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VIA EMAIL: [comments@pcaobus.org](mailto:comments@pcaobus.org)

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

PCAOB Rulemaking Docket Matter No. 37: *Concept Release on Auditor Independence and Audit Firm Rotation*

Peabody Energy appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board (PCAOB) on its Concept Release on Auditor Independence and Audit Firm Rotation (the Concept Release). Peabody Energy (NYSE: BTU) is the world's largest private-sector coal company and a global leader in clean coal solutions.

While we are supportive of the PCAOB's efforts to continuously enhance auditor independence, objectivity and professional skepticism, we believe the current professional, regulatory and enforcement framework is effective in accomplishing these objectives. The Sarbanes-Oxley Act of 2002 instituted a number of quality reforms, including the establishment of the PCAOB; strengthening the role of audit committees by making them responsible for oversight of the auditor and the audit process; and instituting mandatory rotation of the lead audit partner after five years with said lead audit partner avoiding association with the audited company for another five years. Independent audit committees and boards, in conjunction with their role as representatives of shareholders' interests, have mandated responsibility for audit oversight (including the selection and compensation of auditors), and are best positioned to appoint and retain the audit firms they feel best meet shareholders' needs. We do not believe that mandatory audit firm rotation would have an appreciable effect on auditor independence or improve the reliability of financial reporting based on the views outlined below.

**Mandatory audit firm rotation will lower audit quality by eliminating the auditor's institutional knowledge of Peabody Energy and its industry.**

Mandatory audit firm rotation would erode the knowledge base and understanding required by an audit firm to perform a high quality, cost effective audit. We believe an audit firm's ability to perform a high quality audit is predicated not only on the firm's specialization within an industry, but the knowledge base and detailed understanding gained over time that it has of an entity's operations. Auditor familiarity with a company provides a better understanding of industry and company specific accounting issues. Due to the steep learning curve (i.e., becoming familiar with a company's business, financial reporting and related controls and processes) that audit

firms face with any new audit, audits will become less efficient at the beginning of an engagement, and present a higher level of audit risk. This risk would also be increased at the end of the mandatory audit rotation period as the auditor will be disincentivized from ensuring its best people remain on the engagement through the end of the term. These factors would increase the cost of the audit process as a whole if audit firms were subject to mandatory rotation and substantially increase audit risk. Public companies would face repeated distraction and disruption due to the need to educate the new audit firm about their business and operations. This would increase risk as education of the routine would inhibit discussion and analysis of those complex transactions that pose the greatest risk to accurate, relevant and reliable financial statements.

**Mandatory audit firm rotation could increase the burden on (and cost for) an entity if the required rotation occurs when the entity is involved in complex transactions.**

Peabody Energy recently completed a multi-billion acquisition and related debt offerings (term and private offerings). If we were required to complete mandatory auditor rotation during these complex transactions, access to the capital markets could have been impeded due to the additional time and effort that would have been required to ensure our new and legacy auditors were provided the necessary information to fully understand and review the transactions, and provide consent for the required regulatory filings to facilitate Peabody Energy's access to the necessary funding for the acquisition. Mandatory rotation on a larger macro-economic scale will increase the cost and foresight needed during complex transactions to ensure timely resolution of regulatory issues, which could significantly affect access to capital markets. Under any complex situation, a new auditor's lack of experience with a company will increase audit, transactional and execution risk across the board.

**Mandatory audit firm rotation will limit Peabody Energy's choice of qualified service providers or potentially cause us to sacrifice valuable advisory services to comply with these requirements.**

There are a limited number of accounting firms that have the level of audit experience and specialized industry knowledge (the extractive industry is characterized by complex issues and industry-specific accounting guidance is generally less prescriptive) required to audit a multinational, publicly traded company operating in the mining and metals industry. Our current auditor serves as the auditor or advisor to a majority of the top mining companies, which provides our Company with the necessary expertise to ensure those risks specific to our industry are properly mitigated. Mandatory audit rotation would create an ongoing lack of industry focus and expertise.

Peabody Energy (as do most Fortune 500 public companies), utilizes more than one of the major accounting firms for various non-audit services, such as internal audit, tax and consulting work. Mandatory audit firm rotation will conflict with our internal audit arrangement and delivery of quality tax and advisory services (or other precluded services) for which the auditor is not allowed to perform. The ability to select and retain the most qualified non-assurance services providers is essential to our ability to ensure the highest levels of service and expertise. Accordingly, Peabody Energy would be faced with the issue of having to rotate providers for all

of our non-audit services, therefore exacerbating the cost and operational impact of mandatory rotation.

**Proponents of mandatory audit firm rotation cite recurring audit fees as an impediment to independence, objectivity and professional skepticism.**

The largest accounting firms' operating models have gravitated toward non-assurance services, resulting in an ever decreasing share of their revenues being derived from audit services. Specific to Peabody Energy, we utilize each of the Big 4 accounting firms for services and in most years spend with firms not providing audit services is greater than that incurred with our external auditor.

**Mandatory audit firm rotation would result in reduced client service levels.**

Due to the limited number of qualified accounting firms previously discussed, auditors may have a diminished economic incentive to perform high-quality audits with acceptable levels of client service since the auditor is essentially guaranteed another audit client as a result of mandatory rotation. We believe this outcome will further commoditize auditors, thus reinforcing the "audit as a commodity" risk. The downstream commoditization effect will reduce tenure at accounting firms, impact interest in accounting as a profession and inhibit career development and enhancement opportunities for accountants.

**Concluding remarks**

Based on the views discussed above, Peabody Energy strongly urges the PCAOB to rescind its Concept Release on mandatory audit firm rotation. We believe the current professional, regulatory and enforcement framework is effective in accomplishing auditor independence, objectivity and professional skepticism.

Thank you in advance for your consideration of these comments.

Respectfully submitted,



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Peabody Energy Corporation Audit Committee:

William C. Rusnack\*  
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Sandra A. Van Trease  
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