

▶ **Mr. J. Gordon Seymour**  
**Office of the Secretary**

PCAOB  
1666 K Street, N.W.  
Washington, D.C 20006-2803

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Dear Sir:

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

The Audit Committee Chairs of the 12 Federal Home Loan Banks and their Office of Finance (the “FHLBanks Audit Committee Chairs”) appreciate the opportunity to comment on the Public Company Accounting Oversight Board’s (the “PCAOB” or “Board”) Concept Release on Auditor Independence and Audit Firm Rotation (the “Concept Release”). The FHLBanks Audit Committee Chairs commend the Board for considering this important topic at a time when investor confidence is critical. The FHLBanks agree with those stakeholders who believe that the mandatory rotation of auditors is neither necessary nor effective in improving audit quality and investor confidence. The view of the FHLBanks Audit Committee Chairs is that the independent audit committee is best placed to evaluate the existing auditor’s independence. Our responses to each question posed by the PCAOB in the Concept Release are presented below. As requested in the Concept Release, the FHLBanks Audit Committee Chairs have also provided suggestions for the Board’s consideration, based on our own practices for maintaining auditor independence and our recent experience evaluating audit firm candidates to serve as our external auditor

**Overall Conclusion**

The purpose of the Concept Release is to solicit comments on whether more can and should be done to enhance auditor independence, objectivity and professional skepticism. In consideration of this objective, the Concept Release poses the overall question as to whether mandatory auditor rotation would significantly enhance the auditor’s objectivity and ability and willingness to resist management pressure. Additional questions and factors covered in the release include those that influence the company-external audit firm relationship, including: if the payment of continuing annual audit fees by the company distorts the relationship; if the engagement of a new external auditor would provide a “fresh look” at the company’s financial statements; and, if alternatives to mandatory rotation exist that would enhance the independence, objectivity, and professional skepticism of the external audit firm.

The Board has highlighted the following reasons to mandate auditor change:

- An expectation that it would improve independence by removing the long term financial relationship
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between the registrant and the firm;

- An expectation that it would improve objectivity; in particular, that it may mitigate the impact (intentional or unintentional) of bias influenced by the past history of decisions and opinions of the firm

The FHLBanks Audit Committee Chairs believe that the mandatory rotation of auditors is not necessary. We agree that the areas the Board has highlighted are reasons to consider a mandatory auditor change requirement; however, we believe that the disadvantages of a mandatory change combined with the current governance and control environment outweigh any potential benefits. The current governance structure is sufficient to ensure an appropriate level of independence and professional objectivity by the external audit firm. The basis for this conclusion and our responses to questions posed in the Concept Release are presented below. Additionally, as requested in the release, the FHLBanks have also provided suggestions for the Board's consideration.

### **Discussion**

The FHLBanks recently undertook a lengthy and diligent process to evaluate the four largest audit firms as potential independent external auditors for the FHLBank System. This process was led by the FHLBank Audit Committee Chairs and carried out under the guidance<sup>1</sup> promulgated by our prudential regulator, the Federal Housing Finance Agency ("FHFA"). This guidance calls for the FHLBanks to undertake a competitive request for proposal ("RFP") process every five years when the existing auditor has tenure of more than 10 years. This experience has given us some very current insight into the auditor selection and change process.

The FHLBanks are unique financial institutions - each is a separate federally chartered entity, with its own board of directors and executive management team, its own geographic territory, its own financial management policies and each files its own periodic reports with the Securities and Exchange Commission. Yet the FHLBanks operate under a common mission mandated by the Federal Home Loan Bank Act ("FHLBank Act"), are regulated by the FHFA and issue joint and several consolidated debt instruments as their primary source of funding. The Office of Finance issues these consolidated obligation bonds on behalf of the FHLBanks, and prepares combined financial reports of the FHLBanks. Although the FHLBanks and the Office of Finance are not required to engage the same external auditor, given the similarities in our operations, financial and accounting risks and issues, and the need for an audit of the FHLBanks' combined financial report, it is more efficient for the 12 FHLBanks and the Office of Finance to evaluate auditor candidates simultaneously and to select the same external auditor if possible.

### **Objectivity**

The Board requested comments on how the objectivity of the auditor can be improved by mandatory auditor rotation.

