

9 December 2011

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

**PCAOB RULEMAKING DOCKET MATTER No. 37
CONCEPT RELEASE ON AUDITOR INDEPENDENCE AND AUDIT FIRM ROTATION
PCAOB Release No. 2011-006 August 16, 2011**

Dear Sir / Madam,

SwissHoldings, the Swiss Federation of Industrial and Services Groups in Switzerland represents 53 Swiss groups, including most of the country's major industrial and commercial enterprises. As certain of our members are registered with the SEC as Foreign Private Issuers and are audited in accordance with PCAOB standards, we are pleased to take the opportunity to comment on the above mentioned concept release (the release). Our response below has been prepared in conjunction with our affected member companies.

GENERAL COMMENTS

In our opinion, from the viewpoint of preparers, the disadvantages of mandatory audit firm rotation would outweigh its benefits. On balance, we are not sure whether there would be an improvement in audit quality because there is no guarantee that the incoming firm would perform a better audit than the outgoing firm. A change of auditor is inevitably a disruptive experience for a preparer, regardless of how professionally the transition from the outgoing to the incoming audit firm is managed. The hidden costs of the change are difficult to quantify. They would include the management time absorbed in assisting and building a relationship with the incoming audit firm, and the risk of audit quality being affected by misunderstandings, a risk to which an incumbent auditor would likely be less subject. Also, we believe that, unless the number of credible firms with the capability to audit large public companies increases, a mandatory rotation requirement could lead to serious competition issues in the audit market in some situations.

RESPONSES TO SPECIFIC QUESTIONS IN THE RELEASE

Question 1

If the Board determined to move forward with development of a rotation proposal, what would be an appropriate term length?

As mentioned above, we are not in favour of mandatory audit firm rotation. However, should the Board determine to move forward with developing a rotation proposal, in our opinion, 10 years would be an appropriate term length. In our view, a term shorter than 10 years would result in the disadvantages of the auditor's learning curve and the initial transition from the previous to the new audit firm outweighing any benefit which might accrue from a fixed maximum mandatory engagement term. We also note that existing U.S. SEC reg. 210.2-01 requires lead partner rotation after 5 years. A 10 year term, being a multiple of 5 years, would avoid additional, unnecessary disruption arising from the interaction of existing partner rotation and potential future firm rotation requirements, at least for issuers regulated only by the U.S. SEC. Many SEC registrants are also listed in other jurisdictions and their auditors may be subject to different rotation terms in those other jurisdictions. For example, the European Commission is considering a similar proposal with a 9 year maximum rotation period. Were such a proposal to be enacted, it could potentially conflict with a US SEC requirement that prohibited companies from replacing their auditors before the end of a 10 year fixed term. We urge the Board to consider this international dimension if it decides to move forward with detailed proposals.

Question 2

Should different term lengths for different kinds of engagements be considered? If so, what characteristics, such as client size or industry, should this differentiation be based on?

We believe that the costs of rotation to issuers will be approximately proportional to their size and to the frequency of rotation. Because of this, we see no reason to have different term lengths for audit engagements.

Question 3

Does audit effectiveness vary over an auditor's tenure on a particular engagement? For example, are auditors either more or less effective at the beginning of a new client relationship? If there is a "learning curve" before auditors can become effective, generally how long is it, and does it vary significantly by client type?

In our experience, auditors are generally less effective at the beginning of a new client relationship. The length of the learning curve is variable, and would depend mainly on the quality of the individual professionals assigned to the audit, and of the complexity of the client's business.

Question 4

Some have also suggested that, in addition to being less effective at the beginning of an engagement, an auditor may be less diligent toward the end of the allowable term. On the other hand, others have suggested that auditors would be more diligent towards the end of the allowable term out of concern about what the replacement auditor might find. Would auditors become more or less diligent towards the end of their term? Does the answer depend on the length of the term?

We believe that a fixed maximum audit term may well result in audit effectiveness in the final year(s) of that term being compromised, and audit costs being higher than they would otherwise be, in a significant number of cases. In those final years, although the outgoing firms will strive to avoid any shortcomings which could expose them to criticism from the incoming firms, they will also have a reduced incentive to invest in improving audit quality and efficiency for the future or to share any benefits from those improvements with their client. We believe that a short-term approach to the audit will be more likely, and will apply to a greater period of the fixed term, the shorter that fixed term is. If it is too short, this effect could apply to the entire term.

