organizational structure and global nature of our business, these business interruption costs could be even more significant for us as the impact would be felt across our entire business.

Given the wave of accounting change currently taking place with the FASB convergence projects and impending IFRS decision, the business interruption costs could exponentially increase depending on the year the mandatory rotation would be required, and when new accounting rules become effective. Further, we are concerned that we will be forced to plan key systems implementations around the auditor rotation schedule, rather than based on business needs.

An additional consideration for global companies is the audit of statutory entities. We have hundreds of foreign locations and entities. As is typical, we engage the same statutory auditors in foreign locations as our financial statement auditors to gain efficiencies and reduce the impacts of organizational compliance. In addition to the on-boarding time of a new firm for our consolidated financial statement audit, our statutory locations would also be significantly impacted if rotation was required. This problem could be further magnified if foreign jurisdictions adopted rotation rules with different rotation period requirements.

The Board suggested that a memo from the previous auditor may help aid the understanding of the incoming auditor. We do not believe this approach will have a significant impact on the incoming auditor's understanding as they can currently view the prior firm's work papers before the start of field work and the memo would provide little additional information to what they can currently view.

Monetary Costs

Incoming auditors will require considerable orientation and on-boarding time in the first few years of the engagement, and that time most likely will be built into the audit fees. We believe this on-boarding time could increase our audit fees by as much as 10 to 20 percent in the initial years of the engagement given the decentralized nature of our business, again negatively affecting shareholder returns. Further, we believe audit firms will be spending a larger proportion of their time drafting proposals and reviewing work papers, instead of providing services to their clients. To make up for the reduction in billable services, we believe audit fees will increase as the practice development time will be passed on to companies.

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Summary

Based on the review of the perceived advantages and disadvantages, we believe it is highly unlikely any significant gains in auditor independence would be realized through mandatory audit firm rotation. We believe strongly that the current regulatory structure and Audit Committee oversight mandated by the Act is sound and promotes independence between companies and their auditor. While there is room for improvement, the perceived benefits of mandatory auditor rotation are mostly speculative and illusory, and do not outweigh the noted disadvantages.

We observe that the General Accounting Office's Required Study on the Potential Effects of Mandatory Audit Firm Rotation ("GAO Report") issued in 2003 concluded mandatory audit firm rotation may not be the most efficient way to enhance auditor independence and quality. The report further stated that the SEC and PCAOB should assess the effectiveness of the Act to evaluate whether mandatory audit firm rotation is necessary to protect the public interest. Based on the noted effectiveness of the Act and the findings in the GAO report, we believe that mandatory auditor rotation is unnecessary.

As summarized throughout, we are opposed to mandatory audit firm rotation. However, if the Board nevertheless pursues this proposal, we believe a mandatory rotation term of no less than 10 years is necessary to reduce the potentially enormous business disruption and costs. Additionally, we are not supportive of different requirements for public companies based on size, industry, or auditor tenure. If auditor rotation is required, the requirement should be applicable for all public companies.

In closing, we believe mandatory audit firm rotation will place significant burdens on both the preparers and auditors of financial statements, while providing minimal or no improvement of auditor independence. Despite the fact that the Board's proposal is thoughtful and well-intentioned, we believe there is a more effective and appropriate response, without imposing additional burdens and costs on companies and their shareholders.

Thank you for your consideration of the points outlined in this letter and we look forward to monitoring the project developments in the future. If you have questions or would like to discuss our responses further, please contact me at (503) 671-6453.

Sincerely,

Bernard F. Pliska
Nike, Inc.
Vice President, Corporate Controller, Principal Accounting Officer