The FHLBanks Audit Committee Chairs believe that while a rational argument could be made that objectivity might improve with a regular auditor rotation, given the existing controls and practices, this is not an automatic or certain outcome. The existing controls and practices followed by the FHLBanks Audit Committee Chairs (such as firm partner rotation, annual evaluations of the external audit firm by the audit committee, and quarterly discussions of required communication elements, among others) mitigate this risk, as does the extensive regulatory environment, including the periodic review of accounting policies by the audit committee and the supervision by

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<sup>1</sup>Federal Housing Finance Agency Examination Guidance Issuance Date: October 27, 2009 Subject: Examination for Accounting Practices

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the FHFA Office of the Chief Accountant. Further, some academic studies<sup>2</sup> seem to support the finding that experienced firms with a longer tenure appear to provide greater constraints on inappropriate management decisions in the financial reporting process. The existing controls and practices combined with the disadvantages of auditor change and the impact of relatively short tenure of individuals and firms outweighs any potential benefits.

Indeed the FHLBanks Audit Committee Chairs are concerned that audit quality in the mandatory rotation model may be negatively impacted. This could occur not only in the early years of the engagement, as the new firm gains familiarity with the company and its operations, but also in the later years immediately prior to the rotation because consciously or unconsciously, audit firms' staff try to minimize their investment in the client and maximize the return for the firm while focusing on the 'next client'.

### Independence

The Board requested comments on how mandatory auditor rotation would improve independence. The FHLBanks Audit Committee Chairs understand the premise that by limiting the term of the audit engagement, the auditor may be perceived to be more independent of management. In addition, the auditor will not be protecting a long-term income-generating relationship and, therefore, will have less at stake in a dispute with management. However, there are a number of complementary processes that should be in place in a well run company to ensure that the auditor is independent. For example, management should not be in a position to direct the compensation or retention of the auditor; it should be a responsibility of an independent audit committee.

On the other hand, limiting the term of an engagement will merely cap the revenue loss for an auditor should they be dismissed after a disagreement. The fundamental process of the auditor being compensated by the client does not change.

The FHLBanks Audit Committee Chairs agree with several commentators<sup>3,4,5</sup> who analyzed the performance of firms in the periods following auditor appointment and note that fraud and audit failures are more common in the first two years of an auditor's appointment than in the more mature relationships. They also note that some research<sup>6</sup> has shown in the post-SOx era that little correlation exists between longer tenured auditors and audit failures.

New auditors may miss important issues in the early period of an extended engagement while they are learning the client's business and process. They may not be familiar with the patterns and trends in the business, the backgrounds and the strengths and weaknesses of key business processes and individuals. An arbitrary auditor change can bring additional uncertainty to management and investors that may lead to overly conservative and non value-added activity within the registrant.

Additionally, we note that the legislation that created the PCAOB also required that company management provide certification and attest to the financial results and internal controls to prevent mistakes and fraud, with personal liability attached for failure to do so. This requirement also serves to further mitigate pressure being put

<sup>2</sup> Exploring the Term of the Auditor-Client Relationship and the Quality of Earnings: A Case for Mandatory Auditor Rotation, Myers, Myers, Omer *The Accounting Review* Vol.78 No.3 (2003)

<sup>3</sup> Audit Firm Tenure and Fraudulent Financial Reporting, Carcello, Nagy, *AUDITING: A Journal of Practice & Theory* Vol.23, No.2 (2004)

<sup>4</sup> Audit-Firm Tenure and the Quality of Financial Reports, Johnson, Khurana, Reynolds, *Contemporary Accounting Research* Vol 19 No.4 (2002)

<sup>5</sup> Audit Tenure and Audit Reporting Failures, Geiger, Raghunandan *AUDITING: A Journal of Practice & Theory* Vol.21, No.1 (2002)

<sup>6</sup> Auditor Tenure and the Ability to Meet or Beat Forecasts, Davis, Soo, Tompeter, *Contemporary Accounting Research* Vol 26 No.2 (2009)

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on an external audit firm by company management. As a result, according to a recent study<sup>7</sup> reported by the Wall Street Journal<sup>8</sup>, the number of companies that have restated their financial results are on track to decline for the sixth straight year. The same article commented also on the more benign nature of re-statements in recent years.

### **Other Questions**

*Should the Board be focused on enhancing auditor independence, objectivity and professional skepticism?*

We believe that the Board should be focused on enhancing the attributes noted. Further, we believe that the Board's current ongoing supervision of the public accounting firms, combined with the regulatory and professional regime that the firms operate within, is more than adequate and has brought these matters to the forefront. These activities will serve to ensure that the above attributes are maintained at an appropriate level.

