January 12, 2012

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

Dear Mr. Seymour:

Re: PCAOB Rulemaking Docket Matter No. 37, Concept Release on Auditor Independence and Audit Firm Rotation

CalPERS is the largest public pension fund in the United States with approximately $225 billion in global assets in more than 9,000 public companies worldwide, within 47 markets. CalPERS invests these assets on behalf of more than 1.6 million public workers, retirees, their families, and beneficiaries in order to fund retirement and health benefits.

We have reviewed the comments received to date by the Public Company Accounting Oversight Board (PCAOB) on the vital issues of auditor independence and audit firm rotation. We want to emphasize our concern with both issues, we see as closely related. Auditors play a vital role in the integrity of financial reporting and the efficiency of the capital markets. As a long-term investor, and a strong advocate of reform we believe independence of an auditor is critical to investor confidence and the stability and effective functioning of the capital markets. It is the important role of auditors that brings standardization and discipline to corporate accounting which in turn enhances investor confidence.

CalPERS Global Principles of Accountable Corporate Governance (Principles) highlight the importance of auditor independence requiring Audit Committees to assess the independence of their external auditor on an annual basis. Also, as part of the engagement we recommend that Audit Committees require written disclosure from the external auditor of:

a. all relationships between the registered public accounting firm or any affiliates of the firm and the potential audit clients or persons in a financial reporting oversight role that may have a bearing on independence;
b. the potential effects of these relationships on the independence in both appearance and fact of the registered public accounting firm;
c. the substance of the registered accounting firm’s discussion with the audit committee.

Our Principles state that “Audit Committees should promote the rotation of the auditor to ensure a fresh perspective and review of the financial reporting framework.” Recently, CalPERS Board reviewed and approved these Principles in its November Committee meeting. We believe that Audit Committees should endorse expanding the pool of auditors for the annual audit to help improve market competition and minimize the concentration of audit firms from which to engage for audit services. We support Audit
Committees having the ability to determine audit independence by requiring auditors to provide 3 prior years of activities, relationships and services (including tax services) with the company, affiliate of the company and persons in financial reporting oversight roles that my impact the independence of the audit firm.

Additionally, as a member of the Investor Advisory Group, on March 16, 2011, we urged the PCAOB to consider firm rotation in the context of lessons learned from the financial crisis. We believe that the purpose of an audit is to provide confidence to investors that an independent set of eyes have looked at the numbers reported by management and objectively without bias determined they can indeed be relied upon. If investors’ confidence in this process is diminished or lost, the benefits of the audit and its costs may be questioned.

We note the issue of mandatory rotation is currently being addressed by the European Commission (EC). The EC recently published a set of proposals1 to provide guidance to Audit Committees for conducting auditor selection and proposed time frames that an audit firm can be engaged by the client. We believe that is essential and beneficial for the PCAOB to collaborate with non-U.S. regulators and standard-setters on this matter.

Thank you for the opportunity to comment on the Public Company Accounting Oversight Board’s Concept release on Auditor Independence and Audit Firm Rotation. If you have any questions or concerns, please call me at 916-795-9672 or my colleague Mary Hartman Morris at 916-795-4129.

Sincerely,

[Signature]

ANNE SIMPSON
Senior Portfolio Manager
Investment Office
Head of Corporate Governance

Cc: Board Members – PCAOB
    Mary L. Schapiro, Chairman - SEC
    James L, Kroeker, Chief Accountant – SEC
    Joe Dear, Chief Investment Officer – CalPERS
    Janine Guillot, Chief Operation Investment Officer – CalPERS

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