



California Public Employees' Retirement System

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Ms. Phoebe W. Brown, Secretary
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, N.W.
Suite 300
Washington, DC 20006-2803

September 9, 2022

Subject: PCAOB Draft 2022-2026 Strategic Plan

Dear Madam Secretary,

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to provide our comments on the Public Company Accounting Oversight Board's (the PCAOB) draft Strategic Plan for 2022 to 2026 (Draft Strategic Plan).

CalPERS is the largest public defined benefit pension fund in the United States, with approximately \$430 billion in global assets. CalPERS strives to achieve long-term, sustainable, risk-adjusted returns consistent with our fiduciary duty to more than 2 million employees, retirees, and beneficiaries. We are guided by CalPERS' Governance and Sustainability Principles¹ (Principles), which represent our approach to—and drive our engagement and advocacy efforts in—governance issues that impact the integrity and efficiency of the capital markets.

As stated in our Principles, effective financial reporting depends on high-quality accounting standards, as well as the consistent application of such standards through rigorous independent audits and competent enforcement oversight. As providers of capital, we have a strong interest in standards that strengthen audits. For this reason, we wholeheartedly support the mission of the PCAOB "to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports."²

We are primarily concerned about investor protection. Accordingly, CalPERS frequently provides comments on PCAOB standards, especially those that promote investor protection. We additionally

¹ CalPERS' Governance & Sustainability Principles (Sept. 2019), available at <https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf>.

² The PCAOB's mission statement is available on its website, available at <https://pcaobus.org/about/mission-vision-values>.

have the honor of having a seat on the PCAOB Investor Advisory Group (IAG), whose objective is to provide the investor's perspective on the PCAOB's regulatory agenda.³

CalPERS believes that the Draft Strategic Plan is a substantial upgrade from 2018, especially regarding investor protection. However, we note that the Draft Strategic Plan utilizes the same high-level approach and streamlined format that was used since the 2018-2022 Strategic Plan. Specifically, the Draft Strategic Plan lacks the level of detail that the PCAOB provided in its Strategic Plans prior to 2018, such as the 2017-2021 Strategic Plan.⁴ Given the high-level approach and streamlined format of the PCAOB's recent Strategic Plans, many stakeholders, including CalPERS, continue to look to older Strategic Plans for useful insight into the PCAOB's future plans, as certain previously addressed topics (*e.g.*, progress measures, performance measures) are not discussed in the post-2018 Strategic Plans, including the Draft Strategic Plan, in the same level of detail, if at all.

CalPERS applauds the phenomenal recent work by the PCAOB in regard to implementing the Holding Foreign Companies Accountable Act. We also commend the PCAOB for establishing its two new advisory groups, the IAG and the Standards and Emerging Issues Advisory Group (SEIAG), back on March 29, 2022. Further, we applaud the creation of the new Investor Advocate role and support its mission to serve as the PCAOB's primary point of contact for investors and expand PCAOB engagement with the investor community.⁵ These positive early developments give us high hopes for the future, especially in terms of implementing the goals of the Draft Strategic Plan.

We are encouraged that the PCAOB's budget for 2022 was increased to \$310.3 million from a 2021 budget of \$287.3 million. We believe that this budget increase will be critical to achieving the goals included in the Draft Strategic Plan. In fact, we would support further increases to the PCAOB's budget.

We would like to see greater stability in the PCAOB's leadership. We note that four of the five current PCAOB Board (Board) members were sworn in within the past ten months. We are very excited by the opportunity to work with the new Board members and believe that the PCAOB is currently well-positioned to implement much-needed reform. However, we also believe that stability at the Board-level is critical for effective governance and oversight. As CalPERS noted in its comment letter on the 2018-2022 Strategic Plan, in 2018, the entire Board was replaced and the directors for each of the PCAOB's four primary divisions (Standards, Registration and Reporting, Inspections, and Enforcement) were released, among other significant personnel changes.

Ultimately, while a significant improvement over recent Strategic Plans, the Draft Strategic Plan remains too high-level to serve as a practical guide to understand the planned future operations of the PCAOB.

³ More information about the IAG is available on the PCAOB website, available at <https://pcaobus.org/about/advisory-groups/investor-advisory-group>.

⁴ For example, we note that the Draft Strategic Plan is 12 pages long. The 2020-2024 Strategic Plan was 14 pages long. The 2019-2023 Strategic Plan and 2018-2022 Strategic Plan were 15 pages. In contrast, the 2017-2021 Strategic Plan was 59 pages long.