As part of our evaluation of the firms proposing to serve, we note that we, and they, were very focused on ensuring that their audits would meet these objectives. That coupled with the fact that the PCAOB has begun performing their oversight reviews of the firms' audit work, has served to ensure that firms are focused on meeting their responsibilities in this area.

*Would auditor rotation enhance independence, objectivity and professional skepticism?*

For the reasons stated, we believe that by audit committees following best practices in administering the external audit relationship, coupled with the negative consequences in terms of audit quality and costs far outweigh the potential uncertain benefits from mandatory auditor rotation.

*What are the advantages and disadvantages of mandatory auditor rotation? Are there ways that rotation could be structured to minimize them?*

We have set out elsewhere in this response letter what we believe are the advantages and disadvantages of mandatory auditor change. We believe that, should rotation be mandated, a period greater than 10 years is necessary to mitigate the negative impact of change and maximize the benefit of tenure. There may be innovative ways this could be structured in the transition period, such as joint audits that occur in some other jurisdictions.

*There is little empirical data available on auditor rotation, should the board conduct a pilot and how should this be structured?*

We have found that there is a significant volume of data available on the impact of auditor tenure and do not believe that a pilot would be equitable or add greatly to the information available. An added problem would be that such a pilot would have to be quite extensive and long term to yield meaningful results.

*What effect would a rotation requirement have on auditor costs? Are there other costs the board should consider such as time and disruption to the companies operations?*

We have learned first-hand through our recent RFP process that there is a significant cost associated with the change process that is neither strategic nor value-added to investors. More frequent, extended proposal and

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<sup>7</sup> Auditor Tenure, Financial Officer Turnover, and Financial Reporting Trends, a report by Audit Analytics, December (2011)

<sup>8</sup> The Big Number 5, Maxwell Murphy, the Wall Street Journal, November 29 (2011)

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bidding processes increase the cost for investors by directly adding to the registrant's overhead, as well as to the firms' overhead which is then passed on to all registrants as increased fees.

Support for costs of change - The GAO has estimated that the costs of change incurred in supporting the new firm and presumably, inefficiencies in the new firm's process may cost approximately 10% of total fees

Proposal costs - The FHLBanks Audit Committee Chairs invited the four largest public accounting firms to participate in our recent RFP process for the role of their external auditor. This process (from issuance of the request for proposal to selection) took approximately six months and, compared to other registrants, required greater investment by the FHLBanks Audit Committee Chairs and the firms due to the unique geography and governance structure of the FHLBanks (all are independent entities selecting a single auditor) as described above.

We incurred direct costs in the selection process of approximately \$300,000 and indirect costs of twice that amount. The firms were asked, after the process was complete, to provide their direct and indirect costs and these averaged around \$225,000 and \$1,900,000, respectively. The overall cost of the entire process was about \$9,200,000, or roughly the annual audit fee for the entire FHLBank System.

Ultimately, these costs will be passed on to the investor community through higher fees to the FHLBanks and to the firms' other clients.

*To what extent have audit committees considered an approach implementing a process of auditor rotation?*

The FHLBanks Audit Committee Chairs considered this question extensively when our regulator proposed similar guidance. Because of this deliberation and discussion with our regulator, the FHFA instead chose to direct the FHLBanks to conduct an RFP every five years to solicit a new auditor, when the current auditor has served a term of ten years or more. As discussed above, we have learned how costly and time-consuming regular RFP processes are likely to be, and we firmly believe that a regular auditor re-bidding process, in the absence of significant performance deficiencies with the incumbent auditing firm, is unnecessary and counterproductive. In the absence of significant performance deficiencies with the incumbent and even with a very diligent fair and open RFP process, based on our recent experience (which is consistent with the industry metrics), it is difficult to imagine a scenario where this practice would cause the rotation of the existing auditor.

*Are there alternatives to mandatory rotation that the Board should consider that would meaningfully enhance auditor independence, objectivity or professional skepticism?*

There are alternatives, as the Board mentions in its paper. We believe that the existing process where each audit committee is required to evaluate the performance, independence, objectivity and professional skepticism of the external auditor is adequate. This practice would be consistent with the current responsibilities of the Audit Committee. Additional disclosure of these deliberations in the client's SEC filings would further heighten investor awareness of these actions.

