



December 14, 2011

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

File Reference: PCAOB Rulemaking Docket Matter No. 37

Dear Mr. Seymour:

The PNC Financial Services Group, Inc. ("PNC") appreciates the opportunity to comment on PCAOB Release No. 2011-006, *Concept Release on Auditor Independence and Audit Firm Rotation* (the "Release"), which solicits feedback on ways that auditor independence, objectivity and professional skepticism could be enhanced. As noted in the Release, the PCAOB is particularly interested in the possibility of using mandatory audit firm rotation to further this goal.

PNC agrees with the Board's goal of enhancing auditor independence, objectivity and professional skepticism as a means to improving audit quality. However, we strongly object to mandatory audit firm rotation as a way to achieve this goal.

PNC believes that any decision to change audit firms is the responsibility of a company's audit committee¹ and should not be forced arbitrarily through regulation. The audit committee is in the best position to understand the complexity of a company and is, therefore, in the best position to evaluate whether an audit firm provides the experience and expertise necessary to perform a quality audit. Further, the audit committee reviews the work of the audit firm and evaluates the quality of the audit.

In the absence of compelling evidence that mandatory audit firm rotation will provide meaningful enhancement to audit quality, which we do not believe exists,² the costs and risks associated with mandatory rotation, including the possibility that it may actually be detrimental to audit quality, suggest that the current framework (i.e., audit committee selection of audit firms³ with ongoing

¹ See SEC Rule 10A-3(b)(2) ("The audit committee of each listed issuer . . . must be directly responsible for the appointment, compensation, retention and oversight of the work" of the audit firm.); see also New York Stock Exchange Listed Company Manual Section 303A.07.

² PCAOB Release No. 2011-006, *Concept Release on Auditor Independence and Audit Firm Rotation*, Section C, page 16, "Preliminary analysis of that data appears to show no correlation between auditor tenure and number of comments in PCAOB inspection reports."

³ Many public companies, including PNC, submit the audit committee selection of an audit firm to a subsequent non-binding shareholder ratification, providing an opportunity for investors to express their view as to the quality of the audit firm and its audits. Even in the case of a negative shareholder vote, however, most, if not all, public company audit committees (including PNC's) do not abdicate their legal

responsibility for supervision of the engagement combined with periodic audit partner rotation) should be retained. In the final analysis, an audit committee should not be forced to select an audit firm that it views as offering lesser expertise and experience, and that risk is unavoidably present with a mandatory rotation requirement.

Current Framework

The audit committee (comprised entirely of independent board members), acting in accordance with its fiduciary duties to investors, is solely responsible for selecting the audit firm. In order to properly fulfill its duties, an audit committee must not be constrained by regulations requiring mandatory audit firm rotation; instead, the audit committee must be free to choose whichever audit firm that it believes will best serve the interests of the board and the company's investors. The audit committee, not the PCAOB, is best positioned to evaluate the audit needs of a company and its investors and the ability of each potential audit firm to satisfy those needs. Accordingly, the audit committee must be allowed to select, out of the entire population of available audit firms, the audit firm that it believes best meets a company's particular needs, taking into account such factors as the risks it faces, the locations of its operations and the nature of the industry in which it operates.

Specifically, PNC's Audit Committee regularly evaluates the performance of PNC's audit firm, the firm's resources devoted to the audit, the firm's expertise and experience in the financial services industry and whether it is in the best interest of the company to retain the existing firm. For 2007, PNC engaged a new audit firm. That decision was made after careful consideration of the aforementioned factors. Although the internal resources and effort necessary to support the transition were significant, PNC and its Audit Committee weighed the costs of the transition against anticipated benefits and concluded that the change was desirable. Mandatory audit firm rotation would take the ability to weigh costs and benefits out of the hands of those best positioned to make that analysis—a company's audit committee working with company management.

As stated above, we do not believe that there is sufficient evidence to support the value of mandatory audit firm rotation in improving audit quality for the benefit of company boards of directors and investors. We see the following risks, costs, and burdens that would likely follow such a requirement.

