Texas Instruments Incorporated

December 14, 2011

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: Rulemaking Docket Matter No. 37

Dear Board Members:

This letter is submitted on behalf of Texas Instruments Incorporated ("TI") and the Audit Committee of TI's Board of Directors in response to the request of the Public Company Accounting Oversight Board ("PCAOB") for comments to the proposed PCAOB Release Number 2011-006, *Concept Release on Auditor Independence and Audit Firm Rotation* (also referred to as **Rulemaking Docket Matter No. 37**.)

We thank the Board Members for the opportunity to comment on this matter. We support the attempts of the PCAOB's Board Members to address improvements in auditor independence, objectivity and professional skepticism. However, we do not believe that the primary focus of the proposal, to require a mandatory rotation of audit firms, would be beneficial or provide the desired outcome.

Fundamental Conflict of Interest

We recognize that one of the most basic impediments to improving auditor independence, objectivity and professional skepticism is the current remuneration system where the auditors are paid by the client and are then expected to be independent and objective. This basic payment structure creates a fundamental conflict of interest.

One proposed way to address this fundamental conflict of interest is the mandatory rotation of audit firms; the belief being that this would result in an improvement in auditor independence, objectivity and professional skepticism.

However, we believe that there are sufficient tools currently in place that adequately address questions of auditor independence, objectivity and professional skepticism without implementing a dramatic restructuring of the existing payment system and which obviate the need for a mandatory rotation of audit firms.

Reasons against Audit Firm Rotation

We believe the desired benefits of audit firm rotation have theoretical merit, but the actual results of mandatory rotation are untested, and such rotation could be implemented only at great cost:

1. Learning curve leads to inefficient audits - An audit staff coming on to a new client in a new industry must spend a great deal of time learning how the client's accounting systems, policies and procedures and internal controls work in order to express an opinion on the client's financial statements. Several independent studies have found that there are a disproportionate number of audit failures during the first few years of a new audit engagement, suggesting mandatory rotation may lead to reduced audit quality. One potential mitigation of this is to bring in even more audit supervision during the first few years, leading to higher costs for the client with no corresponding increase in quality assurance.

2. Cost to client's staff - In the normal course of a change in auditors, the client's staff will be required to spend significant redundant hours familiarizing the new auditors with the client's accounting systems, policies and procedures and internal controls. Not only will this lead to increased costs, but the forced rotation could actually increase risk of an error as it takes time away from client staff ensuring the proper operation of the client's internal controls.

3. Other audit costs – New audit staffs may be less willing to initially rely on the work of internal audit departments or the work of other auditors in areas where they may not have a presence (such as in foreign countries). This would result in the need for additional and very likely redundant, audit procedures, which would result in increased costs without corresponding increases in the quality of the audit.

4. Marketing pressure - With mandatory rotation, audit firms may feel more pressure to win new clients in order to replace revenue streams lost because of rotation. This pressure to obtain new clients may also result in an inordinate amount of time used in preparing presentations, etc. as part of the marketing effort. This lost time would have to be recouped somewhere, likely through higher fees for audit clients.

5. Effect on competition - While it is sometimes suggested that mandatory audit firm rotation would increase competition, allowing the second tier of audit firms to increase their presence with clients formerly serviced only by the largest CPA firms, the reality may be that these larger CPA firms will acquire their smaller competitors to concentrate on replacing lost revenue from the forced rotations, thus reducing competition. Companies may be faced with even more limited options to obtain adequate audit resources, particularly multinational companies that are already limited to choosing auditors from the small pool of truly global firms.

6. Implementation/transition issues – A major concern would be how a mandatory rotation of audit firms could be equitably implemented. Even if the rotation was initially limited to just the largest 500 companies in the U.S., who would determine which companies would have to change auditors and when? The number of companies that would change in any given year would have to be limited, staggering the implementation over several years. This could

create great inequities and economic hardships among the audit firms, as some would lose major clients that annually contributed a large portion of their audit revenue for which they may not be able to recover until the second, third or even later years. The effect of this will be most felt in smaller markets where there is one large public company that is being audited by the only large CPA firm in that area. The loss of that single large client cannot be easily offset and layoffs are likely to ensue, raising real concerns as to a firm's ability to continue providing high quality future audits in the face of higher staff turnover.

Other Mitigating Factors

In addition to the above arguments, the maturation of the Sarbanes Oxley Act of 2002 and issuance by the SEC and PCAOB of subsequent rules and regulations to implement the Act are other mitigating factors that we believe obviate the need for either a dramatic restructuring of the current auditor remuneration system or implementing a mandatory audit firm rotation. Specifically:

a. The strengthened composition, responsibilities and involvement of audit committees have had the greatest favorable impact. The new independence rules and the requirement for increased financial knowledge and experience of committee members have raised the awareness and abilities of audit committees. Moving the responsibilities for hiring external auditors and reviewing their annual performance to the audit committee also helps ensure an appropriate investor focus is maintained by the auditors.
b. The existence of more stringent quality controls at the audit firms as a result of mandated professional standards (through new PCAOB and SEC rules and regulations) helps ensure that firms are independent in fact and appearance.
c. The current PCAOB inspections program has caused audit firms to strengthen their internal review and documentation of audits, raised firm quality control systems and procedures and heightened awareness of the proper focus that should be maintained during a proper audit.
d. The mandatory rotation of both the lead (or engagement) partner as well as the reviewing (or concurring) partner is having a beneficial impact on objectivity and professional skepticism, bringing in the 'fresh views' that this proposal is also trying to achieve. Skills and experiences gained at another company can be used to reinforce the objectivity and professional skepticism needed at the current client.

Alternative Suggestions

We offer the following alternative suggestions for improving auditors' objectivity and professional skepticism at much lower costs:

1. Further strengthening of the audit committee by increasing the number of 'financial experts' from at least one to at least two. In today's complex accounting environment, it may not

always be possible to have any single individual who has the detailed breadth of knowledge and experience to understand all possible intricate accounting scenarios of a company.

2. Expanding the reporting of the results of PCAOB inspections to the audit committees of the clients who were the subject of the review. Currently, that reporting is limited to a discussion with the audit firm only and any discussion of findings with the audit committee is made purely on a voluntary basis.

3. Further limiting non-audit-related services to just those activities in direct support of the client's audit and tax services. This would remove any potential interference with the audit firm's objective of providing a quality audit by eliminating the conflict inherent in trying to earn additional revenues from the audit client for non-audit-related services.

Conclusion

Our conclusion is that there is no benefit from mandatory rotation of audit firms. It is not cost beneficial and there are sufficient existing mitigating controls and procedures in effect that would obviate the need for such rotation. Many of these controls have only recently taken effect and we see no compelling evidence that the new controls are not effective.

Sincerely,

Pamela H. Patsley
Chair, Audit Committee

Kevin P. March
Senior Vice-President and Chief Financial Officer

Ralph W. Babb, Jr.
Audit Committee

Robert E. Sanchez
Audit Committee