



March 18, 2020

Ms. Phoebe W. Brown
Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, D.C. 20006-2803

RE: Rulemaking Docket No. 046 - Request for Comments on the *Potential Approach to Revisions to PCAOB Quality Control Standards* Concept Release

Dear Public Company Accounting Oversight Board,

We are submitting the following to the PCAOB for consideration in response to a request for comments on the concept release *Potential Approach to Revisions to PCAOB Quality Control Standards*. The below comments represent the Colorado Public Employees' Retirement Association's perspective as a large institutional investor managing approximately \$48 billion in assets on behalf of more than 600,000 current and former public employees and their beneficiaries.

We applaud the PCAOB for undertaking the critical, yet challenging, task of revising the audit quality control standards. Quality control is essential to auditing. Audit quality and the resiliency of the capital markets require that new standards be robust and rigorous. While the appropriate amount of time must be spent to properly design any new standards, it is also critical that the PCAOB drive consensus quickly for effective implementation and to remain relevant while appropriately evolving with the ever-shifting markets.

Below we answer select questions posed in the concept release, hoping to provide unique insights as investors.

Regarding question 2:

Is it appropriate to use ISQM 1 as the basis for a future PCAOB QC standard? Are there alternative approaches we should consider?

As global investors, we support the PCAOB's approach of using IAASB's ISQM1 as a starting point for the new standard. Commonality among global regulators and accounting standards allows for better-informed investors, which strengthens global markets. We also believe globally aligned quality control standards will drive efficiency for audit firms. At the same time, the U.S. should continue to work toward improving regulatory structure, and U.S. leadership should not be sacrificed in exchange for regulatory commonality. It is our hope that well thought out standard-setting policies, domestically and internationally, will build upon each other to create improved outcomes.

Regarding question 17:

Should a future PCAOB QC standard incorporate mechanisms for independent oversight over firms' QC systems (for example, boards with independent directors or equivalent)? If so, what criteria should be used to determine whether and which firms should have such independent oversight (e.g., firm size or structure)? What requirements should we consider regarding the qualifications and duties of those providing independent oversight?

Investors have benefited from a greater mix of independent directors on the boards of public companies. Independent directors can provide unbiased insight, along with unique skills and expertise that insiders may lack. Requiring increased participation of independent individuals on the boards of auditing firms or the committees in charge of the quality control function is a sensible addition to the PCAOB's regulatory framework. We believe independent oversight would greatly enhance the quality control standards.

Regarding questions 21, 39, and 46:

Should firms be required to establish quantifiable performance measures for the achievement of quality objectives? If so, how should such measures be determined and quantified?

Should a future PCAOB QC standard require public disclosure by firms about their QC systems? If so, what should be the nature and timing of such disclosures (e.g., information about the firm's governance structure)?

Should firms be required to report to the Board on their annual evaluations of QC system effectiveness? If so, what should be included in the report? Should firms be required to disclose any performance measures that were important to their conclusion about their QC system's effectiveness? Should firm reports be publicly available?

We view the reassessment of quality control standards as another opportunity to further improve the connection and communication between investors and auditors. The investor community is excited about the recent adoption of improved disclosure through the new Critical Accounting Matters requirements. The PCAOB can further the connection between these two critical groups through the adoption of Audit Quality Indicators (AQIs) as part of the quality control standards. The adoption of Audit Quality Indicators has been discussed at the PCAOB for years, and we believe the review of the quality control standards is an excellent opportunity to finalize the process of developing AQIs.

The AQIs should be developed at both the engagement and firm level. The engagement level AQIs should be included as an addendum to the Auditor's letter inside the annual report. Audit firms should also be required to publish firm level AQIs on the PCAOB's website. Along with publication of AQIs, we also believe that auditors should provide a detailed account of their audit quality control systems. Updating and strengthening the quality control standards will help to improve audit quality, but the addition of AQIs and quality control transparency would be the critical driver of improved investor confidence.

Regarding question 47:

Should we require the firm's top leadership to certify as to their QC system's effectiveness, either as part of or in addition to the firm's report on their QC system's effectiveness?

Based on our discussions with management teams during the implementation of Sarbanes-Oxley, having to sign off on their company's financial statements was an important driver in improving financial reporting quality. We believe having senior management at the audit firms sign off on their quality control systems will create the same level of personal accountability.

Overall, we support the PCAOB's approach to revising its quality control standards. This project has great potential to further improve the U.S. capital markets. We appreciate the PCAOB allowing us the opportunity to comment on the concept release and welcome additional opportunities to provide input to the PCAOB as this process continues.

Sincerely,

Amy C. McGarrity
Chief Investment Officer
Colorado Public Employees' Retirement Association