

November 16, 2011

Office of the Secretary
PCAOB
1666 K Street, N.W.
Washington D.C. 20006-2803

Subject: PCAOB Rulemaking Docket Matter No. 37

Dear Mr. Secretary,

We are responding to the request for comment on the proposal by the PCAOB to consider a rule requiring mandatory auditor rotation every 5 years. While we believe an auditor's independence, objectivity, and exercise of professional skepticism are crucial for a company and its shareholders, we do not believe there is any evidence supporting that mandatory auditor rotation will enhance those areas but will instead be costly, disruptive, and will ultimately reduce audit quality.

These comments are offered by management of Healthcare Realty Trust Incorporated, which is listed on the New York Stock Exchange (NYSE: HR).

We oppose mandatory auditor rotation.

Benefit

The intended benefit of mandatory auditor rotation is to improve auditor independence. This benefit is theoretical since no conclusive evidence exists supporting that the term of an audit firm's engagement has any bearing on, or relationship to, the independence of the auditor.

Evaluation of Costs

Although a change of this magnitude would have unintended consequences that cannot be articulated, or known at this time, we see the following costs of auditor rotation that significantly outweigh the perceived benefit:

Audit Quality

- Quality of the audit would suffer. Incumbent auditors have an institutional or specialized knowledge of their client and its industry that would be lost if there was a requirement to rotate auditors every 5 years.
- Mandatory auditor rotation would fundamentally change the audit profession. We believe firms would be less inclined to make the appropriate investment of staffing and expertise for a short-lived relationship, leading to an anti-competitive environment and reducing an audit to a commodity.



- Availability of other qualified independent registered public accounting firms to audit a company may be limited, especially in small or mid-sized regions. Many companies have engaged certain audit firms for consulting work that the auditor is no longer allowed to perform, which would limit the consulting firm(s) independence. Other companies have senior management or audit committee members that are former employees of audit firms in the area which may also limit their independence and preclude the company from engaging those firms to provide audit services.

Disruptions and Inefficiencies

- Auditing requires that a working relationship exist between the auditors and management who must work closely together, sometimes daily, in order to achieve the reporting requirements of the SEC, the auditing requirements of the PCAOB, and ultimately to achieve company goals of enhancing shareholder returns. Auditor rotation will not change that. Instead, we believe that mandatory auditor rotation would impair the ability of the auditors and management to achieve its needs and goals in a timely and efficient manner.
- Management and the audit committee would be required to invest several months before each rotation in the unproductive activity of soliciting bids from potential audit firms, interviewing those firms and having internal discussions and analyses to determine which firm to hire. The time spent doing these activities will prevent management and the audit committee from focusing on more important areas of risk.
- Companies that change auditors would effectively have two audit firms for three years. Many of the more recent accounting standards require retrospective restatement, such as from discontinued operations, stock-based compensation, noncontrolling interests, etc. Since a company is required to present multiple years of financial statements in its Annual Reports on Form 10-K, a company is required to reengage its predecessor auditor to provide an opinion and consent on the restated historical financial statements. Also, companies will need predecessor auditor consents relating to the most recent audited financial statements, such as in a public offering, during the first year after auditor rotation. These inefficiencies can result in delays of raising capital in a timely manner, disadvantaging existing shareholders.
- There will be more restatements with auditor rotations which will undermine investor confidence in financial reporting. This is in direct conflict with the intended goal and benefit of mandatory auditor rotation. With accounting standards becoming more principles based and audit firms having their own interpretations of those standards, significant judgment areas in particular that had been discussed and agreed upon with the existing auditors will have to be revisited with the new auditors. The new auditor firm may take a different position on those matters of judgment, leading to restatements.

Monetary costs

- Mandatory rotations will be expensive to companies and, therefore, expensive to their shareholders. The startup costs of client acceptance, learning about the company and its



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industry and training the staff will be time consuming for the audit firms. Those costs will ultimately be paid by the shareholders. With the anti-competitive environment that we believe would result, the audit firms would be free to increase fees without consequence without any resulting increase in audit quality.

Audit Committee Responsibility

The Sarbanes-Oxley Act mandated the responsibility and oversight of auditors to the audit committee. The audit committee is responsible for hiring, firing and overseeing the auditors, the services they provide to the company and the fees received for such services. In performing those duties, an audit committee periodically challenges the auditors to take a fresh look at the company to ensure risks are being addressed and audit efficiencies are realized. The audit committee meets at least quarterly with the auditors, and most likely more frequently, to ensure the auditors have what they need from management and that they are performing their duties for the company and ultimately to the company's shareholders in a timely, efficient and effective manner. Audit committee members, as well as executive management of the company, have personal and professional liability exposures as it relates to the auditors, so they are heavily involved and interested in ensuring that the audit team is independent and is performing a quality audit.

Conclusion

Though the idea of mandatory auditor rotation may to some seem like it could strengthen auditor independence, we believe the costs and consequences would far outweigh any benefit, theoretical or real. We believe that in the end the shareholders would be the ones that suffer through the additional costs incurred by companies, the disruption management would incur preventing them from attending to more important operational matters and from interpretational restatements. Furthermore, we believe that audit committees are fully capable and competent to oversee the auditors and should retain the authority to manage that relationship.

Sincerely,

/s/ Scott W. Holmes _____

Scott W. Holmes
Executive Vice President and Chief Financial Officer

