PETER C. CLAPMAN, Written presentation PCAOB Roundtable, March 21 2012.

To start, I must commend the PCAOB for raising the issue of audit firm rotation as a means to strengthen auditor independence.   My position is straightforward. I support periodic audit firm rotation as the best policy and periodic audit firm re-bidding as the next best. Unless, the PCAOB takes the regulatory action to require auditor rotation, the status quo, which encourages "Audit firm for life or forever, which ever comes first", will continue and investor concerns about audit firm independence will persist.

I am speaking on behalf of Governance for Owners USA, the parent of which is a British investment manager that promotes investor engagement with our portfolio companies. I have looked at these issues from a global perspective—and auditor rotation is now a global issue-for a long time, having been a former Chairman of the International Governance Network.

I also am speaking on the basis of my past personal experience as the Chief Investment Counsel for TIAA-CREF, which is the largest investment pension system in America.   I also managed the TIAA-CREF corporate governance program.

Auditor independence has always been an important issue to my organizations and me professionally. At

TIAA-CREF, I personally participated in three auditor rotations at intervals between 8-10 years. The results: better audits, similar costs, and none of the dire consequences being argued by many of the commentators against the PCAOB concept release.

Additionally, as a major investor, TIAA-CREF asked a number of major companies to voluntarily adopt a policy of auditor rotation. We had no takers. My clear sense was that these companies refused to even consider periodic audit firm change.

A clear theme emerges from this experience and any fair reading of the bulk of comment letter from the corporate community----the vast majority of companies will not seriously consider voluntary adoption of rotation because they have come to think that it is an act of folly to change audit firms. These companies have argued the familiar dogma that costs inevitably will go up substantially and that initial audits will suffer in quality.

This familiar dogma, however, is based on faulty assumptions. Why would audit quality decline with a change of audit firms. This contention supposes that good audit committees, the outgoing auditor, and the incoming auditor are professionally incapable of developing the appropriate transition, a supposition I reject. To the contrary, my own experience indicates better audits will result as the outgoing firm is aware that another quality firm might take a fresh look at some prior decisions, and when fresh looks actually take place, better audits result.

Significant cost increases: Another claim against audit firm rotation. I do not see this occurring because competitive forces will encourage cost competition. Audit firms will want to win new assignments, which they can anticipate will last for a number of years; with competition, they can be expected to bid wisely to win the assignment. Investors, of course, will look at costs as justified if auditor independence is enhanced.

Another charge against this PCAOB initiative is that it would intrude upon the authority of company boards. To that, I observe that few, if any, of the now generally accepted governance reforms were adopted without some regulatory or legislative intervention. Regrettably, most important governance reforms have rarely occurred otherwise.

For example, take current important audit committee practices, now widely accepted as positive. It took the SEC initiative under Chairman Levitt to require that audit committee members should have financial literacy and that committees should include a financial expert. It took Sarbanes-Oxley to eliminate the conflict when audit firms provided substantial consulting services to companies they audited. These and other reforms—instructing companies as to who may serve on their audit committees and how companies receive consulting services--were far more intrusive into company affairs than a requirement that audit committees must choose different audit firms at periodic intervals while leaving the discretion as to which audit firm to the committee.

In conclusion, my experience both as company executive and as corporate governance professional leads to a clear conclusion.   The time is right for the PCAOB to implement the appropriate policy of audit firm rotation, without which the system will remain largely unchanged.

We all need to recognize a practical reality—and examples abound—that our corporate governance system often will need an external impetus to adopt governance reforms later understood to be the right steps to take.   In retrospect, these were perhaps intrusions but they were appropriate intrusions. Auditor rotation through action by the PCAOB is the right step to be taken now.