THE
DIRECTORS'
COUNCIL

Michele J. Hooper
President and CEO

December 13, 2011

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

Re: Request for Public Comment: Concept Release on Auditor Independence and Audit Firm Rotation, PCAOB Rulemaking Docket Matter No. 37

Dear Office of the Secretary:

I appreciate the opportunity to comment on the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation. My comments are based primarily on my experience as chair of the audit committees for four large public companies, member of the board of the National Association of Corporate Directors, and member of the board of the Center for Audit Quality. While this experience informs my perspectives, please note that these comments are solely my own and should not be attributed to any other entity.

I applaud the desire of the PCAOB to pursue ways to enhance auditor independence, objectivity and professional skepticism, and recognize the value to shareholders and the capital markets of the independent financial statement audit. I believe that the pursuit of continuing improvement in audit quality should be at the heart of any changes that are considered by the PCAOB. As I have reviewed and considered the concept of mandatory firm rotation, I believe this proposal will undermine the responsibilities and accountabilities of audit committees as required by Sarbanes-Oxley, will indeed result in significant unnecessary cost and disruption, and will not improve auditor independence, objectivity, and professional skepticism. In short, mandatory firm rotation will not improve the quality of the independent financial statements audit enough to overcome its significant downsides.

The passage of the Sarbanes-Oxley Act significantly increased the responsibility and accountability of audit committees of corporate boards: first, by assuring our own independence, second by delegating to the audit committee the governance over financial reporting and internal controls, and third by delegating to the audit committee the oversight of the external auditors. This oversight includes the selection, hiring, evaluation, termination and compensation of the independent external auditors. Evaluation includes the annual assessment of the external audit firm's performance and taking action to determine whether to recommend continuing with or replacing the firm. Therefore, I believe it is the responsibility of the audit committee, under Sarbanes-Oxley, to determine when and how to replace the external audit firm. The improvement in the quality of audit committee processes and discussions as we execute our responsibilities strengthens our oversight of auditor independence and ensures our shareholders receive high quality financial statements audits. Our oversight responsibilities are in addition to the mandatory audit partner rotations every five and seven years, as well as the turnover experienced within the CEO and CFO ranks which now is about every five to six years. All of the above work to address and stamp out the potential for "coziness" in the relationship between external auditors and management that is of concern to some.

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With respect to the cost and disruption that mandatory firm rotation could precipitate, I would caution that we move carefully in order to fully understand the unintended consequences of this proposal. There is great value to our companies and our capital markets to having independent external audit firms who have a solid understanding of our industries as well as deep company knowledge. For global companies, as an audit committee chair, I take great comfort in working with external audit firms which have the resource breadth and depth, long term experience with the company and industry, qualified local professionals, local knowledge, strong risk platforms, and language capabilities. There is a significant learning curve that should not be underestimated for external audit firms to understand the complexities, history, risk areas, accounting nuances, and culture of a company and industry that may impact the fair presentation of the financial statements.

Having continuity with an external audit firm along with a strong process for evaluating the firm is a value to the quality of the audit- not a detriment. An arbitrary "one size fits all" mandatory rotation can have the unintended consequence of requiring a change that is not in the best interest of the company and its shareholders and perhaps at a time that is not in the best interest of the company. Mandatory firm rotation at an arbitrary six or nine year pace does not take into consideration the needs of a company that may be in the middle of a major acquisition, a liquidity crisis as the result of unforeseen economic circumstances (such as that experienced since 2008) or other significant change that, when coupled with a required external auditor rotation, would be disruptive, distracting, and costly. The costs and disruptions will impact all parties: the outgoing and incoming external audit firms, management, and the audit committee who will all have to ensure an appropriate transition, probably for a reason that will not lead to any improvement in the quality of the financial statements audit and could decrease the quality of the financial statements at least in the short term. Unfortunately, as the new firm would have to quickly move up the learning curve, it probably will lead to increased audit risk, definitely increased cost, and significant distraction with little to no improvement in auditor independence, objectivity, professional skepticism or audit quality.

I believe in continuous improvement and do believe that there are opportunities to improve the performance of audit committees as we work with external audit firms. I realize that the PCAOB does not have authority over audit committees, but I believe that we are both working towards the same objective: improving the quality of financial statement audits. So I offer these perspectives as an audit committee chair. First, all audit committees are not created equal- some are more focused on applying best practices in their processes than others. More support for the dissemination of audit committee best practices, perhaps through educational programs like NACD, would be helpful especially for smaller companies. Second, there should be more focus on the evaluation and continuous improvement of external auditors by audit committees. Increased focus and discussion on how to evaluate the performance and relationship with external auditors together with the benefits of benchmarking could help raise the bar. And third, audit committees should have more robust discussions and linkage of the audit plan, the risk assessment that the auditor is using to underpin their plan, and the work plan coverage to address the audit requirements.

Finally, I believe that there is a real need to address what I think is an underlying issue to shareholder discontent in this area: the need to improve communication between the audit committee, shareholders, and capital markets. There has been much improvement made by audit committees in executing our responsibilities, including our oversight of the external auditors, but the only place that our work is communicated is in the Audit Committee report which is included in the proxy statement. There has been significant improvement in the processes, focus, and quality of the audit committee discussions. The quality of the Audit Committee report varies widely, from some committees who just report what is legally required, to other committees who are more forthcoming in discussing the work of the committee over the past year. I believe communication among audit committees, shareholders and regulators leading to the development of best practices for audit committee reporting could be very helpful.

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I am pleased that the PCAOB will be holding roundtables in March on this Concept Release, and hope that a good representation of audit committee chairs will be included. I appreciate the opportunity to comment on this Concept Release and would be pleased to respond to any questions regarding the views I have expressed in this letter.

Sincerely,

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