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September 10, 2018

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

Dear Madam Secretary:

**Subject: PCAOB Draft Strategic Plan 2018-2022**

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to provide our comments on the Public Company Accounting Oversight Board (the PCAOB) Draft Strategic Plan 2018-2022 (Draft Strategic Plan).

CalPERS is the largest public defined benefit pension fund in the nation with approximately \$360 billion in global assets as of September 5, 2018. CalPERS strives to achieve long-term, sustainable, risk-adjusted returns consistent with our fiduciary duty to more than 1.9 million members and beneficiaries. We are guided by the CalPERS Governance and Sustainability Principles<sup>1</sup> (Principles) which drive our engagement and advocacy efforts in our approach to governance issues that impact the integrity and efficiency of the capital markets.

As stated in our Principles, effective financial reporting depends on high quality accounting standards, as well as consistent application of those standards, rigorous independent audit and competent enforcement. As providers of capital, we have a strong interest in standards that strengthen audits. For this reason, we support the mission of the PCAOB "to protect the interests of investors and further the public interest" and frequently comment on the PCAOB standards that promote investor protection. We have also been honored by having a seat on the PCAOB Investor Advisory Group. This seat has been helpful in allowing us to share our views prior to a comment period on standards. We understand that advisory groups will be under review. We think the advisory groups serve important roles in the process and strongly support maintaining the groups.

We commend the PCAOB for providing an opportunity to comment on its Draft Strategic Plan. This opportunity is especially important given the significant changes in the

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<sup>1</sup> See, [CalPERS Governance & Sustainability Principles](#), dated June 18, 2018.

PCAOB leadership. This year the entire Board was replaced. The PCAOB has four primary divisions: Standards, Registration and Reporting, Inspections, and Enforcement. In each division, the Director has been released and the position filled by an interim Director. In addition, the General Counsel, Chief Auditor, Director of Information Technology, and many other- long serving PCAOB managers have not been retained. We also note that the PCAOB's budget for 2018 has been reduced. Given the change in personnel, we are interested in the PCAOB's operational plans. The Draft Strategic Plan is too high level to serve as a practical guide to understand the planned future operations of the PCAOB.

We are primarily concerned about investor protection. The Draft Strategic Plan provides little guidance on this topic. Material issues seem to be left to future coordination with the SEC. It is difficult to compare the Draft Strategic Plan to the Public Company Accounting Oversight Board Strategic Plan: Improving the Quality of the Audit for the Protection and Benefit of Investors 2016-2020 (Strategic Plan 2016-2020) because the plans are very different in approach. There also appears to be operational gaps in the Draft Strategic Plan relative to the Strategic Plan 2016-2020 which raises additional concerns. For example, the Strategic Plan 2016-2020 mentions investor protection many times throughout the plan. In contrast, the Draft Strategic Plan mentions investor protection exactly once - in the mission of the PCAOB. Similarly, enforcement is mentioned only once in the Draft Strategic Plan. Moreover, we are unaware of any statement from the Board which evidences a continuing focus on and prioritization of investor protection. The Draft Strategic Plan states that the enforcement priority will be on "those issues that pose the greatest risk," highlighting that there will be issues that the PCAOB will no longer prioritize. It would be good to know which issues the PCAOB will intentionally discontinue monitoring, so that investors can close the eventual gap.

In addition, when addressing diversity, the Draft Strategic Plan does not include culture and background, which had been components of the Strategic Plan 2016-2020. It would be good to better understand the reasons for this fundamental change. Finally, there are additional issues in the Draft Strategic Plan we would like to better understand, including:

- How will the PCAOB deal with an expanded portfolio including enhanced audits with a reduced budget?
- The Strategic Plan 2016-2020 highlighted "Competition for and ability to retain talent particularly in certain hiring pools, which may be affected by budgetary considerations." There is no indication that the environment has changed materially in the past year. How will the PCAOB be able to recruit and retain the non-conflicted talent necessary to execute the Draft Strategic Plan?
- The most likely place to find the talent necessary to fill the open spots are the institutions the PCAOB regulates. How will the PCAOB ensure its independence after the release of high level, long-serving staffers?

- As investors, we are concerned with auditor independence which has been advanced in other jurisdictions, but the Draft Strategic Plan is light on the topic. What is the Board's view on auditor independence?
- It is unclear how the PCAOB will approach inspections in the future. It is only clear that there will be changes. From an investor perspective, it is important to maintain risk-based inspections. How will the PCAOB select companies for inspection in the future?
- We are concerned with the actual number of inspections and how they will be conducted. Given the staff turnover, inspectors will be less experienced in doing inspections than in the past. How does this challenge feed into the strategic plan?
- A review of the data shows a substantial reduction in enforcement activity. What is the PCAOB's view of its role in enforcement?
- We would like the PCAOB to champion enhanced audit reports, but the only indirect mention of enhanced audits is a promise to review new or amended standards.

We applaud the work of the PCAOB to further the public interest in the preparation of informative, accurate, and independent audit reports. CalPERS has commented on the PCAOB standards for most of the PCAOB's existence. Our investor focused view was never adopted in total. The eventual standards created featured long debated compromises, and we look forward to using the additional information provided by the disclosure of auditor tenure and the name of the managing auditor. We also look forward to enhanced audits next year. Given the significant personnel changes and budget reduction at the PCAOB, there is considerable heavy lifting ahead. The plan to move forward is critical, however, the Draft Strategic Plan appears to overlook the current state of operations. We hope that the final Strategic Plan addresses more of the known issues, as well as resources.

We would welcome the opportunity to engage with the PCAOB to further the positive steps proposed in the Draft Strategic Plan, including better communication with stakeholders and a greater focus on technology. Accordingly, we will continue to support the PCAOB in initiating meaningful changes that protect investors. Thank you for your consideration of our responses. If you have any questions, please do not hesitate to contact Don Pontes at (916) 795-2100 or [Don.Pontes@calpers.ca.gov](mailto:Don.Pontes@calpers.ca.gov).

Sincerely,

MARCIE FROST  
Chief Executive Officer