Prepared Comments for PCAOB San Francisco Panel on Auditor Rotation and Independence
June 28, 2012

William H. Baribault
Trustee and Independent Director, American Funds

Thank you for the opportunity to participate in PCAOB's public meeting on audit firm independence and rotation. While my views are not necessarily the views of the other board and audit committee members of the American Funds and Capital Research and Management Company, the investment advisor to the funds, they are based on more than 25 years as CEO and Chairman of various companies, both public and private, as an audit committee member serving in a financial expert role, and as Board Chairman and CEO of a public financial institution regulated by the FDIC. I am an independent director and trustee of 16 fixed income American Funds, American Funds Insurance Series, American Funds Portfolio Series and American Funds Target Date Funds. Most importantly regarding my perspective, I am also a shareholder in the American Funds.

Based on the responsibilities and interests of an independent director and shareholder, I am especially interested in audit independence and quality. I concur with the recommendation made last December by our American Funds' audit committee chairpersons. Their recommendation - "Our diverse backgrounds combined with our experiences as audit committee chairpersons lead us to the conclusion that mandatory audit firm rotation does not achieve this objective." A copy of their comment letter is attached.

This panel discussion presents an opportunity to share ideas that contribute to the fundamental goal of auditor independence and quality. The following list of recommendations facilitates auditor independence, skepticism, objectivity, and audit quality, which leads to an increase in audit committee effectiveness:

1. Share individual inspection reports with the audit firm's clients whose audits have been selected for review, in order to increase transparency, promote discussion, and enhance the audit committee's review of the engagement.
2. Expand PCAOB's advisory network to include various industry representations. For example, investment fund audit committee members can add perspectives, issues, and opportunities for quality improvement specific to their industry sector.
3. Consider sanctions and penalties that encourage audit firm rotation for material findings, such as undiscovered financial statement fraud from the lack of professional skepticism.
4. Review all auditing standards and practices adopted by the PCAOB since its inception to determine their impact on quality and independence.
5. Compile and publish a list of best practices from the data base of inspections to share with all audit committees to facilitate their learning and review of audit firm performance.
6. Recommend guidelines for audit committees to consider audit firm rotation based on calendar, event, or partner change, for example.
7. Compile in a systematic manner the circumstances that gave rise to a lack of professional skepticism, etc. and share those with audit committees.

I appreciate the opportunity to discuss the issues of auditor independence and rotation.

Encl: Comment Letter #506, American Funds Chairpersons.

American Funds
333 South Hope Street
Los Angeles, California 90071-1406

Phone (213) 486 9200
Fax (213) 486 9455

VIA ELECTRONIC DELIVERY

December 14, 2011

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

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

Dear Office of the Secretary:

We are pleased to have the opportunity to provide comments on the Concept Release on Auditor Independence and Audit Firm Rotation ("Concept Release"). We serve as audit committee chairpersons for the indicated American Funds ("Funds"). The American Funds are one of the oldest and largest mutual fund families in the nation, whose investment adviser is Capital Research and Management Company ("CRMC"). The comments contained below are our own views, and are based upon our collective experiences as audit committee chairpersons of the Funds and as senior leaders in various business, governmental, legal, and academic organizations. Nevertheless, we feel our comments also reflect the views of many of our fellow audit committee members.

Summary

We generally support the Public Company Accounting Oversight Board's ("PCAOB") stated intent of ensuring that auditors approach the audit with independence and skepticism. However, we believe that imposing mandatory audit firm rotation would diminish the role of audit committees, reduce audit quality (particularly in the first and last years of the rotation) and generally fail to generate sufficient benefits to justify its consequences. For these reasons, discussed in more detail below, we strongly object to the imposition of mandatory audit firm rotation.

Audit Committee Duties and Impact

In their capacity as committees of the board of directors/trustees, the audit committees are directly responsible for a number of duties related to the financial statements of the Funds. The committees have oversight over (1) the Funds' accounting and financial reporting policies, (2) its internal controls over financial reporting, and (3) the financial statements themselves. The committees also appoint and review the work performed by the independent auditors for the Funds. Similar to some other large mutual fund families, to audit the large number of Funds, the committees have selected two separate audit firms. We believe this structure provides a unique benefit by giving us two different firm perspectives on relevant issues. At audit committee meetings, we routinely discuss CRMC's internal control reports (known as SSAE 16 reports), any letters received from shareholders related to financial reporting, auditor work plans and service team updates, and the Funds' financial statements themselves. In addition, members of the committees coordinate with CRMC associates and the independent auditors to facilitate focused discussions on current events and internal control topics relevant to the oversight of the financial statements. These discussions can at times lead to other meetings, as the most recent topic of PCAOB inspection reports did. After reviewing the publication of one of the Funds' auditor's Part II inspection report, the audit committees requested a separate joint meeting to receive a more comprehensive report from the auditor involved to understand the items discussed in the report and the audit firm's response to those items.

The foregoing outline of audit committee activities is provided as an example of what we believe is valuable work being done by our members. We believe imposing an arbitrary term limit on audit engagements as discussed in the Concept Release would inhibit the work of audit committees that are already exercising appropriate diligence and care in carrying out their duties. Currently, the audit committee has ample opportunity to meet with auditors during the course of the year, in both formal and informal settings. During those discussions, committee members are able to assess whether the audit team has the requisite knowledge and approach to appropriately serve the shareholders of the funds. Mandatory firm rotation would replace the refined and informed process of the audit committee in evaluating the performance of the independent auditor with a blunt and unsophisticated tool requiring rotation at proscribed periods of time. Our audit committees view the selection of the independent auditor as one of the most important duties it performs, and removing the committee's discretion in this decision removes a vital function in carrying out its mission. We believe that our current process of selecting the independent auditors for the Funds, which involves a detailed review of the auditor's audit procedures, risk management process, and interview of key audit team members, combined with frequent formal and informal interactions with the audit team, promotes a strong governance structure to provide shareholders with reliable financial statements that is not meaningfully improved with the addition of mandatory firm rotation.

