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March 17, 2014

Phoebe Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW, 8th Floor
Washington, DC 20006-2808
Re: PCAOB Rulemaking Docket Number 29

Dear Ms. Brown and PCAOB Members:

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to provide our comments on PCAOB Rulemaking Docket No. 29 – Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards to Provide Disclosure in the Auditor's Report of Certain Participants in the Auditor's Report of Certain Participants in the Audit.

CalPERS is the largest public pension fund in the United States with over $280 billion in global assets and equity holdings in over 9,000 companies. CalPERS provides retirement benefits to more than 1.6 million public workers, retirees, their families and beneficiaries and we rely on the quality and integrity of market information to allocate capital on behalf of our beneficiaries.

In its Global Principles of Accountable Corporate Governance, CalPERS articulated its views on the importance of role accounting and auditing play our capital markets. Principle IV provides:

> Financial reporting plays an integral role in the capital markets by providing transparent and relevant information about the economic performance and condition of businesses. Effective financial reporting depends on high quality accounting standards, as well as consistent application, rigorous independent audit and enforcement of those standards. CalPERS is a strong advocate of reform that ensures the continual improvement and integrity of financial reporting.

In addition, CalPERS has voiced its view that requiring audit partners to sign the opinions they issue will enhance accountability and reliability in the audit process. During a recent PCAOB Investor Advisory Committee meeting, I echoed calls to require audit partner signatures on audit reports. "I'd like to fully support [the audit partner signature requirement]. When considering the question of transparency on the audit, it's hard to understand who would object to this. Who would not be willing to stand and be held accountable for their own work?"

Moreover, this common-sense proposition has been supported by empirical evidence. In a paper published in September 2013 volume of *The Accounting Review*, the peer-review journal of the American Accounting Association, Professors Joseph Carcello (University of Tennessee) and Chan Li (University of Pittsburg) confirm the conclusions of the US Department of the Treasury's Advisory Committee on the Audit Profession ("ACAP") which expressed the view that "the engagement partner's signature on the auditor's report would increase transparency and accountability."

Professors Carcello and Li analyzed this statement in the context of the United Kingdom audit partner signature requirement. They concluded:

> Overall, our results indicate that the implementation of a partner signature requirement in the UK has offered benefits to investors and other financial statement users. First, earnings management has declined, whether measured by abnormal accruals or the propensity to meet an earnings threshold. In addition, the incidence of qualified audit opinions has increased. Perhaps because of this decline in earnings management and/or because of a greater willingness by auditors to issue qualified opinions, the informativeness of earnings has increased. Importantly, the results for both control samples – US firm which have not implemented a signature requirement, and firms in other European Countries that adopted the partner signature requirement before the UK – suggest that the audit quality improvements experienced in the UK after the partner signature requirement are unlikely to be due to other changes in the audit or business environment not included in our model….
>
> …. Our results are consistent with the argument that requiring an individual audit partner to sign a report improves audit quality by increasing the partner's accountability and transparency of audit reporting….
>
> (See, Joseph V. Carcello and Chan Li (2013) "Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom," *The Accounting Review*: September 2013, Vol. 88, No. 5, pp. 1511-1546)

We have addressed in the attachment certain questions in the proposal, but we applaud the work of the PCAOB and wholeheartedly support the approach set out in the proposed rule. We would also refer the PCAOB to two letters we previously submitted on the subject. The first relates to the PCAOB's earlier concept release in 2009. The other was submitted to the Treasury Department's Advisory Committee on the Accounting Profession. (See http://pcaobus.org/Rules/Rulemaking/Docket029/022_CalPERS.pdf)

Thank you for your consideration. If you have any questions, please do not hesitate to contact me at (916) 795-9672 (anne_simpson@calpers.ca.gov) or Don Marlais of Lussier, Gregor, Vienna & Associates - our federal representatives - at (703) 888-4522 (dmarlais@lgva.net).

Sincerely,

ANNE SIMPSON
Senior Portfolio Manager, Investments

Supplemental Responses of the California Public Employees Retirement System (CalPERS) regarding PCAOB Release No. 2013-19, PCAOB Rulemaking Docket No. 29

1. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit provide investors and other financial statement users with useful information? How might investors and other financial statement users use the information?

As noted in our comment letter, CalPERS believes requiring the engagement partner signature will enhance accountability in the audit process and believe it will improve audit quality. Predictably, investors or other users of financial statements will likely use information on audit partners and other personnel in making investment and/or engagement decisions based on the perceived quality of the work performed.

For example, if an issuer restates its earnings, financial statement users, corporate boards and firms themselves may take note of the audit team personnel and may request another audit partner or personnel be assigned to the audit going-forward.

