CENTER FOR CAPITAL MARKETS COMPETITIVENESS

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October 20, 2011

Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006-2803

Re: Request for Public Comment *on Concept Release on Auditor Independence and Audit Firm Rotation and Notice of Roundtable (PCAOB Release No. 2011-006, August 16, 2011, PCAOB Rulemaking Docket Matter No. 37)*

Dear Mr. Seymour:

The U.S. Chamber of Commerce (the "Chamber") is the world's largest federation of businesses and associations, representing the interests of more than three million U.S. businesses and professional organizations of every size and in every economic sector. These members are both users and preparers of financial information. The Chamber created the Center for Capital Markets Competitiveness ("CCMC") to promote a modern and effective regulatory structure for capital markets to fully function in a 21st century economy.

The CCMC believes that businesses must have a strong system of internal controls, recognizes the vital role external audits play in capital formation, and appreciates the opportunity to comment on the Public Company Accounting Oversight Board's ("PCAOB") *Concept Release on Auditor Independence and Audit Firm Rotation* ("Concept Release").

The CCMC has serious concerns about the Concept Release particularly the consideration of mandatory audit firm rotation. The premise for the Concept Release is not grounded in facts and therefore ill-conceived. Movement towards mandatory audit firm rotation will harm investors, endanger the competitive position of American public companies, degrade audit quality, and take a path that has, in the

past, been explicitly rejected by Congress and the Securities and Exchange Commission ("SEC").

Additionally, the Concept Release is at odds with initiatives to reduce unnecessary and burdensome regulation as the economy struggles to recover from the recent recession and avoid another one.

Accordingly, the CCMC believes that the PCAOB should withdraw the Concept Release. The CCMC's concerns are outlined in more detail in the remainder of this letter.

I. Discussion

The current form of audit practice and engagement is rooted in laws and regulations dating back to the passage of the Securities Act of 1933 and the Securities Exchange Act of 1934 ("the 1933 and 1934 Securities Acts"). This structure has depended upon a private firm engagement with a public company to produce audited financial reports, under SEC supervision, to provide investors with decision useful information. An important feature of this structure has been the independence of auditors.

Since the passage of the 1933 and 1934 Securities Acts and the designation of the SEC as the arbiter of financial reporting in the United States, there have been periodic reviews of financial reporting structures with the implementation of reforms when needed.

In that context, mandatory audit firm rotation is in fact an old idea. More than three decades ago, mandatory rotation was considered and rejected by the Commission on Auditors' Responsibilities (the "Cohen Commission") as costly and with no net benefit to investors. The Cohen Commission stated that the lack of auditor familiarity with a client in the early years of engagement would cause more harm than benefit for investors.[1] The Cohen Commission concluded that the audit

[1] See *The Commission on Auditors' Responsibilities: Report, Conclusions, and Recommendations* (1978), pp. 108-109. Curiously, in the end, the Concept Release acknowledges that mandatory audit firm rotation will end up lowing audit quality and then asks how to mitigate this effect (pp. 23-24).

committee is in the best position to evaluate audit effectiveness and decide if appropriate, to rotate audit firms. We believe that this conclusion remains true today.

In 1994, the SEC rejected the notion of mandatory firm rotation and stated that there was not a need for rules changes or legislation to further that goal.[2] Following significant financial reporting failures in the Enron and WorldCom incidents, Congress explicitly rejected mandated audit firm rotation instead choosing to mandate audit partner rotation and strengthening the role of audit committees in the debate and passage of the Sarbanes-Oxley Act of 2002 ("SOX").

So while Congress and the SEC have explicitly rejected audit firm rotation, in favor of other reforms, the threshold questions for the consideration of mandatory audit firm rotation are:

- What has changed to raise the issue again?
- What evidence exists to consider mandatory firm rotation?

The CCMC believes that the PCAOB has failed to provide answers to these questions and therefore also believes that the concept release should be withdrawn.

a. Has Audit Regulation Failed?

This is in fact the fundamental question that must be answered. To drastically change a structure that has been in place for 78 years would seemingly require pervasive financial reporting failures. Pervasive failures of this sort would require a close examination of the PCAOB's almost 10 year stewardship of audit regulation.

The Concept Release does not present any evidence of pervasive failures, and as will be discussed later, the failure to provide factual evidence is a fatal flaw in the consideration of the Concept Release.

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[2] SEC Office of the Chief Accountant, Staff Report on Auditor Independence (1994).

