

CAPSTEAD

December 14, 2011

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

Phillip A. Reinsch
Executive Vice President
and Chief Financial Officer

Subject: PCAOB Rulemaking Docket Matter No. 37

Capstead Mortgage Corporation appreciates the opportunity to provide comments on the Public Company Accounting Oversight Boards' ("PCAOB") Rulemaking Docket Matter No. 37 regarding mandatory audit firm rotation.

The concept of audit firm rotation assumes that firm rotation will enhance audit quality, objectivity and independence by improving an auditor's ability to withstand undue influence from management and by periodically providing a fresh look at a company's financial reporting. Although we believe that auditor independence and objectivity are fundamental to achieving audit quality, protecting investors and maintaining public trust, we do not believe that mandatory audit firm rotation would be a significant enhancement to current standards, particularly given costs and inefficiencies inherent with changing auditors, for the following reasons:

- An element of rotation already exists – In passing the Sarbanes-Oxley Act of 2002, (the "Act"), Congress considered and rejected audit firm rotation in favor of audit partner rotation. Audit partner rotation essentially gives an audit firm a fresh look, free from established client relationships, at least every five years. In addition staff turnover and reassignments that happen in the ordinary course of business also provide a fresh perspective and serve to limit "cozy" relationships. Also, as a practical matter, we are finding that our independent auditors are more frequently involving firm "specialists" to evaluate accounting treatment in areas that are more highly technical and judgmental in nature and therefore of greater audit risk. These specialists are typically remotely located and we, as the client, have no face to face interactions, further buffering the audit staff from any perceived undue influence.
- Independent auditors report to the audit committee, not management – The Act requires audit committees to be independent of management and strengthens the oversight of the independent auditor by requiring that the audit committee appoint an independent auditor and approve their compensation. We believe that mandatory audit firm rotation would undermine the committee's authority and weaken their ability to appoint the best possible independent auditor for the company, and would conflict with an audit committee's governance responsibilities as mandated by the Act. In addition, our audit committee meets privately with our independent auditors on a quarterly basis giving our auditors the opportunity to freely voice any concerns they may have with management or the audit.
- Lower audit quality in early years of a new rotation - We agree with the conclusions of certain Commission on Auditors' Responsibilities (the "Cohen Commission")

CAPSTEAD MORTGAGE CORPORATION

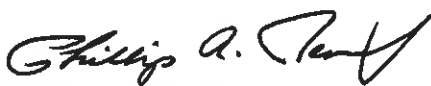
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studies that find audit firm rotation will actually lower audit quality in the early years due to the elimination of the auditor's institutional knowledge. The steep learning curve associated with a new audit firm will, we believe, lead to a loss of professional skepticism that client understanding and experience brings. The Cohen Commission found that "of cases of substandard performance by auditors, several of the problem cases were first- or second- year audits". We believe that based on these findings, as well as the PCAOB's acknowledgement that the genesis of audit deficiencies found in their inspections is unclear, including the effects of lack of auditor independence on audit deficiencies, we would urge the PCAOB to further analyze their inspection findings as to the root causes of audit deficiencies before further consideration of mandatory audit firm rotation.

- Costs related to rotation would heavily outweigh benefits – Direct and indirect costs related to evaluating, selecting and educating new auditors, as well as the duplication of audit work when a new audit firm rotates in, will be significant. Costly inefficiencies would result from the time consuming task of audit committees having to regularly ask for bids, interview and evaluate potential audit firms. In addition, management and staff would have to regularly go through the disruptive and time consuming process of training a new audit firm every few years, and will distract them from areas where their time would be better spent. Also, fees charged by audit firms will inevitably increase substantially because of the 'first-time-through' effect of auditing a new client. In fact, the Cohen Commission found that rotations would "considerably increase the cost of audits because of the frequent duplication of the start-up and learning time necessary to gain the familiarity with a company and its operations that is necessary for an effective audit".
- Smaller market companies would see substantial fee increases – Companies located in smaller cities that are not within close proximity to most of the major audit firms will suffer from a lack of competition resulting in higher fees if no other reason than that nonlocal audit firms will need to pass travel expenses through to these clients.

In summary, we believe current auditor independence rules, including audit partner rotation requirements, provide a high level of auditor independence at an acceptable cost. Further, we believe there is little evidence that mandatory audit firm rotation would enhance auditor independence. We believe it is quite obvious that such a mandate would be costly and inefficient, adding to the burdens associated with being a public company in the United States. This is particularly true for small and medium sized companies, many of which are not located close to many of the major audit firms. These higher costs will likely serve only to hamper U.S. companies' ability to compete in today's weak, global economy.

Sincerely,



Philip A. Reinsch
Executive Vice President and
Chief Financial Officer