CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
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September 8, 2015

Office of the Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

VIA EMAIL: rule-comments@sec.gov

Re: Release No. 33-9862; 34-75344 File No. S7-13-15

Dear Office of the Secretary:

This letter is sent to you on behalf of the California State Teachers' Retirement System (CalSTRS). CalSTRS is a public pension fund that was established for the benefit of California's public school teachers over 100 years ago. CalSTRS serves the investment and retirement interests of approximately 880,000 plan participants. As of June 30, 2015, the CalSTRS portfolio was valued at approximately $191 billion on both a domestic and an international basis.

CalSTRS is a long-term investor, and like other investors in the global capital markets, we need to have confidence in the services performed by the external auditor for companies held in our investment portfolio. The audit committee plays a critical role in providing oversight of the company's financial reporting processes, internal controls and independent auditors. For this reason, we appreciate the opportunity to comment on the Securities and Exchange Commission's (Commission) Concept Release – *Possible Revisions to Audit Committee Disclosures.* CalSTRS is generally supportive of the Commission's efforts to enhance the audit committee disclosures. However, CalSTRS does not generally believe a prescriptive approach to audit committee disclosures may be appropriate. Such an approach may unintentionally lead to information overload or a document of boilerplate language that serves as a compliance document as opposed to being informative, meaningful and useful in our investment or proxy voting decisions. Nonetheless, we are supportive of having certain enhanced disclosures, such as those related to auditor tenure and the process used by the audit committee to select or retain the auditor and/or engagement partner.

CalSTRS supports the disclosure on the auditor tenure as part of the audit committee reporting. CalSTRS did a recent review of our portfolio and it was revealed that a number of companies in the Russell 3000 Index had an auditor whose tenure exceeds 100 years. We reached out to these companies in an effort to better understand their policies and practices to assure the continued independence of their auditors. We wanted to understand their reasons for keeping the same audit firm for over 100 years. According to CalSTRS Corporate Governance Principles, which is posted on our website, CalSTRS supports the rotation of audit firms as a tool to preserve the independence of the auditor. We also support limiting audit firms to seven consecutive years of providing audit service to a company. CalSTRS believes it is appropriate for companies to consider a transition to a new auditor after the long tenure over concerns about the auditor's independence and their ability to objectively evaluate the financial statements of the company. However, without the ability to easily find the auditor tenure, it can be difficult for investors, such as CalSTRS, to identify and engage with companies that failed to rotate their long-tenured auditor. In fact, we have encountered many instances where we were not able to find or had a difficult time finding the auditor tenure in a company's proxy statement or annual report. CalSTRS would find it very useful to have the auditor tenure information readily and consistently available, whether it is in the audit committee report or the auditor's report. We believe companies should be able to obtain this information easily and at very minimal cost.

Currently, the audit committees are not required to provide information regarding its process or reasons for the selection of a particular independent auditor. This is an area where CalSTRS believes additional disclosure can be beneficial for us and other investors. As previously mentioned, CalSTRS has concerns with companies having long-tenured auditors so it is important for us to understand the audit committee's justifications or rationale for selecting or retaining the current auditor. We are aware that there may be a limited selection of audit firms equipped with the capability and expertise to fulfill the audit requirements and demands of certain large, complex corporations which makes it even more important for us to know the specific range of factors considered in the decision to select or retain the auditor. For instance, does the audit committee consider auditor tenure, industry expertise, large personnel and/or cost as major factors in the process? In addition to the major factors considered in the selection process, it would be useful for us to have any additional insight into the audit committee's involvement in the process. We would also be interested in knowing whether the audit committee reaches out to seek other independent audit firms through a request for proposal (RFP) for auditing services, the frequency of the RFPs, and the number of auditors that submitted to the RFPs because such information demonstrates the audit committee's openness to periodically consider audit firm rotation. In such instances where no formal RFPs are used by the audit committee, it would be useful to know what processes are utilized to ensure the highest quality auditor is selected or retained.

Similarly, we believe enhanced disclosure on the selection process for the engagement partner to be equally important and informative as that for the auditor. Again, we are interested in knowing the specific range of factors considered in the decision to select or retain the engagement partner. Was industry expertise, experience and/or reputation a major factor considered by the audit committee in the selection process of the engagement partner? We also believe additional disclosure on the audit committee's level of participation in this process would be valuable as it provides us with some assurance that the audit committee is involved and proactive in promoting auditor independence.

It should also be noted that we are supportive of the disclosure of the engagement partner as we believe such information can improve transparency and accountability in corporate financial reporting and improve audit quality. Also, we do not think it should be too difficult or costly for a company to obtain and disclose the engagement partner's name. Preferably, CalSTRS believes that the auditor's report is the appropriate place for the disclosure of the engagement partner's name since it is currently where communication takes place between the auditor and investors. However, we are mindful of the potential logistic or liability concerns in mandating the engagement partner disclosure on the auditor's report so we are also supportive of the audit committee report as a possible location for such disclosure. CalSTRS has also been supportive of Public Company Accounting Oversight Board's (PCAOB) proposal in requiring the disclosure of the engagement partner on the new PCAOB form, Form AP, as another alternative location.

Overall, CalSTRS would find usefulness and relevance in having enhanced audit committee disclosures related to the auditor tenure and the selection process for the auditor and/or engagement partner. We believe these enhanced disclosures will benefit investors, such as CalSTRS, because we will better understand and be more informed of the audit committee's roles and responsibilities in performing its oversight of the auditor, and therefore we will have more confidence in the services performed by the auditor.

CalSTRS appreciates the opportunity to comment on this Concept Release. If you have any questions please do not hesitate to contact me.

Sincerely,

Anne Sheehan

Anne Sheehan
Director of Corporate Governance