With this Concept Release, the PCAOB is advancing the proposition that the level of audit quality for public companies is somehow inadequate.[3] If the system is inadequate, the PCAOB must explain how the regulatory system failed. This alleged inadequacy is in spite of all the regulatory activities of the PCAOB and others, such as the SEC (including SEC rules on auditor independence), and the efforts of audit committees. Indeed facts are not presented to support the premise that the existing regulatory and governance structures fall short of the mark.

In establishing the PCAOB as regulator for audits of public companies, with oversight by the SEC, SOX gave the PCAOB multiple powers to maintain and improve audit quality through registration, inspection, standard-setting, and enforcement. An alleged inadequacy of audit systems, by inference, means that these powers have either not been used well or not used at all. Similarly, abdicating these powers in favor of the extreme move of mandating audit firm rotation is tantamount to the PCAOB throwing up its hands and stating that audit regulation cannot work.

This implication, embedded in the Concept Release, also extends to SOX mandated corporate governance structures. SOX gives audit committees the responsibility for the appointment, compensation, and oversight of the independent audit firm, along with responsibility for resolving any disagreements between management and the auditor regarding financial reporting.[4] While SOX gives the PCAOB jurisdiction over audit firms, it does not give the PCAOB authority over audit committees; instead, that responsibility rests with the SEC.

A reading of SOX demonstrates that a fundamental reordering of the audit committee responsibilities and actions would have to emanate from the SEC and not the PCAOB. Mandating a set period for changing audit firms— which would preclude both longer and shorter periods (at least without regulatory consent of some form)— deprives audit committees of discretion and judgment, contravenes SOX and

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[3] Advancing this proposition is curious considering that the Concept Release states that, based on its experience conducting inspections, the Board believes public company audit quality has improved post-SOX under the PCAOB (pp. 15).

[4] In addition, many public companies now require shareholder voting to ratify the retention of the audit firm recommended by the audit committee.

audit committee responsibilities for audit firm selection, and otherwise constrains and unduly complicates the work of audit committees.

It appears, therefore, that the PCAOB has failed to provide a case for moving forward and may have overstepped its authority in emasculating SOX governance mandates.

If the PCAOB is concerned about improving the level of audit quality, it would be better served to present evidence as to the nature of the problem and focus its efforts on improving its standard-setting and inspection activities in response to any such problem. For example, the CCMC notes that the PCAOB auditing and quality control standards have not been substantially changed from those applicable on public company audits pre-SOX. Concept Releases, such as this one, distract stakeholders and divert the PCAOB board and staffs focus from these other standard-setting activities that may benefit investors and the marketplace.

b. Evidence Lacking to Support Mandatory Rotation

The PCAOB has failed to provide evidence to issue this Concept Release or move forward with a roundtable. The PCAOB does not provide any evidence from its own activities, including from its inspection process, that audit firm tenure is an issue. Indeed, the PCAOB admits that it has no evidence from its inspection process that audit firm tenure has any systematic relationship with inspection deficiencies. To overcome this fatal flaw, the PCAOB attempts to equate Part I inspection deficiencies to audit failures, although the Concept Release acknowledges that the use of the term "audit failure" describes a situation of not obtaining (or not documenting the evidence to support) the reasonable assurance that a financial statement is free of material misstatement. It does not mean that a financial statement is in fact materially misstated.[5]

So an "audit failure" as used in the concept release is actually not a failure per se regarding the accuracy of financial reports, but rather the identification of what the PCAOB determines to be a deficiency in the process of an audit, which itself may

[5] Concept Release (pp. 5)

involve a difference of professional views as to what constitutes appropriate evidence to support reasonable assurance.

To overcome this Catch 22, the Concept Release argues that mandatory audit firm rotation will promote auditor objectivity and professional skepticism. The Concept Release only offers anecdotal evidence from PCAOB inspections that auditor skepticism is a problem. However, it is unclear that the anecdotes provided in the Concept Release even involve a lack of skepticism. It is also unclear that mandatory audit firm rotation would provide a solution to any such "skepticism problems."[6] Indeed, the PCAOB admits that the Concept Release is not based on any "root cause" analysis of its inspection findings. In fact the PCAOB readily admits that it needs to deepen its understanding of the "root causes".[7] Thus, the PCAOB offers no persuasive evidence, from its own activities, linking auditor tenure with a lack of professional skepticism that, in turn, would be mitigated by mandatory audit firm rotation.