2. Would the name of the engagement partner or the extent of participation of other participants be useful to shareholders in deciding whether to ratify the company's choice of registered firm as its auditor? If so, how?

Long-term shareowners such as CalPERS seek reliable financial information from its portfolio companies. If an audit firm is assigning personnel whose audits are subject to material restatements or similar inaccuracies, investors may engage audit committees and the issuer to review their audit contract, and discuss whether the engagement partner or firm should be changed, through an open bid selection process and/or chose to reallocate its investment assets.

3. Over time, would the reproposed requirement to disclose the engagement partner's name allow databases and other compilations to be developed in which investors and other financial statement users could track certain aspects of an individual engagement partner's history, including, for example, his or her industry expertise, restatement history, and involvement in disciplinary proceedings or other litigation?

We believe that this will be a likely market-based reaction to the disclosure of this information and may stimulate collection of comprehensive trend data, providing investors additional tools in determining the reliability and integrity of a company's financial reporting.

a. Would such databases or compilations be useful to investors and other financial statement users? If so, how?

Many investors will not have the resources to compile and compare audit personnel information, so it is logical that they would want to identify a vendor that would provide this information.

b. Would they provide investors and audit committees with relevant benchmarks against which the engagement partner could be compared? If so, how?

Over time, aggregate information on audit personnel could be used as an audit quality indicator. We also believe audit firms could utilize the data to evaluate and improve training, audit firm governance and overall process.

4. Over time, would the reproposed requirement to disclose the other participants in the audit allow investors and other financial statement users to track information about the firms that participate in the audit, such as their public company accounts, size of the firms, disciplinary proceedings, and litigation in which they have been involved? Would this information be useful to investors and if so, how?

For the reasons stated in our letter and in this document, we believe information on audit personnel at all levels will be useful to improve transparency and accountability. The broad inclusion of personnel will allow for a review of performance over an extended period of time, including performance with multiple firms and at differing levels of responsibility.

5. Is the ability to research publicly available information about the engagement partner or other participants in the audit important? If so, why, and under what circumstances?

Information without the ability to obtain it is not transparency. The information about audit personnel should be included as part of the audit report filed with the SEC and be publicly available.

6. Would the reproposed requirement to disclose the engagement partner's name promote more effective capital allocation? If so, how? Can an engagement partner's history provide a signal about the reliability of the audit and, in turn, the company's financial statements? If so, under what circumstances?

For the reasons stated in our letter and in this document, we believe the disclosure of the engagement partner's name could promote more effective capital allocation because investors may use that information to engage with audit committees along with issuers and or use to make allocation decisions. We expect that market participants will view an engagement partner's history as a relevant indicator of audit quality. For example, if an audit partner issues opinion on issuers who frequently restate their earning, investors may view that partner as lacking sufficient professional skepticism or competence.

7. Would the reproposed requirements to disclose the engagement partner's name and information about other participants in the audit either promote or inhibit competition among audit firms or companies? If so, how?

Yes, we believe market forces will influence competition. If investors are displeased with a firm's assignment of an audit partner or audit personnel, they may seek to engage with the issuer client to seek reassignment of personnel, reallocate investment asset or similar actions. We believe that

issuers may look to include more regional audit firms in their tendering process if trend data provides evidence of quality issues with the larger firms.

8. Would the reproposed disclosure requirements mislead investors and other financial statement users or lead them to make unwarranted inferences about the engagement partner or the other participant in the audit? If so, how? Would there be other unintended consequences? If so, what are those consequences, and how could they be mitigated?

We would encourage firms to provide sufficient information or explanations relating to these disclosures to provide sufficient context for investors to make appropriate inferences.

9. What costs could be imposed on firms, issuers, or others by the reproposed requirement to disclose the name of the engagement partner in the auditor's report? Please provide any available empirical data. Will there be greater or lesser effects on Emerging Growth Companies (EGCs) or auditors of EGCs than on other issuers or auditors of other issuers?

Audit firms routinely track personnel assignments, so we believe the cost of including that information would be negligible. See Joseph V. Carcello and Chan Li (2013) Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom. The Accounting Review: September 2013, Vol. 88, No. 5, pp. 1511-1546. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2225427

As with other aspects of Emerging Growth Companies (EGC) financial disclosure, we believe the lack of comparable disclosure with other issuers will result in an increased cost of capital. By providing less information to investors, EGCs can expect investors to demand high risk premiums. As such, we would encourage that the SEC determine this information should be disclosed by the auditors of EGCs.

11. Would application of the consent requirement to an engagement partner named in the auditor's report result in benefits, such as improved compliance with existing auditing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

For the reasons stated in our letter and in this document, we believe the identification of the engagement partner and engagement team would improve audit quality, including professional skepticism and objectivity.

