



December 14, 2011

**VIA ELECTRONIC MAIL**

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; PCAOB Release No. 2011-006; Concept Release on Auditor Independence and Audit Firm Rotation (“Concept Release”)**

Ladies and Gentlemen:

FMR LLC, which is commonly known as Fidelity Investments (“Fidelity”),<sup>1</sup> appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board (“PCAOB”) on its Concept Release. Our comments are intended to address the potential impact that mandatory audit firm rotation would have on companies within the financial services industry, specifically with respect to open-end investment companies (or “mutual funds”) registered with the U.S. Securities and Exchange Commission (“SEC”) under the Investment Company Act of 1940 and clearing and introducing broker-dealers (“broker-dealers”) registered with the SEC under the Securities Exchange Act of 1934.

Fidelity supports the PCAOB’s efforts to enhance the independence, objectivity, and professional skepticism of the audit firms and believes that the PCAOB’s oversight of public company and broker-dealer audits, which includes enhancing audit standards and furthering its inspection and enforcement programs, continues to improve audit quality. Fidelity believes, however, that the PCAOB should not propose a mandatory auditor rotation requirement as further discussed below.

*I. The PCAOB Should Leverage the Existing Auditor Oversight Structure Implemented as Part of the Sarbanes-Oxley Act of 2002 Rather Than Consider New Regulation*

By focusing on auditor rotation, the Concept Release assumes that there is a correlation between auditing failures (as defined in the Concept Release) and tenure of the audit firm. We are not aware,

---

<sup>1</sup> Fidelity Investments is one of the world’s largest providers of financial services, with assets under administration of \$3.4 trillion, including managed assets of more than \$1.5 trillion, as of November 30, 2011. Fidelity Investments is a diversified, privately held financial services company that includes Fidelity Management & Research Company, which serves as the investment advisor for the 427 registered investment companies in the Fidelity Group of Funds with aggregate net assets of over \$1 trillion, as well as several FINRA registered broker-dealers, including Fidelity Brokerage Services LLC, an introducing broker-dealer with the nation’s largest fund supermarket offering that provides services to over 13 million customer accounts with over \$1.5 trillion in assets under administration, and National Financial Services LLC, a clearing broker-dealer that serves approximately 300 unaffiliated broker dealers. In addition, Fidelity is one of the largest retirement plan service providers, providing investment management, recordkeeping, brokerage, consulting, directed trustee and custodial services to over 17,000 defined contribution plans that cover more than 14 million participants.

however, of any empirical evidence linking deficiencies found by the PCAOB in its inspections to the length of the relationship between the audit firm and its clients. We believe that, instead of proposing mandatory auditor rotation, the PCAOB should work within the existing auditor oversight framework established by the Sarbanes-Oxley Act of 2002 (“SOX”).

SOX included a number of significant provisions designed to strengthen auditor independence. Fidelity believes that the PCAOB should continue to leverage the reforms implemented as part of SOX to enhance the independence, objectivity and professional skepticism of auditors, rather than considering new regulation. For example, we note that one of the major reforms of SOX was to strengthen the role of a public company’s audit committee in overseeing the company’s audit firm. SOX vested with a company’s audit committee, the members of which are required to be independent, the direct responsibility for the appointment, compensation, and oversight of the work of the company’s auditor. In essence, the audit committee has become an important watchdog over the independence, objectivity, and professional skepticism of the auditor.

Other requirements of the PCAOB and SEC that help ensure an appropriate level of professional skepticism in the audit include requirements for concurring partner review of the engagement, rotation of both the lead engagement partner and the concurring partner after five years, audit firm quality control systems and the PCAOB’s inspection and enforcement programs. The PCAOB noted in the Concept Release that audit quality has improved since the time of the United States General Accounting Office (“GAO”)’s study on mandatory auditor rotation and that financial restatements by large U.S. companies have declined significantly over the past couple of years.<sup>2</sup> These observations are supported by a recent study that reports a 74% decline in total restatements per year from 120 in 2006 to 31 in 2010.<sup>3</sup> Fidelity has also observed changes in the practices of our audit firms, which we understand are a direct result of the PCAOB’s oversight of audits and new requirements in the audit standards. In light of this, we encourage the PCAOB to continue to work within the existing auditor oversight framework established by SOX.

## *II. Disruption to Business Operations and Increased Cost to Public Companies*

Fidelity believes that mandating audit firm rotation would result in a significant disruption to business operations and increased costs for public companies. Fidelity sponsors hundreds of mutual funds and other investment products, and has multiple broker-dealers and other regulated entities that require annual audits. Fidelity and its affiliates interact with hundreds of accounting professionals from two audit firms with respect to audit and attestation engagements performed by

---

<sup>2</sup> See Concept Release on Auditor Independence and Audit Firm Rotation, PCAOB Release No. 2011-006 (Aug. 16, 2011). As noted in the Concept Release, the SEC directed the GAO pursuant to SOX to study and report on the potential effects of requiring the mandatory rotation of registered public accounting firms. See 15 U.S.C. § 7232 (LEXIS through PL 112-60, approved Nov. 23, 2011); U.S. Government Accountability Office. November 2003. Public Accounting Firms: Required Study on the Potential Effects of Mandatory Audit Firm Rotation. Publication No. GAO-04-216.

