Financial Security...for Life.

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Director, Accounting Policy

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Mr. J. Gordon Seymour
Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, D.C. 20006-2803

Re: PCAOB Release No. 2011-006 Rulemaking Docket Matter No. 37 (Audit Firm Rotation)

Dear Mr. Seymour:

The American Council of Life Insurers (ACLI), a national trade association with over three hundred members[1], appreciates the opportunity to comment on the PCAOB concept release paper to require a mandatory audit firm rotation. The ACLI members clearly agree with the importance of auditor objectivity and professional skepticism in order to maintain the proper performance of the U.S. capital markets. Conversely, the ACLI strongly opposes that a mandatory rotation at the firm level is required. We are concerned that the costs of the Board's proposal, as outlined in the Concepts Release, will outweigh its intended benefits. We further believe that the Board's consideration of mandatory auditor rotation in particular is not appropriate, given the nature and extent of the audit issues the Board seeks to address.

Basis for the Board's Consideration of Mandatory Auditor Rotation

Auditor independence, objectivity, and professional skepticism are vital to providing users with accurate and complete financial information. However, by the Board's admission, the issues that have arisen in its audit reviews, and which are cited as reasons for the Board's consideration of mandatory auditor rotation, have not been conclusively linked to an auditor's failure to maintain independence, objectivity or professional skepticism. Consequently, we believe that the Board's consideration of mandatory auditor rotation represents an overly narrow approach to addressing the identified audit issues. We understand the Board's position that empirical evidence should not be the sole consideration, and that informed judgment should also be a component of policy decisions. However, the fact remains that a persuasive evidence-based argument has not been presented which indicates that shorter audit terms would result in higher-quality audits (in fact, academic studies cited by the board in its concept release appear to show the opposite). As a result, we believe there is no evidence that the actions proposed by the Board would result in improved audit quality. Absent more persuasive support, it is our view that the costs of such a significant shift in policy (outlined in detail below) would outweigh any potential benefits to financial statement users. It is our belief that, if the audit firm and its auditors are conforming to the

[1] The American Council of Life Insurers represents more than 300 legal reserve life insurer and fraternal benefit society member companies operating in the United States. These member companies represent over 90% of the assets and premiums of the U.S. life insurance and annuity industry.

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regulations and standards in place, then the industry and investors can be confident of their objectivity and there should be no reason to require a mandatory audit firm rotation.

Unintended Consequences of the Board's Proposal
We have outlined below what we believe are possible consequences of the Board's proposal, as outlined in the Concept release.

- Audit firm rotation would require significant additional resources from both the audit firm and the audited entity.
- A mandatory rotation of auditors would be more onerous for the insurance industry since currently the financials are audited on both a statutory and US GAAP basis.
- Required audit firm rotation would result in a significant decrease in audit quality, as audit firms which have developed knowledge and experience with a particular Company or business are replaced by those that have comparatively less experience.
- Audit firm rotation would limit the role of the audit committee, particularly with regard to the selection and oversight of the auditor.

Increased Audit Cost
A financial statement audit is enhanced by a deep knowledge of the business being audited. This knowledge, developed over many years, is used by the auditor to add context to their procedures and to drive audit efficiency, and is of immense value to both the audit firm and the audited entity. Audit firms also have contrasting specialized industry knowledge which may have driven the company's decision to engage those considered 'experts' on their particular industry issues. As a result of this specialization and experience an auditor is better prepared to make professional judgments when applying the accounting rules, regulations and interpretations to the various business structures. It is our belief that the Board's proposal would result in the loss of these stores of institutional knowledge, and require audit firms to expend undue time and resources to overcome the learning curve associated with a new audit on a regular basis. As a result, we believe one consequence of the Board's proposal would be the elimination of significant audit cost savings which arise from an audit firm's acquired experience. We believe that the resultant increase in audit cost would be material both to audit firms and their clients, It is unlikely that investors would want companies to incur large amounts of additional expense for this purpose.

Mandatory auditor rotation could be particularly onerous on public companies located in smaller markets. These smaller markets often do not have many audit firms with specialized industry knowledge such as insurance. Accordingly, the rotation to another qualified audit firm would likely require hiring a firm from another city. This significantly increases audit costs due to travel expenses and results in decreases in efficiency when auditors do not have a local presence.

The value of every audit is determined not only by auditor independence but also by the quality of accounting standards and accounting education combined with auditor expertise and discipline. A mandatory rotation of the audit firm will consume management's time to bring a new firm up to speed quickly which often times results in confusion among the audit team and the financial reporting areas of a company since the new audit firm is not yet fully informed or knowledgeable about the company.

Decreased Audit Quality
Additionally, we believe that the likelihood of audit failure is increased by shorter audit tenures, as auditors are less likely to identify errors and other issues without the advantage of years of experience with a Company's management and business. As noted in Section C. of the concepts release, empirical evidence would appear to support this view.

Limitation of the Role of the Audit Committee
A function of the audit committee is to represent the shareholders' interests with regard to the selection and oversight of the auditor. As a representative of the shareholders, the Company's audit committee reviews the qualifications, independence, and performance of its auditors on an annual basis. This review is performed independently, and serves to mitigate potential issues related to the auditor's relationships with management. We believe this practice to be effective in keeping the relationship between management and auditors fresh, and contend that it presents far fewer potential issues than a requirement for mandatory audit firm rotation.

Conclusion
For the above reasons, the ACLI does not support the PCAOB Rulemaking Docket Matter No. 37 requiring a mandatory rotation of audit firms. The current requirement of partner rotation at the audit firm level mitigates the potential for management pressure to influence the audit and provides a fresh perspective. The ACLI does support the PCAOBs efforts to provide the regulations and standards to produce the best quality audit produced by questioning minds. With this in mind, we would recommend that the Board discontinue its work relative to this issue and to focus on refining and enforcing existing rules related to auditor independence.

Thank you for considering our comments.

Sincerely,

Mike Monahan
Director, Accounting Policy