bmcsoftware

Via electronic mail

October 11, 2012

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

Members of the Board:

Attached please find a written statement that will serve as the basis for my opening remarks during the PCAOB's October 18, 2012 public meeting on the *Concept Release on Auditor Independence and Audit Firm Rotation.* Due to time restrictions, my opening remarks during this meeting will be slightly abbreviated.

I appreciate the opportunity to share the views of BMC Software and respond to the Board's questions on October 18, and look forward to jointly discussing ways to improve auditor independence and audit quality.

Sincerely,

*/s/ T. Cory Bleuer*

T. Cory Bleuer
Vice President, Controller & Chief Accounting Officer

**Written Statement of T. Cory Bleuer**
**Vice President, Controller & Chief Accounting Officer**
**Before the PCAOB – October 18, 2012; Houston, TX**

Chairman Doty, members of the PCAOB and observers:

On behalf of BMC Software, thank you for the opportunity to present our views on the PCAOB's *Concept Release on Auditor Independence and Audit Firm Rotation.*

BMC Software is one of the world's largest independent public software and cloud solution companies, operating globally through approximately 75 legal entities and branches worldwide. From a financial reporting perspective, BMC operates in a specialized industry as business practices and accounting requirements, particularly regarding revenue recognition, are unique to our industry. Further, our industry is constantly evolving as evidenced most recently by the proliferation of SaaS and other types of cloud solution business models. Accordingly, application of accounting standards, similar to that of financial services and other specialized industries, requires experienced skill-sets, both by preparing companies and their auditors. We do not see this requirement changing, even after the adoption of proposed revenue recognition standards.

BMC supports the Board's continued efforts to maximize auditor independence. However, we do not support mandatory audit firm rotation as we believe that independent public company audit committees are in the best position to reinforce auditor independence through their critical oversight role and that auditor independence is further bolstered by current audit firm regulation and oversight including the PCAOB inspection process. We also believe that mandatory rotation would diminish the quality of audits, increase audit costs and create significant administrative and practical constraints on corporations without sufficient benefit.

I will now expand upon these views and provide several other suggestions to improve auditor independence and audit quality.

<u>Existing Audit Committee and Audit Firm Effectiveness and Regulatory Considerations</u>
It is a key responsibility of independent public company audit committees to ensure that auditor independence is maintained. We believe that independent public company audit committees with sufficient financial expertise are in the best position to reinforce auditor independence through their critical oversight role, including the ability to appoint, compensate and remove audit firms, and that mandatory audit firm rotation could in fact weaken the importance and effectiveness of this critical oversight responsibility. Thus, we believe that U.S. regulators, led by the PCAOB and the SEC, should take the lead to support and strengthen corporate audit committees and demonstrate that the U.S. believes there to be greater and broader benefit to strengthening this type of governance than in taking risky and costly approaches like mandatory rotation.

At BMC, our audit committee takes its charter and auditor independence and oversight responsibilities very seriously as evidenced by the rigor of interactions between our audit committee and audit firm that occur regularly. A case in point is the process undertaken and directed by our audit committee in connection with our audit firm's last mandatory partner rotation cycle. Our audit committee took the opportunity to perform a critical review of the entire firm relationship including service delivery as well as industry and technical competencies. The audit committee set the criteria for partner candidates and team structure, which included in depth interviews with multiple partner candidates. In parallel, our audit committee also interviewed two other big 4 firms. The outcome of this process was the reengagement of our incumbent audit firm under a realigned post-rotation team structure that included a new primary partner and a new engagement quality review partner, each based in separate practice regions and neither previously associated with our engagement. This process was very rigorous, but in the end highly demonstrative of effective audit firm oversight by an audit committee.

Auditor independence is further reinforced by current audit firm regulation and oversight including the PCAOB inspection process. We believe that existing rules surrounding public company audits, particularly partner rotation and independent engagement quality review partner requirements, are sufficient to support audit firm independence, objectivity and professional skepticism and that the PCAOB oversight and inspection processes are designed to further bolster the same, particularly if appropriate audit firm remediation mechanisms are in place to address inspection deficiencies.

<u>Risk to Quality of Audits</u>
We believe that mandatory firm rotation would diminish the quality of audits.

To deliver a quality audit, auditors must develop and maintain a thorough understanding of constantly-evolving industry and company-specific business practices. The learning curve for an audit firm to reach optimal levels of institutional knowledge can be significant and if firm rotation were mandated we believe audit quality would diminish during auditor transition periods. We also believe that audit quality and efficiencies continue to improve beyond transition as an audit firm advances its industry and company-specific knowledge over time. Mandatory rotation would preclude an audit firm from maximizing such knowledge, including knowledge regarding the consistent application of accounting policies between current and historical transactions, which we believe would be detrimental to long-term audit quality.

