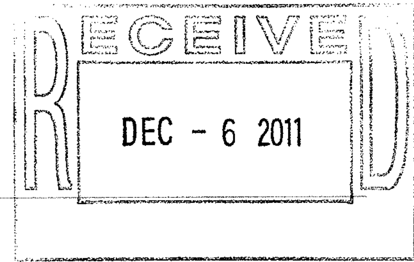
Arthur J. Gallagher & Co.



November 30, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

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

Dear Board Members:

I am writing on behalf of the Audit Committee of Arthur J. Gallagher & Co. ("Gallagher"), a NYSE-listed company. We appreciate the opportunity to comment upon the Concept Release on Auditor Independence and Audit Firm Rotation issued by the Public Company Accounting Oversight Board (the "Board") on August 16, 2011.

The Gallagher Audit Committee believes that audit committees of public-company boards are in the best position to make decisions regarding the selection, independence and retention of the most suitable audit firms for their companies. In fact, that responsibility is the key requirement in audit committee charters. Mandatory audit firm rotation would substantially undermine this basic and important role at costs that greatly outweigh any proven benefit.

I am not aware of any empirical evidence showing a connection between mandatory audit firm rotation and improvement in audit quality or auditor independence. In fact, the studies of which I am aware (for example, the 2010 paper by N. Cameran *et. al.* analyzing the mandatory audit firm rotation regime in Italy), indicate that audit quality may decline in jurisdictions where audit firm rotation is mandatory. To impose an auditor rotation requirement on public companies without evidence that such action would meaningfully improve the independence and objectivity of the auditor would be irresponsible and potentially damaging to the effectiveness of the audit process. Such a requirement would be no more than regulatory window dressing without clear evidence of a correlation between auditor tenure and audit failure.

There is, unarguably, a multi-year learning curve for an audit firm taking on a new audit relationship. This curve is steeper if the company has a number of operating locations, and even more so if it is multinational. Audit costs are higher during this transition period, and if an auditor rotation were to coincide with a major transaction or a volatile market, the disruption of an auditor change would compound the increase in costs and potentially weaken audit quality during a time when a company most needs timely and knowledgeable feedback from its auditor.

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In fact, during the recent financial crisis the regulator in Singapore suspended its audit firm rotation requirement for public banks because of this very concern.

I believe the current regulatory regimen covering the auditing profession is working well to promote auditor independence and a substantive audit process. The presently required rotation of senior personnel on public company audits is effective because of the fresh insight and experience it brings to an audit, without the disruption and inefficiencies that result in changing audit firms. Considering the controls inherent in this rotation requirement, in audit committee oversight of auditor performance and independence, and in the reviews for audit quality carried out by PCAOB and the individual audit firms, it seems unreasonable to conclude that there is a regulatory "hole" that could permit a lack of auditor independence and/or audit quality. In fact, it may be very reasonable to conclude that current regulatory requirements and oversight, coupled with audit firms' clear desire to preserve their role and reputation in the marketplace, are working as intended to enhance audit effectiveness and auditor independence.

Thank you for your consideration.

Sincerely,

William L. Bax
Chairman, Audit Committee of the
Board of Directors