The Walt Disney Company

December 14, 2011

Mr. J. Gordon Seymour
General Counsel and Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Auditor Independence and Audit Firm Rotation (Rulemaking Docket Matter No. 37)

Dear Mr. Seymour:

The Audit Committee of the Walt Disney Company is pleased to have the opportunity to comment on the Concept Release on Auditor Independence and Audit Firm Rotation. We understand the Public Company Accounting Oversight Board (PCAOB) is charged with ensuring auditor independence and objectivity and support its efforts in that regard. However, we do not believe that mandatory audit firm rotation is an effective approach to achieve that objective for a variety of reasons. In this letter, we focus on the issues from a public company perspective. We believe there are also a number of practical challenges for public accounting firms, particularly as it relates to staffing and professional development. The key issues we would like to highlight are as follows:

- **Mandatory audit firm rotation may result in the selection of a less qualified audit firm.** The audit committee considers a variety of factors in the selection of an audit firm, including: the experience of the audit firm with the type and scope of the company's accounting matters; the firm's expertise in the company's industry; and the firm's geographic coverage relative to that of the company. We believe that only four audit firms (the Big 4) currently have the scope of operations and experience that most large, global, multi-segment companies require for an effective audit; the periodic elimination of one of those firms will substantially reduce viable options. The Big 4 firms, for competitive and other reasons, naturally specialize in different industries. As a result they are not all able to develop the knowledge and expertise required to audit the media and entertainment sector, which further narrows the field of truly qualified firms. Thus, mandatory auditor rotation may force the selection of a sub-optimal firm and, ironically, reduce audit quality.
- **Independence rules make mandatory auditor rotation impractical and will drive costs related to transitioning non-audit services.** Given the need for sophisticated global services, most companies are using the Big 4 firms that are not performing the company's audit to source services prohibited by independence rules or for services that the audit committee has otherwise determined should not be provided by the auditor. Thus, mandatory auditor rotation will result in costs to switch non-audit service firms in connection with an audit rotation. Depending on the capabilities of the firms, this may result in a change to a sub-optimal firm for a non-audit service.
- **Mandatory rotation is likely to result in higher audit costs and lower audit quality in the initial periods after a change.** As noted in a 2003 survey by the Governmental Accounting Office, both accounting firms and public companies estimated that the annual audit cost would increase by more that 20 percent in the first year following a mandatory auditor rotation. Companies will also incur internal costs to support the orientation and education of a new audit firm in the initial period after a change. At the same time, the risk of lower audit quality increases in the first year following rotation when the new auditor faces a relative lack of familiarity with critical aspects of a company's business.

- **Audit committee independence, coupled with the requirement that the audit committee select the auditor, provides ample assurance of auditor independence**. The rules put in place by the Sarbanes-Oxley Act (Act) tasked the audit committee, which is independent of company management, with the selection and oversight of the audit firm, including the firm's conduct of the audit and the assessment of the firm's independence. Thus, the audit committee is best positioned to evaluate which audit firm will best serve the interests of a company's shareholders at any point in time. Additionally, the Act expanded the scope of penalties for those who willfully misrepresent financial statements, which drives a natural demand by management and the audit committee for independence and objectivity from the auditor without the need for mandatory auditor rotation.
- **Benefits of mandatory rotation have not been empirically validated.** We are not aware of any study that links auditor longevity to audit failure. Further, we understand that in countries that have mandated auditor rotation, significant benefits have not been clearly demonstrated. In addition, we believe the potential benefits of mandatory auditor rotation cited in the concept release such as resisting pressure from management or providing a fresh viewpoint are far from certain. In fact, we believe many of these benefits have already been achieved as a result of other processes put in place by the Act, such as mandatory audit partner rotation and PCAOB inspections.

Based on these factors, we do not believe that mandatory audit firm rotation is an appropriate solution to enhance audit quality as the costs are not justified by any likely benefit. In any event, in light of the potential costs and other negative considerations of mandatory rotation, we believe much more work would need to be done to justify a change of this magnitude.

If the PCAOB continues to believe further improvements in auditor independence and objectivity are necessary, we encourage the PCAOB to explore other means to achieve these improvements, including continued exploration of ways to enhance communication between auditors and audit committees.

We appreciate the PCAOB's consideration of our comments and the opportunity to offer our views on this important topic.

Sincerely,

Orin C. Smith
Audit Committee Chair
The Walt Disney Company