The Concept Release is also flawed in failing to fully appreciate the nature of professional skepticism. Skepticism involves both a mindset and a critical evaluation of audit evidence with two critical components –objectivity and expertise. Distinguishing between these two components of skepticism is essential. The Concept Release admits that the instances offered from inspections as indicative of a lack of skepticism could, instead, involve issues related to technical competence or experience (i.e., expertise not objectivity). But, the Concept Release then fails to appreciate that expertise (not objectivity) as the essential issue in fact undermines any arguments presented for mandatory audit firm rotation. Mandatory audit firm rotation is widely recognized as creating expertise concerns, especially in the earlier years of auditor tenure. Thus, mandatory audit firm rotation would have the effect of exacerbating (not mitigating) the "skepticism problems" used by the PCAOB to motivate the Concept Release.

Additionally, the Concept Release posits that mandatory audit firm rotation would improve auditor skepticism because "an auditor that knows its work will be scrutinized at some point by a competitor may have an increased incentive to ensure

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[6] Ibid (pp. 7).
[7] Ibid (pp. 6).

that the audit is done correctly."[8] However, this argument requires the assumption that scrutiny provided by audit committee interactions and oversight; by new lead and concurring audit partners under the SEC's rules implementing SOX for mandatory partner rotation; by audit firm quality control processes, programs, and procedures (such as the multiple formal reviews by other members of the engagement team, including reviews by the lead and quality review partners, an engagement team's consideration of prior year audit work during audits in subsequent periods, audit firm internal inspection programs, national office interactions etc.); and by PCAOB inspections (and the deterrence effects of regulatory enforcement and private litigation) somehow do not offer adequate incentives.

Inchoate potentialities of skepticism combined with a lack of understanding of root causes do not meet the minimal thresholds of issuing a Concept Release or moving forward in consideration of it. By that token, as an example, anecdotal musings by the SEC, of ethical lapses by attorneys would not pass muster for regulatory action requiring law firm rotation by companies.

From the standpoint of evidence on the implications of auditor tenure, it is also important to recognize that the weight of the evidence from academic research does ***not*** support the implementation of mandatory audit firm rotation. Indeed, a recent review of the research literature finds that the evidence suggests several attributes of audit quality improve as auditor tenure increases.[9] Further, research on fraud by a member of both the PCAOB's Standing Advisory Group ("SAG") and Investor Advisory Group ("IAG") finds that fraudulent financial reporting is more likely to occur in the first three years of the audit-client relationship and fails to find any evidence that fraudulent financial reporting is more likely given long auditor tenure. Similar to other studies, this study concludes that the results are consistent with the

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[8] Ibid (pp. 17).

[9] For a review of academic research on mandatory audit firm rotation see "The Causes and Consequences of Auditor Switching: A Review of the Literature" by C. Stefaniak, J. Robertson, and R. Houston in *Journal of Accounting Literature* (Gainesville: 2009) Vol. 28: 47-122. The study acknowledges some evidence indicates that mandatory auditor rotation might improve audit quality in certain situations, although not without costs. Thus, even this evidence does not suggest convincingly that the benefits of mandatory auditor rotation will exceed its overall costs.

argument that mandatory audit firm rotation could have adverse effects on audit quality.[10]

The Concept Release attempts to dismiss dissenting evidence from academic research, in part, by arguing that skepticism is "unobservable," and therefore not susceptible to empirical study. This argument is circular reasoning at best. The academic literature is quite robust and the relevant evidence is obtained using multiple approaches and measures. The weight of the evidence is consistent with a lack of familiarity in early years as a problem, not over familiarity in later years. The Concept Release fails to rebut established research.

In addition, the Concept Release attempts to broadly dismiss all research evidence, nonconforming to the notion of mandatory audit firm rotation, as irrelevant because most of it is not based on a regime of mandatory audit firm rotation. According to the Concept Release, a limitation of the academic studies is that they "tend to focus on environments where auditor rotation is voluntary rather than mandatory." And, "voluntary rotation may be associated with auditor-issuer disagreements, other financial reporting, or economic issues."[11]

This argument fails to acknowledge that voluntary auditor changes involve disclosures and communications that should reveal potential problems to successor auditors (and investors) reducing the likelihood of subsequent audit failures. For the PCAOB to broadly dismiss the evidence begs the question of why the required communications and disclosures were somehow inadequate and contributed to audit failures after changes in auditors. This problem, if it exists, is one that the PCAOB can and should do something about rather than focusing on mandatory audit firm rotation.

