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REAL ESTATE INVESTMENTS

December 14, 2011

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

**Reference:** Request for Public Comment: *Concept Release on Auditor Independence and Audit Firm Rotation*, PCAOB Rulemaking Docket Matter No. 37.

Dear Office of the Secretary:

Cole Real Estate Investments (“Cole”, “we”, “our”, “us”) appreciates the opportunity to provide comments to the Public Company Accounting Oversight Board (“PCAOB”) on the *Concept Release on Auditor Independence and Audit Firm Rotation* (the “Concept Release”), PCAOB Rulemaking Docket Matter No. 37.

By way of background, Cole is one of the most active investors and owners of core real estate assets and manages one of the country’s largest portfolios of retail properties. Cole is the sponsor of five Real Estate Investment Trusts (“REITs”) that primarily target net leased single tenant and multi-tenant properties under long-term leases with high credit quality tenants, as well as, single tenant office and industrial properties. These REITs and other Cole related entities own or manage 57.7 million square feet of commercial real estate in 47 states with a combined acquisition cost of approximately \$9.5 billion.

We appreciate the PCAOB’s effort to enhance auditor independence, objectivity and professional skepticism and have provided detailed responses below addressing selected general issues from the Concept Release.

**Auditor independence, objectivity and professional skepticism**

The concept release is based on the PCAOB’s concerns that auditors at times lack sufficient independence, as well as objectivity and misapply professional skepticism. We believe the transparency of independence and the auditor’s application of objectivity and professional skepticism have improved since the passage of the Sarbanes-Oxley Act of 2002 (the “Act”) and the creation of the PCAOB. The requirements of the Act, particularly with regard to defining the role of the audit committee, or those in charge of governance, as well as the establishment of the PCAOB, have had a significant and positive effect on the accounting profession. The Act helped to strengthen and define the role of audit committees by requiring them to be responsible for the oversight of the auditor and the audit process, including monitoring the auditor relationship with management. We believe the PCAOB inspection process has contributed to improve audit quality through the identification of audit deficiencies, requiring necessary professional training and job skill improvement and, when warranted, the need for remediation plans and appropriate changes in a firm’s audit methodology. As a result, we believe that advancement of the mandatory firm rotation concept is unnecessary and that the audit profession’s principles of independence, objectivity and professional skepticism are well supported by the current professional, regulatory and enforcement framework.

**Mandatory audit firm rotation**

The Securities and Exchange Commission currently requires key audit partners to rotate off audit engagements after five years and avoid association with the audited company for an additional five years after the rotation has occurred. We believe that the requirement of mandatory audit partner rotation, coupled with natural turnover of a company’s personnel, keep professional relationships between audit firm and the company fresh. Further, mandatory firm rotation could curb the significant advantages when an audit firm has tenure because an audit firm attains in-depth knowledge and understanding of a company over time, as well as an awareness of the company’s risks, which assist to enhance and strengthen audit quality. We also believe the consideration of an issue as significant as mandatory auditor rotation should not proceed without a determination that, in fact, a correlation exists between auditor tenure and audit failure.

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In addition, we are the sponsor of five separate publicly registered, non-traded REIT entities, each of which is similar in its design and structure and has the same external management and accounting function. We are able to create efficiencies for us by engaging one independent audit firm to perform the audit for each respective REIT. A mandatory firm rotation, at a time when the current audit firm has a different number of years of tenure on multiple REITs, could result in us being required to have separate audit firms performing audits for separate REITs. These relationships would be a significant burden to us in terms of time, resources and cost with little to no added benefit.

## **Cost and timing**

We believe that mandatory audit firm rotation would result in higher compliance and regulatory costs for companies that would exceed related benefits. Typically, there is a learning curve that audit firms are challenged with when performing a first year audit. Thus, audits can be less effective at the beginning of the “audit relationship” or “at initial auditor engagement” and can present a higher risk level for audit failure. Costs incurred for auditors to gain an understanding of our business and the time and effort required by us to educate the auditors would be significant to us because we could have separate audit firms performing audits on each of our REITs we currently sponsor or we may sponsor in the future. Also, the proposed required changing of auditors would be challenging if the timing coincides with a significant transaction such as a merger or acquisition or registration of a new REIT or with volatile market conditions.

## **Audit committees**

Audit committees have the responsibility to reinforce the independence of the auditor. An effective audit committee is aware of the audit needs of the company and the service provided by its audit firm. We believe the audit committee is best positioned to evaluate whether the auditor’s independence is, or appears to be, compromised. Mandatory firm rotation may override the audit committee’s knowledge, perspective and responsibility in overseeing the auditor and could hinder the audit committee’s ability to oversee the financial reporting and audit process in the best interest of shareholders and users of financial statements. To be effective, audit committees should continue to have clear authority to oversee the audit process and to appoint, remove and compensate its auditor.

## **Other considerations**

We do not believe other alternatives to mandatory audit firm rotation, such as mandatory retendering of audits and compulsory joint audits, as discussed in the Concept Release, would be appropriate, as these alternatives would remove important decisions from the control of the independent audit committee charged with overseeing the audit relationship for the benefit of shareholders. The important governance obligation of the independent audit committee to be directly responsible for the auditor relationship should be maintained.

To address the independence, objectivity and professional skepticism concerns raised by the PCAOB in the Concept Release, the PCAOB should evaluate whether it should address these concerns through its inspection program, and whether there are any enhancements that could be made to its approach that could better address these concerns.

We thank you for your consideration of these comments and we appreciate the opportunity to provide our comments on this Concept Release.

Best Regards,



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