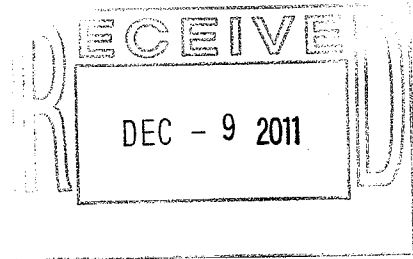




December 5, 2011



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

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

Dear Board Members:

ESCO Corporation ("ESCO") appreciates the opportunity to comment on the *Concept Release on Auditor Independence and Audit Firm Rotation* issued on August 16, 2011 by the Public Company Accounting Oversight Board ("PCAOB" or "Board").

ESCO is a leading independent designer, developer and manufacturer of highly engineered wear parts and replacement products used in mining, infrastructure development, power generation, aerospace and industrial applications. Our revenues for the year ended December 31, 2010 were approximately \$849,000,000. We are a global company with more than 1,000 customers and 5,300 employees and operations in 22 countries on six continents. We are not a public company, but we have filed a registration statement on Form S-1 with the U.S. Securities and Exchange Commission (the "SEC") in anticipation of our initial public offering. It is from this perspective that we share our views on this Concept Release.

We value the importance of high-quality audits and support the Board's efforts to evaluate ways to improve auditor independence, objectivity and professional skepticism and ultimately to improve audit quality. However, we do not support a mandatory audit firm rotation requirement, as we believe it would have only a marginal impact on auditor independence; reduce overall audit quality by increasing audit risk in the earlier years following an auditor change; cause us to incur significant additional costs and loss of productivity; and limit our choice of auditors.

## **Auditor Independence**

It is generally recognized that audit firms have an inherent conflict of interest as they are for profit businesses and are compensated by the companies they audit. To mitigate this inherent conflict, an abundance of statutes, rules and professional standards related to auditor independence exists, including provisions of the Sarbanes-Oxley Act of 2002, SEC rules, and PCAOB audit standards. Adding an audit firm rotation requirement on top of the many already existing rules designed to strengthen independence would only have a marginal impact, if any, on improving independence.

Supporters of a mandatory auditor rotation requirement argue that under the rule an existing audit firm would be more diligent in its audits, knowing that another audit firm will follow them and expose shortcomings, if any, in its audit. Mandatory partner rotation serves the same purpose, but at much less cost to the audit firm and the company. In addition, the PCAOB's rigorous auditor inspection program further alleviates this concern as auditors are inspected on a recurring basis, which exposes shortcomings, if any, in the audits. A mandatory audit firm rotation requirement would be an expensive duplicate measure to address a problem already mitigated by the partner rotation rules and PCAOB inspection program.

## **Audit Quality**

The goal of mandatory audit firm rotation is an increase in audit quality resulting from an increase in auditor independence, objectivity and professional skepticism. We believe any gains in audit quality resulting from greater auditor independence as a result of mandatory audit firm rotation would be more than offset by the consequential drop in audit quality, particularly in transition years immediately following the appointment of the new audit firm. The long-term relationship that causes some to fear that auditor independence has been compromised also provides audit firms with knowledge of the company that allows auditors to ask the right questions. In short, the marginal gains (if any) resulting from a perceived increase in audit firm independence is more than offset by the greater insight and resulting efficiencies inherent in a long-term relationship.

Auditor independence is only one element of overall audit quality. It is generally accepted that the risk of an audit failure is higher in the first few years after a new auditor is appointed. This is particularly true for audits of large multinational companies with complex operations and transactions. An audit firm is faced with a steep learning curve when taking on a new audit of a large and complex multinational company. When you consider that audits of large companies require thousands of hours in a relatively short timeframe, no one individual sees all parts of the company's operations and accounts in any given year. Accordingly, it takes years for auditors to fully understand these large and complex companies. This increases the risk of audit failure, particularly in the early years, which offsets any marginal improvements in auditor independence that may be gained by mandatory audit firm rotation.

As referred to in the Concept Release, Congress previously directed the U.S General Accounting Office ("GAO") to study and report on the "the potential effects of requiring the mandatory rotation of registered public accounting firms." The GAO Report, issued in 2003, was based in part on a survey of public accounting firms and public company chief financial officers and audit committee chairs. According to the GAO survey, 79% of larger audit firms and Fortune 1000 companies that responded believed that changing audit firms increases the risk of an audit failure in the early years of the audit, and most believed that mandatory firm rotation "would not have much effect on the pressures faced by the audit engagement partner." We agree.