Audit Quality and New Perspectives on Financial Statements

As stated in the Concept Release, proponents of mandatory firm rotation believe issuer companies will benefit both at the outset of an audit from a fresh auditor perspective, and at the end of the auditor's term when the audit team will "scrub" the financial statements more vigorously as they know their work will be scrutinized by a successor firm. However, we believe the contrary is true and that issuer company shareholders' would potentially receive lower audit quality at both of these points during the auditor's term. At the outset of the audit, an auditor must climb a steep learning curve to understand the operations and any complex accounting policies of the audited company. At this time, shareholders may not receive the same audit quality as they would have received from the prior auditor, and the chances of financial statement errors are heightened. In addition, we believe that the relatively new requirement for rotation of the audit partner every five years has been effective in providing a new viewpoint on the financial statements, and a new approach to the audit itself, that has benefited the audit committee. Furthermore, we believe that new perspectives on the financial statements are gained not just from a new audit firm or a new audit partner, but also from other sources such as newly hired management personnel involved in the creation of the financial statements, new audit committee members, and new audit team members brought onto the account by the existing audit firm as natural turnover and attrition occurs. At the end of an audit term, a firm may not provide the same high service levels provided in previous years with regards to the audit, knowing the company will not be an audit client in the forthcoming year. An incumbent audit firm may be incentivized to either divert talented associates to newly won engagements or conversely to focus on maintaining a satisfactory relationship with the company in pursuit of non-audit services to replace the lost revenue of the audit. In both cases, audit quality for shareholders could suffer from mandatory rotation. We believe that current requirements to frequently rotate the audit engagement partner, combined with review by a second partner, provide a sufficient opportunity for bringing a fresh and skeptical perspective to the financial statements, without creating the significant risks identified above associated with mandatory change of accounting firms.

Consequences and Costs

Finally, we believe that the consequences and costs of mandatory rotation to audit committees are severe and are not justified by the potential benefits. As discussed above, over time an independent audit firm accumulates institutional knowledge of the issuing company's operations, risks, and complex accounting and reporting issues. In the case of investment companies, considerable expertise is needed to audit funds that invest in complex and/or global securities, and to respond to evolving securities and tax laws that are relevant for the Funds. This knowledge enables the independent auditor to more effectively identify high risk areas and address complicated issues. The audit committee benefits from the auditor's accumulated knowledge and as a result develops trust and confidence in the auditor over the course of time. The imposition of mandatory firm rotation would produce the unnecessary need for the committee to employ a new audit firm and rebuild the trust already gained with the previous auditor. Changing audit firms frequently also may unnecessarily result in more independence issues, both with the audit firms as well as audit committee members who may be former associates of the new auditing firm. In the particular case of investment companies, the large number of shareholders and retirement plans invested in them means that addressing these issues could have unintended consequences to existing shareholders should material redemptions be required, or should knowledgeable and effective members be forced to leave the audit committee. Given the above, we would strongly encourage the PCAOB to conduct a robust analysis of the consequences and costs associated with implementation against the benefits of such rotation before making a final decision in this matter.

We believe such an analysis would show that adoption of this concept would create more problems than it would solve.

In conclusion, although we support the goal of improving auditor independence and skepticism, our diverse backgrounds combined with our experiences as audit committee chairpersons lead us to the conclusion that mandatory audit firm rotation does not achieve this objective. Mandatory audit firm rotation would diminish the role of the audit committee, not result in meaningful improvements to auditor independence or audit quality, and bring unintended consequences that are not justified by the benefits of proposal.

* * * * *

Thank you for considering these comments and please feel free to contact any of us should you have any questions or wish to discuss our thoughts on the Concept Release.

Sincerely,

Joseph C. Berenato
Audit Committee Chairman -
Capital Income Builder, The New Economy Fund, and Capital World Growth and Income Fund
Chairman, Ducommun Incorporated

Vanessa C. L. Chang
Audit Committee Chairwoman -
EuroPacific Growth Fund, New Perspective Fund, and New World Fund
Director, EL & EL Investments

Robert J. Denison
Audit Committee Chairman -
Fundamental Investors, The Growth Fund Of America, and SMALLCAP World Fund
Chairman, First Security Management

Leonard R. Fuller
Audit Committee Co-Chairman -
American Funds Insurance Series, American Funds Target Date Retirement Series, and the Fixed Income Funds of the American Funds
President & CEO, Fuller Consulting

William D. Jones
Audit Committee Chairman -
AMCAP Fund, American Mutual Fund, The Investment Company of America, and American Funds Global Balanced Fund
President & CEO, CityLink Investment Corp. & City Scene Management Co.

James C. Miller III
Audit Committee Chairman -
Washington Mutual Investors Fund, The Tax-Exempt Fund of Maryland, and The Tax Exempt Fund of Virginia
Senior Advisor, Husch Blackwell LLC and Director & Audit Committee Chair, Clean Energy Fuels Corp.

Frank M. Sanchez
Audit Committee Co-Chairman -
American Funds Insurance Series, American Funds Target Date Retirement Series, and the Fixed Income Funds of the American Funds
Principal, The Sanchez Family Corp.

Isaac Stein
Audit Committee Chairman –
American Balanced Fund, The Income Fund of America, and International Growth and Income Fund
President, Waverly Associates and Chairman Emeritus of the Board of Trustees, Stanford University