



Affiliated Managers Group, Inc.

600 Hale Street
Prides Crossing, MA 01965
617 747 3300
617 747 3380 fax
www.amg.com

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Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street, NW
Washington, DC 20006-2803

PCAOB Rulemaking Docket Matter No. 37: Concept Release on Auditor Independence and Audit Firm Rotation

Dear Board Members:

I appreciate the opportunity to comment on the Public Company Accounting Oversight Board's (the "PCAOB" or the "Board") Concept Release on Auditor Independence and Audit Firm Rotation (the "Concept Release").

I serve as the Chair of the Audit Committee of Affiliated Managers Group, Inc. ("AMG"), a global asset management company with equity investments in leading boutique investment management firms ("Affiliates"). AMG's innovative partnership approach allows each Affiliate's management team to own significant equity in their firm while maintaining operational autonomy. AMG's strategy is to generate growth through the internal growth of existing Affiliates, as well as through investments in new Affiliates. In addition, AMG provides centralized assistance to its Affiliates in strategic matters, marketing, distribution, product development and operations. As of September 30, 2011, the aggregate assets under management of AMG's Affiliates were approximately \$306 billion in more than 350 investment products across a broad range of investment styles, asset classes and distribution channels. AMG is a public company listed on the New York Stock Exchange (AMG).

Since its formation, I have supported the efforts of the PCAOB to improve the quality and relevance of financial reporting by monitoring independent auditors. I believe the PCAOB's role is critical to improving the quality of our financial reporting system. I further agree with the objective of increasing the independence, objectivity and professional skepticism of public accounting firms and commend the Board for the improvements to quality already achieved through its standard setting, inspection and enforcement programs.

I share the Board's concerns over the deficiencies identified through its inspection process. But, while I fully support the PCAOB's efforts to further improve audit quality by

increasing auditor independence, I have several concerns with the current Concept Release.

Limitations on Choice of Audit Firms

Currently, four firms have the global resources and expertise necessary to perform high quality audits for multinational companies, particularly in specialized industries. Often, one or more of these firms provide “prohibited” services or otherwise lack independence. This may leave an Audit Committee with only one or two qualified firms from which to select. Mandatory audit firm rotation would make the process of selecting an independent audit firm even more challenging, and the Audit Committee’s monitoring of auditor independence may, over time, become more cumbersome. Because of the limited number of qualified firms, mandatory audit firm rotation may not be practical, and in some cases may undermine the Board’s objective of improving audit quality.

This problem is further exacerbated at asset management companies like AMG, which have numerous related entities that require audits. Aside from AMG’s consolidated audit, the Audit Committee oversees standalone audits at over 25 of AMG’s Affiliates. Having the same audit firm for both the consolidated and standalone audits improves audit quality, is more efficient for both the audit firm and the Audit Committee and provides a continuity of services that would not exist if AMG utilized different firms for the consolidated and standalone audits. Because AMG would endeavor to use the same firm for both consolidated and standalone audits, mandatory rotation would create a significant amount of disruption to its business.

In addition, many of AMG’s Affiliates sponsor registered investment companies in which the registered investment companies’ audit firms are selected by an audit committee of the fund’s board of directors which is completely independent of AMG’s Board or Audit Committee. A significant amount of effort (both by management and the audit firm) is currently dedicated to overseeing all of these relationships to ensure the audit firms maintain their independence. Mandatory audit firm rotation could make this process highly disruptive for AMG, its Affiliates and its Affiliate-sponsored registered investment companies.

Given the limited number of qualified audit firms and AMG’s unique structure, mandatory audit firm rotation would be extremely difficult to implement.

Decline in Audit Quality

The nature of auditing requires an audit firm to assess risk. An adequate risk assessment is the cornerstone to ensuring audit quality. An adequate risk assessment can only be achieved after an audit firm develops a deep understanding of the issues a complex, multinational company faces, including any unique accounting and business challenges. This assessment requires a significant commitment of resources and time from the company’s management and its audit firm.

