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December 14, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Rulemaking Docket Matter No. 37

Liberty Mutual Group ("LMG" or "the Company") is a diversified global insurer and the sixth largest global property and casualty insurer in the world. As of September 30, 2011, LMG has approximately $116 billion in consolidated assets and $98 billion in consolidated liabilities. Our consolidated revenues were approximately $33 billion for the year ended December 31, 2010.

The Company's structure is complex with over 200 domestic and international legal entities. The Company's International business unit provides insurance products and services through local businesses outside the United States and Liberty International Underwriters ("LIU"). International operates local businesses in Latin America (Venezuela, Argentina, Colombia, Brazil, and Chile); Asia (Singapore, Thailand, Vietnam, and China); and Europe (Spain, Portugal, Turkey, and Poland). LIU is a global specialty commercial lines insurance and reinsurance business with operations principally based in 18 countries: United States, Canada, Brazil, United Kingdom, Germany, France, the United Arab Emirates, the Netherlands, Spain, Switzerland, Ireland, Australia, Hong Kong, China, Singapore, Malaysia, India, and Vietnam.

We appreciate the opportunity to provide the Public Company Accounting Oversight Board ("PCAOB") with our comments pertaining to Rulemaking Docket No. 37, *Concept Release on Auditor Independence and Audit Firm Rotation* ("the Concept Release").

General Comments

We acknowledge the time and effort the PCAOB and its Staff has put into consideration and development of the Concept Release and their desire to enhance auditors' objectivity and ability and willingness to resist management pressure; however, we do not believe that the implementation of audit firm rotation will result in an audit of better quality. Mandatory rotation will likely increase audit costs, hinder audit quality, and create an increased potential for audit

failures. As such, we do not support the proposal for mandatory audit firm rotation for the following reasons, which are described in more depth throughout the comment letter:

- Increased cost of audits
- Risk of reduced audit quality and ineffectiveness as a result of auditor transition risk
- Already adequate oversight through PCAOB and Audit Committee reviews, as well as other measures put in place to ensure independence and high-quality audits
- Potential for staff to transition between audit firms in order to handle the need for industry knowledge – reduces independence
- Limitation of audit firms due to:
    - Inability of some firms to support the complexity of the company and industry
    - Overlap of audit and non-audit services
    - Capability of handling a multi-national company with audit requirements in various countries

The first issue at hand is increased costs of audits. Frequent duplication of start-up and learning time necessary to gain familiarity with the Company and our operations will lead to additional hours spent on the audit. The Company and the audit firms will constantly be faced with new processes and lack of experience, which can only lead to an inefficient audit process. The result of all of this is an increase in cost to both the Company and the audit firm – cost that would greatly exceed any benefits. Additionally, with reduced competition, audit firms could charge higher fees. The PCAOB needs to consider that not all "Big 4" firms have a significant presence for all industries in all cities.

Additionally, there is the significant possibility that the audit quality would be reduced, leading to an increase in the potential for audit failures. The objective of the Concept Release is to enhance the audit process and reduce the risk of users of the financial statements, but mandatory rotation would actually result in the opposite. The proposed audit firm rotation would result in the eradication of extensive institutional knowledge, which is fundamental to an efficient and effective audit, especially in specialized industries, such as insurance. Auditors would be forced to perpetually be struggling to climb a steep learning curve at their own peril and that of their clients and clients' investors. This learning curve is too great for an auditor to perform a high-quality audit in the early years of a new client engagement due to lack of technical competence or experience. Tenure at the Company results in a better understanding of structure and operations and thus the end product is a more efficient, effective, and high-quality audit. Eliminating this may result in negative implications related to audit quality, investor protection, and the overall integrity of the financial system.

First and foremost, the PCAOB has the ultimate responsibility in ensuring that the financial statements being produced are of a high-quality and that the audit review has remained independent. This proposed change seems redundant in light of PCAOB oversight.

Next in line from the PCAOB is the Audit Committee, which is currently in the best position to evaluate the audit process and determine when rotation is appropriate. The Audit Committee meets multiple times per year and has the authority to oversee the audit process and to appoint, remove, and compensate the auditor.

Despite our firm disagreement with the proposal, we appreciate the complexity of the project and would like to raise the following observations and recommendations in response to specific questions on the proposal for your consideration.

Response to Questions 1-5

Although we do not support auditor rotation, if the Board decided to move forward with the development of a rotation proposal, we feel strongly that a term should be no shorter than ten years. This would work in conjunction with the already required partner rotation of five years. If the term is determined to be ten years, it would allow for the appropriate and necessary buildup of institutional knowledge, which would create audit efficiencies for a portion of the term.

As mentioned in the general comments above, a significant concern with the proposed audit rotation is the associated learning curve. For a company similar in size to LMG, with operations across the globe, understanding the complexity of the business is a major challenge. Complex structures often lead to complex transactions, which need to be addressed during the audit. This may result in additional time and money spent on the client's behalf to walk through transactions related to items such as business combinations, investment portfolios, and/or international operations. Additionally, for specialized industries like insurance it takes time for the auditors to develop technical experience in certain areas. Significant costs would be incurred for each new auditor-client relationship in order to bridge this knowledge gap and bring the auditors up to speed.

