U.S. CHAMBER OF COMMERCE

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November 26, 2013

The Honorable Jacob Lew
Secretary
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Secretary Lew:

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. The Chamber believes that businesses must have a strong system of internal controls and recognizes the vital role external audits play in capital formation. However, we are writing to express our strong concerns about potential adverse ramifications to the business community if the European Union (EU) moves forward with proposed measures to impose mandatory audit firm rotation and caps on permissible non-audit services that are needed by the business community. We respectfully request that the Treasury Department express these concerns in its on-going dialogue with the European Union.

Mandatory audit firm rotation and other changes to the audit business model have been considered over the years by the U.S. Securities and Exchange Commission ("SEC") and the Public Company Accounting Oversight Board ("PCAOB"), but have never moved forward. With the most recent consideration of these issues, the PCAOB's concept release on Auditor Independence and Audit Firm Rotation, over 600 businesses and audit committee members unanimously commented against the proposal, as did the majority of investors. Concerns expressed by the business community included, *inter alia,* increased cost[1]; potential market disruption as there may be only two or three firms with the requisite expertise to perform an audit in an

[1] The Government Accountability Office has estimated that audit costs would rise over 20% if rotation were put in place.

industry; lack of evidence that rotation improves audit quality; and, according to academic studies, increased likelihood of fraud in the first three years of a new audit engagement.

Attached is a coalition letter signed by 30 trade associations and companies that addresses these issues in greater detail. In fact, the House of Representatives, by a bi-partisan vote of 321-62, voted to pass H.R. 1564, the Audit Integrity and Job Protection Act, to prevent further consideration of mandatory firm rotation by the PCAOB. In addition, the 2012 Jumpstart Our Business Startups Act ("JOBS") exempts emerging growth companies ("EGCs") from any future PCAOB rules requiring mandatory audit firm rotation.

We understand the European Union is currently considering a proposal that would require mandatory audit firm rotation not only for companies headquartered in Europe, but also for the European subsidiaries of American companies in certain industries, such as banking and insurance. This extraterritorial reach would be costly and disruptive, as it raises the prospect that American companies would need to use different audit firms in different parts of the world in order to comply with the rotation requirement at European subsidiaries. Most American companies prefer to use one audit firm network around the world, as this maximizes the quality of the audit by enabling seamless coordination across all jurisdictions.

Audit quality and the ability of businesses to have strong internal controls and effective corporate governance policies for themselves and their subsidiaries would be undermined by the EU proposals. This will create challenges for audit committees and Boards while sowing confusion for investors. In short, the transatlantic capital markets will become more inefficient, opaque, and volatile as American companies would be forced to attempt to comply with conflicting legal and regulatory requirements which will undermine confidence and operational abilities at home and abroad.

Simply put, businesses, not government, should choose the vendors and service providers who best fit their needs, structures, and operations. The EU proposals undermine this fundamental principle.

It appears that there is still a short period of time to avoid these unintended consequences, and we hope that you can convey these concerns to the appropriate parties in Europe.

We stand ready to assist and are happy to discuss these issues in greater detail at your convenience.

Sincerely,

Myron Brilliant
Executive Vice President
Head of International Affairs

David Hirschmann
President and CEO
Center for Capital Markets Competitiveness

Enclosure

cc: The Hon. Mary Jo White, Chair, U.S. Securities and Exchange Commission
The Hon. James Doty, Chairman, Public Company Accounting Oversight Board
The Hon. Andreas Papstavrou, Minister Plenipotentiary and Deputy Permanent Representative of Greece
The Hon. Tom Hanney, Ambassador and Deputy Permanent Representative of Ireland
The Hon. Arunas Vinciunas, Ambassador-at-Large and Deputy Permanent Representative of Lithuania
The Hon. Guido Peruzzo, Ambassador and Deputy Permanent Representative of Germany
The Hon. Alexis Dutertre, Deputy Permanent Representative of France
Bill Jones, First Secretary, Permanent Representation of the United Kingdom to the European Union
Ugo Bassi, Director, Capital and Companies, DG Internal Market and Services
Sebastian Valentin Bodu, MEP
Sharon Bowles, MEP

Sajjad Karim, MEP
Klaus-Heiner Lehne, MEP
Eva Lichtenberger, MEP
Kay Swinburne, MEP
Alexandra Thein, MEP
Dr. Antonio de Lecea, Principal Advisor for Economic and Financial Affairs, Delegation of the European Union to the United States
Mr. Antoine Ripoll, Head of Office, European Parliament Liaison Office