Our view, at least in the FHLBanks' situation, is that an alternative such as a mandatory re-bidding (which includes the incumbent) is expensive for both the firms and the registrants, and may or may not lead to auditor change (and the related benefits sought by the Board). We note that most auditor change occurs because of dissatisfaction with the service levels of the auditor following major events or significant corporate actions.

*Should the Board continue to seek to address its concerns about independence through its current inspection program? How could the program be enhanced? Or refocused?*

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We do not have any suggestions for enhancing the program because we have minimal exposure to the current inspection program as a registrant. However, we do agree that the Board should continue its enhanced risk-based inspection process of firms and an increased focus on firms not subject to rotation appears to align the efforts of the Board with its perception of risk. If the Board considers auditor tenure to be a significant risk factor, this should be included in the planning of which engagements to review and the scope of individual reviews.

### **Comments on Possible Approaches to Rulemaking**

#### **A) Term of Engagement**

- 1) *If the Board determined to move forward with development of a rotation proposal, what would be an appropriate term length?*
    - a) We believe that a maximum term of between 10 and 20 years would allow for firms and registrants to maximize the benefits of the relationship while also meeting the goals the Board has set to manage the potential challenges to independence, objectivity and professional skepticism.
  - 2) *Should different term lengths for different kinds of engagements be considered? If so, what characteristics, such as client size or industry, should this differentiation be based on?*
    - a) We believe that the term would be best determined by the Audit Committee of the organization with appropriate disclosure of the factors considered. These might include the complexity of the organization, geographic diversity, complex governance considerations, degree of regulatory oversight, and current events, such as changes in infrastructure or accounting practice.
  - 3) *Does audit effectiveness vary over an auditor's tenure on a particular engagement? For example, are auditors either more or less effective at the beginning of a new client relationship? If there is a "learning curve" before auditors can become effective, generally how long is it, and does it vary significantly by client type?*
    - a) We have not undergone auditor change recently but our experience on other attestation engagements would lead us to believe that the steepest part of the 'learning curve' is the first two years. We believe the more complex and geographically or administratively diversified the client is, the longer or steeper the learning curve.
  - 4) *Some have also suggested that, in addition to being less effective at the beginning of an engagement, an auditor may be less diligent toward the end of the allowable term. On the other hand, others have suggested that auditors would be more diligent towards the end of the allowable term out of concern about what the replacement auditor might find. Would auditors become more or less diligent towards the end of their term? Does the answer depend on the length of the term?*
    - a) We believe that towards the end of a mandatory engagement both of the forces outlined by the Board may be in play: auditors will tend to be more diligent towards the end of the engagement as their work will be subjected to detailed scrutiny by another firm, and a future income stream is not at risk; in contrast, less effective audits may occur as the more highly qualified and skilled audit staff focus on other 'new' projects and invest more of their time and energy in these than in a client that the firm will be leaving soon.
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5) *How much time should be required before a rotated firm could return to an engagement?*

- a) We believe that the rotation period should be of the order of magnitude proposed above (A.1.a). With the limited number of major accounting firms available to registrants, it would be inappropriate and unproductive to prohibit a firm from being re-appointed for any period longer than the maximum tenure period. It would seem that little conflict would be created if the minimum period was approximately five years.

B) Scope of Potential Requirement

6) *Should the Board consider requiring rotation for all issuer audits or just for some subset, such as audits of large issuers? Should the Board consider applying a rotation rule to some other subset of issuer audits? For example, are there reasons for applying a rotation requirement only to audits of companies in certain industries?*

- a) We see little benefit in limiting the scope of the implementation to the largest registrants. These organizations are the entities where mandated change will be the most costly and potentially deliver the least benefits. The firms' engagement teams and the registrants are so diverse and constantly being scrutinized by investors, regulators and analysts; the benefits of auditor change are minimal but the negative impact on audit quality and direct cost to the registrant is great. We are unable to identify any group or subset of registrants where the benefits would be greater.

C) Transition and Implementation Considerations

7) *To what extent would a rotation requirement limit a company's choice of an auditor? Are there specific industries or regions in which a rotation requirement would present particular difficulties in identifying an auditor with the necessary skills and expertise? Is it likely that some smaller audit firms might decide to leave the public company audit market due to the level of uncertainty regarding their ongoing client portfolios?*

- a) We believe the impact on choice of auditor for the FHLBanks would be minimal. The FHLBanks are U.S.-based entities with a global debt issuance and would only consider the largest and most capable global audit firms as their auditors. While there remains a limited pool of these firms, it is sufficient to present a reasonable choice. This may not be the case for registrants in other industries and geographies. The impact on smaller firms would probably be deleterious as the loss of a single client would lead to staffing changes and make maintaining a depth of personnel in smaller regional centers difficult.