### **Cost**

We have experienced significant audit fee increases in recent years due to decreased competition, new audit standards and the continually evolving interpretation of existing audit standards. Our auditor repeatedly refers to new audit standards and the PCAOB's interpretation of long-standing audit standards to justify increased fees. Nearly all of the larger firms that responded to the 2002 GAO survey, referred to above, estimated that initial year audit costs would increase by more than 20 percent in the face of a mandatory audit firm rotation requirement. We believe that these increased costs are not justified by the increase in auditor independence, if any, which might result from mandatory audit firm rotation.

We recently solicited proposals as part of a change in audit firms. Our new auditor has made a substantial investment in us, getting to know our company and its operations worldwide. This included visits to many of our operating facilities and shared services centers throughout the world. They were willing to absorb these costs in the hope of developing a long-term relationship with us. This relationship benefits both the company being audited and the auditor through efficiencies and improved audit quality in subsequent years, which in turn benefits investors. If mandatory firm rotation were to be required, much of the incentive for the audit firm to absorb these costs would be removed, as the audit firm would not have a long period to recoup these costs. We believe the mandatory rotation requirement would have the effect of passing the audit firm start-up costs along to the companies being audited, thereby increasing our costs. We believe mandatory audit firm rotation would be a costly requirement that would likely not result in better audit quality and accordingly not benefit investors or the companies being audited to a degree commensurate with the costs involved.

### **Limited Auditor Choice**

Mandatory audit firm rotation would limit the choice of available audit firms. For large public companies that are outside the target market of the mid-size national and regional accounting firms, there are currently only four viable options (i.e. the big four firms), or three options when it comes time to rotate to a new audit firm. To compound the problem of limited choice, we often engage other large accounting firms to assist with international tax, acquisition due diligence, fair value measurements, secondments, tax accrual preparation assistance, internal control consulting, and other engagements which could eliminate these firms as viable audit firm candidates due to independence issues raised by the provision of these services. Any

remaining firm may not be the best choice for us due, for example, to its limited presence in the key cities around the world where we have significant operations. Not only would this limit our choice of audit firms, it would limit our choice of firms to use for consulting projects as we try to ensure that at least one firm does not have independence conflicts leading up to the next mandatory audit firm rotation. The mandatory firm rotation would cause continual disruptions, not only to the audit, but also to other services provided by accounting firms.

We also believe there would be an added financial cost to us if a mandatory audit firm rotation were required in a limited choice environment. During our most recent audit proposal process, we noted that the audit firms quoted price premiums or discounts based on their current workloads. One firm indicated that they had just obtained multiple large new clients and that, consequently, their capacity to service our audit would be an issue. Accordingly, that firm's audit fee proposal reflected a significant premium above the other firm's fee proposals. In an environment where there is limited choice, we could be forced to move to an audit firm that is not a good fit for us that also charges fees that would not otherwise be competitive.

### **Alternatives**

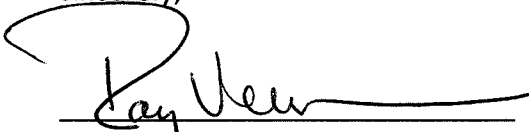
We believe mandatory audit firm rotation is not an appropriate path to improved auditor independence because it would lessen audit quality and increase audit costs. In the alternative, we suggest the following as possible strategies to improve independence, objectivity and professional skepticism and, accordingly, audit quality without implicating the negative consequences of mandatory audit firm rotation.

First, the PCAOB should require the lead engagement partner to personally sign the audit report with his or her name in addition to signing the firm's name. This would increase the sense of ownership of an engagement and could have a significant positive impact on the partner's independence, objectivity and professional skepticism without increasing costs.

Second, provide authority and guidelines to the PCAOB to allow it to, on a case-by-case basis, remove an audit firm from an engagement, causing the company to change audit firms. This authority should only be used if the PCAOB concluded, through an audit firm inspection, that the audit firm lacked an appropriate level of independence, objectivity and professional skepticism.

Thank you for considering our views.

Sincerely,



Ray Verlinich  
Vice President – Finance and  
Chief Financial Officer



Peter F. Bechen  
Chairman, Audit Committee of the  
Board of Directors



L. Ray Barlow  
Director of Internal Audit