



California Public Employees' Retirement System  
Investment Office  
P.O. Box 2749  
Sacramento, CA 95812-2749  
TTY: (916) 795-3240  
(916) 795-3400 phone • (916) 795-2842 fax  
[www.calpers.ca.gov](http://www.calpers.ca.gov)

August 31, 2015

Via E-Mail: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Phoebe W. Brown, Secretary  
Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street  
Washington, DC 2006-2803

**Re: Supplemental Request for Comment: Rules to Require Disclosure of Certain Audit Participants on a New PCAOB form – Audit Engagement Partner Disclosure**

Dear Madam Secretary:

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to provide our comments on improving the disclosure on the corporate audit. CalPERS is the largest defined benefit pension fund in the United States with approximately \$301.6 billion in global assets.<sup>1</sup> CalPERS is a strong advocate of reform that ensures the continual improvement and integrity of financial reporting.<sup>2</sup> High quality audits underpins this.

As an investor, CalPERS relies on the auditor to attest to the quality and integrity of financial statements. We have favored including the engagement partner signature in the audit report since 2008. We strongly support the engagement partner being identified by name, as this transparency supports accountability. There is an international trend for greater transparency in auditing, and we see evidence from certain markets which already require the identification of the engagement partner, that it improves the quality of the audit. Although our preference is for an engagement partner signature along with disclosure of certain other participants in the audit report, we would accept, as a second best alternative, the mandated disclosures in the new PCAOB Form AP.

**CalPERS Supports Disclosure of the Audit Engagement Partner Signature**

CalPERS believes that accurate and reliable audited financial statements are critical to investors in making informed financial decisions and maintaining confidence in the marketplace. As described in the supplemental request for comment, the Public Company Accounting Oversight Board (PCAOB, Board) has been discussing the issue of including the engagement partner signature in the audit for a decade.<sup>3</sup>

---

<sup>1</sup> CalPERS investment fund values as of market close on August 3, 2015. CalPERS Facts at a Glance. <https://www.calpers.ca.gov/page/about/organization/facts-at-a-glance>.

<sup>2</sup> CalPERS Global Governance Principles, California Public Employees Retirement System, Section 4. Integrity of Financial Reporting, Updated March 16, 2015. <https://www.calpers.ca.gov/docs/forms-publications/global-principles-corporate-governance.pdf>

<sup>3</sup> Daniel L. Goelzer, Board Member, Statement on Concept Release on Requiring the Engagement Partner to Sign the Audit Report, July 28, 2009. [http://pcaobus.org/News/Speech/Pages/07282009\\_StatementGoelzerEPS.aspx](http://pcaobus.org/News/Speech/Pages/07282009_StatementGoelzerEPS.aspx)

In accordance with our Global Principles, we believe that including the engagement partner signature improves audit quality. We have consistently been in favor of including the engagement partner's signature in the audit report. In 2008, we agreed with the US Treasury's Advisory Committee on the Auditing Profession's (ACAP's) recommendation that the PCAOB consider mandating the engagement partner's signature on the auditor's report to affirm the accountability of the auditor.<sup>4</sup> In response to the PCAOB's 2009 concept release, we stated that:

We believe requiring the engagement partner to sign the audit report will enhance audit quality by increasing the engagement partner's sense of accountability to financial statement users (providers of capital), lead to greater care in performing the audit and possibly provide better investor protection.<sup>5</sup>

Last year, we expressed our view that:

Requiring audit partners to sign the opinions they issue will enhance accountability and reliability in the audit process.<sup>6</sup>

### **Signature Requirement Will Not Impose Any Greater Liabilities**

KPMG has commented, "the fact that an engagement partner has been named in a suit that seeks a material amount of monetary damages may make it more difficult for that individual to qualify for a mortgage from a lending institution,"<sup>7</sup> and Deloitte has said "a personal signature requirement is certain to generate additional lawsuits and other proceedings against individual engagement partners, thereby raising litigation costs and the attendant burdens of litigation for the engagement partners and their firms."<sup>8</sup> Both firms have come out strongly against disclosure of the engagement partner signature, arguing that the requirement would increase liability. We disagree with this position.

