FM Global

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

Reference: PCAOB Rulemaking Docket Matter No. 37

Dear PCAOB:

Factory Mutual Insurance Company ("FM Global") welcomes the opportunity to comment on the concept release on auditor independence and audit firm rotation issued by the PCAOB in August 2011.

FM Global is a leading commercial and industrial property insurer of the world's largest businesses, providing more than one-third of FORTUNE 1000-size companies with engineering-based risk management and property insurance solutions. Ranked 545 on the FORTUNE 1000 list of America's largest companies, FM Global employs more than 5,000 employees worldwide. FM Global is operating in more than 130 countries worldwide. As of December 31st, 2010, total assets and total stockholders' equity of FM Global were US $14.3 billion and US $7.3 billion, respectively.

FM Global supports PCAOB's initiative and effort to continually enhance auditor independence, objectivity and professional skepticism.

In response to the proposed concept release, FM Global does not support mandatory audit firm rotation. By itself, audit firm rotation will not enhance auditor independence, objectivity and professional skepticism. These qualities must be inherent in the firms and profession in order for users of financial statements to have any faith in those financial statements.

While we do recognize some advantages such as a fresh look at the audit and freeing the auditor from pressure to develop and protect long-term client relationships, we feel the disadvantages far outweigh any benefit. Some of the disadvantages include:

- A significant decrease in audit effectiveness which depends on an audit firm's accumulated knowledge and experience of our operations and reporting structure.
- Each new audit team's requirement to fully understand our operations and reporting structure will involve a significant amount of management time for very little benefit.
- With a similar 'Green Paper' proposal originating in Europe and potentially numerous other rotation requirements around the world, operating in different time zones and work schedules, this proposal would multiply the added costs to multi national companies and significantly complicate management of global audits.
- This proposal would restrict our choice of independent auditors as only a handful of external audit firms could provide us with an adequate and efficient global audit. In addition, any external audit firms that provide non-audit services to us, which might, for practical and legal reasons, further narrow the field.
- There is the likelihood of revisiting settled issues with same outcome.
- There is the potential that the new auditor will disagree with the prior auditor's position on historical accounting methods and treatments resulting in potential restatements.

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We encourage the PCAOB to further strengthen the roles and responsibilities of audit committees, particularly their role in evaluating independence with external auditors. Our audit committee, which comprises independent directors, meets regularly with management and internal auditors to review the Company's financial policies and procedures, its internal control structure, the objectivity of its financial reporting and most importantly, the independence of the company's external auditors. Our audit committee has a policy requiring the rotation of the external audit partner and the concurring partner every five years, which in our view is far more effective than an entire audit firm rotation. The external auditors are required to report directly to the audit committee and do not provide any significant non-audit related services. Our audit committee is responsible for approving the hiring of new external auditors and monitoring annual audit fees.

Audit committees have generally focused on the cost of external auditor rotation, not the issues of independence and objectivity. The principal result of this process has been a short-term reduction in fees, not an improvement in audit quality.

Increased audit committee oversight might improve external auditor independence. External auditors' current de facto relationship is with management, not the audit committee, prevailing governance standards notwithstanding. More frequent in depth meetings with the company's external auditors and audit committee, resulting in closer supervision of the external auditor by the committee, a more thorough and deeper understanding of the audit scope and plan by the committee and control of the fee by the committee might enhance auditor independence, objectivity and professional skepticism.

Increased PCAOB communication and interaction with both audit committees and external auditors would be beneficial to users of financial statements. We encourage the PCAOB to further develop and enforce formal practices directly with audit committees and external auditors in which issues such as auditor independence, objectivity and professional skepticism can be addressed.

In order to determine whether a pilot program is necessary so that the PCAOB can determine whether to consider developing a more permanent requirement, would require many years of study and a substantial financial investment before sufficient empirical data could be collected. This cost and delay would likely impede implementation of practical solutions to the perceived problems.

Other alternatives to try and enhance auditor independence, objectivity and professional skepticism such as joint audits, obtaining audit quality certification and expanded audit reports make the process more complex, costly, time consuming and require considerable effort at coordination which might actually reduce audit quality. And if a company is forced into soliciting bids for the sake of soliciting bids accomplishes nothing. A change in audit firms must actually occur if the account is put out to bid.

We appreciate the PCAOB's consideration of our comments and would be happy to discuss them in more detail if needed. Please feel free to call me at 1 (401) 415 1515 at your convenience.

Sincerely,

C Bunnell

FM Global

Christopher Bunnell, *VP and Chief Internal Auditor, FM Global*

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