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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 2006-2803
Via email: comments @pcaobus.org

Re: PCAOB Rulemaking Docket Matter No. 37

Dear Secretary:

On behalf of International Paper (IP), I would like to thank the PCAOB for this opportunity to comment on PCAOB Rulemaking Docket Matter No. 37: Concept Release on Auditor Independence and Audit Firm Rotation. At IP, we understand the importance to our investors of a high-quality audit performed by knowledgeable, experienced auditors under the highest levels of independence and professional skepticism. IP, however, does not believe that mandatory audit firm rotation will improve the quality of audits and believes that the inefficiencies and additional costs resulting from such rotation would far exceed any incremental benefits to shareholders. In fact, we are convinced that the loss of knowledge and experience resulting from a complete change in audit firms would have a detrimental effect on audit quality.

At IP, we understand the PCAOB's concerns about enhancing auditor independence, objectivity and professional skepticism beyond the improvement made as a result of the Sarbanes-Oxley Act. However, we have significant concerns regarding the proposal which primarily focuses on mandatory audit firm rotations, as noted here:

- Powerful rules that foster auditor independence and improve audit quality exist in current regulations. Audit partners are required to rotate every five years, and concurring partners are required to rotate as well. Audit teams are required to vary the timing, scope and nature of their audit procedures. A company's audit firm reports to an independent audit committee, rather than to management, and the committee has the right to replace the audit firm and the obligation to do so, under its fiduciary duties to shareholders, if it would be in the best interest of investors. Furthermore, the PCAOB's own review program is a large incentive to ensure audit firms are practicing under the highest levels of independence, objectivity and professional skepticism.

- High-quality audits are conducted by knowledgeable auditors who understand the business they are auditing and the risks inherent in that business. This knowledge is gained over time and leads to openness between a company and its auditor that facilitates a transfer of information. This knowledge base is lost every few years under the audit firm rotation requirement. The time the new firm must spend to develop this knowledge is time spent in an inefficient manner and is disruptive to both the company and the audit firm. This would likely lead to audit quality suffering in the early years of an engagement. Also, audit firms would lose the incentive to develop industry expertise.
- The time spent by management on requests for proposals and reviewing proposals from auditors every few years would be disruptive and wasteful.
- Few firms currently have the expertise and capacity to provide global audits to international companies such as IP. The number of available firms is further reduced by firms who provide other services to companies and would thus be precluded from performing audits due to existing independence rules. Also, many multinational companies are headquartered in cities where not all of the Big Four are represented, such as Memphis, Tennessee, where IP is headquartered and only three of the four have offices. Considering the fact that one of the other three firms lacks independence due to other services they perform for us, we are only left with two choices among large, global accounting firms in our city that can perform our audits.
- Each year, every audit staff experiences turnover among the managers, seniors and staff. This creates additional questions and interruption for our company personnel. If we were to have a complete turnover of our audit team due to audit firm rotation, it would be difficult for the new firm to have the appropriate level of sophistication and understanding of our company's operations. This lack of understanding would create additional risk until the new firm developed the appropriate level of understanding.

In summary, it seems unlikely that gains in auditor independence would be realized due to the rotation of audit firms. A sound environment currently exists to promote auditor independence. Inefficiencies caused by auditor rotation take away time from company management that could be better spent on company operations. Even if marginal gains were realized as a result of auditor rotation it is likely that audit quality would suffer during the transition period.

Due to the concerns mentioned above, International Paper urges you to withdraw your proposal to require mandatory rotation of audit firms.

Thank you for considering our views.

Sincerely,

/s/ Terri L. Herrington