



November 15, 2011

Public Company Accounting Oversight Board  
Attention: Office of the Secretary  
1666 K Street, NW  
Washington, DC 20006-2803

Re: Concept Release on Auditor Independence and Auditor Firm Rotation  
Rulemaking Docket Matter No. 37

Dear Board Members:

We appreciate the opportunity to respond to the request for public comment from the Public Company Accounting Oversight Board (the “PCAOB” or the “Board”) on its release, *Auditor Independence and Auditor Firm Rotation* (PCAOB Release No. 2011-006, August 16, 2011, PCAOB Rulemaking Docket Matter No. 37) (“the Concept Release”).

By way of background, we serve as members of the Audit Committee of Eaton Vance Corp. (“Eaton Vance” or “the Company”), an investment advisory firm based in Boston, Massachusetts. Eaton Vance is a market leader in a number of investment areas, including tax-managed equity, value equity, equity income, emerging market equity, floating-rate bank loan, municipal bond, investment grade, global and high yield bond investing. The Company’s principal retail marketing strategy is to distribute funds and separately managed accounts through financial intermediaries in the advice channel. The Company also serves institutional and high-net-worth clients who access investment management services on a direct basis. Eaton Vance is a public company whose stock is listed on the New York Stock Exchange (EV).

In its Concept Release, the Board expressed an interest in comment on certain general questions regarding mandatory auditor rotation and its potential impact on auditor independence, objectivity and professional skepticism; the advantages and disadvantages of mandatory auditor rotation; the effect that mandatory auditor rotation would have on audit costs (tangible and intangible); and any alternatives to mandatory rotation that the Board should consider.

We strongly believe that the Board should consider the perspective of audit committees on the issues relating to auditor rotation. In our opinion, any additional requirements relating to auditor rotation, above and beyond those introduced with the passage of the Sarbanes-Oxley Act, should demonstrably improve the quality of audited financial information. In addition, any improvements sought in perceived quality must be at least commensurate with the potential costs and consequences associated with the implementation of any additional regulation. After lengthy consideration, we believe that mandatory auditor rotation will not meaningfully improve the overall quality of audited financial information, and that the potential costs, both tangible and intangible, far outweigh the purported benefits as described in the Concept Release.

## **Mandatory Auditor Rotation and its Impact on Auditor Independence, Objectivity and Professional Skepticism**

Audit quality is highly dependent on two things: 1) the auditor's ability to detect misstatements through the application of objectivity and professional skepticism and, 2) the auditor's willingness to report misstatements when identified. Mandatory audit firm rotation, in and of itself, will not strengthen these essential elements of audit quality. We believe that current policies providing mandatory partner rotation, peer review, PCAOB review, and significant levels of personal liability for partners in the form of penalties and loss of professional reputation in the event that an audit is deemed deficient provide ample and more effective encouragement for audit quality.

From our perspective, the auditor's ability to challenge rather than simply corroborate requires superior technical skills and a strong understanding of the company, the industry in which the company operates, as well as the increasingly complex business, regulatory and accounting environment in which we find ourselves today. Under mandatory auditor rotation, auditors will face a new learning curve with each rotation, exposing both the audit firm and the client to the potential risk of audit failure until the requisite in-depth knowledge is developed. In contrast, the current requirement of partner rotation allows the preservation of institutional knowledge within the audit team and the firm, while providing the benefits of a critical review by a new partner.

We do believe that the mandatory rotation of both the audit and the concurring partners mandated by Sarbanes-Oxley has brought significant improvement to auditor independence, objectivity and professional skepticism. The fresh perspective provided by newly on-boarded partners has provided a useful systematic challenge to the adequacy of Company disclosures and the transparency of the Company's audited financial statements. As an audit committee, we have found our interaction with new audit partners has encouraged us to look carefully at accepted practices and disclosures.

### **Advantages and Disadvantages of Mandatory Auditor Rotation**

Mandatory rotation of the audit firm is highly disruptive to the conduct of business, while providing little or no benefit in terms of improved audit quality. When partners rotate, we have welcomed fresh perspectives and critical judgment, while being confident that continuity on the remainder of the audit team preserves institutional knowledge and allows the audit to be conducted in an efficient and effective manner. The Audit Committee relies on that depth of knowledge of the company on the part of the audit team, and would have less confidence in an entirely new firm in its initial years working on the audit.

We are also concerned about mandatory firm rotation in a market environment where only four firms have the international presence and industry expertise necessary to service large, multi-national clients. Like most companies, Eaton Vance engages a number of firms in the Big Four to provide a host of non-audit services. The Audit Committee has encouraged the Company to use the firm best suited to the work at hand by expertise, work plan, staff availability, and cost, and to insure that audit independence is strictly maintained. These consulting and tax services may span a multi-year period, and the need to maintain independence from current and potential future auditors may severely limit the ability to hire the best firm.

Lastly, mandatory rotation poses an issue in terms of industry expertise. Not all of the Big Four are equally strong in all industries and in all regional markets. Mandatory firm rotation may require the choice of a firm lacking expertise in the investment advisory and mutual fund industry, or the use of audit teams from outside the Boston area, at significant increased cost and reduced accessibility.

### **Effect of Mandatory Auditor Rotation on Audit Costs**

We expect that the additional cost of mandatory auditor rotation would be significant, both in terms of audit fees and internal staff time. The education of an entirely new audit team from a firm with no prior experience with the Company would clearly require extensive additional time commitments by both internal and audit firm staff. The additional work required of the audit firm staff will be measured in higher audit fees. For internal staff, much of this time commitment will come at the expense of time normally spent on accounting and control within the Company; the dollar expense is harder to measure, but the cost to the business would be notable. Tight filing deadlines increase the danger of mistakes and omissions resulting from lack of institutional knowledge.

### **Alternatives to Mandatory Rotation that the Board Should Consider**

The fundamental issue surrounding independence is that audit firms and their clients can never be truly independent of one another. Audit firms are for-profit entities paid directly by their audit clients. As a result, a tension will always exist between the auditor's need to provide client service and the obligation to maintain the public trust. In the absence of somehow severing the financial relationship between auditors and their clients, we believe that the current oversight mechanisms, including mandated partner rotation and PCAOB inspections, are adequately designed to ensure an acceptable level of independence, objectivity and professional skepticism.

### **Conclusion**

As discussed above, we believe that mandatory auditor rotation is unlikely to achieve the overarching goal stated in the Concept Release of significantly improving audit quality. In addition, we are concerned that the costs and consequences of such a proposal would far exceed any benefits derived. Should the Board move forward with a mandatory rotation standard, we strongly recommend that the Board conduct a study to further analyze the costs and unintended consequences of such a move.

We appreciate the opportunity to provide our perspective on this important topic.

Sincerely,



Ann E. Berman, Audit Committee Chair  
Dorothy E. Puhly  
Winthrop H. Smith Jr.