8) *If rotation would limit the choice of auditors, are there steps that could be taken to allow a company sufficient time to transition out of non-audit service arrangements with firms that could be engaged to perform the audit? Are there other steps that could be taken to address any limitation on auditor choice?*

- a) We believe that there are steps that registrants could take to mitigate the impact of non-audit engagements. The FHLBanks Audit Committee Chairs identified the need to conduct a proposal process significantly ahead of the process and were therefore able to mitigate the impact of non-audit work. The FHLBanks Audit Committee Chairs proactively monitor their non-audit service engagements with potential candidates for the independent auditor role to ensure that at the time of proposal all potential candidates (a limited field of the major audit firms) are able to undertake the audit. Consequently, some work is unavailable to these firms or is unavailable in the years immediately preceding a proposal process.

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- b) We believe relationship monitoring is a good vendor management practice, whether or not mandatory rotation is in place, as a registrant may need to change auditors for other unforeseen reasons that may be beyond the control of the firm or the auditor, such as in the event of a sale or merger. The FHLBanks also require the audit firms engaged in non-audit work to evaluate that work for its impact on any future audit engagement and provide their conclusions to the Audit Committees of the FHLBanks
- 9) *If rotation were required, would audit firms have the capacity to assign appropriately qualified personnel to new engagements? If they do not currently have that capacity, could firms develop it in order to be able to compete for new clients, and would they do so?*
- a) We believe that the accounting firms would react to the current environment and be able to meet this need, if a transition plan is implemented, as noted in the Concept Release.
- b) We also believe that mandatory rotation would influence the staffing resources of the firms. The firms would potentially have to shrink or expand their staffing levels, depending upon the number of engagements that they were picking up and losing. These fluctuations could lead to increased audit risk as staff would be furloughed or hired to perform audits. Staffing costs, and correspondingly audit fees, would increase as the firms train staff in their practices and procedures. We, as well as all registrants, want to ensure that we have firm staff serving our account that have the requisite knowledge and expertise in our industry to perform a quality audit.
- 10) *Would rotation create unique challenges for audits of multinational companies? For voluntary rotations that have taken place, what have been the implementation and cost issues and how have they been managed?*
- a) We have no experience of this area.
- 11) *Would increased frequency of auditor changes disrupt audit firms' operations or interfere with their ability to focus on performing high quality audits? How would any such disruption vary by firm size? For example, would a rotation requirement pose fewer or more implementation issues for small firms than for large ones?*
- a) Our recent experience has shown that the proposal process is a significant commitment by the firms, especially for their leading senior personnel, this inevitably takes these individuals away from audit engagements and/or increases the costs of the audit which are ultimately born by all investors.
- b) In addition, the higher turnover would influence audit staff tenure and make retaining staff of individual engagements in smaller firm offices more challenging, thereby negatively influencing audit quality.
- 12) *Would audit firms respond to a rotation requirement by devoting fewer resources to improving the quality of their audits? Would firms focus more on non-audit services than on audit services?*
- a) We do not know how firms would respond.
- 13) *Would rotation have any effect on the market for non-audit services? Would any such effect be harmful or beneficial to investors?*
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- a) We do not believe that mandatory rotation would have any impact on their non-audit services because we already monitor this activity, as noted above. Registrants who do not monitor and manage the non-audit services provided by potential independent auditors may find that a mandatory rotation provision would limit the services that firms could provide, at least at certain times, in the rotation cycle.
- 14) *Some have expressed concern that rotation would lead to "opinion shopping," or that in competing for new engagements firms would offer favorable treatment. Others have suggested that rotation could be an antidote to opinion shopping because companies would know that they could not stick with a firm promising favorable treatment forever. Would opinion shopping be more or less likely if rotation were required? If rotation limits auditor choice, could it at the same time increase opinion shopping?*
- a) We do not believe mandatory rotation would increase the likelihood of "opinion shopping". The prospect of auditor rotation would probably cause both registrants and auditors to move to a more consistent and conservative application of accounting treatment which may have positive and/or negative outcomes.
- 15) *What effect would a rotation requirement have on competition for audit engagements? If competition would be increased, how might that affect audit quality?*
- a) We believe that mandatory auditor rotation would increase the competition for audit engagements, if the firm has the staffing levels to support new engagements. It has been our experience that in any proposal process where the incumbent auditor is part of the process and where there is no other compelling reason to change auditors, other than the passage of time/regulatory requirements, the obvious advantages of maintaining the current auditor who is performing sufficiently will invariably outweigh the strengths and any possible governance benefits of engaging one of the competing firms. If the existing auditor was removed from the proposal process, we believe a more level playing field would be maintained. We do not have an opinion on the impact on audit quality of this increased competition.
- 16) *Are there any requirements the Board should consider to mitigate any risks posed by rotation? For example, are there enhancements to firms' quality control systems that might address such risks?*
- a) We agree with the commentators who have identified a heightened risk in the early years of the engagement; however, it is not clear that Board action is needed to mitigate this risk. The FHLBanks Audit Committee Chairs believe that given this risk profile, the firm's risk appetite and internal procedures will adapt to the situation.
- 17) *If the early years of an auditor-client relationship pose higher audit risks than later years, should the Board require firms to provide additional audit supervision and oversight in the first year or two of a new engagement? Should the Board impose such a requirement for auditor changes even if it does not further consider requiring audit firm rotation? If firms are accepting new clients but are unable to perform quality audits for them until several years have passed, should the Board require enhanced client acceptance procedures? What impact would additional requirements of this type have on audit costs?*
- a) We believe that it is the clear responsibility of the Audit Committee of the registrant to select a competent audit firm. Part of the selection process would include an evaluation of the firms' capabilities and plans to address audit risk in the early years of the engagement. It is the responsibility
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of the Audit Committee and the firms to ensure as part of the engagement that this risk is addressed. No further regulation or guidance is needed.

