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September 7, 2007

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

RE: **Rulemaking Docket Matter No. 017** – (1) Proposed Ethics and Independence Rule 3526, Communication with Audit Committees Concerning Independence, (2) Proposed Amendment to Rule 3523, Tax Services for Persons in Financial Reporting Oversight Roles (3) Implementation Schedule for Rule 3523

Dear Mr. Seymour:

I am writing you on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the largest US Public Pension Fund with total assets of $247.7 billion and more than 1.5 million members. CalPERS appreciates the opportunity to offer comments to the Public Company Accounting Oversight Board (Board) regarding ethics and independence rules concerning communication with audit committees and the proposed amendments to Rule 3523 as it applies to tax services to individuals who play a direct role in preparing the financial statements of public company audit clients.

CalPERS unconditionally supports the Board's recommendation to expand communication between the auditor and the issuer's audit committee through proposed rule 3526, "Communication with Audit Committees Concerning independence." As solicited by the Board, CalPERS believes that the proposed Rule 3526 will assist:

1. registered firms and audit committees in fulfilling their respective obligations with respect to assessing the auditor's independence;
2. audit committees in making a decision on the appointment of a new auditor;
3. in requiring the registered accounting firm to communicate any additional matters on auditor independence that are determined to be significant through its own review and discussion and disclosure with the audit committee.

We are in agreement that prior to acceptance of an engagement, the accounting firm should discuss with and provide written disclosures to the audit committee. These should include the following:

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

In order to allow audit committees a robust foundation to determine the independence of the accounting firm, we recommend the proposed rule require the accountant to consider and provide written disclosures from a period of at least 3 years[1] prior to consideration.

We also agree that after becoming the issuer's auditor, the auditor should at a minimum annually discuss and provide written disclosure to the audit committee on the listed disclosures in the proposed rule 3526 along with the auditor affirming in writing that it is independent in compliance with Rule 3520. We support, as outlined in the SEC's general standard on auditor independence, that in determining what relationships may reasonably be thought to bear on independence, the auditor should additionally consider whether the firm provided any specifically prohibited services or maintained any specifically prohibited relationships. Consistent with the SEC's general standard on independence we agree the focus should be on the perception of the "reasonable investor" when making independence determinations.

We suggest the Board maintain a hard date of April 30, 2008 as the required application date with an earlier adoption recommendation. CalPERS does not believe the Board should provide a transition period in Rule 3523 allowing an accounting firm to complete covered tax services once the professional engagement begins specifically since Rule 3523 was amended to allow accounting firms to provide tax services during the audit period.

We recommend that audit committees provide better justification disclosure, through the proxy, when approving non-audit services performed by the auditor. Providing this type of transparency will permit investors a greater ability to evaluate audit committees' fiduciary performance for shareowners.

CalPERS is prepared to provide assistance to the PCAOB at its request. Please contact Dennis Johnson, Senior Portfolio Manager – Corporate Governance at (916) 795-2731 if there are questions or if we can be of further assistance. Again we thank the Board for its efforts and appreciate the opportunity to provide input from an institutional investor's perspective.

[1] 3 year look back periods are consistent with the New York Stock Exchange and Nasdaq 2006 on director independence standards. The Council of Institutional Investors 2006 director independence standards consist of a 5 year look back period. National Association of State Boards of Accountancy's (NASBA) comment letter to the PCAOB on this proposed rule also recommends a 3 year look back period.

Sincerely,

cc: Fred Buenrostro, Chief Executive Officer, CalPERS
Anne Stausboll, Chief Operating Investment Officer, CalPERS
Christy Wood, Senior Investment Officer, CalPERS
Peter Mixon, General Counsel, CalPERS
Dennis Johnson, Senor Portfolio Manager, CalPERS