



State of Wisconsin Investment Board

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

Re: SEC/PCAOB Roundtable on Registering Foreign Accounting Firms

Dear Madam Secretary:

The State of Wisconsin Investment Board (SWIB) manages the Wisconsin Retirement System (WRS), the tenth largest public pension fund in the U.S. and the 19th largest pension fund in the world. There are 500,000 participants in the WRS and 120,000 retirees currently receive annuity benefits. SWIB currently invests approximately \$57 billion (which includes several smaller funds in addition to the WRS). Of this amount, \$32 billion is invested in equities, \$22 billion domestic and \$10 billion international, including over \$173 million in ADRs. International stocks represent approximately 19% of total WRS assets.

SWIB submits these comments in support of Public Company Accounting Oversight Board (PCAOB) registration of foreign accounting firms. The following are big picture considerations that underlie SWIB's comments:

- SWIB supports regulatory cooperation and the convergence of accounting and auditing standards in order to facilitate international investments. SWIB and other pension funds are investing more in international equities, including ADRs. We are encouraged by the agreement between FASB and IASB to work together toward the convergence of global accounting standards that investors can trust.
- SWIB hopes that PCAOB oversight of foreign firms will result in greater convergence and reduce regulatory burdens between nations.
- SWIB supports the efforts of the IASB and agrees with Sir David Tweedie, Chairman of IASB, who said in his February 2002 Senate testimony:

“Taken as a whole, U.S. generally accepted accounting principles (GAAP) are the most detailed and comprehensive in the world. However, that does not mean that every individual U.S. standard is the best, or that the U.S. approach to standards is the best. At the IASB, our goal is to identify the

best in standards around the world and build a body of accounting standards that constitute the “highest common denominator” of financial reporting. We call this goal *convergence* to the highest level.”

- As an investor, we support high-quality, uniform governance and financial reporting standards, and we are hopeful that Sarbanes-Oxley Act provisions will facilitate further movement in that direction (e.g., NYSE/Nasdaq uniform listing standards, accounting board with broad authority).

In that context, SWIB cites the following as among the primary reasons for support of the PCAOB initiative:

- The accuracy and consistency of financial statements are critical to SWIB in making investment decisions. When investing in the U.S. markets, investors expect the same protections regardless of where the accounting firm is located. An exemption for foreign firms would create uncertainty for investors, undermine Sarbanes-Oxley and weaken investor confidence in the reliability of financial statements.
- The PCAOB’s oversight of foreign firms is required by law. Section 106(a) of Sarbanes-Oxley provides that non-US firms are subject to Sarbanes-Oxley and PCAOB “to the same extent as a public accounting firm that is organized and operates under the laws of the United States” if they audit companies subject to the U.S. securities laws.
- Auditing reform is the heart of Sarbanes-Oxley. SWIB has long advocated for many of the changes implemented by Sarbanes-Oxley, and opposes any efforts to create loopholes or otherwise water down this legislation. SWIB may support the granting of exemptions provided the exemption criteria are specified in advance and uniformly applied. Exceptions must not swallow up the rule. Section 106(c) provides for exemptions only if “necessary or appropriate in the public interest or for the protection of investors.”
- Audit failures are not limited to U.S. companies. Foreign companies whose shares trade in U.S. markets have experienced accounting scandals similar to those that have plagued U.S. companies (e.g., announcement that Royal Ahold NV, world’s third largest grocery chain, overstated earnings by \$500 million caused US-traded shares to crash.)
- Senators Dodd and Corzine, in a recent letter to Chairman Donaldson commented on an exemption for foreign accounting firms as follows: “This exemption would be inconsistent with the language of the Sarbanes-Oxley Act of 2002 and would undermine the effectiveness of the act and of the board’s oversight responsibilities. There is no reason why U.S. shareholders of a foreign company listed on a U.S. exchange should have less protection . . . than U.S. shareholders of a domestically-incorporated company listed on the same U.S. exchange.”
- Companies that make use of the U.S. capital markets should be subject to the same rules as every other company trading in the U.S. markets. Just as the company is subject to the U.S. securities laws, its auditor should be subject to U.S. regulation. As noted in the PCAOB proposals, foreign public accounting firms (like U.S. public accounting firms) must register with the board as a condition to preparing, issuing, or playing a substantial role in the preparation or issuance of audit reports on U.S. public companies.

