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November 16, 2009

AGENDA ITEM 10a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Corporate Governance Update
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

This report provides a brief update of recent corporate governance activities.

- CalPERS Senior Investment Officer provided written and oral testimony to the House Oversight Committee on proposed reforms to Credit Ratings Agencies, focusing on the need to strengthen transparency and accountability across the industry, and remove exemptions from liability and regulation.
- CalPERS Chief Investment Officer and Washington lobbyist have participated in a number of meetings with Congressional and Administration staff, both separately and jointly, with the Council of Institutional Investors (CII), and with CalSTRS. The purpose has been to assess progress on financial and regulatory reforms, particularly those facing delay or opposition.
- CalPERS submitted a detailed comment letter on the SEC's proposed reforms to proxy disclosure and solicitation rules, which supported measures to improve reporting on risk management and board quality, including diversity.
- Staff submitted a comment letter following discussion with the CalPERS Board on the SEC's proposed reforms on pay-to-play and the role of placement agents.

- Staff has been supporting an initiative concerned with integrating financial and sustainability reporting – “One Reporting” which is sponsored by the Global Reporting Initiative and the International Corporate Governance Network (ICGN).
- Comment letters have been sent to regulators on auditor independence and accurate financial reporting – specifically:
 - SEC letter – shareholder approval of executive compensation of TARP recipients
 - Public Company Accounting Oversight Board (PCAOB) letter – requiring the Engagement Partner to Sign the Audit Report
- CalPERS provides technical support to the ICGN Accounting and Auditing Practices Committee, which is co-chaired by Lou Moret. Recent initiatives include a teleconference with Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), to discuss their work program and priorities. A similar discussion is planned with Bob Herz, Chairman of the Financial Accounting Standards Board (FASB), for October 23, 2009.
- Staff have supported the Accounting and Auditing Practices Committee by drafting comment letters on a range of issues of concern to shareowners, including:
 - IASB letter – Revenue Recognition
 - Institute of Chartered Accountants in England and Wales (ICAEW) letter – Audit Firm Governance
 - IASB letter – Fair Value Measurement and Impairment Requirements for Certain Investments in Debt and Equity Securities
 - SEC letter – Roadmap for the potential use of Financial Statements in Accordance with International Financial Reporting Standards by US Investors
- Staff participate as a member of the FASB Investors Technical Advisory Committee (ITAC) which provides direct participation in the standard-setting process by investors with technical accounting knowledge.

- CalPERS has been working with the FASB to trial a financial statement project which included Global Equity, Fixed Income and Alternative Investments Management (hence a cross-asset class project).
- Staff have been consulted by the SEC on CalPERS perspectives on interactive data – Extensible Business Reporting Language (XBRL) which is being rolled out.
- CalPERS staff are members of both the newly formed PCAOB Investor Advisory Committee and the technical support group known as the Standing Advisory Group to advise the PCAOB on shareowner perspectives.
- At the CII Conference in Los Angeles, CalPERS organized a workshop, hosted jointly with CalSTRS, to bring together shareowners, diversity advocates, companies, labor groups and experts in the field, such as academics and search firms. The purpose was to further develop our project to build a diverse pool of directors who shareowners can nominate to company boards. The meeting was attended by a number of Board members, and opened by John Chiang. Over 100 participants included groups such as Catalyst, the New America Alliance, the Asian Business Association, HOPE (Hispanas Organized for Political Empowerment), Women Corporate Directors, CERES, and the National Association of Corporate Directors.

The meeting generated lively debate and a range of proposals for taking the project forward. The proposals will be discussed further on November 18 at the next workshop, which will be in Washington, DC, to coincide with ICGN's fall meeting. This will allow participation by international shareowners and ensure a global dimension to the project.

V. STRATEGIC PLAN:

This item will further the following goals of CalPERS Strategic Plan:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX. Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Any costs incurred as a result of this item are incurred by ongoing CalPERS investment programs.

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