Rockwood
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April 12, 2012

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

Re: Public Company Accounting Oversight Board Rulemaking Docket Matter No. 37, *Concept Release on Auditor Independence and Audit Firm Rotation*

Members of the Board:

Rockwood Holdings, Inc. (Rockwood) appreciates the opportunity to respond to the Public Company Accounting Oversight Board's (PCAOB) Release on auditor independence and mandatory audit firm rotation. Rockwood is a leading global specialty chemicals and advanced materials company, with a worldwide employee base of approximately 9,700 employees and annual sales of approximately $3.7 billion in 2011. Rockwood operates with 81 manufacturing facilities in more than twenty countries and is comprised of more than 150 legal entities.

While we support the PCAOB's efforts to enhance auditor independence, objectivity and professional skepticism, we do not believe that mandatory audit firm rotation would serve the PCAOB's goals of protecting investors and enhancing audit quality. In our opinion, significant improvements have been made in financial reporting and audit quality since the implementation of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), including more restrictive independence rules covering non-audit services, mandatory audit partner rotation, PCAOB inspections of registered firms and requirements for audit committees to be comprised solely of independent board members.

No compelling evidence has been presented to conclude that mandatory audit firm rotation has a high likelihood of improving auditor performance. In fact, it is our opinion that mandatory audit firm rotation could result in decreased audit quality, reduced Audit Committee authority and increased audit costs.

**Decreased Audit Quality**

If mandatory audit firm rotation were required, we are concerned that overall audit quality would decrease, particularly in the years leading up to, and after, a rotation. As noted above, Rockwood is a global company with 81 manufacturing facilities in more than twenty countries, and is comprised of more than 150 legal entities. A greater understanding of our business enables a more insightful, thoughtful and critical analysis of the relevant accounting issues and assumptions. Mandatory audit firm rotation would lead to a periodic loss of auditor understanding of our business, processes and controls, and could lead to a higher risk of an audit failure. An audit team with an understanding of a company's business and historical practices is in better position to perform a quality audit as opposed

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to a new audit team that would be focused on the development of relationships and lines of communication. As the U.S. General Accounting Office (GAO) found in a 2003 study, "...About 79 percent of Tier 1 firms and Fortune 1000 public companies believe that changing audit firms increases the risk of an audit failure in the early years of the audit as the new auditor acquires the necessary knowledge of the company's systems, and financial reporting practices and therefore may fail to detect a material financial reporting issue..."[1]

We are also concerned that mandatory audit firm rotation could lead to diminished quality near the end of a rotation period. The GAO 2003 study also indicated that "...About 59 percent of Tier 1 firms reported they would likely move their most knowledgeable and experienced audit staff as of the end of the firm's tenure approached under mandatory audit firm rotation to attract or retain other clients, which they acknowledged would increase the risk of an audit failure..."

As a result, imposing a mandatory audit firm rotation could present challenges on both the front-and back-ends of an audit tenure.

**Reduced Audit Committee Authority**

Section 301 of Sarbanes-Oxley mandates that the audit committee be comprised of independent board members with oversight responsibilities of the independent auditor. As a result, the Audit Committee is responsible for overseeing the work of the independent auditor and its relationships with management on behalf of the shareholders of a company. Sarbanes-Oxley established the requirement that the audit committee is "...directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm..."[2] Accordingly, our Audit Committee Charter delegates such authority to our Audit Committee. Our Audit Committee takes these responsibilities seriously and expends considerable effort throughout the year evaluating our outside auditor and assessing whether the firm is providing high-quality audits.

We believe that mandatory audit firm rotation could impact the current role of the Audit Committee by undermining their oversight power of the independent auditor. Imposing a mandatory rotation could limit the discretion of an Audit Committee as it takes away from their ability to make the decision to consider a change in the independent auditor. Audit Committees would presumably be unlikely to remove an auditor during mandatory tenure due to costs and efforts that would already be forced upon companies every few years.

We believe the Audit Committee is best positioned to determine when to change auditors and to assess the increased costs associated with that change. We are confident in the ability of Audit Committees to evaluate an audit firm's independence, objectivity and ability to exercise professional skepticism.

**Increased Audit Costs**

We believe that mandatory audit firm rotation would result in increased audit costs, especially in the early years of an audit rotation. Per the GAO 2003 study, "...Nearly all Tier 1 firms estimated that initial year audit costs under mandatory audit firm rotation would increase by more than 20 percent over subsequent years to acquire the necessary knowledge of the public company..." In the initial years of an audit rotation, there will be increased costs as the new audit firm will most likely require

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[1] U.S. General Accounting Office, GAO-04-216, Public Accounting Firms: Required Study on the Potential Effects of Mandatory Audit Firm Rotation (November 2003).

[2] Sarbanes-Oxley Act of 2002, Section 301, Public company audit committees.

additional staff and time to "get up to speed" on the company's business and processes. In addition, we will be faced with the costs and additional challenges of changing non-audit service providers where services are being performed by the newly named independent audit firm.

In summary, we commend the PCAOB for exploring ways to strengthen audit quality and objectivity. We believe that actions taken by the PCAOB through the standard setting and inspection process have improved audit quality to date. However, we believe there is insufficient evidence to support the benefits of mandatory auditor firm rotation. As we have noted above and as stipulated by Sarbanes-Oxley, we believe that the Audit Committee is best positioned to determine which audit firm to retain on behalf of Rockwood and its shareholders without unnecessary restrictions on its discretion.

Thank you for the opportunity to comment on this Concept Release.

Sincerely,

Robert J. Zatta
Senior Vice President and Chief Financial Officer
Rockwood Holdings, Inc.