

# HEALTHCARE REALTY

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

RE: PCAOB Rulemaking Docket Matter No. 34

Board Members:

This comment letter is presented by the Audit Committee and management of Healthcare Realty Trust (NYSE:HR) in response to PCAOB Release No. 2013-05, PCAOB Rulemaking Docket Matter No. 034 dated August 13, 2013 (the "Release").

We are opposed to any significant expansion to the independent auditor's report and to the additional extensive disclosures by the independent auditors regarding the integrated audit that are outlined within the Release. We believe any specific expansion is not justified. This release, if adopted, would add more confusion and not clarity.

Our main objection is that it is not clear that there are any specific benefits to an expansion as contemplated by this Release. We do not believe this additional information from independent auditors would be useful to users of an Issuer's financial statements and periodic filings. The Release contains many references to academic research and highlights a major weakness to this type of academic research – the benefits are not definitive, only theoretical. Providing this information solely as a data source to be mined for further academic research is not in the best interests of the investing public, an Issuer, or an Issuer's independent auditor.

We believe this Release is an example of what SEC Commissioner Daniel Gallagher was referring to in his remarks on December 6, 2013 at the Second Annual Institute for Corporate Counsel. His outreach with investors reveals that currently "disclosure documents are lengthy, turgid, and internally repetitive" which results in disclosure documents that are "not efficient mechanisms for transmitting the most critically important information to investors – especially not to ordinary, individual investors. They are not the sort of documents most people are likely to read, even if doing so is in their financial self-interest." Given this overload of disclosure, the Board should be measured in its rulemaking to avoid expanding disclosures, such as those included in the Release, that are supported mainly by academic research that notes such rules "could" provide benefits that are



elusory. The history of the accounting profession has been that rules, disclosures and related costs only increase. They very seldom are reduced.

Further, we have not been able to reconcile the inevitable expansion of an Issuer's regulatory filings as a result of the Release with the comments from SEC Chair Mary Jo White on October 15, 2013 to the National Association of Corporate Directors addressing information overload. She described this as "a phenomenon in which ever-increasing amounts of disclosure make it difficult for an investor to wade through the volume of information she receives to ferret out the information that is most relevant." She also commented on the SEC's outreach activities in the mid-1970s:

"the Commission... held public hearings on what topics should be required in corporate disclosures. In the course of those hearings, it received suggestions of over 100 topics – a 'bewildering array of special causes' – ranging from charitable contributions to 'good things a company has done.' Expressing the view that disclosure should generally be tethered to the concept of materiality, the Commission decided against requiring disclosure of the identified matters, noting that 'as a practical matter, it is impossible to provide every item of information that might be of interest to some investor in making investment and voting decisions.'"

In the Board's outreach it appears to have had a similar experience that Chair White references in her speech – "a bewildering array of special causes." The proliferation of ideas the Board has elected to explore and expose for comment has resulted in response fatigue. Issuers and independent auditors have responsibilities other than monitoring the Board's activities and responding to these activities in public letters. This creates the probability that ideas with little value will be promulgated since Issuers, who fund the PCAOB's operations, simply cannot keep up. Better discretion is needed by the Board in its rulemaking process and communications. As Commissioner Gallagher noted, "from an investor's standpoint, excessive illumination by too much disclosure can have the same effect as obfuscation – it becomes difficult or impossible to discern what *really* matters."

Another concern raised by Chair White in her speech is whether investors are "getting the information they need when they need it." The effects of this Release could constrain an Issuer's ability to meet the current regulatory filing deadlines. The Board needs to consider the current reporting requirements along with the expansion of disclosures in connection with this Release, and discuss this with the SEC, to determine what is in the best interests of the investing public.

In all of the Company's experiences and across all communications media with the public, the Company has never had any questions or discussions with investors on any matter involving the Company's audit. The Board does not appear to be communicating with the same investor groups as the Company. As an Issuer who is active in the public markets, the Company is in constant communication with existing and potential investors, both institutional and individual. An extensive and efficient infrastructure has been carefully created to allow investors to communicate easily with management. The Company's periodic filings are governed by the rules of the SEC and include not just the periodic reports on Form 10-Q and annual reports on Form 10K, but include all other 1934 Act and 1933 Act filings. This information is available instantaneously once filed and is designed to provide the investor with not just the GAAP-based financial statements and related notes, but management's commentary on historical results, forward-looking views on trends, risk

factors and any other information deemed relevant to an investor or potential investor. In addition, the Company furnishes other information via a Form 8-K that is not required to be filed with the SEC, such as investor presentations and other supplemental information, all with the intention of assisting interested parties in developing as complete an understanding of the Company's business and industry as possible. Management holds a quarterly earnings call with analysts and investors where management makes itself available to answer questions regarding the Company's business. A shareholders' meeting is held annually that is open to all current investors to attend. At this meeting, representatives from the Company's management team, audit committee, and independent auditors are all available to interact with attendees and respond to inquiries of any kind. Further, the Company provides other telephonic and electronic means for all parties to access management. It should also be noted that the Company's independent auditors have never received any inquiries from the investing public regarding their audits or the Company's financial statements.

