

June 18, 2013

The Honorable Jeb Hensarling
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

The undersigned organizations represent all sectors of the global economy, representing businesses that employ tens of millions workers world-wide as well as nonprofit public policy organizations interested in fostering access to capital for entrepreneurs. We appreciate that accurate and transparent financial reporting is a foundation of our global and domestic capital markets. We write today to express our strong support for H.R. 1564, the “Audit Integrity and Job Protection Act,” and believe it is critical to promoting effective corporate governance and financial reporting policy.

H.R. 1564 would prohibit the Public Company Accounting Oversight Board (PCAOB) from implementing mandatory audit firm rotation, a wrongheaded practice that, if implemented, would harm investors, endanger the competitive position of American public companies, increase the incidences of undetected fraud, raise costs, and degrade audit quality.

The Government Accountability Office has estimated that mandatory audit firm rotation could increase audit costs by as much as twenty percent. Also, academic research indicates that the costs of audit firm rotation would outweigh the benefits, since fraudulent financial reporting is more likely to occur within the first three years of an audit-client relationship and there is no evidence that fraud is more likely with longer audit tenure. Indeed, mandatory audit firm rotation would reduce the supervision and oversight of the audit committee and management, rolling back strong corporate governance policies.

The Securities and Exchange Commission and Congress have rejected mandatory audit firm rotation in the past and, with the passage of the Jumpstart our Businesses Startups Act last year, Congress explicitly prohibited the PCAOB from requiring firm rotation for emerging growth companies.

We strongly support H.R. 1564, the Audit Integrity and Job Protection Act, and look forward to working with the Committee and the Congress to pass this important bill.

Sincerely,

American Council of Life Insurers
American Insurance Corporation
Barnert Associates, Inc.

Building Owners and Managers Association (BOMA) International
Business Roundtable
Competitive Enterprise Institute
CRE Finance Council
Investment Company Institute
National Association of Home Builders
National Association of Real Estate Investment Trusts
National Parking Association
National Restaurant Association
Property Casualty Insurers Association of America (PCI)
RAI-Reynolds American, Inc.
Retail Industry Leaders Association (RILA)
RPM International Inc.
The Financial Services Roundtable
U.S. Chamber of Commerce

cc: The Members of the House Committee on Financial Services