The fact is that a signature alone would not increase liability. Liability is created when there is a problem with the audit, not when the auditor signs the audit report. As stated by the Certified Public Accounting firm, Piercy Bowler Taylor and Kern, in its August 14, 2015 comment letter:

Litigation risk and the attendant exposure to liability is inherently the same without regard to the placement of such disclosures, if any, whenever investors are damaged

---

<sup>4</sup> CalPERS letter to the Advisory Committee on the Auditing Profession, Department of the Treasury, June 13, 2008.  
<https://www.calpers.ca.gov/docs/governance/2008/acap-addendum-comment.pdf>

<sup>5</sup> CalPERS letter to the PCAOB, Release 2009-005, Rulemaking Docket Matter # 029, September 14, 2009.  
[http://pcaobus.org/Rules/Rulemaking/Docket029/022\\_CalPERS.pdf](http://pcaobus.org/Rules/Rulemaking/Docket029/022_CalPERS.pdf)

<sup>6</sup> CalPERS letter to the PCAOB, Release 2013-009, Docket Matter # 029, March 17, 2014.  
[http://pcaobus.org/Rules/Rulemaking/Docket029/066c\\_CalPERS.pdf](http://pcaobus.org/Rules/Rulemaking/Docket029/066c_CalPERS.pdf)

<sup>7</sup> KPMG letter to the PCAOB, Release, 2009-005, Rulemaking Docket Matter #029, September 11, 2009.  
[http://pcaobus.org/Rules/Rulemaking/Docket029/021\\_KPMG.pdf](http://pcaobus.org/Rules/Rulemaking/Docket029/021_KPMG.pdf)

<sup>8</sup> Deloitte letter to the PCAOB, Release 2009-005, Rulemaking Docket Matter #029, September 11, 2009.  
[http://pcaobus.org/Rules/Rulemaking/Docket029/020\\_DT.pdf](http://pcaobus.org/Rules/Rulemaking/Docket029/020_DT.pdf)

for reasons they can attribute to financial statement misstatements, and that in any litigation, the discovery process will readily result in the identification of all responsible parties. It is clearly not an issue.<sup>9</sup>

When there is a high quality audit there is no fear of liability. If the audit falls short, investors should have adequate recourse.

Each engagement partner will have insurance and will be indemnified by his/her firm. Given the signature does not create additional liability and there is protection for the engagement partner, the statement in the ACAP report in October of 2008 remains, in our view, correct:

The signature requirement should not impose on any signing partner any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of an auditing firm.<sup>10</sup>

No additional liability would be imposed on an engagement partner by merely signing the audit opinion.

### **Disclosure Will Enhance Transparency and Accountability**

CalPERS has consistently expressed its view that the engagement partner signature will enhance transparency and accountability. Recent research by Professors Joseph Carcello (member of the PCAOB Investor Advisory Group) and Chan Li concludes:

The engagement partner's signature on the auditor's report would increase transparency and accountability.<sup>11</sup>

In their research, Carcello and Li concluded that audit quality improved in the United Kingdom after the effective date of the partner signature requirement.<sup>12</sup> Specifically, they found that abnormal accruals significantly declined, frequency of small earnings increases declined, information value of earnings increased, and the incidence of qualified audit opinions increased significantly.<sup>13</sup> They conclude that when audit partners knew their names were on the line, they were more likely to issue qualified opinions and less likely to sign off on audits with managed earnings.

### **International Trend to Disclose Engagement Partner Name**

The international trend is in favor of naming the engagement partner in the audit report. Of the twenty countries with the largest market capitalization, the United States, Canada,

---

<sup>9</sup> Piercy Bowler Taylor & Kern letter to the PCAOB, Release 2015-004, Docket Matter # 029, August 14, 2015.  
[http://pcaobus.org/Rules/Rulemaking/Docket029/009d\\_PBTk.PDF](http://pcaobus.org/Rules/Rulemaking/Docket029/009d_PBTk.PDF)

<sup>10</sup> *Final Report, Advisory Committee on the Auditing Profession*, VII: 20 Oct. 6, 2008.  
<http://www.treasury.gov/about/organizational-structure/offices/Documents/final-report.pdf>.

