

**Causeway Capital Management, LLC**

**4320 Beverly Drive**

**Dallas, Texas 75205**

**Phone: 214-797-0552**

**Email: [dareed@causewaycapital.com](mailto:dareed@causewaycapital.com)**

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

Re: Request for Public Comment: Concept Release on Auditor  
Independence and Audit Firm Rotation, PCAOB Rulemaking Docket Matter  
No. 37

Dear Office of the Secretary:

Thank you for the opportunity to comment regarding the PCAOB's Concept Release on Auditor Independence and Audit Firm Rotation. I understand that the deadline for submission was December 14<sup>th</sup>, but I hope this submission will be considered as timely. The issues in consideration are important and greatly affect the crucial interaction of the auditor/client relationship that has proven so important to the integrity of our financial reporting system.

I serve as the chair of the audit committee for a mid-cap public company, and have previously chaired or served as an audit committee member of the board for several other public and private companies since 2000. Additionally, I serve as a board member of the National Association of Corporate Directors-North Texas Region, and in 2000, I retired as the Senior Vice Chair-Global Markets for Ernst & Young LLP after a 26-year career.

Notwithstanding my experience and current endeavors, please note that my comments are solely my own and should not be attributed to any other person or entity.

The PCAOB's active efforts to improve auditor independence, objectivity and professional skepticism, are extremely important to the continuing efforts to enhance the value and confirm the important interaction and reliance of the capital markets on the external financial audit process. While I support your efforts and platform for improvement, I must provide you with my significant concern (concerns that are shared by essentially all of the members that serve or have recently served with me on audit committees) regarding the concept of mandatory firm rotation. I do not support this proposal, and sincerely believe that such change would result in an egregious undermining of the responsibilities and accountabilities of audit committees as stipulated by Sarbanes-Oxley, will result in significant cost increases to the detriment of shareholders which are not necessary and will create disruption in service and the integrity of the audit process. Moreover, I do not believe such change will improve auditor independence, objectivity, or professional skepticism.

I have reviewed other submissions which recite the Sarbanes-Oxley provisions which have greatly expanded the responsibilities of audit committees to select and review the external auditor, the client partner rotation rules, etc., and agree these have been useful and have worked well in practice. I also fully applaud the addition of the requirements for all audit committee members to be "independent" board members, as well as the original definition of "financial expert". Regarding this last point, I believe the "softening" of the definition of financial expert could be re-examined, such that it might be amended to require that at least one member of the audit committee must be selected from a background either as a former partner in a national or regional accounting firm, an active or retired public company CFO, or other to-be-determined qualified individuals that possess the requisite GAAP (IFRS), regulatory and compliance experience to fully focus on the detailed requirements of the audit process and financial reporting requirements. I discuss this concept here not to add to my disagreement regarding the "auditor rotation" issue, but to indicate that while rules can be made or changed to improve the external audit relationship and the financial reporting system, there are ways to improve the quality (such as my suggestion) without a major disruption of the

auditor/client relationship and approval system that has existed for so many years.

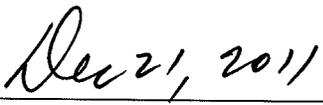
Further, relating to globally operating companies with complex operations and auditing requirements, the mandatory auditor change would create significant disruption due to several factors: (1) existing auditor relationships have resulted in meaningful knowledge learned by external auditor teams regarding industry and domain issues and specialized technical as well as regulatory filing issues that will be hard, if almost impossible, to replace efficiently in the mid-term. (2) the largest firms possess a great depth and breadth of global and technical resources that complement many of the global audit clients- but not all such largest firms necessarily have the same level of breadth and depth in all complementing locales around the world, (3) the largest global operating companies may already employ all or most of the largest auditing firms now in varying capacities, and to unseat those relationships will in my opinion serve to unnecessarily upset what may be an excellent division of responsibility and reliance that currently works well and is in the best interest of the investing and reporting public.

Not seeing that I can necessarily improve on the logic of other submissions I have read, I quote here a response from an earlier submission that I have reviewed which I fully support... “Having continuity with an external audit firm along with a strong process for evaluating the firm is a value to the quality of the audit- not a detriment. An arbitrary “one size fits all” mandatory rotation can have the unintended consequence of requiring a change that is not in the best interest of the company and its shareholders and perhaps at a time that is not in the best interest of the company. Mandatory firm rotation at an arbitrary six or nine year pace does not take into consideration the needs of a company that may be in the middle of a major acquisition, a liquidity crisis as the result of unforeseen economic circumstances (such as that experienced since 2008) or other significant change that, when coupled with a required external auditor rotation, would be disruptive, distracting, and costly. The costs and disruptions will impact all parties: the outgoing and incoming external audit firms, management, and the audit committee who will all have to ensure an appropriate transition, probably for a reason that will not lead to any improvement in the quality of the financial statements audit and could decrease the quality of the financial statements at least in the short term. Unfortunately, as the new firm would have to quickly move up the learning curve, it probably will lead to increased audit risk, definitely increased cost, and significant distraction

with little to no improvement in auditor independence, objectivity, professional skepticism or audit quality.”

As others have indicated, I fully support the proposition for continuous improvement in the financial reporting system, but as evidenced here, I do not believe the mandatory rotation rule is one that should be implemented for the reasons I have enumerated. I would be pleased to discuss any of my comments should you wish to expand upon my assertions. Thank you for your service and your attention.

Sincerely,



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David A. Reed