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[10] For example, see "Audit Firm Tenure and Fraudulent Financial Reporting" by J. Carcello and A. Nagy in *Auditing: A Journal of Practice & Theory* (Sarasota: September 2004) Vol. 23 (2): 55- 70. Also, see two monographs in 1999 and 2010 from the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") using SEC Accounting and Auditing Enforcement Actions during 1987-1999 and 1998-2007 as a proxy for fraudulent financial reporting. The latter, *Fraudulent Financial Reporting 1999-2007* by M. Beasley, J. Carcello, D. Hermanson, and T. Neal, reported that 26% of fraud companies switched auditors between the issuance of the last clean financial statements and the last set of fraudulently misstated financial statements, as compared to 12% of no-fraud firms during the same time period (p. 37).

[11] Concept Release (pp. 16).

Finally, the CCMC is concerned about another way the Concept Release overreaches for evidence to support mandatory audit firm rotation. As stated earlier, an "audit failure" as argued by the PCAOB is in fact not an audit failure.

The PCAOB's misleading use of the term is evidenced by its comparison to the definition employed by the GAO in its 2003 surveys ("GAO Report") and report to Congress on the mandatory audit firm rotation concept. The GAO report defined the term as follows:

> ***"audit failure"*** *refers to audits for which audited financial statements filed with the SEC contained material misstatements whether due to errors or fraud, and reasonable third parties with knowledge of the relevant facts and circumstances would have concluded that the audit was not conducted in accordance with GAAS, and, therefore, the auditor failed to appropriately detect and/or deal with known material misstatements by (1) ensuring that appropriate adjustments, related disclosures, and other changes were made to the financial statements to prevent them from being materially misstated, (2) modifying the auditor's opinion on the financial statements if appropriate adjustments and other changes were not made, or (3) if warranted, resigning as the public company's auditor of record and reporting the reason for the resignation to the SEC.*[12]

Contrary to such an accepted definition, the Concept Release mischaracterizes findings in Part I of the PCAOB's inspection reports as audit failures. In turn, the PCAOB uses these audit failures as a "call to action." Yet, as the PCAOB well knows, the vast majority of inspection findings are not audit failures. For example, very few PCAOB inspection findings have given rise to restatements.

Instead, many of the findings described in Part I of the PCAOB's inspection reports involve differences of opinion between PCAOB inspectors and auditors over judgments on documentation and evidence acquisition. Frankly, a number of Part I inspection findings can be characterized as PCAOB inspectors' judgments that differ from auditors' judgments on managements' judgments. They are not audit failures. It is both misleading and unworthy of an audit regulator to characterize them as such to buttress a Concept Release.

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[12] GAO 04-217 *Public Accounting Firms Required Study on the Potential Effects of Mandatory Audit Firm Rotation* (2003) (pp. 6).

c. CIFiR Recommendations

Further, to improve audit quality related to auditor judgments, the CCMC has urged the PCAOB to adopt the recommendation of the SEC's Advisory Committee on Improvements to Financial Reporting (CIFiR).[13] In 2008, CIFiR recommended that the PCAOB develop and articulate guidance related to how the PCAOB inspections and enforcement divisions would evaluate the reasonableness of judgments made based on auditing standards. CIFiR also recommended that the PCAOB's statement of policy should acknowledge that the PCAOB would look to the SEC to the extent that the PCAOB would be evaluating the appropriateness of accounting judgments as part of an auditor's compliance with PCAOB auditing standards.

CIFiR also recommended that the concept of materiality be used as a determinative factor if mistakes in financial statements should trigger a restatement or simply further disclosure for investors. While the CIFiR recommendations were made in 2008, they still have not been acted upon.

d. Mandatory Audit Firm Rotation Would Be Costly and Disruptive to the Markets

As a supporter of effective audits, the CCMC believes a cost-benefit analysis is one effective approach to improving audit quality. In light of the weight of the academic research debunking mandatory audit firm rotation, it would seem that there is no net benefit for investors in moving forward in the consideration of the Concept Release.

As discussed earlier, mandatory audit firm rotation would be extremely costly and disruptive to the U.S. capital markets, harmful to investors and have far reaching negative consequences. The Concept Release acknowledges that mandatory audit firm rotation would disrupt markets and increase audit costs.[14] Likewise, the costs

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[13] For example, see letter to the PCAOB from the U.S. Chamber CCMC on *Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards* (PCAOB Release No. 2011-003, June 21, 2011, Rulemaking Docket Matter No. 34).