<sup>11</sup> Joseph V. Carcello and Chan Li, "Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom", *The Accounting Review*, September 2013, Vol. 88, No. 5, pp. 1511-1546. SSRN:  
[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2225427&download=yes](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2225427&download=yes)

<sup>12</sup> *Ibid.*, pg.1512

<sup>13</sup> *Ibid.*, pg. 1513

Republic of Korea, and Hong Kong are the only four that do not require the naming of the engagement partner in the auditor's report.<sup>14</sup> An amended Directive of the European Union (EU) on statutory audits requires the audit report to be signed and dated by the statutory auditor.<sup>15</sup> The EU rules to improve the quality of statutory audits, published in the Official Journal of the EU on May 27, 2014, require all 28 member states to have in place the provisions necessary to comply with the Directive by mid-2016.<sup>16</sup>

Additionally, the International Auditing and Assurance Standards Board updated the International Standard on Auditing 700 (Revised) (ISA 700), which is effective for audits of financial statements for periods ending on or after December 15, 2016. ISA 700 states:

The name of the engagement partner shall be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities... naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report of a complete set of general purpose financial statements of a listed entity.<sup>17</sup>

From an investor's perspective, we continue to believe that there are good reasons to include the engagement partner's signature and additional information regarding certain other participants in the audit report.

We do not believe that disclosure on Form AP as described in the release will achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report, but it would constitute an improvement, so we do address certain questions in the current proposal discussing PCAOB Form AP in the following Attachment. Furthermore, we believe that Form AP would be improved if it is expanded to include the additional items listed in our response to Question Number 5 in the following Attachment.

---

<sup>14</sup> PCAOB Supplemental Request for Comment: Rules to require disclosure of certain audit participants on a new PCAOB Form, footnote 48, quoted from the World Bank, 2015.  
[http://pcaobus.org/Rules/Rulemaking/Docket029/Release\\_2015\\_004.pdf](http://pcaobus.org/Rules/Rulemaking/Docket029/Release_2015_004.pdf)

<sup>15</sup> Directive 2014/56 EU of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts 16 April 2014.  
<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0056>

<sup>16</sup> Official Journal of the European Union, Volume 57, 27 May 2014. <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L:2014:158:TOC>

<sup>17</sup> IAASB, *International Standard on Auditing 700 (Revised) Forming an opinion and Reporting on Financial Statement*, Paragraph #45, Name of the Engagement Partner, January 2015.  
[https://www.ifac.org/system/files/publications/files/Reporting-on-AFS-New-%26-Revised-Stds-Combined\\_1.pdf](https://www.ifac.org/system/files/publications/files/Reporting-on-AFS-New-%26-Revised-Stds-Combined_1.pdf)  
<http://www.ifac.org/publications-resources/international-standard-auditing-isa-700-revised-forming-opinion-and-reporting>

Phoebe W. Brown, Secretary  
Rulemaking Docket No. 029  
Audit Engagement Partner Signature/Disclosure  
August 31, 2015  
Page 5

Again, CalPERS appreciates the opportunity to comment on this reproposal. We thank you for considering our views. If you have any questions, please do not hesitate to contact James Andrus at 916-795-9058 or [James.Andrus@calpers.ca.gov](mailto:James.Andrus@calpers.ca.gov).

Sincerely,

A handwritten signature in black ink that reads "Anne Simpson". The signature is written in a cursive, flowing style.

ANNE SIMPSON  
Investment Director  
CalPERS

cc: James Andrus, Investment Manager

## Attachment - Questions

1. Would disclosure on Form AP as described in this release achieve the same potential benefits of transparency and an increased sense of accountability as mandatory disclosure in the auditor's report? How do they compare? Would providing the disclosures on Form AP change how investors or other users would use the information?

*We believe that the disclosure on Form AP fails to achieve the same potential benefits of transparency and accountability as mandatory disclosure in the auditor's report. Disclosure in the auditor's report offers greater transparency because it is disclosed in the auditor's primary means of communication with shareowners and is immediately available. We also agree with the study outlined in the PCAOB's Appendix 2 that a signature requirement would provide a more pronounced effect on audit quality than the disclosure requirement in the Form AP. Empirical research by Carcello and Li has shown that the signature makes a difference in the UK.<sup>1</sup>*

2. Are there special considerations relating to the Form AP approach that have not been addressed in this supplemental request for comment? If so, what are the considerations? How might the Board address them? What are the costs of Form AP compared to the costs of disclosure in the auditor's report?