Question 5

How much time should be required before a rotated firm could return to an engagement?

With a 10 year term, we believe that the outgoing audit firm should be able to return at the end of its successor's 10 year term. However, if the successor's term ends prematurely, a shorter cooling off period should be allowed. If the issuer is taken over by another registrant whose auditor is the same firm which has just rotated off the audit of the acquired company, the acquirer should be allowed to appoint its own audit firm, regardless of how recently the rotation occurred.

Question 6

Should the Board consider requiring rotation for all issuer audits or just for some subset, such as audits of large issuers? Should the Board consider applying a rotation rule to some other subset of issuer audits? For example, are there reasons for applying a rotation requirement only to audits of companies in certain industries?

We believe that any requirement should apply to all issuer audits.

Question 7

To what extent would a rotation requirement limit a company's choice of an auditor? Are there specific industries or regions in which a rotation requirement would present particular difficulties in identifying an auditor with the necessary skills and expertise? Is it likely that some smaller audit firms might decide to leave the public company audit market due to the level of uncertainty regarding their ongoing client portfolios?

Question 8

If rotation would limit the choice of auditors, are there steps that could be taken to allow a company sufficient time to transition out of non-audit service arrangements with firms that could be engaged to perform the audit? Are there other steps that could be taken to address any limitation on auditor choice?

(Consolidated answer to questions 7-8): A rotation requirement would severely limit choice of auditor for large multinational companies. They have very few firms to choose from as it is, especially in those countries where not all the 'big four' firms are strongly represented. One can easily envisage countries in which the choice of replacement for the current auditor is effectively limited to just two firms, of which one might not even wish to be considered for the audit appointment because of conflict with non-audit services it is already providing to the issuer. We do not believe that allowing a transition period for ending the non-audit service engagements would be a sufficient incentive to prevent that situation from arising. The other

type of audit in which choice might be severely restricted would be issuers in specialist industry sectors, where particular expertise, which may be in limited supply, is required to conduct the audit.

We believe that the disadvantages of the proposal in the cases we describe above would be so severe that the Board should not proceed with any form of mandatory audit firm rotation proposal until the number of firms able to compete effectively to perform audits in those specific segments of the audit market has increased. However, we are not sure what actions by public authorities could actively bring about a change of that nature without causing adverse side-effects for the audit profession, with some attendant risks to global financial markets. Only a large audit firm can bear the costs of an inspection regime such as that operated by the Board, because an auditor will not be able to pass on to a client the costs of an inspection of that client's audit.

Question 9

If rotation were required, would audit firms have the capacity to assign appropriately qualified personnel to new engagements? If they do not currently have that capacity, could firms develop it in order to be able to compete for new clients, and would they do so?

As far as we are aware, audit firms would have that capacity, except for audits of clients in certain specialized industry sectors, which require a considerable base of relevant resources and knowledge. If a firm does not have this specialized resource base already in place, it would likely be unable to acquire it quickly enough following a favourable appointment decision to be a credible choice as auditor of a client in those sectors, nor would it likely be willing to invest the costs required to build that base before it was certain of an appointment.

Question 10

Would rotation create unique challenges for audits of multinational companies? For voluntary rotations that have taken place, what have been the implementation and cost issues and how have they been managed?

Please see our response to question 8. Additionally, we believe the reduced choice of replacement auditor would inevitably result in higher audit fees for issuers, as the result of general market dynamics.

Question 11

Would increased frequency of auditor changes disrupt audit firms' operations or interfere with their ability to focus on performing high quality audits? How would any such disruption vary by firm size? For example, would a rotation requirement pose fewer or more implementation issues for small firms than for large ones?

Question 12

Would audit firms respond to a rotation requirement by devoting fewer resources to improving the quality of their audits? Would firms focus more on non-audit services than on audit services?

(Consolidated answer to questions 11-12): We do believe that these effects would likely occur, at least in the final year(s) of a fixed term for the reasons given in our response to question 4.

Question 13

Would rotation have any effect on the market for non-audit services? Would any such effect be harmful or beneficial to investors?

We believe that an audit rotation requirement would reduce competition to some extent in the market for non-audit services, although this would be less than its impact on the audit market. Also, a potential threat to audit independence might arise if the outgoing auditor is eager to win non-audit services.