⁵ See Saba Qamar Named Investor Advocate at the PCAOB, News Release (June 7, 2022), available at <https://pcaobus.org/news-events/news-releases/news-release-detail/saba-qamar-named-investor-advocate-at-the-pcaob>.

Organizational Priorities: Investor Protection

We believe that there should be a general re-orientation regarding where the PCAOB stands in its work on investor protection. The Draft Strategic Plan states that “the PCAOB must *continue to boldly pursue* [its] investor-protection mission through [its] standard-setting, inspections, and enforcement programs” (emphasis added).⁶ While, as acknowledged above, we believe the PCAOB has recently taken critical steps to increase investor protection, we would not characterize the actions taken so far as “bold.”

However, investors do need the PCAOB to implement bold investor protection measures. Thus, we believe that the PCAOB needs work in this area and should not adopt a continue-to-do-what-has-been-done approach to its investor-protection mission. We believe a more appropriate orientation would be similar, in terms of boldness, to the Goal 4 objective related to the employee experience: For example, the PCAOB should seek to “radically improve” its work on the investor protection mission.⁷

We do note that, given the significant role that the PCAOB has in reducing systemic risk, we are greatly encouraged that the scope of the PCAOB’s planned risk analysis research includes climate and human capital risks in a robust way.

Organizational Priorities: Engagement

In the Draft Strategic Plan, the PCAOB states that it has “increase[d] [its] external engagement” by setting up two advisory groups, as well as appointing an Investor Advocate and a Stakeholder Relations Associate Director.⁸ The PCAOB further states that it “will continue this vital engagement” as part of the execution of its Strategic Plan.⁹

We believe that it would be more accurate to amend the diction of this section to state that the PCAOB will use the advisory groups, Investor Advocate, Stakeholder Relations Associate Director, and other such resources to implement an engagement strategy.

Additionally, investors expect that the Board will engage directly with investors. As such, the final Strategic Plan should include a commitment to regularly engage with investors from the Board.

Organizational Priorities: Adaptability

The PCAOB states in the Draft Strategic Plan that it is “improving [its] inspections program” by “using a data-driven and risk-based approach, with a focus on riskier engagements and audit areas.”¹⁰ Though we are generally supportive of this approach, it is difficult for us to ascertain where the PCAOB’s inspection program is moving from, or to, without further details.

⁶ Strategic Plan 2022-2026 Draft for Comment, 6 (Aug. 16, 2022), available at https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/draft-2022-2026-strategic-plan.pdf?sfvrsn=65f830db_4.

⁷ *See id.* at 11.

⁸ *Id.* at 6.

⁹ *Id.*

¹⁰ *Id.*

The PCAOB should provide more information regarding their inspection program plans. This is important for investors in determining how to evaluate, and compare inspection results, especially if pass rates are impacted by changes to the inspection program.

The PCAOB states in the Draft Strategic Plan that it is “committed to providing, to the extent permitted by law, timely information to the public on the results of...inspections.”¹¹ We desire to get substantially more timely inspection results. However, it is not clear from the PCAOB’s statement how ambitious the PCAOB’s plans are. More details in this area, especially in regard to a targeted time frame, would be welcome.

Goal 1

In the Draft Strategic Plan, the PCAOB states that it “intend[s] to modernize and streamline...existing standards and to issue new standards where necessary to meet today’s needs.”¹² CalPERS fully supports this commitment, and notes that investors have asked the PCAOB to increase stability and predictability by developing more permanent standards (*i.e.*, depending less on interim standards).

Goal 1 Objective: Adopt Standards That Meaningfully Improve Audit Quality and Enhance the PCAOB’s Ability to Enforce the Standards and Inspect for Compliance

The PCAOB states that it “expect[s] to propose and adopt numerous amendments and new standards over the coming years.”¹³ Additionally, the PCAOB “plan[s] to evaluate certain existing standards to determine whether they are outmoded.”¹⁴ We are concerned that such a plan does not contain any concrete commitment. We urge the PCAOB to provide more details regarding such standards, including whether (and, if so, when) the PCAOB will finalize certain interim standards.

The Draft Strategic Plan is also unclear on whether different standards will be applicable based on the size of an audit firm. The true objective should be stated more clearly. While there is no doubt that certain audit items may be impacted by the size of the audit firm, the general standard applied should be consistent between the same types of entities.

