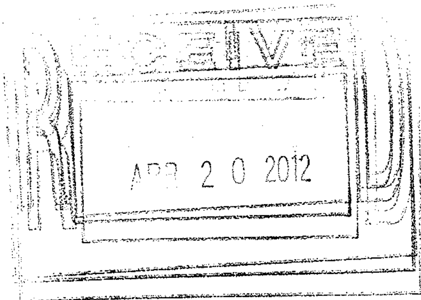

CLIFFS NATURAL RESOURCES INC.
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April 19, 2012

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

RE: Request for Public Comment on Concept Release on Auditor Independence and Audit Firm Rotation (PCAOB Release No. 2011-006, August 16, 2011, PCAOB Rulemaking docket Matter No. 37)

Dear Mr. Seymour:

On behalf of the Cliffs' Audit Committee, let me reiterate that we strongly believe in the value of auditor independence, objectivity and professional skepticism. We understand these are critical elements of high quality audits. We do not, however, support the idea that mandatory audit firm rotation will address the PCAOB's concerns with auditor independence, objectivity and professional skepticism.

We believe that there has been no compelling evidence put forward to conclude mandatory audit firm rotation has a high likelihood of producing improvements in auditor performance. In fact, we believe mandatory audit firm rotation has a high likelihood of causing serious repercussions, including, but not limited: (1) reduced audit quality, (2) reduced audit efficiency, (3) practical compliance limitations, (4) increased independence conflicts, and (5) reduced Audit Committee authority.

1. Reduced Audit Quality:

If we were required to rotate audit firms every 10 years or some other defined tenure, we believe it would diminish audit quality. Cliffs is a large, complex business with operations and/or mining exploration projects in many different countries. Cliffs is a major global iron ore producer and a significant producer of high- and low-volatile metallurgical coal with iron ore and coal mines in North America and two iron ore mining complexes in Western Australia. The Company also has an equity interest in a coking and thermal coal mine in Queensland, Australia. In addition, Cliffs has a major chromite project, in the pre-feasibility stage of development, located in Ontario Canada as well as several other exploration projects in other parts of the world. Cliffs also conducts its business through many different and often very complex commercial and/or joint venture agreements – many of which inherently have sophisticated accounting requirements.

Whether it is our various operations or agreements, the point is that it takes considerable time and investment before an auditor can thoroughly understand Cliffs' business. An increased understanding of our highly complex business enables a more insightful, thoughtful and critical analysis of the relevant accounting issues and assumptions. Under Sarbanes-Oxley Act of 2011 (SOX), we are already required to change audit partners which in itself brings a great amount of independence, objectivity and professional skepticism. An additional mandated audit firm rotation would lead to the regular loss of auditor understanding of our business, leading to higher risk of audit failures. In short, mandatory audit firm rotation would create real expertise concerns especially in the early and critical years of an audit.

Additionally, if the required rotation occurred during a significant transaction such as an acquisition, audit quality could be negatively impacted to an even greater degree. It is also worth noting that numerous studies have shown that fraudulent financial reporting is more likely to occur in the first three years of the audit-client relationship – not due to long tenured relationships.

2. <u>Reduced Audit Efficiency</u>:

As described above, the learning curve faced by a new auditor would require additional resources from both the auditor as well as management. Although we have not done a Cliffs specific estimate, many other estimates have been done to show that audit fees could increase as much as 20% for the first 2 – 3 years of a new auditor, matched by increases in management time to support the auditor. We would prefer to keep Cliffs employees focused on their role in the audit process and responsibility, and competing and winning in the global marketplace rather than explaining operations to a new set of auditors every few years. The time commitment that already exists when a partner is rotated or underlying staff on the audit team are changed is considerable – we have no interest in adding to management's existing burden especially when there is no apparent upside benefit.

3. <u>Practical Compliance Limitations</u>:

If we were required to rotate audit firms after a defined tenure, we believe we would face practical limitations to comply. There is an underlying assumption in the rotation model that all audit firms are created equal and are therefore interchangeable. It is our experience that this is not true. Even as the audit market has driven consolidations, the Big 4 are not equal. These firms have their own unique blend of subject matter expertise, industry expertise and geographic presence. We are in the global mining business which has its own unique set of issues and complexities. We do not want to be effectively forced into using a firm that is not sufficiently expert in our business just because a mandatory rotation requirement meant we did not have a real choice.

4. <u>Increased Independence Conflicts</u>:

If we were required to rotate audit firms after a defined tenure, we believe we would face increased independence conflicts. As a large multinational company, Cliffs is currently engaged with every Big 4 firm for various consulting projects. Increased firm rotation would undoubtedly put the firm selected as our external auditor in a position of opining on work they previously did as a consultant. Added costs and complexity would be required to manage through these issues. We would also be faced with having to restrict needed consulting advice from the Big 4 and other audit firms to ensure we would have adequate choice in selecting a new auditor under a mandatory audit firm rotation model.

5. Reduced Audit Committee Authority:

Mandatory audit firm rotation would harm Audit Committee authority. We note that under SOX, the Audit Committee (not the PCAOB) is responsible for the appointment, compensation and oversight of the independent audit firm, along with resolving any disagreements between management and the auditor regarding financial reporting. In this regard, one would have to question the very jurisdiction of the PCAOB over audit committees versus its jurisdiction over audit firms.

A fundamental role of the Audit Committee is to assist the Board of Directors in making sure the financial reports are of high quality and the reporting process protects shareholders. As part of this role, the Audit Committee also has oversight of the internal audit functions. An essential role of internal audit is to confirm the integrity of the internal controls which are vital to the quality of the financial reporting process.

We strongly believe that we, the Audit Committee, as representatives of shareholders' interests, are best positioned to appoint and retain audit firms to best meet shareholders' needs. Taking away this governance responsibility by limiting audit firm tenure or other measures would undermine our determination of the best interest of shareholders. We are confident in our ability to ensure the external auditor is independent, objective and exercising appropriate professional skepticism.

In closing we urge you to not implement the mandatory firm rotation requirement and instead look to other means of improving the audit process by, for example, strengthening the role of the audit committee. Surely this is a more sensible approach that would be more effective and far less disruptive to all concerned.

Very truly yours,

Richard Riederer, Chairman
Board of Directors Audit Committee
Cliffs Natural Resources Inc.