Quality of Audit Services

We understand that the premise of this proposal is that, by requiring periodic rotation of audit firms, the overall quality of audits, and thus presumably the overall quality of a company's financial statements, will be enhanced. Even if in specific situations it turns out to be the case that a new audit firm applying a fresh set of eyes on a company's financial statements and financial reporting controls leads to enhanced financial reporting, it is not clear to us that this benefit will be measurably greater than the impact of already required periodic rotation of audit partners. And, even more significantly, we are concerned that it is at least equally likely that mandatory rotation will result in more errors and less effective audits in the early years of an engagement due to the learning curve of the new auditor.

responsibilities to select audit firms. Accordingly, they reserve the right not to terminate the audit firm merely because of a negative vote.

In many situations, new audit firms may not be adequately or appropriately staffed at the outset of a new engagement due to the absence of qualified personnel in the locale where the company is based. PNC, for example, is by far the largest financial services company based in Pittsburgh, and to our knowledge, no audit firm other than our present one has the resources in the vicinity to serve PNC's needs. If PNC were considering changing audit firms voluntarily, it would assure itself that any new firm would have the necessary capabilities available at the outset or it would not change firms; in the case of mandatory rotation it might not be able to achieve that result.

One possibility that might emerge in situations such as PNC's where other firms do not have adequate personnel in the region to support a new engagement is that members of the audit team below the most senior levels might change audit firms and stay with the audit client when the rotation occurs. The alternative would require the new audit firm to transfer personnel from other locales to the new engagement, which would be expensive and possibly disruptive to other engagements depending on the timing of other companies' mandatory rotations. Personnel changes between audit firms would ameliorate somewhat the cost of regular rotation to the audit firms and help with the learning curve issues for the issuers. It would, however, also undercut whatever advantage lies in having a fresh set of eyes conducting the audit.

Limited Number of Major Audit Firms

As a practical matter, PNC, like most other very large public companies, is limited to choosing its audit firm from among the four largest firms. This results in part from investor expectations but also is driven by PNC's need to have an audit firm with extensive experience in auditing large financial services firms and the internal resources to do so effectively. As a result, if forced to change auditors every few years, PNC and similarly situated companies would be limited each time to at most three firms from which to choose.

In many cases, however, not all of the other three firms might be available or appropriate. In some cases, particular audit firms may not possess all of the industry experience required to perform audits at the highest levels (and might not be interested in developing the additional expertise if they know that the engagement is limited in tenure from the outset). In others, the company and the audit firm may have relationships that are independence-impairing and that either the company or the audit firm or both may not want to discontinue.⁴ For example, a company may provide banking or brokerage services to an audit firm and its employees, or an audit firm may be engaged in a long-term consulting project with a company. In each instance, an audit firm would be precluded from providing audit services. It is also possible that a company or its audit committee may have had a bad experience with a particular firm and not wish to retain it for the audit.

Thus, companies may find themselves forced to change auditors at a time when there are only one or two (or perhaps even none) of the four major firms available. In that event, the company may be forced to end up with an audit firm that it and its audit committee view as less than optimal, perhaps not even fully qualified for the position. If none of the major four firms is available, investors may not have full confidence in the smaller firm selected. The lack of

⁴ In this regard, financial services firms may be reluctant to provide independence-impairing financial services to audit firms and their partners if the effect would be to limit the choices in a mandatory rotation setting.

competition for the role is also, in this type of situation, likely to result in higher fees and costs to the company. Contemplate a situation where for one or more of the above-described issues there are only two major audit firms available. In this situation, the company would be forced to go back and forth between these two firms at every mandatory rotation without having any choice—not likely to allow the company to keep audit costs at a reasonable level and not likely to result in any of the perceived benefits of mandatory rotation.