We believe the PCAOB should amend the diction of this section to state that the PCAOB will evaluate existing standards to determine whether they are outmoded, and then propose amendments or new standards, as appropriate. This would convey an action step in addressing dated standards.

Goal 1 Objective: Engage in Robust Dialogue with Stakeholders

The Draft Strategic Plan provides only one paragraph on this topic, which focuses on gaining insights through the notice-and-comment process and the PCAOB’s two advisory groups, neither of which could be considered “robust dialogue.” We believe much more work needs to be done in this area, in particular to get more investors interested in engaging with the PCAOB.

¹¹ *Id.*

¹² *Id.* at 7.

¹³ *Id.* at 8.

¹⁴ *Id.*

It is not clear from the Draft Strategic Plan whether the PCAOB will conduct any investor outreach. We note that the current Strategic Plan, the 2020-2024 Strategic Plan, includes commitments to “expand outreach efforts” and “engage in a dynamic exchange of views.”¹⁵ The final Strategic Plan should include similar commitments.

Goal 1 Objective: Evaluate Developments in Data and Technology

The Draft Strategic Plan states that the PCAOB will “continue to assess whether there is a need for guidance...in light of the increased use of technology-based tools,” including to “evaluat[e] the role technological innovation plays in driving audit quality.”¹⁶ Further, the PCAOB will “look for opportunities to leverage internal teams and external experts.”¹⁷

We believe that the PCAOB’s action steps—to “assess,” “evaluate,” and “look” at current technology—are inadequate, especially for a five-year time frame. There is a substantial need to do more. For example, the PCAOB should endeavor to become proficient in such technological innovations and even suggest potential upgrades that could help technology-based tools be better aligned with PCAOB standards.

Goal 2 Objective: Perform Quality Inspections

The PCAOB should look to external measures, in addition to its internal Inspections Quality Group, to assess “the quality, consistency, and efficacy” of the PCAOB’s inspections.¹⁸ Additionally, the PCAOB should track and publicly report the results.

Goal 2 Objective: Increase Transparency in Reporting Inspection Results

The Draft Strategic Plan states that the PCAOB “will continue [its] efforts to make publicly available relevant and reliable information that is useful to...stakeholders,” including by “increasing the transparency of [its] inspection reports.”¹⁹ We fully support the PCAOB’s commitment to increase transparency around its inspection process, including the inspection reports. However, it is not clear from the PCAOB’s statement what the PCAOB’s plans are. More details in this area would be welcome.

Goal 2 Objective: Improve the Timeliness of Inspection Reports

The Draft Strategic Plan states that, the PCAOB is “taking additional steps to...enable more-timely issuance of inspection reports.”²⁰ We fully support the PCAOB’s commitment to issue more-timely inspection reports. However, additional information about what these additional steps are would be welcome.

¹⁵ Strategic Plan 2020-2024, 11 (Nov. 19, 2020), available at https://pcaob-assets.azureedge.net/pcaob-dev/docs/default-source/about/administration/documents/strategic_plans/strategic-plan-2020-2024.pdf?sfvrsn=776073d3_4.

¹⁶ Strategic Plan 2022-2026 Draft for Comment, *supra* note 6, at 8.

¹⁷ *Id.*

¹⁸ *Id.* at 9.

¹⁹ *Id.*

²⁰ *Id.*

Goal 4 Objective: Enhance Stakeholder Engagement

As noted above, we applaud the PCAOB for establishing the IAG and the SEIAG, and for creating and appointing an Investor Advocate. However, the final Strategic Plan should provide more specifics on how the PCAOB will expand engagement with investors, including a commitment to regularly engage in dynamic dialogue with investors to exchange views.

Conclusion

We applaud the work of the PCAOB to further the public interest in the preparation of informative, accurate, and independent audit reports.

We would welcome the opportunity to engage with the PCAOB to further the positive steps proposed in the Draft Strategic Plan, including better communication with stakeholders and a greater focus on technology. Furthermore, we will continue to support the PCAOB in initiating meaningful changes that protect investors. Thank you for your consideration of our responses. If you have any questions or wish to discuss in more detail, please do not hesitate to contact James Andrus, Interim Managing Investment Director, at James.Andrus@calpers.ca.gov, or at (916) 795-9058.

Sincerely,

Marcie Frost
Chief Executive Officer

cc: James Andrus