



December 14, 2011

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

RE: PCAOB Rulemaking Docket Matter No. 37

Dear Members of the Public Company Accounting Oversight Board:

The National Retail Federation (NRF) welcomes the opportunity to comment on the Public Company Accounting Oversight Board's (PCAOB) *Concept Release on Auditor Independence and Audit Firm Rotation* ("Concept Release"). As the world's largest retail trade association and the voice of retail worldwide, NRF's global membership includes retailers of all sizes, formats and channels of distribution as well as chain restaurants and industry partners from the United States and more than 45 countries abroad. In the U.S., NRF represents an industry that includes more than 3.6 million establishments and which directly and indirectly accounts for 42 million jobs – one in four U.S. jobs. The total U.S. GDP impact of retail is \$2.5 trillion annually, and retail is a daily barometer of the health of the nation's economy.

The retail industry remains fully committed to sound and transparent financial reporting for all its key publics, including management, customers, and the investor community. Over the course of the past decade, NRF has worked with its members and representatives from the Big Four accounting firms as they have successfully implemented financial reporting enhancements laid out in the Sarbanes-Oxley Act. These changes have included: 1) CEO and CFO accountability for financial statements and certifications on internal controls and disclosure controls, 2) greater involvement from the Audit Committee and an increase in financial experts participating in the Audit Committee, and 3) additional leverage of the internal audit function by the Audit Committee during the financial reporting process. In addition to these changes at the corporate level, requirements are now in place regarding mandatory audit partner rotation every five years and reviews of significant audits at all public accounting firms by the PCAOB. NRF believes these changes have made a positive impact on audit quality – as the PCAOB also acknowledges on page 15 of the Concept Release – and therefore significantly reduce the necessity for mandatory audit firm rotation. The costs of such a requirement would be high yet the perceived benefits have not been proven with empirical data and evaluation. We also have concerns about the feasibility of implementation, particularly as it relates to independence, transitions between firms, and the role of the audit committee.

Independence Challenges

Retailers take many things into account when selecting an accounting firm to perform the financial statement audit. Industry expertise, resource availability, and global reach are critical in meeting the needs of large, multinational corporations. In addition, public companies must consider a firm's reputation and the expectations of investors. These requirements limit the pool of accounting firms to choose from, creating potential overlap if audit firm rotation were required.

Following the collapse of Enron and WorldCom, Congress enacted regulations to strictly ban audit firms from performing certain non-audit services for their clients. To comply, many retailers now engage one of the major accounting firms for audit services and one or more of the remaining firms identified above for tax and/or consulting services. As a result, retailers feel auditor independence has been enhanced, as the firm engaged for audit services has little involvement with matters outside the scope of the audit. However, because of the limited number of firms with sufficient, qualified resources, identifying a new independent firm to perform audit services would prove challenging, might displace non-audit services performed by one of the other major firms, and could cause the SEC to consider relaxing independence standards.

Adding to these challenges is the limited availability of firms with the necessary industry expertise to service our members in certain geographies. Retail experience and expertise is not available at all firms, creating geographical disparities and challenges as partners are moved around to accommodate new clients. There is concern whether the skill-set, industry expertise and experience that existed at the predecessor firm will be available at the new firm. In such a scenario, a requirement to rotate audit firms would increase audit risk until the requisite expertise is developed.

Transition Challenges

Audits are most effective when the firm performing the audit has acquired institutional knowledge about the company from which to draw. This knowledge base generates more productive and constructive discussions with management and a greater understanding of a company's processes, procedures, and internal control structure. If companies are required to change audit firms on a regular basis, this institutional knowledge base will be lost. Simply reviewing the predecessor's audit files will not ensure meaningful knowledge transfer. In addition, as auditors spend the early years of an audit balancing the acquisition of institutional knowledge with meeting company and financial reporting deadlines, key risks can be missed or overlooked, thereby compromising audit efficiency and effectiveness. If principles in the Concept Release are mandated, NRF is concerned that audit failures will increase as companies and auditors contend with more of these challenges in the early years of the audit relationship. In addition, further inefficiencies may ensue as companies adapt to a new firm's audit approach which may vary from the predecessor firm's approach.

Auditor consistency is critical to the financial reporting process during periods of internal company turnover, especially at leadership levels, or in dealing with complex financial transactions (mergers, rapid expansion, etc.). Managing these challenges while also transitioning to a new audit firm could be extremely disruptive and costly.

Cost/Benefit Concerns

In these difficult economic times, any proposed rule or regulation must be closely reviewed to prevent unintended economic harm. Rotating audit firms every few years would be overly burdensome and costly due to the duplication of start-up activities and the learning curve necessary for a new audit firm to gain an effective understanding of the company and its operations. The benefit

of the existing audit team's knowledge of a company's processes, procedures, and internal control framework would be lost. In addition, mandatory auditor rotation could lead to differences in interpretation and application of accounting rules and therefore to a higher incidence of restatement without appropriate investor benefit. This could increase litigation costs, Directors and Officers (D&O) insurance costs, board costs, auditor costs, and marketing costs. Audit firm training costs would also increase. These additional costs directly impact corporate margins already under pressure in a tough economic environment, and will slow investment, job growth and make U.S. companies less competitive in the global marketplace.

There is no empirical evidence suggesting fewer audit failures would occur with audit firm rotation. Given the significant costs associated with implementing the principles outlined in the Concept Release, any changes the Board enacts should indisputably improve financial reporting.

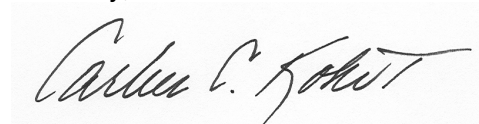
Influence of the Audit Committee

As stated above, audit committees are more involved than ever in corporate boardrooms. The audit committee has responsibility for oversight of the financial reporting process and related disclosures and oversees the hiring and performance of the external auditor. As a result of the Sarbanes-Oxley Act, the audit committee's relationship and communication with the auditor are significantly more in-depth than in the past. Not only is there communication between auditor and management but also between auditor and audit committee throughout the audit process. This strengthens the independence of the auditor. NRF believes decisions regarding a company's audit firm should be left to the discretion of the audit committee, making changes when/if committee members see a need to co-source the audit or change audit firms. NRF does not believe it is in the best interest of corporations or investors to require audit firm rotation, thereby taking this responsibility out of the hands of the independent governing body.

Companies and audit committees do, occasionally, make the decision to change audit firms. However, for all of the reasons stated above, this decision is not made hastily or without giving consideration to the incredible cost and disruption involved.

All of the changes implemented in the last few years, including PCAOB inspections, place safeguards around the financial reporting process and help ensure that quality audits are being performed. More time should be given to evaluate the effectiveness of these changes before considering others. Therefore, NRF respectfully asks the PCAOB not to proceed with any audit firm rotation requirements and thanks the Board for consideration of our comments. We welcome any further discussion on the topic.

Sincerely,



Carleen C. Kohut
Chief Operating Officer