Question 14

Some have expressed concern that rotation would lead to "opinion shopping," or that in competing for new engagements firms would offer favorable treatment. Others have suggested that rotation could be an antidote to opinion shopping because companies would know that they could not stick with a firm promising favourable treatment forever. Would opinion shopping be more or less likely if rotation were required? If rotation limits auditor choice, could it at the same time increase opinion shopping?

We do not believe that a mandatory rotation requirement will increase the incidence of "opinion shopping".

Question 15

What effect would a rotation requirement have on competition for audit engagements? If competition would be increased, how might that affect audit quality?

Mandatory rotation will, by definition, reduce competition because it removes the option of audit committees (or, in some non-US jurisdictions, of shareholders) to continue with the current auditor indefinitely, even if audit quality is of the highest standard. We believe the effect of rotation on audit quality would likely be neutral. Possibly it might increase in some cases, because the auditor's economic negotiating position would be strengthened, resulting in less pressure on costs. However, audit quality might reduce in other cases, since issuers might be less able or willing to replace their auditor even if shortcomings in quality become apparent, especially during the early part of the engagement term.

If a fixed term requirement was combined with removal of the right to put the audit out to tender during that term, we believe not only that competition would be further reduced significantly, but audit quality would also likely be reduced, because it would be more difficult to replace an auditor which was delivering a poor quality audit.

Question 16

Are there any requirements the Board should consider to mitigate any risks posed by rotation? For example, are there enhancements to firms' quality control systems that might address such risks?

Question 17

If the early years of an auditor-client relationship pose higher audit risks than later years, should the Board require firms to provide additional audit supervision and oversight in the first year or two of a new engagement? Should the Board impose such a requirement for auditor changes even if it does not further consider requiring audit firm rotation? If firms are accepting new clients but are unable to perform quality audits for them until several years have passed, should the Board require enhanced

client acceptance procedures? What impact would additional requirements of this type have on audit costs?

Question 18

If mandatory rotation were required, are existing standards relating to communications between predecessor and successor auditors sufficient? Should additional communications be required? For example, should the outgoing auditor provide the incoming auditor with a written report outlining audit risks and other important information about the company?

Question 19

Are there other audit procedures that should be required to mitigate any risks posed by rotation?

(Consolidated answer to questions 16-19): We believe that learning curve issues might be mitigated by the outgoing and incoming auditors being required to perform a joint audit of the issuer in the final year of the outgoing auditor's term. To have one more independent perspective might increase quality. It would allow the incoming auditor to learn from the outgoing auditor 'on the job' before taking over sole responsibility in the following year. This would be more effective than communicating the issues outside of the audit itself. A one year joint audit requirement, however, is not without its risks and disadvantages. Its potential benefit to audit quality would depend largely on how effectively the two firms work together during that audit. A joint audit would cost more than a sole audit, so that there would likely be a net cost to the client. The amount of this cost would depend on how far the incoming auditor could lever experience from the joint audit to achieve greater efficiency in the following years' audits than would have otherwise been possible.

Question 20

If the Board moved forward with development of a rotation proposal, should consideration be given to the recommendation for a cause restriction on the company's ability to remove an auditor before the end of a fixed term? Would such a provision be useful? Would there be unintended consequences of such a requirement? Should the Board work with the SEC on implementation of this recommendation? Are there other matters on which the Board should coordinate with the SEC?

For the reasons given in our answer to question 15 above, we believe restricting the company's ability to remove the auditor would be detrimental. For non-US companies, the Board should bear in mind that such a requirement might be deemed to conflict with company law in other jurisdictions, which reserve to shareholders the right to appoint auditors annually. While the requirement would strengthen the auditor's economic position and increase the cost of the audit to the issuer, we do not believe it would have a significant impact on the auditor's professional position. Existing U.S. legislation already provides sufficient safeguards against the possible effect of unjustified removal, or the threat of such removal, on audit quality.

Question 21

What other transition issues might arise in the first year of a rotation requirement? How should the Board address these issues?

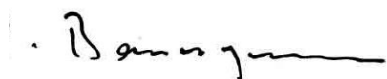
We believe that transition issues would generally be the same as with a voluntary change of auditor under current requirements.

We thank you for the opportunity to submit our comments on your proposal.

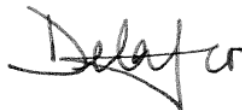
Yours sincerely

SwissHoldings

Federation of Industrial and Service Groups in Switzerland



Dr. Peter Baumgartner
Chair Executive Committee



Denise Laufer
Policy Manager

cc SH Board