



**CalPERS**

Investment Office

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February 2, 2009

J. Gordon Seymour  
Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street N.W.  
Washington, D.C. 20006-2803

**RE: PCAOB Release No. 2008—06 and 007, Rulemaking Docket Matter No. 027**  
Rule Amendments Concerning the Timing of Certain Inspections of Non-U.S. Firms, and Other  
Issues Relating to Inspections of Non-U.S. Firms

Dear Mr. Seymour:

I am writing you on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the largest public pension fund, managing pension and health benefits for more than 1.6 million California public employees, retirees and their families. CalPERS manages approximately \$180.9 billion in assets.

The Public Company Accounting Oversight Board (PCAOB, Board) requested comments on adopting an amendment to the inspection frequency requirements of Rule 4003 and certain other issues and concepts related to inspections of non-U.S. firms.

As a long-term shareowner, CalPERS has a significant financial interest in seeking improvements in the integrity of financial reporting. Auditors play a vital role in helping to ensure the integrity of financial reporting and it is the important role of auditors that bring standardization and discipline to corporate accounting, which in turn enhances investor confidence. The Sarbanes-Oxley Act of 2002, sec. 101, (SOX) establishes the Board to oversee the audit of public companies in order to protect the interests of investors.

CalPERS is supportive of the Board and its efforts to strengthen audit quality and consistency globally. We are also supportive of the Board's efforts to deepen its relations with other independent auditor oversight entities. We agree that these actions are necessary as the markets move towards a single set of globally accepted accounting standards. Auditors, by the nature of their responsibilities, should be able to facilitate global consistency. Critical to this process is the inspection of these public accounting firms by an independent auditor oversight entity. CalPERS responded to PCAOB Release No. 2007-010 regarding inspections of foreign registered public accounting firms on

**California Public Employees' Retirement System  
Lincoln Plaza East - 400 Q Street, Suite E4800 - Sacramento, CA 95811**

March 5, 2008 and have attached as reference to the response of this letter. In the context of this previous letter we provide the following comments:

### **Conducting Inspections of Non-U.S. Firms**

CalPERS continues to support the Board's specific framework for working cooperatively with its non-U.S. counterparts to conduct joint inspections and PCAOB Rule 4011 which permits non-U.S. Firms, subject to inspection, to rely on a non-U.S. inspection to the extent deemed appropriate by the Board. We support Rule 4012 which describes aspects of the non-U.S. system that the Board will evaluate in making that determination.

### **Extension of the Deadline for Certain 2008 Inspections**

As outlined in our March 5, 2008 letter we supported cooperation and joint inspections before full reliance and understand that laws, regulations and enforcement by non-U.S. auditor oversight entities may cause sovereignty concerns or potential legal conflicts which may delay inspections. CalPERS understands the Board's need to adopt a new paragraph (f) to Rule 4003, which allows the Board to postpone for up to one year the first inspection of some non-U.S. audit firms. We also agree that the Board should not make any further adjustments to inspection frequency requirements whose first inspection was due no later than 2008.

### **Proposed Extension of the Deadline for Some 2009 Inspections**

CalPERS again understands the challenges the Board faces in completing the 70 non-U.S. audit firms scheduled for inspection by the end of 2009. We appreciate the Board's approach to ensure that certain criteria will be evaluated to determine the schedule of these inspections and the proposed adjustment to proposed Rule 4003(g), allowing postponement, for up to three years should not be understood as a reprieve that allows all affected firms to view 2012 as their deadline for PCAOB inspections. CalPERS believes criteria set at ensuring minimum thresholds relating to U.S. market capitalization of firms issuer audit clients is at least one method to ensure inspections of firms that may have higher risks associated with the issuers with a larger market capitalization. We feel strongly that the Board should outline on its website other risk factors that will be monitored to determine whether an inspection should occur at an earlier date.

### **Transparency Concerning Delayed Inspections**

Although CalPERS supports the amendments (extended timetables) as outlined above, it does so with reservations and strongly believes the Board should maintain on its website an up-to-date list of all registered firms that have not yet had their first inspection and the reason why (emphasis on) specifically if the firm or country jurisdiction is not cooperating with the PCAOB. Also, the Board should consider posting a list of countries where audit firms are registered which refuse cooperation or state violation of local law without some remediation efforts. We would suggest a twice a year accounting of the Board's progress in the inspections and any adjustments to the timetables with a description of the barriers and impediments. Though, the Board should hold itself accountable and not supersede the three-year period.

## Registered Firms' Obligations

CalPERS agrees that all audit firms registered with the PCAOB as required by Section 102(b)(3) should continue to consent to cooperate and comply with the Board's requests for information and that disciplinary sanctions may be imposed. We support the Board in its actions which may restrict a firm from accepting any new issuer audit clients, or performing referred work on the audit of any issuer for which it has not previously performed referred work, until the firm cooperates with the inspection requirements. We also agree that the Board should not view non-U.S. legal restrictions or the sovereignty concerns of local authorities as a sufficient defense.

As stated above, in addition to listing on the Board's website all audit firms that have not yet had their first inspection we believe that listing of countries which repeatedly represent violation of local law or other sovereignty issues without some remediation should be identified for investors' knowledge. We also agree that requiring certain public disclosures by the principal auditor (as outlined in the release) in failing to provide information in response to an inspection demand should disclose that fact as part of, or in connection with, its audit report. We also support this type of disclosure should occur in using the work of other firms (under AU Section 543.04) as well as the division of responsibility as described in AU 543.07.