<sup>3</sup> See Audit Analytics. Auditor Tenure, Financial Officer Turnover, and Financial Reporting Trends. December 2011.

these firms. Introducing a new auditor for these services is a massive undertaking, requiring a significant dedication of company management and personnel time and resources to support the transition of this work (e.g., assisting the auditors in gaining an understanding of the company's business activities, operating policies and procedures, key information systems and risk management practices), which would be in addition to the actual time and fees required to complete the audits and attestations.

Another example of the burdens and risks associated with mandatory auditor rotation are the efforts that a company and the audit firm must undertake to monitor compliance with the SEC's auditor independence rules. These rules are extremely complex, and Fidelity and its audit firms have invested significant time and resources in establishing systems and processes to identify situations and relationships that may impair the independence of these firms. Fidelity anticipates that mandatory auditor rotation would result in a significant cost and burden on Fidelity and any new audit firm to adequately review all potential conflicts of interest, such as business relationships and employment practices, to ensure these standards are met. In addition, both the company and the audit firm must invest significant time and resources to manage the risks inherent in this undertaking, the failure of which could result in the audit firm losing its independence.

Finally, the one-time transition costs incurred with each auditor rotation, which include the efforts to gain the requisite understanding of the events, transactions, accounting and disclosure practices impacting the financial statements, will be burdensome and costly and ultimately borne by the public company and its shareholders.

### *III. Practical Limitations to Adopting Mandatory Auditor Rotation*

Fidelity believes there are a number of practical limitations that will impede mandatory auditor rotation, particularly for financial services companies like Fidelity.

We believe, for example, that there are a limited number of audit firms that have the expertise and resources to audit the financial statements of Fidelity, its affiliates or the Fidelity mutual funds and broker-dealers. Under a mandatory auditor rotation model, any new audit firm would need to have auditors in both sufficient numbers and expertise in the issues unique to the financial services industry to staff the audit engagement. Moreover, regardless of a new auditor's expertise in the financial services business, we believe that a new auditor's steep learning curve in understanding a new client's business model and operations could result in auditing errors, particularly in the early years of the relationship.

We also question the practicality of mandatory rotation, given the limited number of global audit firms equipped to serve the needs of multinational companies, coupled with the strict auditor independence rules. The SEC auditor independence standards are particularly onerous for mutual funds because many of the standards mandate auditor independence not only from the mutual fund (which is typically the audit client), but also entities in the "investment company complex," which includes affiliates of the mutual fund's investment adviser that provide services to mutual funds

generally. Consequently, from a practical standpoint, mandatory auditor rotation for mutual funds would be extremely difficult because the new audit firm and many of its employees would be required to be independent not only from the fund, but also from the entities in the investment company complex.

An audit firm seeking to engage a financial services company as an audit client would need to ensure that all of its covered persons and their immediate family members do not have a financial interest in the financial services company, including owning its products or using its services for investment and financial planning purposes.<sup>4</sup> The wide net cast by the auditor independence rules effectively creates a disincentive for some audit firms to take on this type of engagement, further limiting the number of audit firms that are in a position to audit a diversified financial services company such as Fidelity.

\* \* \* \* \*

---

<sup>4</sup> Under Regulation S-X, a “covered person in the firm” generally includes members of the audit engagement team; all supervisory and managerial employees of the firm in the chain of command; and any other partner, principal, shareholder, or managerial employee of the accounting firm who has provided ten or more hours of non-audit services to the audit client over a specified period. “Immediate family members” means a person’s spouse, spousal equivalent, and dependents. *See* Rule 2-01(f) of Regulation S-X.

In closing, Fidelity has serious concerns about mandatory auditor rotation. We believe that a prudent approach would be to let the reforms implemented by SOX, the oversight of audit committees and the inspections of the PCAOB continue to pressure audit firms to deliver high quality audits. We appreciate the opportunity to respond to the Concept Release and would be happy to meet with the Board members and their staff to discuss any of the issues addressed in this letter.

Very truly yours,

/s/ Kenneth B. Robins

Kenneth B. Robins  
Treasurer  
Fidelity Equity and High Income Funds

/s/ John R. Hebble

John R. Hebble  
Treasurer  
Fidelity Fixed Income and Asset Allocation Funds

/s/ Jeffrey Jarczyk

Jeffrey Jarczyk  
Executive Vice President, Chief Accounting Officer  
FMR LLC