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

Re: PCAOB Rulemaking Docket Matter No. 37

Aflac welcomes the opportunity to share with you our views regarding the Concept Release on Auditor Independence and Audit Firm Rotation. Below we offer our general comments on the proposed Update.

Aflac sells supplemental insurance products in the US and Japan and is the world's leading underwriter of individually issued policies marketed at worksites.

General Comments

Aflac supports the Board's objectives to protect investors and enhance audit quality. While Aflac acknowledges that audit failures occur, we do not believe that the auditor/client relationship is the cause. The Board has identified the problem to be a lack of auditor independence, objectivity, and professional skepticism. We believe that most audit firms maintain these objectives and that is why most audits do not fail. The number of audit failures are few and should be dealt with on an individual basis, as they currently are, rather than burdening all audit firms and public companies with the disruption of mandatory audit firm rotation. In the concept release, the Board presents very persuasive evidence, such as the Cohen Commission report, that mandatory audit firm rotation is not the solution, and we agree. Below we discuss in more detail why we disagree with mandatory audit firm rotation.

Disruption of Services and Decreased Audit Quality

Mandatory audit firm rotation will cause a disruption to non-audit services. Size, geographic locations, industry type and regulations are all considerations in choosing an audit firm. Currently there are only four "big" audit firms. For many companies, requiring mandatory audit rotation would further limit this

already small number of qualified audit firms. Large global and heavily regulated companies, such as Aflac, need large audit firms for both audit and non-audit services. It is not uncommon for Aflac to utilize each of the Big 4 audit firms on various projects and audit services within our company. Since audit firms must maintain their independence and cannot provide non-audit services to audit clients, Aflac would not only have to rotate its audit firm, we would also have to rotate our non-audit accounting firms to comply with independence requirements and mandatory audit firm rotation.

When a company is audited, the audit firm must be fluent with every aspect of the business. Without this fluency, the audit firm will struggle, and could quite possibly overlook an important aspect of the audit. There is a steep learning curve when any company enters into a new engagement with an audit firm. This learning curve stems from the need to obtain a deep understanding the company's corporate culture, industry, past transactions or business decisions, operating segments, as well as many other aspects of the company. It typically takes an auditor between 3 and 5 years to become fluent with the company's "language." During the first few years audit quality will be sacrificed as a result of overcoming this learning curve. This was made evident in the Cohen Commission studies which showed substandard audit performance often occurred in the first two years of an audit engagement.

As previously mentioned, industry type is a consideration when choosing an audit firm. Only certain audit firms specialize in insurance. Insurance is a challenging industry because of its strict regulation and structure. The learning curve associated with the audit of an insurance company is steeper than that of many other industries. The curve becomes steeper if an insurance company, like Aflac, is large and has global operations. Very few audit firms have enough experience and the global capability to audit a company with these characteristics. If Aflac were required to rotate and was unable to obtain one of those few qualified firms, the quality of the audit would suffer.

Negatively affects shareholder interests and previous initiatives

Since the passage of the Sarbanes-Oxley Act of 2002 (SOX) and the establishment of the PCAOB, auditor independence, objectivity, and profession skepticism have greatly improved. The passing of SOX gives firms an enhanced incentive for thoroughness, the objective of mandatory audit firm rotation.

When SOX was passed, Congress gave audit committees the responsibility for audit process oversight of public companies. According to SOX, the audit committee has the responsibility of appointment, compensation and oversight of the registrant. The audit committee has the shareholders' views in its best interest. Therefore, if audit oversight is taken away from the audit committee, the firm best suited to serve the interests of the stakeholders may be prohibited from doing so. Mandatory audit firm rotation undermines the authority of audit committees and places stakeholders at risk. This directly violates the board's objective to protect investors.

Increased engagement costs

Mandatory audit rotation would cause audit costs to increase. As mentioned above, audit firms are less efficient at the beginning of an audit engagement because of the steep learning curve during the beginning of an engagement. During this time, audit firms must allocate extensive human and cash

resources to complete the audit. This additional cost will eventually be passed to the clients in the form of audit fees. Additionally, in the first few years of an audit engagement, the client also spends additional resources essentially “training” the auditors. Both increases in costs will ultimately harm shareholders.

Negatively affects accounting profession

It is clear that mandatory audit firm rotation is disruptive to both audit firms and their clients. New accountants are often attracted to accounting firms because of the great experience and knowledge they are able to receive. However, with frequent rotation, auditors are less likely to gain the in-depth knowledge they seek. Potential accountants must also consider the variability of audit firms’ workloads. Audit firms will be less able to predict future workloads and will not be able to adequately staff or recruit, resulting in terminations and lack of stability for audit employees. Potential accountants will either gravitate toward corporate accounting or be discouraged by the accounting profession entirely.

Conclusion

Aflac does not believe there is a widespread problem with auditor independence, skepticism, and objectivity. Mandatory audit firm rotation would disrupt an entity’s operations, negatively affect audit quality, increase costs, undermine the audit committee, and may even damage the accounting profession. While Aflac understands the Board’s objective, we do not believe that mandatory audit firm rotation is a viable solution.

Sincerely,

A handwritten signature in cursive script, appearing to read "June P. Howard".

June P. Howard
Senior Vice President and
Chief Accounting Officer