



Controller's Group  
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December 14, 2011

**VIA Electronic Submission**

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

***Re: PCAOB Rulemaking Docket Matter No. 37  
Concept release on auditor independence and audit firm rotation***

Dear Ladies and Gentlemen:

CSX Corporation ("CSX") appreciates the opportunity to provide comments on the concept release on auditor independence and audit firm rotation. CSX is a large accelerated filer and preparer of financial statements prepared in accordance with U.S. GAAP, who has retained the same audit firm for more than 30 years. CSX, and together with its subsidiaries (the "Company"), based in Jacksonville, Florida, is one of the nation's leading transportation companies. The Company provides rail-based transportation services including traditional rail service and the transport of intermodal containers and trailers.

CSX supports efforts to enhance auditor independence, objectivity and professional skepticism. We commend the Public Company Accounting Oversight Board ("PCAOB") for its efforts in exploring possible methods to improve these areas of focus and increase audit quality. CSX has two primary areas of preference described below:

- Withdraw focus on auditor rotation
- Further support audit committees as an alternative to enhance auditor independence, objectivity and professional skepticism

**Auditor rotation:** CSX encourages the PCAOB to withdraw its focus on auditor rotation as a means of enhancing auditor independence, objectivity and professional skepticism. The concept of auditor rotation is not new and was tabled when Sarbanes-Oxley was introduced as that legislation was viewed as resolving independence issues. Our understanding is that reintroduction of potential auditor rotation is due to significant findings in the inspections which the PCAOB performs on audits conducted by firms on public companies. The PCAOB's own preliminary analysis of data from their inspections shows no correlation between auditor tenure and the number of comments in PCAOB inspection reports. Mandatory auditor rotation would not enhance these attributes. Rather, it will cause dramatic increases in inefficiencies, both internally and externally, due to the required learning curve. This could also lead to increased audit fees with no increase in value to shareholders, investors, etc.

In addition, CSX is located in a smaller market burdened by a potential limit of qualified external audit resources. Although all "Big 4" audit firms have offices in Jacksonville, and those audit firms in the aggregate would be able to handle the shift in business, local markets could be extremely disrupted and audit quality might suffer as firms jostled to establish adequate resources. CSX believes a fresh look could be considered beneficial; however, lack of continuity due to restraints on local resources is inefficient, ineffective and could lead to greater audit risk. A new team could also miss critical areas since their focus is on getting up to speed with the Company and its processes. In our view, the current practice of partner rotation within a firm provides this fresh look.

The institutional knowledge from any audit firm is what CSX believes holds tremendous value and enhances audit quality. Further, our shareholders continue to support the Audit Committee's appointment of the independent auditor as over 98% of votes at CSX were in favor of ratification in 2011. We believe our auditors recognize their professional obligations and work hard every day to preserve public interest in the performance of their responsibilities, including their independence responsibilities.

With mandatory auditor rotation, increased costs, both tangible and intangible, will affect many departments within the organization as they are charged with the time and expense of bringing a new firm up to speed. Enhancements already occur within both the regulatory framework provided by the SEC and the PCAOB's standards, and CSX has experienced the effects of these standards recently through mandatory audit partner rotation. CSX can attest that enhanced auditor independence, objectivity and professional skepticism occur with the current environment and do not need additional mandatory restrictions placed upon it.

**Alternative to enhancing auditor independence, objectivity and professional skepticism:** CSX recommends further support of our audit committees through focus on the interrelationship of management, audit committees, external auditors and shareholders.

We believe our Audit Committee executes their responsibilities in a manner aligned with shareholder interests; however, CSX supports consideration for further alignment. Possible enhancements include proxy disclosure of the process to evaluate the independent auditor's performance, assessment of professional skepticism, and increased communication to the shareholders regarding the audit committee's execution of its responsibilities. It is our view that it would be helpful to have the PCAOB work with audit committees by sharing best practices that they encounter in the performance of their audits. Additionally, we encourage the PCAOB to provide direct opportunity for audit committees to interact with PCAOB staff on broader standard setting, audit policy matters and significant inspection findings. CSX acknowledges that the PCAOB continues to find deficiencies in the audits it selects. The PCAOB selects audits based on risks of specific complex areas such as revenue recognition, fair value and management's estimates. Increased communication and knowledge sharing with all parties, including audit committees, should prove effective in enhancing audit quality.

CSX also considered the other suggestions by the PCAOB to enhance auditor independence, objectivity and professional skepticism and believes these methods are not as effective to accomplish the goals the PCAOB seeks to achieve.

- Mandatory retendering (mandatory audit firm rotation due to significant findings within the inspection report)
- Selective audit firm rotation
- Change in audit firm payment model (auditor is paid by audit client)
- Limitations on non-audit services

All of these will incur similar obstacles to mandatory audit firm rotation and effectively remove the decisions, control, oversight and responsibility from the audit committee and would not necessarily help to enhance independence. The current guidelines have been effective. While findings still occur, they do not seem to be linked to audit fees, tenure, or whether the audit has been recently requested for proposal. As PCAOB board member Daniel Goelzer said at the PCAOB's open meeting on the concept release, "For the

Office of the Secretary  
PCAOB  
December 14, 2011  
Page 3 of 3

minority who are inclined to cut corners, there are criminal, civil, or administrative sanctions and monetary liability in appropriate cases." For the majority of auditors who work hard and hold themselves to higher standards, existing regulations and guidelines are appropriate and have been effective.

CSX appreciates the opportunity to comment on this concept release and the PCAOB's consideration of the responses contained in this letter. We would be glad to speak with you directly if appropriate. Do not hesitate to call me at (904) 359-1507.

Very truly yours,

A handwritten signature in cursive script that reads "Carolyn T. Sizemore".

Carolyn T. Sizemore  
Vice President and Controller

cc: Donald J. Shepard – CSX Audit Committee Chairman  
Oscar Munoz – Chief Financial Officer  
Ellen M. Fitzsimmons – SVP Law & Public Affairs