Additionally, the insurance industry is a "niche market." Certain audit firms have unique strengths in the insurance industry and this would limit the firms that would be effective choices for the Company. In order to successfully provide client service in this industry, it is imperative to have knowledge and the capability to stay abreast of ever changing regulations, rates, and statutory accounting guidance. Not all audit firms may have the capacity to address such complex issues, therefore resulting in unnecessary hardship on their clients as well as their own staff, and ultimately, a reduced audit quality. The obstacle of keeping up with the insurance industry could result in auditors who are unable meet the challenge to opine on financial statements in an industry with which they may not be comfortable, exponentially increasing risk to investors.

An audit firm's potential solution to the above issue could result in another concern – the potential movement of audit staff between firms to alleviate the risk of constant transition. This staff migration, based on industry experience and work with specific clients, would decrease independence rather than increase it.

Further, in addition to the ineffectiveness at the onset of the audit, there is concern that this will occur again at the end of the allowable term. Audit effectiveness will decrease due to an uptick in the amount of time spent on marketing (to future clients for audit firms and on the receiving end for management). Companies will spend time planning for the transition to a new audit firm, while the audit firms will be focused on the next post-rotation assignment. Finally, the communication lines between the auditors and management may decrease as the term nears its

end, especially if there is a disagreement, as there is the knowledge that a new firm will be rotating anyway.

Response to Questions 7-15

As a multinational insurer, we require the use of an audit firm with personnel holding expertise in the insurance industry, local statutory accounting, and U.S. GAAP for each operation within the audit scope. This raises the concern that a rotation requirement may limit Liberty's choice of an auditor. We would require an audit firm with the capacity to provide teams in the local countries and the expertise to handle such significant overseas operations. Auditors from offices a large distance from an operation may be required to travel in order to perform audit procedures. This would ultimately increase the cost of services.

For consistency and to prevent confusion with the audit opinion due to other audit firm reliance, the Company encourages that the same audit firm is used by all operations within audit scope, unless extraordinary circumstances exist. The coordination of multiple audit teams residing in various time zones with different language skills is difficult and time consuming to initially establish. This could result in audits initially taking a significantly longer time to complete due to the loss of efficiencies established with an existing audit team. Delays in the completion of audit procedures would result in a delay in reporting to shareholders/policyholders and analysts. Again, the auditor transition risk that would be faced across the globe significantly increases the risk of lesser-quality financial statement reporting.

We do not feel that all audit firms would have the capacity to assign appropriately qualified personnel to new engagements. As a client, we would either be limited in our selection of an audit firm with the criteria necessary to handle our multinational, complex insurance business or would need to use different firms for different locations, which would prove to be extremely costly, inefficient, and would increase risk to investors.

Those smaller firms that do not have the capabilities of handling larger clients may be forced out of the public accounting industry, as there would be increasing uncertainty of future clients. This may lead the smaller firms to become more specialized and move towards solely offering non-audit services versus adapting to the cost and complexity of the required rotations.

Another concern is with the aforementioned non-audit services. It is not uncommon for a company to employ different audit firms for non-audit services. Based on independence requirements, if firm rotation is required, this may also limit a company in their selection of audit firms. Companies may be forced to terminate their relationships with certain firms that were previously performing non-audit services in order to be able to comply with the rotation requirement for audit services. Timely termination of these relationships may not even be feasible given contract limitations. For example, LMG has engaged E&Y to perform audit services for the Company and employs PwC, KPMG, and Deloitte & Touche to perform certain non-audit services. If rotation were mandatory, LMG would either need to terminate the relationship with one of the three "Big 4" firms providing non-audit services or attempt to find another audit firm that could handle the complexity of the Company's structure and industry – a near impossible task. One specific issue for the insurance industry is that an independent firm is

needed for state exams. This could potentially limit the number of audit firms available even further.

Response to Questions 16-21

We do not feel that any additional measures or requirements need to be put into place, especially not mandatory audit firm rotation. There are already multiple, sufficient measures in place to ensure independence without creating the significant costs and risks associated with a mandatory firm rotation requirement. A few of these measures to ensure audit firms are maintaining independence and performing high-quality audits include:

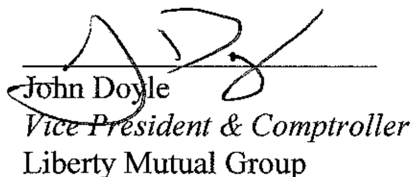
- PCAOB oversight
- mandatory partner rotation every five years,
- independent partner review on engagements,
- various internal audit quality reviews,
- and external peer reviews.

An additional measure to consider is the periodic turnover of both audit firm and client staff, management, and audit committees. Increasing the independence that results from this turnover is the common practice for the replacement partners and staff to transfer from other offices. In conjunction, the measures already in place and the inevitable periodic turnover ensure that the relationship between individual auditors and the clients remains dynamic and fresh.

In summary, we do not believe that mandatory audit firm rotation would improve audit quality and/or increase independence. The Company cautions the PCAOB to be mindful of unintended consequences from the adoption of certain proposed alternatives, specifically as it pertains to the audit effort and the working relationship with management and the auditors. The results of rotation that are most apparent (increased audit costs and decreased audit quality) are actually the opposite of the desired outcome of the Concept Release. Consideration of an issue as significant as mandatory auditor rotation should not proceed without a determination that, in fact, a correlation exists between auditor tenure and audit failure – evidence of which does not currently exist.

The Company looks forward to working with the PCAOB in future months to further discuss the project and to work collectively to determine a purposeful and appropriate resolution.

Sincerely,



John Doyle
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Liberty Mutual Group