Costs and Burdens of Mandatory Rotation

Having recently gone through the process of changing audit firms, PNC has experience with the costs and burdens of doing so. They are considerable, and we urge the PCAOB to take them into account in determining whether to mandate audit firm rotation. The process of selecting an audit firm is itself a major undertaking, involving considerable effort on the part of management as well as the audit committee. In our case, PNC's Audit Committee and management, working together, developed requests for proposals outlining the attributes that we were looking for and the information we needed to evaluate each firm, reviewed written submissions from each firm, and interviewed members of the proposed audit teams, before holding several meetings to evaluate the strengths and weaknesses of each of the firms.

Once the audit firm is selected, management necessarily needs to spend extra time with the audit team from the new firm, helping educate them as to the company's business, financial statements, controls, and the like. This is inevitably time taken away from doing the work that actually produces the financial statements and evaluates the effectiveness of controls. At a company like PNC, with complex financial statements involving significant applications of judgment, this process will involve meaningful effort in making sure that the new audit firm understands and is comfortable with the company's procedures, accounting judgments, and control environment. It is also likely that the process of starting to bring on-board a new audit firm will overlap with the completion of the final audit by the prior firm. This also creates inefficiencies and other burdens on management, trying to handle the conflicting needs of two separate organizations, all while completing the prior year financial statements and financial disclosure.

Although not a significant expense to a public company, regular rotation of audit firms necessarily increases the period when the consent of multiple audit firms is required to complete public offerings of securities. Given the short time frame that many public offerings operate under in today's environment, the additional consent required from a former audit firm responsible for historical audits incorporated into a current offering documents poses, in our experience, the risk of delaying offerings.

Recommendations

Instead of mandatory auditor rotation, we recommend that the PCAOB examine and explore alternative methods of enhancing auditor independence, objectivity and professional skepticism. In 2010, the PCAOB issued Release No. 2010-04⁵ whereby eight auditing standards and related amendments were adopted that "benefited investors by establishing requirements that enhance the effectiveness of the auditor's assessment of and response to risks of material misstatement in an audit." It is logical that the PCAOB should assess the impact of these recent standards on audit

⁵ Release No. 2010-4, *Auditing Standards Related to Auditor's Assessment of and Response to Risk*.

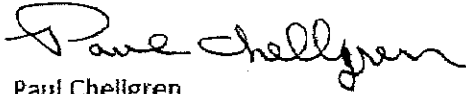
quality before layering on yet another change in mandatory audit firm rotation. As another alternative, we believe the PCAOB should consider a requirement of more frequent rotation of the concurring engagement quality review partner. A new concurring partner from the current audit firm brings his/her perspective to the audit without compromising the institutional knowledge of the audit team or causing undue disruption to the audit process. This alternative would provide a "fresh perspective" on a more frequent basis. If the PCAOB feels that it must implement changes sooner, we believe, as a best practice, the PCAOB recommend that audits be rebid at regular intervals (e.g., every five or ten years). This alternative would allow an audit committee to formally evaluate the expertise, experience and resources of the current audit firm with that of its competitors. Finally, PNC suggests that the PCAOB work with the SEC in drafting specific guidance to the audit committee on how audit committees should evaluate auditor quality.

Conclusion

For the reasons stated above, PNC objects to a requirement for mandatory auditor rotation. Additionally, we believe that there are other alternatives available that would further the PCAOB's objective of enhancing auditor independence, objectivity and professional skepticism while striking an appropriate balance between costs and benefits.

We appreciate the PCAOB's request for feedback on this matter and appreciate the opportunity to share our views with the PCAOB staff. We welcome any questions or comments you may have. Please contact me with any questions about PNC's comments at 859-341-1280.

Sincerely,



Paul Chelgren
Audit Committee Chairman
The PNC Financial Services Group, Inc.

cc: Audit Committee
The PNC Financial Services Group, Inc.

Mr. Richard Johnson
Executive Vice President and Chief Financial Officer
The PNC Financial Services Group, Inc.

Mr. Gregory Kozich
Senior Vice President and Controller
The PNC Financial Services Group, Inc.

Mr. John (JJ) Matthews
Director of Accounting Policy
The PNC Financial Services Group, Inc.