12. Would the reproposed amendments increase the engagement partner's or the other participants' sense of accountability? If so, how? Would an increased sense of accountability for engagement partners or other participants have an impact on audit quality? If yes, please provide specifics.

For the reasons stated in our letter and in this document, we believe the identification of the engagement partner and engagement team would not only improve audit quality, but also professional skepticism and objectivity.

15. Would application of the consent requirement to other firms named in the auditor's report result in benefits, such as improved compliance with existing requirements? Will there be greater or lesser effects on EGCs or auditors of EGCs than on other issuers or auditors of other issuers?

For the reasons stated in our letter and in this document, we believe the identification of the engagement partner and engagement team would improve audit quality, including professional skepticism and objectivity.

16. Would disclosure of the extent of other participants' participation, within a range rather than as a specific number, provide sufficiently useful information to investors and other financial statement users? Why or why not? Would the reproposed requirement to disclose the extent of other participant participation within ranges impose fewer costs than a specifically identified percentage?

We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit. Access to meaningful information about a public company allows investors to make informed judgments about the company's financial position and about the stewardship of the company's directors and management. CalPERS believes that more disclosure about certain aspects of the audit of a public company, including about the identity of the engagement partner and other firms associated with the audit, would add to the mix of information that investors and other financial statement users have about public companies, which they would find useful.

17. Would increasing the threshold for individual disclosure of other participants to 5% from the originally proposed threshold of 3% improve the relevance of the disclosure? Would it reduce potential costs? Would another threshold, such as 10%, be more appropriate? If so, why?

We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit. We believe a 5% threshold would provide a meaningful threshold for such contributions.

18. Under the reproposed amendments disclosure would not be required when audit work is offshored to an office of the firm that issues the auditor's report (even though that office may be located in a country different from where the firm is headquartered), but disclosure would be required when audit work is performed by a foreign affiliate or other entities that are distinct from the accounting firm issuing the auditor's report.

a. Should all arrangements whether performed by an office of the firm issuing the auditor's report in a country different from where the firm is headquartered, a foreign affiliate or another entity that is distinct from the accounting firm issuing the auditor's report be disclosed as other participants in the audit? Why or why not?

b. Is it sufficiently clear how the disclosure requirement would apply in the context of offshoring? If not, how could this be made clearer?

We believe disclosures should be required for offshore work and work by foreign affiliates. This is supported with the recent suspension of the Chinese units of the Big Four accounting firms.

20. Under the reproposed amendments, the auditor would be required to include the extent of participation of persons engaged by the auditor with specialized skill or knowledge in a particular field other than accounting and auditing ("engaged specialists") in the total audit hours and to disclose the location and extent of participation of such persons. The engaged specialists would not be identified by name, but would be disclosed as "other persons not employed by the auditor."

a. Is it appropriate to require disclosure of the location and extent of participation of engaged specialists? If not, why?

b. Would there be any challenges in or costs associated with implementing this requirement for engaged specialists? If so, what are the challenges or costs?

We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit.

21. In the case of other participants that are not public accounting firms (such as individuals, consulting firms, or specialists), is the participant's name a relevant or useful piece of information that should be disclosed? Does disclosure of the participant's location and the extent of the participant's participation provide sufficient information?

We believe greater accountability will be achieved through the specific identification of everyone substantially contributing to the performance of the audit. This is the same concept with requiring issuers to identify Compensation Consultants and the extent of their work, independence, etc.

22. If the Board adopts the reproposed amendments for auditors to disclose the name of the engagement partner and certain information about other participants in the audit in the auditor's report, should the Board also require firms to disclose the same information on Form 2 or another PCAOB reporting form? Why or why not?

Including those disclosures in Form 2 would seem to assist PCAOB in its compliance with this requirement, instead of obtaining that information from the SEC or a service provider.

23. Are the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit appropriate for audits of brokers and dealers? If yes, are there any considerations that the Board should take into account with respect to audits of brokers and dealers?

CalPERS believes the disclosure requirements should apply to all issuers.

24. Should the reproposed disclosure requirements be applicable for the audits of EGCs? Are there other considerations relating to efficiency, competition, and capital formation that the Board should take into account when determining whether to recommend that the Commission approve the reproposed amendments to disclose the engagement partner's name and information about other participants in the audit for application to audits of EGCs?

CalPERS believes the disclosure requirements should apply to all issuers. To the extent EGCs are not required to comply with these requirements and do not make voluntary disclosure of this information, we expect that investors would consider the increased risk profile when making allocation decisions.

25. Are the disclosures that would be required under the reproposed amendments either more or less important in audits of EGCs than in audits of other public companies? Are there benefits of the reproposed amendments that are specific to the EGC context?

CalPERS believes the disclosure requirements should apply to all issuers and does not believe disclosures are more or less important for different classifications of issuers.