In a complex multinational organization, any new audit firm is likely to be less effective until they are able to gather enough information to adequately assess risk. This process often takes years given the number of different locations and policies and judgments that exist in a complex organization. While a “fresh look” at a company by a new audit firm

may uncover previously undetected issues, it is more likely that as an audit firm is developing their understanding of a new client, there will be a decline in audit quality.

Significant Increases in Direct and Indirect Costs

Mandatory audit firm rotation will increase both the direct and indirect costs of an audit. Audit firms will have to spend more time learning a new client's internal control structure, complex accounting estimates and judgments and past decisions on critical accounting policies, thereby increasing the direct cost of the audit.

In addition to the direct costs of mandatory rotation, the indirect costs to an organization will be high. The Audit Committee and management would need to spend considerable time on a recurrent basis providing background information to potential audit firms, interviewing audit partners and other members of a proposed engagement team and reviewing detailed proposals. Management time spent with a potential new audit firm may be a distraction from other key priorities and ultimately add to the cost of the change.

The Concept Release cites the results of a survey conducted by the General Accounting Office ("GAO") in which large audit firms estimated that mandatory rotation would increase first year audit costs by more than 20%. I believe this figure may underestimate the increase in audit costs in the years following rotation. At AMG, for example, there are over 200 individuals from PricewaterhouseCoopers involved in the corporate and Affiliate audits in addition to the audit partner who rotates every five years. With mandatory audit firm rotation, the established efficiencies of the existing team will be lost and educating the new team will require dedication of management time, including the most senior levels of the organization.

Alternatives to Mandatory Rotation and Other Considerations

Although I do not support mandatory audit firm rotation, I do believe that certain changes to the existing system could improve audit quality.

As it has since it was established, the PCAOB's inspection and enforcement programs will continue to improve the overall quality of audits. Addressing instances of deficient professional skepticism directly with the audit firms through enforcement activities with meaningful sanctions, provides a clear and direct deterrent to deficient audits in contrast to untested mandatory audit firm rotation.

In my experience, auditors exhibit strong professional skepticism and are earnest in their commitment to maintain independence. Audit quality appears more dependent on individual competence, particularly at the partner level, than audit firm independence. Ensuring that audit partners have the appropriate technical knowledge and industry experience to properly identify and manage risk is critical to audit quality. The PCAOB should consider an effectiveness review of its Quality Control Standards on Personnel Management to ensure they are meeting the objective of ensuring that "services are competently delivered and adequately supervised" and of Auditing Standard No. 7 *Engagement Quality Review* to assess whether or not the standard has met its objective of

increasing “the likelihood that a public accounting firm will catch any significant engagement deficiencies before it issues its audit report.”

I believe that the PCAOB should continue to study the root causes of audit deficiencies to determine whether a direct link can be identified between audit firm rotation and improved audit quality through auditor independence. If a direct link is identified, then a study should be performed to assess whether the costs of mandatory rotation outweigh the potential benefits. This study can begin with an outreach program to public companies that have gone through recent audit firm changes.

Finally, only the four largest accounting firms are capable of providing the auditing and accounting services that multinational companies require and as noted above, certain of the four firms may not be independent. I suggest the Board consider the systemic and regulatory risk posed by the limited number of service providers. Based upon the findings, the Board may consider ways to expand the number of firms that can meet the needs of large, multinational companies.

Conclusion

I appreciate the opportunity to express my views on the Concept Release and fully support the Board’s objective of increasing auditor independence, objectivity and professional skepticism.

However, before proceeding with further systemic changes, I suggest the PCAOB consider alternatives to mandatory auditor rotation such as the ones I have offered and provide additional insights into the proposals in the Concept Release.

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Sincerely,



Rita M. Rodriguez, Audit Committee Chair

CC: Dwight D. Churchill
Harold J. Meyerman
William J. Nutt
Patrick T. Ryan
Audit Committee Members

Jay C. Horgen
Chief Financial Officer

Dean Maines
Senior Vice President and Chief Accounting Officer

Aaron Galis
Vice President – Accounting Policy