February 23, 2012

The Honorable James Doty
Chairman
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Dear Chairman Doty:

The Financial Instruments Reporting and Convergence Alliance ("FIRCA") is a coalition of ten trade organizations—American Council of Life Insurers, CRE Finance Council, Council of Federal Home Loan Banks, Group of North American Insurance Enterprises, Mortgage Bankers Association, National Association of Real Estate Investment Trusts, Property Casualty Insurance Association of America, The Financial Services Roundtable, The Real Estate Roundtable, and The U.S. Chamber of Commerce—representing all sectors of the economy and areas of the financial services arena in the United States and around the world. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally. Businesses are both preparers and users of financial reporting for investment, managerial, and competitive reasons.

FIRCA has supported efforts to improve standards and reduce complexity in financial reporting. We are concerned that there is an insufficient level of input from the business community on auditing proposals that have the potential to distort financial reporting, drive up compliance costs, skew financial activity and prevent companies from engaging in proved business practices all to the harm of investors. Accordingly, we respectfully recommend that the Public Company Accounting Oversight Board ("PCAOB") form a business advisory group and request that FIRCA have a representative participate in the upcoming roundtables on mandatory audit firm rotation.

FIRCA believes that standard setters should have a wide range of input to ensure the proper consideration of business operations and potential unintended consequences in the development and implementation of accounting and auditing standards. An insular approach may cause the PCAOB to expend resources that may be best allocated elsewhere, while developing standards that do not provide for adequate financial reporting structures to convey decision useful information to investors or businesses.

The recent experience of the proposed concept release on mandatory audit firm rotation is a case study in a failure to have sufficient broad based input before publicly moving forward on an issue.[1] The General Accounting Office ("GAO") has, pursuant to the Sarbanes-Oxley Act of 2002 ("SOX"), studied the issue and determined that mandatory audit firm rotation was extremely problematic and should not be pursued.[2] The GAO has recently reiterated that position, yet the PCAOB has moved forward in its consideration of mandatory audit firm rotation.

As of January 18, 2012, 612 comment letters had been filed on concept release, with 92% opposing mandatory audit firm rotation. More significantly 411 businesses or their audit committees wrote letters opposing the mandatory audit firm rotation (none wrote in favor), while only three investors wrote in favor of the concept release.

If the PCAOB had a business advisory group, it could have consulted with them and received input early in the process to understand the business and audit committee concerns with the issue. This may have lead to a differently tailored concept release or a decision not to pursue it at all. Consequently, the PCAOB may have saved time and resources for other issues. A business advisory group could also be an important resource for the PCAOB on many other issues as well, such as Audit Committee communications or the creation of an Auditor Discussion and Analysis document.

We recognize that the PCAOB has a Standing Advisory Group ("SAG"), however, in 2009, the PCAOB decided to create a separate Investors Advisory Group. Clearly, the failure of the PCAOB to consider the views of the entity at the core of a financial report illustrates the need for a business advisory group to provide the PCAOB with this important level of input that is currently lacking. While we believe that roundtables are an important means of developing input, they are also done on an ad-hoc basis. The formation of a business advisory group will allow for a more

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[1] Concept Release on Auditor Independence and Audit Firm Rotation and Notice of Roundtable (PCAOB Release No. 2011-006, August 16, 2011, PCAOB Rulemaking Docket Matter No. 37).

[2] GAO 04-217, *The Public Accounting Firms Required Study on the Potential Effects of Mandatory Audit Firm Rotation* (2003).

consistent means for the PCAOB to consult on issues as it develops priorities and moves forward on them.

We believe that an organization dedicated to promoting transparency should also be transparent in its own operations and deliberations. Therefore, we believe that a business advisory group should conduct its activities consistent with the Federal Advisory Committee Act ("FACA"). Subjecting such a group to FACA sunshine requirements will insure an openness providing a means of understanding of the PCAOB deliberations and thinking in the development of priorities and proposals.

Another improvement for audit standard setting is the use of cost benefit analysis. In 2008, the SEC's Advisory Committee on Improvements to Financial Reporting ("CIFiR") recommended that a cost benefit analysis should be used in developing financial reporting standards. As the PCAOB's audit standards have to go through the SEC's rulemaking process, we believe that the use of cost-benefit analysis, during the development of accounting and auditing standards will allow all market participants and the SEC to have a better understanding regarding implementation issues, as well as a keener awareness of potential adverse consequences that may be corrected. Obviously, if the costs outweigh the benefits, or if no benefits to a proposal exist, this must be known and open to public comment so that it may be considered and given proper weight in the finalization of a standard or rule.

Thank you for your consideration in this matter and we look forward to discussing it further with you to promote responsible financial reporting policies.

Sincerely,

American Council of Life Insurers
CRE Finance Council
Council of Federal Home Loan Banks
Group of North American Insurance Enterprises
Mortgage Bankers Association
National Association of Real Estate Investment Trusts
Property Casualty Insurance Association of America

The Financial Services Roundtable
The Real Estate Roundtable
The U.S. Chamber of Commerce