The Release would fundamentally alter the communications among independent auditors, Issuer's audit committees, Issuer's management, and the public. At its core, the nature of an attest engagement requires the independent auditor, through its audit report, to communicate its conclusion whether the Issuer's written assertions (i.e., the financial statements and related notes) are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Requiring auditors to provide more information about what constitutes an audit will substantially increase the volume of information that will eventually be required under the Release. Alternatively, the Board could publish a description of what constitutes an audit on its website. Matters of judgment inherent in the execution of any audit of financial statements under PCAOB standards cannot and should not be relegated to boilerplate disclosures or "sound bites."

The Release injects information from outside the Issuer, but that pertains to the Issuer and its financial statements, that is beyond the control of an Issuer's management to substantiate or certify (as the CEO and CFO are personally required to do for every Form 10-K and Form 10-Q). We are fundamentally opposed to the independent auditors being such a source of original disclosure and believe this establishes a dangerous precedent. The primary focus of investors should be on the content of the financial statements included in the public filings, the sole reason for the filing. The source of this information is the Issuer. The requirements in this proposal are another step in shifting that focus away from the primary purpose of the filing in favor of the audit process, and the independent auditors. The purpose of the Annual Report on Form 10-K is not to give the independent auditors center stage. This document is the responsibility of the Issuer and is signed by members of the Issuer's management and Board of Directors. Embedding the type of third party information within these documents that the Board is proposing in this Release is a major change to the purpose of this 1934 Act filing.

We believe independent auditors under the Release would be encroaching on confidentiality and giving the appearance of assuming more responsibility for management's judgments and business decisions reflected in the financial statements that are the subject of the audit. This does not align with the Board's stated mission of preserving auditor independence.

This additional information that would result from this Release will become subject to review by the Board in the inspection process and could result in additional "failed audits." The Board already has

unfettered access to a domestic Issuer's audit file that contains the raw materials for these proposed disclosures. The Board's inspections presumably already focus on the very items proposed to be disclosed publicly. However, the costs of complying with this Release will rise as further refinements, clarifications, interpretations, and expansions to the rules by the Board invariably occur in the future.

We believe the results of the Board's efforts in the last few years, intentional or not, are a re-defining of what constitutes an integrated audit without the clarity and transparency of purposefully and diligently communicating this objective to the public. This has created more confusion among auditors, Issuers' managements and audit committees, as well as within the investment community for whom these measures are purported to benefit.

We have concerns over the agenda of the PCAOB. It is difficult to understand who has established the agenda and what the ultimate objectives are. For example, the PCAOB has released concept statements or proposals on auditor rotation, auditor communications with management and the audit committee, this current Release, and signing the partner's name. In the midst of these piecemeal proposals, the Board released in December 2012 the results of its 2010 inspections that painted a dire picture of audit quality based on the number of "audit failures" it identified. We believe attention should be focused on these basics (i.e., eliminating "audit failures") and that the Board should strive to establish stronger bonds with audit committees, which was discussed in the response letter from the Company's audit committee in November 2011 on the auditor rotation project.

The multitude of regulations governing an Issuer requires that an audit committee satisfy certain criteria. These criteria, such as financial literacy and independence from the Issuer's management and the Issuer's independent auditor, are designed to make the audit committee relevant and credible in the execution of its responsibilities. One audit committee responsibility is to oversee the independent auditors and their work. In addition to focusing on auditor independence, objectivity and professional skepticism (as discussed in the Board's prior proposal on required auditor rotation), the audit committee is tasked with understanding how effectively the independent auditors executed their audit. This evaluation necessarily includes a discussion of the areas of significant auditor judgment, significant risks within the financial statements, etc. The Board has recognized the importance of these responsibilities and has mandated the formal communication of these and other matters in Auditing Standard No. 16, Communications with Audit Committees, many of which the Board is now proposing be disclosed directly to the public by the independent auditors. The audit committee is also responsible for overseeing management. This access to both parties involved in the audit – the auditor and the Issuer – makes the audit committee the resource through which the Board should operate.

The Board continues to incrementally marginalize the role of audit committees. The Release circumvents audit committees in favor of going directly to the public, unfiltered, with information they will not understand. Instead of further diminishing the role of audit committees, the Board should be seek to become an ally with audit committees in its efforts to promote "informative, accurate and independent audit reports."

Finally, the larger registered firms are a valuable voice in the rulemaking process. They must play a prominent role in the rulemaking process in order to ensure that the auditing standards of the Board are effective and the interests of the public are being served by the Board. We believe the Board should be aware of a growing point of view among Issuers and board members who serve on audit committees that the larger registered firms may not express candidly their perspectives with the Board formally in public in an effort to decrease the perceived tension that exists within that relationship. Those of your board members that have been directly involved in the audits of Issuers' financial statements and the expansion of the independent auditor's report understand the significant costs of expansion. Ultimately, the current shareholders of Issuers bear the costs of all these additional procedures. Whereas audits of internal controls over financial reporting have added benefits, they have significantly increased, in many instances more than doubled, the audit fee. What the Board is proposing in this Release will only increase fees without any actual benefits.

We are available to discuss this response letter with you at your convenience. We can be reached at (615) 269-8175.

Sincerely,



Bruce D. Sullivan  
Chairman of the Audit Committee and  
Retired EY Partner (retired in 2001)



Scott W. Holmes  
Executive Vice President and Chief Financial Officer



David L. Travis  
Senior Vice President and Chief Accounting Officer