Audit quality concerns would be heightened for large multinational companies. Complex global companies, particularly those in specialized industries such as BMC, require audit firms with substantive global presence, including industry and company-specific expertise. Few global audit firms today have such capabilities, even before consideration of independence requirements. If one or several of these firms were not a viable option, the use of an alternate firm not having optimal credentials would be detrimental to audit quality.

While we acknowledge that public company auditor changes occur today, such transitions are fairly infrequent and thus more conducive to effective transition efforts by both companies and audit firms with audit committee oversight. If firm rotation were mandated, it is difficult to conceptualize how it would be possible for thousands of public companies and a limited number of qualified audit firms to engage and transition effectively, in relatively short and recurring cycles. The regular need to mobilize audit resources on a mass scale to get the right skill sets to the right places globally would not be feasible in our view.

Incremental Costs and Other Administrative and Practical Constraints
Mandatory rotation would increase audit costs and create significant administrative and practical constraints on corporations, particularly in complex global public company environments.

Mandatory rotation would create significant incremental engagement costs that would need to be passed on to companies via higher fees, which in turn will harm public companies and their investors. Estimates that we have seen suggest that first year audit costs alone could increase by at least 20%, and we believe such incremental costs could be higher for complex global companies.

Mandatory rotation would become a regular distraction for company management, staff and audit committees. Distractions would include time spent reviewing and engaging firms regularly, along with the constant need to manage transitions and train new audit teams on all aspects of a company's accounting environment, business practices and potentially even the particular industry. These distractions could also harm critical financial oversight by company personnel and their audit committees.

Because of independence requirements, mandatory firm rotation would also limit a company's ability to engage other audit firms to provide non-audit services. Given the limited number of firms capable of auditing complex global companies today, mandatory rotation would adversely impact many corporations. Using BMC as an example, several of the largest international accounting firms could not currently serve as our independent auditor because of independence conflicts, certain of which would be difficult to remove without harming our business.

Mandatory rotation would also adversely impact multinational companies with global subsidiary audit requirements as it is commonplace for integrated auditors to also serve as statutory auditors of subsidiaries for synergistic and other qualitative reasons. BMC's globally-integrated audit firm, for instance, serves as the statutory auditor for the majority of our global subsidiary audits. Mandatory firm rotation would require multinationals like us to coordinate integrated audit firm changes at the statutory level concurrently, which would create significant inefficiencies and incremental costs along with expanded audit risk, and in some cases may not be practicable to accomplish at all. This practical constraint would be heightened to the extent that auditor rotation is or will in the future be mandated by regulators in other countries, and this is again why we strongly encourage U.S. regulators to take the lead and set an example in advocating stronger forms of effective governance than mandatory rotation.

Recommendations to Improve Auditor Independence and Audit Quality
In lieu of mandatory audit firm rotation, we strongly recommend that the PCAOB consider other options to strengthen auditor independence and audit quality. At the core, we reiterate that U.S. regulators, led by the PCAOB and the SEC, should support the continued strengthening of corporate audit committees. Several of our additional thoughts follow:

First, the Board should consider options aimed at improving audit committee training and best practices regarding auditor independence. While we believe that most audit committees, including our own, are effective in this regard, we recognize that optimal audit committee experience and best practices may not exist within all public companies. While we would stop short of advocating mandatory training requirements, we encourage the PCAOB to work with appropriate parties to explore options in this area.

Secondly, the Board should consider sharing PCAOB inspection results for a particular company's audit directly with that company's audit committee, recognizing that legislative change may be required. While we believe that the PCAOB's recent adoption of Auditing Standard No. 16, *Communications with Audit Committees,* and its recent release entitled *Information for Audit Committees About the PCAOB Inspection Process* should aid audit committees, we believe that a direct push of company-specific inspection results to audit committees would further bolster key discussions between audit committees and audit firms.

Lastly, we are supportive of audit committees reporting additional information to shareholders related to audit firm independence. By way of example, earlier this year one of BMC's shareholders submitted a proposal regarding a form of audit firm independence report for inclusion in our annual proxy statement with the aim of providing shareholders insight into audit committee efforts to protect auditor independence. While we did not support the shareholder's proposal as submitted, after constructive dialogue with the shareholder we enhanced the disclosure within the auditor ratification proposal in our proxy to describe processes taken by our audit committee to ensure auditor independence, consistent with our audit committee's charter. This shareholder viewed BMC's constructive dialogue and openness to increase transparency on this topic in a positive light and withdrew its shareholder proposal. While this is just an example of an approach taken by us to inform shareholders of considerations made by our audit committee regarding auditor independence, approaches such as this may be worth the Board's consideration.