- Investors want accountability with respect to financial statements and recourse if accounting problems are uncovered. One major purpose of Sarbanes-Oxley was to replace industry self-regulation with an independent oversight body with inspection, investigative and disciplinary authority. The inspection and enforcement powers are an important investor protection.
- Exemptions for foreign audit firms may result in auditors relocating in foreign countries or U.S. companies transferring audit work overseas, which would circumvent the intent of Sarbanes-Oxley and may disadvantage U.S. audit firms.
- Sarbanes-Oxley provides the board with plenary authority to establish or adopt auditing, quality control, ethics and independence standards for public companies. SWIB believes that this may result in greater international convergence of auditing standards and regulation, which would in turn reduce the compliance burdens for foreign audit firms and ultimately facilitate international investment.

A number of arguments against registration of foreign accounting firms have been put forward. SWIB does not view those arguments as persuasive.

- *Argument:* PCAOB registration will subject foreign accounting firms to a double regulatory regime that would be excessive and inefficient.

Response: Many companies are already subject to multiple regulatory schemes (e.g. companies that sell securities overseas). Supervision of accountants in other countries may not always meet U.S. standards. The regulatory burden could be minimized by greater convergence in accounting and auditing standards and cooperation between international accounting regulators (e.g., IASB/FASB convergence efforts and IASB's goal of creating global accounting standards).

- *Argument:* Foreign accountants should not be subject to the jurisdiction of U.S. regulators. In particular, PCAOB should not have the authority to conduct inspections overseas or demand documents and testimony from foreign firms.

Response: As noted by the PCAOB, foreign accountants that participate in the audit of U.S. public companies already must comply with U.S. accounting rules and securities laws (e.g., financial statements must be audited in accordance with GAAS and prepared in accordance with GAAP or reconciled to U.S. GAAP; auditors must satisfy independence requirements and are subject to SEC enforcement action). The PCAOB's enforcement powers are an important investor protection. There should be PCAOB access, regardless of Big Four affiliation, although regulatory agency coordination in the country of domicile might be important (e.g., through the use of cooperative agreements).

- *Argument:* The U.S. is imposing its standards on other countries without regard for cultural differences and conflicts of laws.

Response: SWIB respects the standards followed by other countries and recognizes that accommodations might be necessary with respect to conflicts between U.S. and foreign

requirements, similar to the Commission's approach to the international impact of the auditor independence rules. SWIB's support for international cooperation and convergence does not mean that U.S. standards should prevail in all cases. However, as a U.S. investor, we expect US-traded securities to meet U.S. standards.

- *Argument:* Foreign companies may choose not to trade their securities in the U.S.

Response: SWIB is willing to accept this risk. Although it is more convenient for SWIB to buy stock from U.S. exchanges, we often invest in foreign companies through international markets.

- *Argument:* Registration will be very costly for foreign audit firms.

Response: Until the registration fees are set, we do not know how expensive it will be. However, the registration fee is a cost of providing service to a company that trades in the U.S. capital markets. The foreign accounting firm also benefits by receiving a fee from the company it audits.

- *Argument:* If foreign firms are required to register with the PCAOB, foreign countries may retaliate by asserting jurisdiction over U.S. firms.

Response: If a company that trades in a foreign country is audited by a U.S. audit firm, SWIB believes that it is appropriate for the U.S. audit firm to be subject to regulation by the foreign country, although regulatory cooperation/coordination should be encouraged.

I hope that these comments will be of assistance to the PCAOB and SEC in considering future regulatory activities in this area. While I will not be able to attend the SEC/PCAOB Roundtable, SWIB will be represented by Ellen Drought from the law firm of Godfrey & Kahn. Ellen serves as special counsel to SWIB on corporate governance matters. Feel free to contact either of us if you have any questions or require additional information.

Sincerely,

Keith Johnson
Chief Legal Counsel