We continue to believe and support the Board's work through the International Forum of Independent Audit Regulators (IFIAR) which may help facilitate resolution of cross-border legal issues and suggest lobbying efforts to the IFIAR be elevated to ensure ongoing discussion and resolution.

Thank you for considering our comments. If you would like to discuss any of these points please do not hesitate to contact me at 916-795-4129.

Sincerely,



Mary Hartman Morris  
Investment Officer, CalPERS Corporate Governance

Enclosure: **PCAOB Release No. 2007-010** – *Inspections of Foreign Registered Public Accounting Firms*

cc: Eric Baggesen, Senior Investment Officer – Global Equity, CalPERS  
Kenneth W. Marzion – Interim Chief Operations Investment Officer, CalPERS  
Bill McGrew, Portfolio Manager – Corporate Governance, CalPERS  
Michael Riffle, Portfolio Manager – Corporate Governance, CalPERS



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March 5, 2008

J. Gordon Seymour  
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1666 K Street N.W.  
Washington, D.C. 20006-2803

**RE: PCAOB Release No. 2007-010 – *Inspections of Foreign Registered Public Accounting Firms***

Dear Mr. Seymour:

I am writing you on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the 4<sup>th</sup> largest retirement system<sup>1</sup> in the world and the largest public pension system in the U.S., managing approximately \$238 billion in assets. CalPERS manages pension and health benefits for approximately 1.5 million California public employees, retirees and their families.

The PCAOB (Board) requested comments on a proposed statement to increase its level of reliance on non-U.S. Accounting firms' oversight programs. The proposed policy statement provides guidance on the Board's Rule 4012, *Inspections of Foreign Registered Public Accounting Firms* which permits the Board to adjust its reliance on the inspections of auditor oversight entities located in the home countries of registered non-U.S. audit firms, based upon the level of independence and rigor of those entities.

As a long-term shareowner, CalPERS has a significant financial interest in seeking improvement in the integrity of financial reporting. Auditors play a vital role in helping to ensure the integrity of financial reporting and it is the important role of auditors that brings standardization and discipline to corporate accounting, which in turn enhances investor confidence. The Sarbanes-Oxley Act of 2002, sec. 101, (SOX) establishes the

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<sup>1</sup> Pensions & Investments, "P&I/ Watson Wyatt world's 300 largest retirement plans", 2007 Databook, Page 28, December 24, 2007.

Board to oversee the audit of public companies in order to protect the interests of investors.

CalPERS is supportive of the Board and its efforts to strengthen audit quality and consistency globally. We are also supportive of the Board's efforts to deepen its relations with other independent auditor oversight entities. We agree that these actions are necessary as the markets move towards a single set of globally accepted accounting standards. Auditors, by the nature of their responsibilities, should be able to facilitate global consistency. Critical to this process is the inspection of these public accounting firms by an independent auditor oversight entity. Although the Board's approach appears to be sound and we support the Board's professional judgment, we believe laws, regulations and enforcement by these non-U.S. auditor oversight entities should be fully considered prior to providing "full reliance" on the inspections programs of these oversight entities. We caution the Board to establish an appropriate time period for evaluation prior to relinquishing its oversight powers to these non-U.S. auditor oversight entities.

#### **Criteria to increase reliance on inspections by non-U.S. oversight entity**

The five broad principles designed to guide the Board in making a reliance determination appear to provide a sound basis for making a professional judgment to rely on non-U.S. auditor oversight entities. However, these broad principles may be impacted by the laws, rules and agreements of the home countries where the specific oversight entities are resident. CalPERS recommends that the Board ensure that similar guidelines on internal control over financial reporting are considered by these non-U.S. inspection systems. CalPERS supports the concept and benefits of full reliance but is unsure of the costs to the protection of investors' interest.

We believe the Board's work through the International Forum of Independent Audit Regulators (IFIAR) may facilitate the Board's due diligence and further the discussion of whether additional factors should be considered.

#### **Cooperation and joint inspections before full reliance**

We support the Board's desire to refine its policy of cross-border cooperation and agree that inspection systems of its non-U.S. counterparts must be sufficiently rigorous to meet the level of protection of investors that is required by SOX. Full reliance should in part be based on the ability of the oversight entity to obtain similar access and information that the PCAOB's inspectors can access when conducting inspections or investigations in the U.S. The Board should retain its overall authority under SOX regarding inspections, investigations and enforcement until an appropriate time period of full reliance is established and evaluated. The Board may decide not to rely on the non-U.S. auditor oversight entity and be stringent on the ability to do so.

Also, CalPERS believes that without full cooperation of these non-U.S. auditor oversight entities the Board will not attain its desired full reliance. CalPERS believes that home-

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country regulation may affect this cooperation and the ability to perform joint inspections. We also believe there may be confidentiality requirements established in the home-country regulation that may make joint inspections challenging.

CalPERS is prepared to provide assistance to the Board at its request. Please contact Dennis Johnson, Senior Portfolio Manager at (916) 795-2731 if you have any questions or if we can be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis Johnson".

cc: Fred Buenrostro, Chief Executive Officer, CalPERS  
Dennis Johnson, Senior Portfolio Manager, CalPERS