

December 14, 2011

VIA e-mail to: comments@pcaobus.org

Mr. J. Gordon Seymour
General Counsel & 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 Mr. Seymour:

AvalonBay Communities, Inc. (AVB) is pleased to submit comments to the Public Company Accounting Oversight Board (PCAOB) on its concept release on auditor independence and audit firm rotation (the "Release").

AVB is a real estate investment trust (REIT) primarily engaged in developing, acquiring, owning and operating apartment communities in several major urban markets on the East and West coasts of the United States. AVB has an investment interest in over 180 apartment communities and generates approximately \$1 billion in annual revenues. AVB prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP) and is registered on the New York Stock Exchange.

AVB supports the role of the PCAOB and its goals of protecting the interests of investors and furthering the public interest in the preparation of informative, accurate and independent audit reports. AVB supports the continued focus on improving the framework to achieve those goals. The Company, however, does not believe that instituting mandatory auditor rotation would accomplish those goals. Mandatory auditor rotation will not enhance auditor independence, objectivity or professional skepticism, but it will result in a significant increase in the time and cost of annual audits and quarterly reviews and have the unintended consequence of reducing the audit quality.

Auditor independence, objectivity and professional skepticism

The passage of the Sarbanes-Oxley Act of 2002 (SOX) and subsequent creation of the PCAOB served to improve auditor independence, objectivity and professional skepticism. This was achieved by both requiring rotation of the partners of an audit firm with primary responsibility for the audit engagement as well as enhancing the role and practices of the audit committee.

The mandatory rotation of audit partners coupled with oversight by the PCAOB, results in auditors seeking to continually improve in their focus on independence, objectivity and professional skepticism and creates a regular opportunity for a fresh look by the independent auditor.

More importantly, SOX created a framework that enhanced the corporate governance process with respect to the appointment of independent auditors, as well as the relationship between the company and their independent auditors, through the assignment of this role to the audit committee of a company's board of directors. Audit committees are uniquely positioned to best serve in this role, as they are comprised of directors that are independent of the company and have a robust working knowledge of the company for which the service is being established.

Mandating the rotation of audit firms would not further the objectives of the PCAOB; on the contrary, it would diminish the oversight role of the audit committee to the detriment of audit quality. Furthermore, mandating the rotation of auditors would reduce the pool of available service providers from which the audit committee can choose while still complying with the PCAOB's independence rules, as discussed below.

Impact of auditor rotation on audit cost and efficiency

Mandatory rotation of auditors will decrease audit efficiency, which will have the secondary impact of increasing the direct and indirect costs associated with the audit. Audit efficiency will be impacted by a combination of factors, including the unique and complex nature of a company's processes and systems, as well as industry related constraints from the audit firm's limited availability of skill sets associated with specialized industry knowledge and expertise.

During the initial years of an audit, the new audit team is the least efficient. The auditor has to spend time understanding the new client's business model, business processes, systems and personnel. The significant effort made by the auditors would result in an increase in the cost for the auditor, which would be expected to be shared by, or ultimately borne by, the company. In addition to the explicit costs associated with the auditors, companies will incur additional costs associated with this inefficiency, as their personnel would be charged with supporting the process to transition the successor auditor. The internal costs would not be explicit at the outset but can be expected to result in the need for additional personnel.

The depth of knowledge and experience an audit firm has in a particular industry is an important consideration in selecting a firm to audit a company. Mandatory auditor rotation will generate further inefficiencies to the extent that a company is precluded from selecting the audit firm best qualified if they are the incumbent audit firm. Settling for a lesser-qualified audit firm will result in a steeper learning curve for the audit team as well as the potential for a less effective audit due to the lack of requisite skills, knowledge, or both.

The decrease in auditor efficiency because of the mandatory rotation will have the impact of increasing the time necessary to complete an audit, or other related services. This increased time will impact a company's ability to provide timely reporting, as well as accessing the capital markets.

Audit Quality

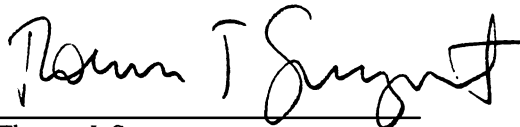
Mandatory auditor rotation will diminish the quality of audits. In the early years of an audit, the effort a firm will need to undertake to develop an understanding of a company's business model, accounting and operational processes as well as corporate culture will result in an audit less focused on the areas of importance than one performed by an audit firm with a deep understanding of both the industry and client. Assuming equal skill sets and industry knowledge, the gap between the predecessor and successor firms will lessen after a period of time. However as an audit firm nears the end of its allowable tenure, we believe that the quality of the audit would again be at risk as the audit firm would be incented to focus on selling audit and audit-related services to potential clients and focusing the best associates on securing and managing new engagements, as highlighted in the 2003 study on auditor rotation by the GAO.

As discussed in the Release, there is no evidence to support the assertion that mandatory auditor rotation will improve the independence, objectivity and professional skepticism of auditors and ultimately reduce audit failures. When the adverse impacts on corporate governance, expected increase in costs, and diminished audit quality are considered in concert with the lack of evidence for the relationship between audit tenure and audit failures, it is clear that mandating an auditor rotation requirement will not solve the problem, while increasing the costs and risks associated with investing in public companies for the investing public.

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AVB appreciates the opportunity to comment on the Release and would be pleased to discuss our comments with members of the PCAOB or its staff. If you have any questions, please do not hesitate to contact me or Keri Shea, Vice President, Finance & Treasurer (principal accounting officer), at (703) 329-6300.

Very truly yours,

A handwritten signature in black ink, appearing to read "Thomas J. Sargeant", written over a horizontal line.

Thomas J. Sargeant
Chief Financial Officer

Cc: Bryce Blair, Chairman and Chief Executive Officer
AvalonBay Communities, Inc.
Keri Shea, Vice President, Finance & Treasurer
AvalonBay Communities, Inc.