



November 28, 2011

Public Company Accounting Oversight Board
Attention: Office of the Secretary
1666 K Street, N.W.
Washington, D.C. 20006-2803

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

Members of the Board:

BMC Software, Inc. (“BMC”) appreciates the opportunity to respond to the Public Company Accounting Oversight Board’s (“PCAOB”) *Concept Release on Auditor Independence and Audit Firm Rotation* (the “Concept Release”). BMC is a global enterprise software and solutions company that is publicly traded on the NASDAQ Global Select Market exchange and is a member of both the Standard & Poor’s 500 and the NASDAQ 100 market indexes.

BMC supports the PCAOB’s continued efforts to maximize auditor independence, objectivity and professional skepticism, which we recognize as critical pillars to the audit profession and the reliability of public company financial statements. However, we do not support mandatory firm rotation and believe that such a mandate would diminish the quality of audits and significantly increase audit costs and the administrative burden on corporations. In lieu of mandatory firm rotation, we believe that independent public company audit committees are in the best position to reinforce auditor independence through their critical oversight role, including the authority to appoint, compensate, and remove audit firms, and that auditor independence is further bolstered by current audit firm regulation and oversight including the PCAOB inspection process.

The remainder of this letter summarizes the basis for our views, categorized in the following areas: i) risk to quality of audits; ii) incremental costs and other administrative considerations; and iii) existing audit committee and audit firm effectiveness and regulatory considerations.

Risk to Quality of Audits

We believe that mandatory firm rotation would diminish the quality of audits, particularly in complex global public company environments. This view is principally based on the following:

- To deliver a quality audit, auditors must develop and maintain a thorough understanding of constantly-evolving industry and company-specific business practices. The learning curve for an audit firm and its personnel to reach optimal levels of institutional knowledge can be significant and if firm rotation were mandated we believe audit quality would diminish during successor auditor transition periods. Furthermore, post transition periods, we believe that audit quality and efficiencies continue to improve incrementally year-over-year as an audit firm advances its industry and company-specific institutional knowledge over time. Mandatory rotation would preclude an audit firm from maximizing this company-specific institutional knowledge, including knowledge regarding the consistent application of accounting policies between historical and current transactions, which we believe would be detrimental to long-term audit quality.
- We also believe that audit risk would be heightened towards the end of an audit firm rotation period, principally due to inherent distractions that would occur because of firm transitional efforts as well as incremental focus by the outgoing audit firm on post-rotation assignments.

- Complex multinational companies require audit firms that have substantive global presence, including industry and company-specific knowledge. The number of audit firms with such presence and knowledge is limited, potentially more so after factoring in independence considerations (separately discussed under *Incremental Costs and Other Administrative Considerations*). If one or several of these firms were not a viable option due to any number of reasons, the use of an alternate firm not having the credentials necessary for audits in the particular industry or of the particular company would be detrimental to audit quality.
- While we acknowledge that public company auditor changes occur today, we believe that such transitions are fairly infrequent and thus more conducive to effective transition efforts by both companies and audit firms. However, if firm rotation were mandated, it is difficult to conceptualize how it would be practicable for thousands of public companies and a limited number of qualified audit firms to engage and transition effectively and efficiently in relatively short and recurring cycles. We see such a scenario as a risky environment of “musical chairs” that would create ongoing disruption and negative implications on audit quality.

Incremental Costs and Other Administrative Considerations

We believe that mandatory firm rotation would have a significant adverse impact on audit costs as well as other detrimental administrative impacts, particularly in complex global public company environments. This view is principally based on the following:

- It is widely understood that audit firms bear incremental costs in connection with new engagements, both at the outset of engaging new clients and during the audit transition and continuing learning curve periods. Mandatory firm rotation would create significant incremental audit firm costs that we believe will be passed on to public companies via higher audit fees, which in turn will be detrimental to public companies and their investors.
- Mandatory firm rotation would regularly distract company management and personnel, as well as audit committees. These distractions include but are not limited to distractions caused by: i) reviewing and engaging new audit firms on a recurring basis; and ii) managing the process of audit firm transitions, particularly the significant effort required to train new audit teams on all aspects of a company’s accounting and control environment, business practices and potentially even the particular industry. These distractions could adversely impact critical financial oversight by company personnel and their audit committees.
- Mandatory firm rotation would adversely impact multinational companies that maintain subsidiaries with statutory audit requirements, particularly when the multinational engages its consolidated audit firm for statutory audits as is common practice for synergistic and other purposes. This adverse impact would be further exacerbated in countries where audit rotation is statutorily required. Mandatory firm rotation would require multinationals to coordinate global audit firm changes at the statutory level concurrently, which would create significant inefficiencies and incremental costs to corporations alongside expanded audit risk, and in some cases may not be practicable to accomplish at all.
- From an independence perspective, mandatory firm rotation could limit a company’s ability to engage other audit firms to provide non-audit services in an effort to ensure that such firms remain viable alternatives for future audit rotations. Given our view that there are only a minimal number of qualified global audit firms capable of auditing complex global companies, as previously discussed, we believe that mandatory firm rotation would adversely impact corporations, especially multinationals, that today have limited professional firm options for common non-audit services.

Existing Audit Committee and Audit Firm Effectiveness and Regulatory Considerations

In lieu of mandatory firm rotation, we believe that independent public company audit committees are in the best position to reinforce auditor independence through their critical oversight role, including the authority to appoint, compensate, and remove audit firms, and that auditor independence is further bolstered by current audit firm regulation and oversight including the PCAOB inspection process.

It is a key responsibility of independent audit committees to ensure that auditor independence is maintained. We believe that knowledgeable audit committees with sufficient financial expertise are best positioned to provide this critical oversight function and that mandatory firm rotation could in fact weaken the importance and effectiveness of this critical oversight responsibility. At BMC, our audit committee takes its charter and responsibilities with respect to auditor independence and oversight very seriously and we evidence the rigor and seriousness of interactions between our audit committee and audit firm regularly. A case in point is the process undertaken and directed by our audit committee in connection with the recent mandatory partner rotation cycle within our audit firm. Our audit committee took the opportunity to perform a critical review of the entire relationship including service delivery and industry and technical competencies. The audit committee set the criteria for partner candidates and team structure, which included in depth interviews with multiple candidates. The outcome provided a realigned post-rotation team structure that included a new primary partner and a new SEC concurring/review partner, each based in separate practice regions and neither previously associated with our engagement, further demonstrating the thoughtful process and importance that our audit committee places on objectivity and independence. We noted this process to be highly rigorous on both audit firm personnel and company management, but in the end highly demonstrative of effective audit firm oversight by an audit committee.

Regarding audit firm independence measures, we believe that existing regulations surrounding public company audits, including partner rotation rules and independent SEC concurring/reviewing partner requirements, are sufficient to support audit firm independence, objectivity and professional skepticism and that the PCAOB oversight and inspection process are designed to further bolster the same, particularly if appropriate remediation and repercussion mechanisms are in place to address inspection deficiencies. Recognizing that the PCAOB continues to identify issues through its inspection process, we acknowledge that improvements in one or both of these areas may be necessary and we defer to the PCAOB and the audit profession to best address these points.

While we support continued improvements in the above areas, we reiterate our view that mandatory firm rotation is not the appropriate solution to improving auditor independence as it would diminish the quality of audits and significantly increase audit costs and administrative burden without sufficient benefit.

On behalf of BMC, we would be pleased to further discuss our comments with you. Should you have any questions in relation to this letter, please contact us at the numbers listed below:

Sincerely,

/s/ Stephen B. Solcher

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