18) *If mandatory rotation were required, are existing standards relating to communications between predecessor and successor auditors sufficient? Should additional communications be required? For example, should the outgoing auditor provide the incoming auditor with a written report outlining audit risks and other important information about the company?*

a) All work papers should be made available to the successor firm.

19) *Are there other audit procedures that should be required to mitigate any risks posed by rotation?*

a) We do not have enough experience to comment on this.

20) *If the Board moved forward with development of a rotation proposal, should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term? Would such a provision be useful? Would there be unintended consequences of such a requirement? Should the Board work with the SEC on implementation of this recommendation? Are there other matters on which the Board should coordinate with the SEC?*

a) We believe that the independent Audit Committee is best placed to address the circumstances that might cause the removal of the auditor. There is sufficient economic and other pressure to ensure that such changes are not made without appropriate consideration. In addition, the disclosure controls in place mitigate this risk further.

21) *What other transition issues might arise in the first year of a rotation requirement? How should the Board address these issues?*

a) We believe that the current transition arrangements are adequate to manage the risks of transition.

## Conclusions

The benefits of forced auditor change are not compelling, in particular:

- the independence of the auditor is adequately maintained through regulation and guidance and, in particular, regular partner rotation;
- as long as the auditor is compensated by the registrant, there is some inherent conflict which mandatory rotation would do little to change;
- the objectivity of the auditor is appropriately addressed through the normal course of staff rotation and partner rotation, concurring partner review and similar quality assurance procedures;
- the potential benefits of enhanced objectivity are outweighed by the disadvantage of a new audit firm and personnel unfamiliar with the client and its business;

- if forced change is mandated, it should be for a sufficient period to allow the auditor and the registrants to optimize their processes and relationship and recoup some of the cost of the change process.

Alternatives to forced rotation, which would address the Board's concerns, are:

- a required periodic in-depth review and disclosure requirement for the registrant, including a review of the incumbent firm's performance, independence, etc.;
- a compulsory re-bid process (without excluding the incumbent) is of very little value and great expense;
- the Board's current proposals to make individual firm partners identify themselves on audit reports would promote accountability and therefore improve professional skepticism and objectivity.

We would like to thank the Board for its consideration of the FHLBanks Audit Committee Chairs' views and welcome the opportunity to discuss this matter further with the Board and its staff. Please feel free to direct your inquiries to Tom H.W. Harper, EVP and General Auditor, Federal Home Loan Bank of Chicago. Tom can be reached at (312) 565-5768 or [tharper@fhlbc.com](mailto:tharper@fhlbc.com).

Sincerely,



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Audit Committee Chairs of the Federal Home Loan Banks &  
Office of Finance

December 13, 2011

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