Business Roundtable

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

Ladies and Gentlemen:

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

This letter is submitted on behalf of Business Roundtable, an association of chief executive officers of leading corporations with a combined workforce of more than 14 million employees in the United States and nearly $6 trillion in annual revenues. Member companies comprise nearly a third of the total value of the U.S. stock market. Annually, member companies pay $163 billion in dividends to shareholders and generate an estimated $420 billion in sales for small- and medium-sized businesses. Business Roundtable companies give nearly $9 billion a year in combined charitable contributions. They are technology innovation leaders, investing more than $150 billion annually in research and development – nearly half of the total private U.S. R&D spending.

On December 14, 2011 we submitted a letter in response to the August 16, 2011 concept release (Concept Release) by the U.S. Public Company Accounting Oversight Board (PCAOB or Board) soliciting comments on mandatory rotation of audit firms and other ways that auditor independence, objectivity, and professional skepticism can be enhanced. On June 25, 2012, the Board reopened the comment period on its Concept Release. We submit this letter to supplement our previous comments.

In the time since we submitted our initial letter, the Board has received numerous comment letters and undertaken two public roundtable discussions on the topic of mandatory audit firm rotation. Commenters expressed significant opposition to the concept of mandatory audit firm rotation. We also continue to believe that mandating audit firm rotation is a drastic measure that would be excessively burdensome and would not provide any meaningful benefits for auditor independence, objectivity, or professional skepticism.

In particular, we continue to be concerned that mandating audit firm rotation would result in a number of unintended consequences that would be detrimental to public companies and the audit profession. Most significantly, mandatory rotation could undermine the audit committee's fundamental role of engaging, overseeing, and terminating the company's auditor, as required by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Sarbanes-Oxley Act recognized that audit committees are best positioned to make informed decisions with respect to the particular audit needs of a company, including auditor tenure. In fact, a survey completed by twenty-six members of our corporate governance coordinating committee in connection with our previous letter (the Survey) indicated that half of the audit committees at responding companies had considered whether to change auditors within the previous ten years, with nearly half of those audit committees ultimately determining that a change in auditors was against the company's best interests. Mandatory rotation would deprive audit committees of the ability to make that crucial decision and could require an audit committee to engage a new audit firm, even when it has determined that the company's existing firm is best able serve the company and its shareholders. These views were echoed in numerous comment letters and by panelists at the roundtables.

Moreover, mandatory rotation would impose significant costs on companies without providing clear benefits and could in fact harm audit quality. Companies in our Survey that had changed audit firms within the past ten years estimated that the cost of doing so, including additional management time and company resources, ranged from $500,000 to over $5 million. Half of the companies responding to our Survey also anticipated that it would take four or more years following a change in auditors for the new auditor to become sufficiently acclimated to the company's financial reporting practices and operations to no longer require additional audit resources. During this time, audit quality could suffer as the new auditors and existing internal auditing staff allocate time and resources to the transition instead of the audit.

Further, as was repeatedly noted in the comment letters and by panelists at the roundtables, mandatory rotation may not be feasible for many companies due to practical considerations and auditor independence rules. All of the companies responding to our Survey noted that they engage one of the Big Four audit firms for auditing services and more than two-thirds of the responding companies reported that they also use at least two additional Big Four firms for non-audit services. However, the Big Four firms are not interchangeable and for many large, international companies, only one of the Big Four may even be capable of adequately addressing its particular auditing needs. As a result, nearly all of the companies responding to our Survey indicated that they would have difficulty finding a replacement audit firm with an absence of independence issues, sufficient geographic presence, and the necessary expertise to replace their current auditor, with nearly sixty percent noting that it would involve "significant difficulty."

We believe that substantial improvement in audit quality has occurred since the enactment of the Sarbanes-Oxley Act, due in part to the Board's inspection program and regulatory efforts. Included among these efforts are the several important standards adopted by the Board in recent years, the full effects of which are not yet reflected in the Board's inspection results.[1] Accordingly, we do not believe that it is necessary for the Board to further consider mandatory audit firm rotation.

Thank you very much for considering our comments. We would be happy to discuss our concerns, recommendations, or any other matter that you believe would be helpful. Please contact Maria Ghazal, Vice President and Counsel, Business Roundtable, at 202-872-1260.

Sincerely,

Alexander M. Cutler

Alexander M. Cutler
Chairman and Chief Executive Officer, Eaton Corporation
Chair, Corporate Governance Committee, Business Roundtable

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[1] *See, e.g.*, Auditing Standard No. 7 – Engagement Quality Review and Conforming Amendment to the Board's Interim Quality Control Standards, PCAOB Release No. 2009-004 (July 28, 2009) and Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards, PCAOB Release No. 2010-004 (Aug. 5, 2010).