[14] Concept Release (pp. 3).

and disruptions arise from many sources and are largely unexplored in the Concept Release. Disruptions would extend to capital formation activities including initial public offerings and mergers and acquisitions. Mandatory audit firm rotation makes auditor choice and change a much more complicated proposition for companies and audit firms with interdependencies beyond the control of any particular party. Indeed, it is possible that overlaying mandatory audit firm rotation on top of all the many existing restrictions on audit choice would leave some large global companies without any available, eligible, requisite audit firm.

That would be a disaster for investors, companies, and capital formation with direct negative consequences for economic growth and job creation.

The Concept Release does note that the GAO Report includes an estimate that initial year audit costs—which includes costs beyond the audit fee itself— would increase by more than 20 percent with mandatory audit firm rotation.[15] However, this estimate was made before integrated audits of both the financial statements and internal control over financial reporting. It is likely that those costs would be higher today, in light of the additional reporting requirements imposed by post SOX legislation and regulations including the Dodd-Frank Wall Street Reform and Consumer Protection Act. Also, as stated earlier, research shows that there is an increase in costs and fraud potential during the first three years of a new auditor engagement.

Increases in costs associated with the audit process and potential fraud are just the tip of iceberg. For example, mandatory audit firm rotation would require company personnel and board/audit committee members to devote significantly more time and effort to the external audit function and activities in order to obtain the same results as now.

The Concept Release argues for overlaying mandatory audit firm rotation on top of the existing audit regulatory and governance structures that are already far-reaching and complex. However, the Concept Release provides no analysis of how mandatory audit firm rotation would even work under and interact with the existing structures.

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[15] Ibid (pp. 14).

As just one example, the Concept Release provides no analysis of the implications of overlaying mandatory auditor rotation on top of a very rules-based system of auditor independence. The rules include the more visible ones that implement SOX provisions precluding certain non-audit services to audit clients and mandating audit partner rotation. Yet, there are many other less visible SEC and PCAOB independence rules that impact the hiring and retention of the audit firm and other accounting firms for non-audit services, as well as the hiring and retention of management, employees, and board members, too. As a result there are likely to be many companies, including those with large global operations, which will find themselves in the position of not being able to use any large audit firm as their external auditor.

An added complication is that audit firms are not fungible. As just one example, audit firms have differences in industry experience and expertise. Some firms have developed industry specializations. But, not even the larger audit firms specialize in all industries. It is not just a matter of severely altering and limiting audit firm choice from a company perspective. Mandatory rotation changes the ability of audit firms to develop and maintain expertise and complicates audit firm staff planning and allocation decisions, including geographically—all to the potential detriment of audit quality.

The Concept Release suggests that the PCAOB might consider precluding voluntary audit firm changes unless such changes are "for cause."[16] This is an untenable constraint on audit committees in their engagement of auditors and oversight of the audits. It naturally raises the question of what represents "for cause" and who decides. However, another problem is that preventing audit committees from dismissing an auditor at their discretion in this way actually reduces the amount of useful information available to investors. Voluntary auditor changes are informative to investors and other stakeholders in financial reporting. Eliminating this source of information by mandating audit firm rotation does not make investors better off.

Similarly, it should be noted that Congress, during the Dodd-Frank debates, considered and ultimately rejected a system whereby the SEC would assign credit

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[16] Ibid (pp. 23-24)

rating agencies to review companies or products. It would seem incongruous for the PCAOB then to consider a mechanism whereby it could either assign or withdraw a firm from engagement, again depriving the audit committee of its discretion and judgment.

The Concept Release asks for feedback on the PCAOB imposing mandatory audit firm rotation on some subset of public companies. For example, the Concept Release suggests the possibility of the PCAOB requiring mandatory audit firm rotation for the largest issuer audits, or audits of companies in certain industries.[17] But, the largest issuers are those where the problems with mandatory audit firm rotation would be most pronounced. Focusing on large issuers and companies in certain industries seems pointed towards large systemic risk institutions.

Given all the problems with mandatory audit firm rotation, mandating it for this subset would be akin to heightening systemic risk into the capital markets for systemically risky institutions. If this is the case, the management of systemic risk is left to the prudential regulators and the Financial Stability Oversight Council ("FSOC").

