



California State Teachers'  
Retirement System  
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Via Email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Phoebe W. Brown, Secretary  
Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street NW  
Washington, DC 20006-2803

Re: [Docket 043: Proposed Auditing Standard for Auditing Accounting Estimates, Including Fair Measurements](#)

Dear Secretary Brown:

I am writing on behalf of the California State Teachers' Retirement System (CalSTRS) in response to the Public Company Accounting Oversight Board's (PCAOB, Board) request for written comments to the proposed auditing standard for auditing accounting estimates, including fair value measurements and amendments to other PCAOB auditing standards. CalSTRS appreciates the work of the PCAOB and its efforts in proposing these amendments to "further investor protection by promoting strengthened auditing practices, updating the standards in light of recent developments, and applying a more uniform, risk approach to an area of the audit that is of increasing prevalence and significance." CalSTRS welcomes the Board's efforts to replace the three existing standards with a single, updated standard.

CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$213.5 billion as of July 31, 2017.<sup>1</sup> CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. We serve the investment and retirement interests of approximately 914,000 plan participants and their beneficiaries.

It is important to us with long-term nature of CalSTRS liabilities, the composition of our portfolio with more than fifty six percent (~\$119.7 billion) of our current fund's assets being invested in the public equity market; that auditors are provided with rigorous standards in evaluating accounting estimates, including those based on fair value measurements which are some of the areas of greatest risk in an audit. We especially believe that professional skepticism is critical and continue to restate the importance of auditor's independence in ensuring objectivity and a questioning attitude necessary for professional skepticism.

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<sup>1</sup> CalSTRS Current Investment Portfolio for the period ending July 31, 2017.  
<http://www.calstrs.com/current-investment-portfolio>

Independence of an auditor is critical to investor confidence and the stability and effective functioning of the capital markets. CalSTRS relies on the effective functioning of the global markets as well as the quality, comparability and reliability of financial reporting in our capital allocation decisions. It is the important role of auditors that brings standardization and discipline to corporate accounting which in turn enhances investor confidence. CalSTRS has a vested interest in ensuring the integrity, stability and efficiency of the capital markets to pay out benefits to CalSTRS' beneficiaries, California teachers.

Accounting estimates including fair value measurements often have a significant impact on a company's reported financial position and results of operations and may be subject to reporting biases, including subjective assumptions and measurement uncertainty. From a long-term investor's perspective it is critical for auditors to substantively and methodically ensure a framework to test accounting estimates and fair value measurements. From our perspective, fair value accounting with robust disclosures and appropriate underlying validation reflect a more accurate and reliable valuation. In applying professional skepticism, we agree with the PCAOB the auditor must not only test management's processes, evaluate significant assumptions for completeness, accuracy and relevance but also evaluate whether management consistently applied these assumptions based on the best available information year over year. It is essential the auditor calculate its own independent estimate based on credible assumptions reviewing subsequent events or transactions that may affect these estimates.

We agree that proposed changes will prompt auditors to devote greater attention to addressing potential management bias in accounting estimates, while reinforcing the need for professional skepticism.

We support all of the proposed rule changes outlined in release 2017-002, docket matter No. 043. CalSTRS recommends the Board adopt the auditing standard and amendments for auditing accounting estimates, including fair value measurements requiring application for audits of fiscal years beginning in the year after approval by the SEC. We recommend the PCAOB expeditiously seek SEC approval for adoption. If you have any questions or would like to discuss this letter further, please do not hesitate to contact me at 916-414-7410, [ASheehan@calstrs.com](mailto:ASheehan@calstrs.com) or Mary Hartman Morris, Investment Officer at 916-414-7412, [MMorris@CalSTRS.com](mailto:MMorris@CalSTRS.com).

Sincerely,



Anne Sheehan  
Director of Corporate Governance  
California State Teachers' Retirement System