

February 23, 2012

The Honorable Mary Schapiro  
Chairman  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

Dear Chairman Schapiro:

The Financial Instruments Reporting and Convergence Alliance (“FIRCA”) is a coalition of ten trade organizations—American Council of Life Insurers, CRE Finance Council, Council of Federal Home Loan Banks, Group of North American Insurance Enterprises, Mortgage Bankers Association, National Association of Real Estate Investment Trusts, Property Casualty Insurance Association of America, The Financial Services Roundtable, The Real Estate Roundtable and The U.S. Chamber of Commerce—representing all sectors of the economy and areas of the financial services arena in the United States and around the world. FIRCA recognizes that accurate and transparent financial reporting is a cornerstone of our capital markets in the United States and globally. Businesses are both preparers and users of financial reporting for investment, managerial, and competitive reasons.

We are writing to you with concerns regarding blurring of the lines between corporate governance and audit standard setting that frustrates the Congressional intent of Sarbanes Oxley Act of 2002 (“SOX”). We believe that the SEC should set defined parameters upon the activities permissible by the PCAOB to avoid confusion by both regulators and businesses, prevent duplication or the creation of contradictory policies. Furthermore, we believe that there is an insufficient level of input from the business community on auditing proposals that have the potential to muddle financial reporting, drive up compliance costs, skew financial activity and prevent companies from engaging in proved business practices all to the harm of investors. This is most evident with the ongoing consideration of the Public Accounting Oversight Board’s (“PCAOB”) recent and ongoing consideration of mandatory audit firm rotation. Nevertheless, we believe that this is not an isolated event and we wish to make you aware of our recommendation to the PCAOB that they form a business advisory group. We believe that the SEC would also benefit from the input of this group.

The Honorable Mary Schapiro

February 23, 2012

Page 2

In passing SOX, Congress granted the PCAOB oversight powers over the audit and auditors, while giving the SEC jurisdiction over corporate governance issues including the audit committee. Recently, the PCAOB has released proposals on audit committee communications, mandatory audit firm rotations and the creation of an audit discussion and analysis. These proposals if enacted would allow the PCAOB to regulate the activities of the audit committee, diminish the discretion of the audit committee and create a means of second-guessing the decision of the committee.

It would seem that these proposals infringe upon the prerogative of the SEC to oversee corporate governance issues as mandated under SOX. This has led to a confusion of the proper roles that were established by Congress and is distorting both governance and audit oversight.

In setting auditing standards, FIRCA believes that standard setters should have a wide range of input to ensure the proper consideration of business operations and potential unintended consequences in the development and implementation of accounting and auditing standards. Broad-based input allows for informed standard setting and development of priorities that should be addressed. A reliance on a narrow set of inputs or pre-determined agendas could force the PCAOB to expend resources that may be best allocated elsewhere or fail in its mission to develop appropriate financial reporting policies. This has particular impact for the SEC which has to adopt the PCAOB standards through the rulemaking process.

In debating SOX, Congress decided not to mandate audit firm rotation, but rather to have the General Accounting Office (“GAO”) study the concept and make a recommendation if such a proposal should be implemented. The GAO determined that mandatory audit firm rotation was extremely problematic and should not be pursued. Yet despite the GAO’s determination, last year the PCAOB decided to move forward in its consideration of mandatory audit firm rotation.

As of January 18, 2012, 612 comment letters had been filed on concept release, with 92% opposing mandatory audit firm rotation. More significantly 411 businesses or their audit committees wrote letters opposing the mandatory audit firm rotation (none wrote in favor), while only three investors wrote in favor of the concept release. The PCAOB has announced that it will soon convene roundtables on the issue, but with such an overwhelming negative response, one must ask why the PCAOB is moving forward with the concept release at all.

The Honorable Mary Schapiro

February 23, 2012

Page 3

If the PCAOB had a business advisory group, it could have consulted with them and received input early in the process to understand the business and audit committee concerns with the issue. In this instance, the many issues raised by businesses—increased costs, potential for fraud, lack of expertise, diminishment of the audit committee, may have led to a different proposal or a decision not to pursue it at all. Consequently, the PCAOB may have saved time and resources for other issues.

We recognize that the PCAOB has a Standing Advisory Group (“SAG”), however, in 2009, the PCAOB decided to create a separate Investors Advisory Group. Clearly, the failure of the PCAOB to consider the views of the entity at the core of a financial report illustrates the need for a business advisory group to provide the PCAOB with this important level of input that is currently lacking. While we believe that roundtables are an important means of developing input, they are also done on an ad-hoc basis. The formation of a business advisory group will allow for a more consistent means for the PCAOB to consult on issues as it develops priorities and moves forward on them. Also, to insure that the business advisory group is open in discussing policies to promote transparency the business advisory group should conduct its activities consistent with the Federal Advisory Committee Act (“FACA”).

Another improvement for audit standard setting is one that has been before the SEC since 2008—the use of cost benefit analysis. The SEC’s Advisory Committee on Improvements to Financial Reporting (“CIFiR”) recommended that a cost benefit analysis should be used in developing financial reporting standards. As the PCAOB’s audit standards have to go through the SEC’s rulemaking process, we believe that the use of cost-benefit analysis, during the development of accounting and auditing standards will allow all market participants and the SEC to have a better understanding regarding implementation issues, as well as a keener awareness of potential adverse consequences that may be corrected. Obviously, if the costs outweigh the benefits, or if no benefits to a proposal exist, this must be known and open to public comment so that it may be considered and given proper weight in the finalization of a standard or rule.

Thank you for your consideration in this matter and we look forward to discussing it further with you to promote responsible financial reporting policies.

The Honorable Mary Schapiro  
February 23, 2012  
Page 4

Sincerely,

American Council of Life Insurers  
CRE Finance Council  
Council of Federal Home Loan Banks  
Group of North American Insurance Enterprises  
Mortgage Bankers Association  
National Association of Real Estate Investment Trusts  
Property Casualty Insurance Association of America  
The Financial Services Roundtable  
The Real Estate Roundtable  
The U.S. Chamber of Commerce