*We are not aware of any additional special considerations relating to the Form AP that have not been addressed in the supplemental request for comment. As noted in the PCAOB Release the Form AP approach may impose higher search costs on investors since the auditor's report already exists and provides communication to investors. These search costs will be relatively minimal given available technology and borne by those seeking additional information.*

3. Would disclosure on Form AP mitigate commenters' concerns about liability? Are there potential unintended consequences, including liability-related consequences under federal or state law, of the Form AP approach? If so, what are the consequences? How might the Board address them?

*Form AP would create no new liability because the signature would not damage an investor. At most, having the signature would give damaged investors a better chance at obtaining recourse against those that created the damage. An auditing firm that fails to properly do its job might have a slightly harder time defending itself. This requirement will have no impact on higher quality audits.*

---

<sup>1</sup> Joseph V. Carcello and Chan Li, *The Accounting Review* Costs and Benefits of Requiring an Engagement Partner Signature: Recent Experience in the United Kingdom.

4. In addition to the required filing of the Form AP, auditors may decide to voluntarily provide the same disclosures in the auditor's report. Are there any special considerations or unintended consequences regarding voluntary disclosure in the auditor's report? If so, what are those considerations or consequences? How might the Board address them?

*In the absence of required disclosures in the audit report, CalPERS would support voluntary disclosure in the auditor's report. Frankly, past experience with companies merely complying with what is required leads us to conclude that few companies will voluntarily go beyond what is required.*

5. What search criteria and functionality would users want for information filed on Form AP? What additional criteria and functionality beyond what is described in Section IV of this release would be useful? Would third-party vendors provide additional functionality if the Board does not? Are there cost-effective ways to make the disclosure more broadly accessible to investors who may not be familiar with PCAOB forms?

*We support the suggested searchable and downloadable data points outlined in the PCAOB's release. We also suggest including:*

- ✓ *Engagement Partner's tenure at current audit firm;*
- ✓ *Engagement Partner's tenure at other audit firms;*
- ✓ *Engagement Partner's professional credentials;*
- ✓ *A comprehensive listing of Companies the engagement partner was the lead (signing partner) over the last 5 years;*
- ✓ *Engagement Partner's industry experience tied to listing of industries of companies;*
- ✓ *Listing of PCAOB inspection reports where he or she was the engagement partner: and*
- ✓ *Listing of companies where the audit utilized other audit firms and the extent of the use of those audit firms.*

6. Is 30 calendar days after the filing of the auditor's report (and 10 calendar days in the case of an IPO) an appropriate amount of time for firms to file Forms AP? Should the deadline be shorter or longer? Why? Are there circumstances that might necessitate a different filing deadline? For example, should there be a longer deadline (e.g., 60 days) in the first year of implementation? Should the 10-day deadline apply whenever the auditor's report is included in a Securities Act registration statement, not just in the case of an IPO?

*No, 30 days is too much time. The advantage of an engagement partner signature or including the engagement partner name in the auditor's report is that disclosure is immediately available in the primary source of communication. The Form AP would be a supplement to what is required in the audit report; we strongly support this being contemporaneous with the audit report given all of the information in the Form AP is known at the time the audit report is issued.*

7. This supplemental request for comment contemplates not requiring disclosure of nonaccounting firm participants in the audit as previously proposed. Is it an appropriate approach to not require disclosure of nonaccounting firm audit participants? If not, should the Board adopt the requirements as proposed in the 2013 Release or the narrower, more tailored approach described in Section V of this supplemental request, which would not require disclosure of information about nonaccounting firm participants controlled by or under common control with the accounting firm issuing the auditor's report, with control as defined in Section V? If the Board were to adopt this narrower, more tailored approach, is the description of the scope of a potential requirement sufficiently clear? Why or why not? Is the definition of control in Section V appropriate? Why or why not?

*CalPERS continues to believe that the PCAOB should require disclosure of non-accounting firm participants in the audit. We believe uniform treatment of accounting firm participants and non-accounting firms provides greater transparency.*

8. Does Form AP pose any specific issues for EGCs? Would disclosure of the required information on Form AP promote efficiency, competition, and capital formation if applied to EGCs? If so, how? How does disclosure on Form AP compare to disclosure in the auditor's report proposed in the 2013 Release in that regard? Would creating an exemption for audits of EGCs benefit or harm EGCs or their investors? Why?

*CalPERS is a strong advocate that all publicly listed companies follow the same requirements. We are not aware of any basis for excluding the audits of emerging growth companies from the proposed rules. The disclosure requirements should apply to all issuers.*