It seems that the Concept release is totally devoid of any consideration of the need of a cost benefit analysis. PCAOB standards must go through the SEC rulemaking process to be approved. The SEC must perform a cost benefit analysis in order to pass the appropriate legal muster in promulgating a regulation, *Business Roundtable & U.S. Chamber of Commerce v. Securities and Exchange Commission.* The SEC has also that it will comply with the Presidential Executive Orders 13563 and 13579 on regulatory reform.[18] These Executive Orders require an agency to choose the least burdensome means of imposing a regulation.

Therefore, it would seem prudent for these cost benefit issues to be addressed early in the process.

e. PCAOB Lacks Authority for Mandating Audit Firm Rotation

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[17] Ibid (pp. 3 and 21).

[18] See October 6, 2011 letter from U.S. Chamber of Commerce to the Securities and Exchange Commission on the process enhancements needed to comply with the Executive Orders.

As was noted earlier, the CCMC believes that SOX provides the SEC and not the PCAOB with authority over the operation of the audit committee.

The CCMC is concerned that mandating audit firm rotation exceeds the authority of the PCAOB. The CCMC appreciates that the Concept Release frames mandatory audit firm rotation as related to auditor independence and that auditor independence rulemaking falls within the purview of the PCAOB. However, this appears to be more of a convenience of form. In substance, mandatory audit firm rotation, including proscriptions on voluntary auditor change, would contravene audit committee responsibilities under SOX. Mandatory audit firm rotation would directly affect issuers and the status of issuer filings, which are under the purview of the SEC. As such, any requirements in this regard would need to be addressed by the SEC through Commission rulemaking and the SEC's due process.[19]

Finally, the CCMC is concerned that the Concept Release discusses the benefits of mandatory audit firm rotation "as a catalyst to introduce more dynamism and capacity into the audit market" as argued by the European Commission "Green Paper."[20] [21] The Concept Release goes on to explain that "if the largest firms were periodically displaced from their positions auditing the largest companies, more firms might develop additional capacity and expertise in order to compete for those engagements. If so, auditor choice would be increased."[22] Not only is this speculative, but it does not recognize the long timeframe over which any such emergence might occur or appreciate the severe discontinuities that would be encountered during the emergence process. More importantly, promoting competition is ***not*** the mission of the PCAOB. The PCAOB's mission focuses on maintaining and improving audit quality. Needless to say, the Concept Release does not further this mission either.

I. Conclusion

[19] It is inadequate to argue that the SEC must approve any rule adopted by the PCAOB before it can go into effect. The SEC rulemaking process is subject to requirements, including those related to transparency and cost-benefit analysis, which the PCAOB is not. Also, the Commission has delegated authority for approving certain PCAOB rules and standards to the Office of the Chief Accountant, where Commission action is required for SEC rulemaking.

[20] European Commission, *Audit Policy: Lessons from the Crisis* (October 2010).

[21] See also December 7, 2010 letter from the U.S. Chamber of Commerce to the European Commission with comments on the Green Paper.

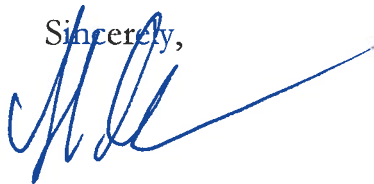
[22] Concept Release (pp. 21).

The CCMC has serious concerns that the Concept Release will harm investors, adversely impact the competitiveness of American public companies and degrade audits in general. While we believe that improvements can be made to financial reporting, suggestions, ideas, and debates must be based upon hard facts, analysis and not on anecdotal information. The PCAOB is almost 10 years old and it is responsible for the system it has overseen, it is not a bystander that can simply opine pronouncements.

Public companies not only compete for capital internationally, but also against other conduits for investment return. The other competitors for capital include private equity, hedge funds, angel investing, venture capital, and debt instruments to name a few. Each of these venues of capital formation has its place and this variety is necessary for a fully functioning 21st century economy. However, the sharp amount of de-listings indicate that public companies are not able to compete for capital as they once did and there is an adverse economic consequence for us all as a result. The notion of mandatory audit firm rotation will not stem that tide, it will only exacerbate it.

The PCAOB has failed to answer questions or presented factual evidence that would justify the issuance of the Concept Release. As we should all work together to provide a sound basis for a strong capital market system that must create the 20 million jobs needed to recover economically and restore prosperity, this is the wrong idea at the wrong time and it should not only be rejected, it should be withdrawn.

Sincerely,



Tom Quaadman