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May 18, 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** – Concept Release concerning scope of Rule 3523, Tax Services for Persons in Financial Reporting Oversight Roles (PCAOB Release No. 2007-02)

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 \$245.7 billion and more than 1.5 million members. CalPERS is pleased to provide the Public Company Accounting Oversight Board (Board) with comment regarding ethics and independence rules concerning independence as it applies to tax services to individuals who play a direct role in preparing the financial statements of public company audit clients.

As a significant institutional investor with a very long-term investment horizon, CalPERS has a vested interest in maintaining the integrity and efficiency of the capital markets. CalPERS focused on the independence and objectivity of the external auditor as a major component of its Financial Market Reform. Significant to this reform is the conviction that when audit firms perform non-audit consulting work for their audit clients it has the very real potential to impair their objectivity and affect independence.

For this reason, we supported the adoption of Rule 3523 in a letter to the PCAOB on February 14, 2005. However, at that time and currently, we believe the scope of the current proposal as too narrow and still believe it should be expanded to include a broader definition of management to include individuals in an oversight role that may have significant influence (versus a direct role) over the financial statements (i.e. VP of Sales) and Audit Committee members as it may create a clear conflict of interest if firms are providing tax services to these individuals while engaged as the company's external auditor.

On October 31, 2006, the Board adjusted the implementation schedule for Rule 3523 and is now further adjusting this schedule to allow for comment. CalPERS supports the comment process but disagrees with the continued delay in implementing Rule 3523, "Tax Services for Persons in Financial Reporting Oversight Roles." CalPERS continues to support the provision that tax services by the auditor to senior management creates an unacceptable conflict of interest appearance of the auditor and such senior management have a mutual interest.

CalPERS supports the guiding principle "that auditors should be independent of their audit clients both in fact and appearance" (Reg. S-X, Reg. 210, Rule 2-01) and believes that tax services covered by Rule 3523 should not be provided during the portion of the "audit period" that precedes the professional engagement period.

CalPERS does not believe the application of Rule 3523 to the audit period would impair a company's ability to make scheduled or unscheduled changes in auditors. We believe that Audit Committees plan for audit-firm rotation through advance notice to registered firms seeking proposals for ratification by shareowners at the issuers' annual meeting. We believe this advance planning provides the opportunity for audit firms to terminate ongoing tax service engagements with restricted person to ensure that independence issues associated with tax services does not impair the auditor's independence and allows the auditor to perform audit services.

We encourage the Board to not delay the implementation of Rule 3523 and would again suggest it consider increasing provisions to ensure the independence of the auditor both in fact and appearance.

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.

Sincerely,



Russell Read  
Chief Investment Officer

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, Senior Portfolio Manager, CalPERS