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U.S. CHAMBER OF COMMERCE

# Statement of the U.S. Chamber of Commerce

**ON:** Auditor Independence and Audit Firm Rotation

**TO:** Public Company Accounting Oversight Board

**DATE:** March 22, 2012

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance – is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Chairman Doty, members of the Public Company Accounting Oversight Board ("PCAOB"), staff, observers, and guests, thank you for the opportunity to participate in the Public Meeting on Auditor Independence and Audit Firm Rotation.

Effective financial reporting and internal controls is an important priority for the U.S. Chamber of Commerce and one of the reasons why the Chamber established the Center for Capital Markets Competitiveness in 2007. In order for businesses to grow over the long-term they need to be able to access capital in financial markets domestically and abroad. The conveyance of reliable and relevant financial information to investors is an important part of that capital formation process. Similarly, businesses are investors as well. Companies must mitigate risk and raise cash on a daily basis to pay the bills on time. As active participants in the debt and equity markets, companies must also have access to reliable and relevant financial data to operate on a daily basis.

It is in the interest of the business community to have a balanced system of integrity and expertise to provide dependable and pertinent financial data to serve the needs and interests of all participants in the capital markets. Effective auditing is an indispensible piece of that framework.

To strengthen financial reporting the Chamber has communicated with the PCAOB, Financial Accounting Standards Board ("FASB"), International Accounting Standards Board (IASB), Securities and Exchange Commission ("SEC"), the Treasury Department, Congress, the European Union, Financial Stability Board and G-20, to name a few, on ideas to improve accounting and auditing. Providing means to identify and resolve problems early on through a Financial Reporting Forum, exploring the use of judgment frameworks for accounting and auditing decisions and insuring auditor independence are among the issues that should be explored and addressed.

An important part of improving financial reporting is the need to facilitate and maintain a dialogue amongst all of the actors on the financial reporting stage. The Fair Value accounting crisis was brought about in part through a lack of communication between FASB and the business community. Failing to understand the role of the business community in financial reporting lead to an absence of communication that deprived FASB of useful information and facts harming standard development. Consequently, standards contained flaws preventing financial reports to realistically measure economic activity and instead in some cases became a driver of economic activity.

In this context, Fair Value accounting was merely a symptom of a deadly disease. We are concerned that the PCAOB may suffer from a similar disease.

Under the leadership of Financial Accounting Foundation Chairman Jack Brennan and FASB Chairman Leslie Seidman, we have worked to facilitate continuous on-going communications regarding standards development and other issues of importance to accounting. I believe that these communications have been helpful and fruitful during this critical phase of the convergence projects. The object is not to create winners or losers, but rather to insure that the standards are reflective of real world activities and provide investors and other users of financial reports with the data needed to make informed decisions.

Are all of our concerns addressed in these communications? Of course not. But by giving stakeholders their day in court a level of trust is established to insure a collaborative partnership to the benefit of all.

This sea-change in communications has made the convergence projects less contentious then they could have been while developing world class standards that can help facilitate capital formation globally. This benefits businesses and their investors. The increased means of soliciting input and feedback can serve as a model for the PCAOB in improving its processes and more effectively use the resources at its disposal.

In turning to the issue at hand, it is important to ask why we are having this discussion in the first place. A brief look at the facts of surrounding the concept release:

- Congress, in debating Sarbanes-Oxley, explicitly declined to enact provisions requiring mandatory audit firm rotation;

- The General Accounting Office has twice reviewed and rejected the need for mandatory firm rotation;

- Academic studies have demonstrated that mandatory firm rotation may harm companies through increased incidence of undetected fraud;

- The PCAOB has failed to provide information through the inspections process demonstrating a need for mandatory firm rotation;

- Over 90% of commenter's to the concept release have opposed the concept of mandatory firm rotation; and

- The majority of investors commenting on the concept release also opposed mandatory firm rotation.

In this light, a failure to demonstrate a need for mandatory firm rotation and a universal rejection of the concept by investors, business and governmental actors leads us to question why valuable resources, time and monies are being spent on this project—at the expense of other worthwhile endeavors. Indeed statements that this issue will be worked on a year from now open the PCAOB to potential criticism that a predetermined objective exists.

That is neither good for the PCAOB or for financial reporting as a whole.

Last month we wrote to the PCAOB and SEC with concerns that the PCAOB may not have enough dialogue with the business community and have proposed the creation of a Business Advisory Group. To understand and solicit concerns upfront may prevent a situation where 92% of comment letters oppose a concept release. A wide range of input and discussion can only enhance the ability of the PCAOB to prioritize issues and address them in a comprehensive and balanced manner. A continuous form of dialogue is important. Roundtables are a means of communication but they are only done on an ad-hoc basis.

Other innovations, such as the use of cost benefit analysis can also assist the PCAOB and stakeholders to determine the importance of issues and efficacy of proposed solutions.

Furthermore, the concept release on mandatory audit firm rotation taken together with audit committee communications, a proposed auditor discussion and analysis and now proposals for executive compensation review have the Chamber concerned that the PCAOB is engaged in mission creep, crossing the threshold of audit regulation into an attempt to regulate corporate governance—a subject area that has been left to state corporate law, or in the federal context with the SEC.

Let me be clear, we support strong audit committee communications and auditor independence, but it is a hallmark of the American corporate structure, as reaffirmed by the DC Circuit Court of Appeals last summer that directors and shareholders must be allowed to govern the corporation and that one size fit all mandates do not work.

Because of these reasons we ask the PCAOB to withdraw the concept release. Such action will allow the PCAOB to work on other issues of importance to financial reporting and we would wish work in partnership with the board to insure that we have high quality auditing for the benefit of all involved in capital formation.