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

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

Ladies and Gentlemen:

I write as a practicing securities lawyer, an individual shareholder and a director or equivalent for several non profit organizations. For several reasons I believe that mandatory rotation of audit firms is not a good idea.

1. It is indisputable that the appointment of a new auditing firm significantly increases costs. You need to look no farther than the demise of Arthur Anderson to see that there is a material increase in cost as the replacement firm has to spend considerable billable hours learning about the company, and often its industry. As a shareholder that is money out of my pocket and I do not see how I benefit.
2. While there may be theoretical advantages to having a succeeding audit firm review the work of its predecessor I doubt there would be any real advantages. I do not believe that the “fear” of what a successor audit firm might say will produce any better quality of work. It might, and probably will, increase the audit firm’s documentation but such work, which I and other investors pay for, does not give us any enhanced protection. Audit firm rotation will not contribute to selection of “better” accounting decisions. Theoretically there may be advantages to a fresh set of eyes asking new questions but there is an equal or greater theoretical loss of the contribution historic knowledge brings to knowing what to ask and where to look.
3. In 2006 Compustat Research Insight found that 496 of the S&P 500 firm were audited by one of the “Big 4” firms. A firm rotation requirement would reduce the available market for an S&P 500 company to three. The currently proposed combination of AT&T and T Mobile has raised considerable and in my view justifiable concern from both the Department of Justice and the Federal Communications Commission about monopoly power in a three provider market. While many advantages and disadvantages of a rotation policy are speculative at best; monopoly power price increases are proven beyond dispute. I believe it is contrary to the public interest, and more importantly my personnel financial

- interests, for monopoly power to be created in an important segment of the economy.
4. The existing auditor independence rules essentially require a company to have a second accounting firm provide non audit services that prior to Sarbanes-Oxley were provided by the audit firm. I feel that this requirement has been of some value to me as an investor. I view the audit firm as in effect giving a second opinion on the appropriateness of management's conclusions. If the audit firm was deeply involved in reaching the original conclusions that becomes a single opinion. In order to retain this protection it would seem that the provision of non audit services for a period immediately prior to becoming the audit firm should be a disqualification. Therefore at the point of mandatory firm rotation there would be at least two disqualified firms leaving only two firms effectively controlling 100% of the market. I consider the separation of audit and non audit services to be of benefit to companies and investors and would not want to give that up in exchange for the non apparent advantages of firm rotation.
 5. The two firms would be reduced to one in cases where Regulation SX Rule 2-01 (c) (2) applies. In today's world two employed spouses are quite common and may be the norm. Since meeting each other is an absolute prerequisite to forming a relationship it is not surprising that many couples have overlapping professional careers. Similarly it is quite common for college students to pursue the same career path as one of their parents or other siblings. In such cases a perfect monopoly has been given to the single firm that is not disqualified. I find this disqualification gives me some comfort as an investor. Once again I find this more valuable than firm rotation.
 6. As a participant in the non profit world I know the real advantages provided there by audited financial statements. Among the most important public service the accounting profession provides is service provided to non profits, often free or at reduced rates. As was graphically demonstrated with the Enron board, conflicts of interests in the non profit world can reach into the business world. While the audit rotation rules would not apply to non profit entities conflict of interest overlaps would increase as audit firms rotate creating overlaps in the non profit world. I fear the inevitable impact will be to reduce participation by audit firms and their employees in the non profit world. That would be bad social policy.

Thank you for considering my comments.

Very truly yours,



Robert M. Stanton