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December 14, 2011

Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006

**Re: PCAOB Release No. 2011-006
PCAOB Rulemaking Docket Matter No. 37
Concept Release on Auditor Independence and Audit Firm Rotation**

Dear Board Members:

Federated Investors, Inc. (Federated) is a component of the S&P 500 and is one of the largest investment managers in the United States of America with \$352 billion in managed assets as of September 30, 2011. The majority of Federated's revenue is derived from advising and administering Federated's 127 registered domestic mutual funds as well as various offshore investment funds and numerous separate accounts in both domestic and international markets.

Federated appreciates the opportunity to comment on the proposed Public Company Accounting Oversight Board's (PCAOB) Concept Release on Auditor Independence and Audit Firm Rotation (Concept Release). The Concept Release proposes mandating periodic auditor rotation as a solution to a perceived deficiency in auditor objectivity, professional skepticism and independence. The PCAOB is hypothesizing that numerous audit failures observed during audit inspections over the last eight years may be attributed to inadequacies in auditor independence.

We strongly oppose mandatory auditor rotation. Mandating auditor rotation is a far-reaching change over current practice and would yield several disadvantages to companies and their shareholders, including:

- Decreased audit quality as a result of the steep learning curve the auditors will repeatedly face. The audit process today is enhanced by the auditor's accumulation of in-depth institutional knowledge. Performing an audit without in-depth institutional knowledge produces more audit risk. It would be interesting to learn the percentage of audit failures that occur in first-year audits as compared to subsequent-year audits.
- Decreased audit quality as a result of inferior industry knowledge/expertise of some audit firms. Not all firms are equal in terms of breadth and depth of industry

knowledge/expertise. Audit firm selection is based on more than just cost. Forced rotation of firms would result in audits being performed by less qualified audit firms.

- Increased audit costs as a result of the steep learning curve and audit inefficiencies typical of first year audits. It would be difficult to estimate the potential increase in cost that would be experienced as a result of this change but we would generally agree that a 20 percent increase is not an unreasonable estimate.
- Increased internal costs as a result of the significant disruption to the business to continuously train auditors. In addition to changing auditors, we have various projects for which we engage the services of public accounting firms including intangible asset valuation work. As required under the Sarbanes-Oxley Act of 2002, the firms we engage for this work must not be firms that are engaged to perform audits for Federated or the Federated mutual funds in order to maintain the independence of the auditors. As such, given the limited number of large public accounting firms, a rotation of firms for audit engagements would also necessitate a rotation of firms used for recurring non-audit services, a further disruption to the business.

Based on these disadvantages, we expect the PCAOB will perform a robust cost-benefit analysis prior to issuing a formal proposal for mandatory auditor rotation. It would be imprudent to conclude that the cost of a mandatory auditor rotation requirement is justified without fully investigating: (1) if deficient auditor independence is the true cause of the observed audit failures and (2) if auditor independence diminishes as engagement tenure increases. At this time, we question the basis for both of these theories for the reasons outlined below.

(1) Possible Causes of Audit Failures

With regard to the observed audit failures, we acknowledge the PCAOB's admission that citing auditor independence as the cause is theoretical, not empirical. We believe the list of possible causes of audit failures over the last eight years is lengthy and would include factors such as the proliferation of complex accounting pronouncements, expanded areas involving management judgment and estimates, significantly expanded disclosure requirements (specifically in the areas of derivatives, fair value, and variable interest entities), unprecedented market volatility, and the accelerated deadlines for SEC filings. In addition, we note that the determination of "sufficient professional skepticism" is subjective and may be judged differently by different organizations. Further, the view of what is sufficient has changed over time. For example, we are aware that there are differences in opinion regarding the sufficiency of professional skepticism being applied to the audit of the fair value of securities held by mutual funds priced using independent pricing services. What once was considered appropriate and acceptable audit practice is now being questioned as inadequate. While these factors and changes may be viewed as improvements, they have significantly increased the volume and complexity of detailed information subject to audit. We offer these possible causes not as excuses for audit

December 14, 2011

Page 3 of 3

failures but rather to make the point that the list of possible causes of audit failures is extensive and may involve a combination of factors.

(2) Auditor Independence

We question the merits of this proposed model because we disagree with the notion that auditor objectivity and professional skepticism are compromised due to the lack of mandatory auditor rotation. Auditors are subject to rigorous standards regarding professionalism and independence under current regulations regardless of the length of their relationship with a client. The idea that a long-standing relationship with an audit client necessarily results in diminished professional skepticism and objectivity is unfounded. In this post-Sarbanes-Oxley era of financial statement audits, we believe the PCAOB rules and enforcement action over auditors, the SEC's requirements over management's internal controls and audit committees, and the high-stakes consequences of noncompliance with either of these are sufficient to mitigate the material risk of unprofessional conduct on the part of auditors, management and audit committees.

We believe much more evaluation and scrutiny of the data regarding causes of audit failures is required to be certain that this change aimed at increasing auditor objectivity will reduce audit failures and thus justify the added costs.

We appreciate your consideration of this letter and would be happy to talk through our comments and observations with the PCAOB Staff. Please contact Stacey Friday at (412) 288-1244 to discuss any questions you may have regarding the comments in this letter.

Sincerely,

/s/ Thomas R. Donahue
Thomas R. Donahue
Chief Financial Officer

/s/ Denis McAuley III
Denis McAuley III
Principal Accounting Officer

/s/ Stacey H. Friday
Stacey H. Friday
Director, Accounting Policy