



California State Teachers'
Retirement System
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Via email: Comment Portal and KenSiong@ethicsboard.org

Dr. Stavros B. Thomadakis, Chairman
Ken Siong, Technical Director
International Ethics Standards Board
For Accountants (IESBA)
529 5th Avenue
New York, New York 10017

Re: **Exposure Draft – Proposed Revisions to the Code Pertaining to the Offering and Accepting Inducements**

Dear Chairman Thomadakis and Mr. Siong:

I am writing on behalf of the members of the California State Teachers' Retirement System (CalSTRS) to provide our comments on your proposed revisions on the offering and accepting of inducements that may affect professional skepticism of auditors. We believe auditors are the gatekeepers of financial reporting integrity. Investors rely on the auditors' report. We applaud the International Auditing and Assurance Standards Board's new and revised audit reporting standards that became effective December 2016. CalSTRS believes that with the enhanced auditor reporting requirements investors will utilize the auditors' report even more often in analyzing a company in the capital allocation process.

CalSTRS' mission is to secure the financial future and sustain the trust of California educators. We serve the investment and retirement interests of teachers and their families. CalSTRS is the largest educator-only pension fund in the world with a global investment portfolio valued at approximately \$219.5 billion as of October 31, 2017.¹ The long-term nature of CalSTRS liabilities, its overall stewardship of the fund and the CalSTRS Board's fiduciary responsibility to its members, makes the fund keenly interested in the rules and regulations that govern the securities market. As a long-term investor, CalSTRS relies on the integrity and efficiency of the capital markets.

¹ CalSTRS at a Glance, <http://www.calstrs.com/glance>,
CalSTRS Current Investment Portfolio, asset allocation mix and current market value as of October 31, 2017.
<http://www.calstrs.com/current-investment-portfolio>.

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Chairman Thomadakis
Ken Siong, Technical Director

CalSTRS supports this timely release to emphasize professional accountants' responsibilities to comply with all relevant laws and regulations relating to bribery and corruption when considering offering or receiving any inducements. More importantly we strongly support the prohibition on the offering and accepting of inducements by professional accountants made with intent to improperly influence the behavior of the recipients. We have seen first-hand where this type of situation can impede the objectivity of an auditor. [On September 19, 2016 the SEC charged Ernst & Young partners with violating auditor independence rules with E&Y agreeing to pay \\$9.3 million.](#) The SEC sanction stated that two of the firm's audit partners compromised their independence (becoming "too cozy" with clients) and violated rules intended to ensure firms maintain their objectivity and impartiality during audits. This is but one example demonstrating the need for these revisions to the code pertaining to offering and accepting of inducements.

CalSTRS recently participated in the PCAOB's International Institute on Audit Regulation with Audit Regulators attendees from around the world. The importance of auditor independence was a major theme of this meeting along with a discussion of the potential problems with inducements. These discussions underscore the need for the proposed revisions to the Code on Inducements.

CalSTRS has long believed shareholders are the client and the prime user of financial reporting. As such investors rely on auditors to be fully objective in providing an opinion. In being a gate keeper, auditors must be independent in both substance and appearance. Audit firms and Audit Committees must continually assess their policies and procedures to ensure this independence.

We hope our perspective as a long-term investor provides insight to the critical importance of guidelines on inducements, professional skepticism and judgement, and auditor independence. The following appendix provides responses to specific questions asked in this Exposure Draft.

If you would like to discuss this letter further, please feel free to contact me at my number above or Mary Hartman Morris at 916-414-7412, MMorris@CalSTRS.com.

Sincerely,



Anne Sheehan
Director of Corporate Governance
California State Teachers' Retirement System

Appendix – CalSTRS’ Responses

Request for Specific Comments

Proposed Section 250

1. Do respondents support the proposals in Section 250? In particular, do respondents support the proposed guidance to determine whether there is intent to improperly influence behavior, and how it is articulated in the proposals?

CalSTRS supports the proposed guidance in section 250.11 A2 which encourages the understanding of factors that are relevant in evaluating the level of any threats created by offering or accepting an inducement. The E&Y example is a reminder that auditors must gauge many factors in offering or accepting an inducement.

Proposed Section 340

2. Do respondents agree that the proposed provisions relating to inducements for PAPPs should be aligned with the enhanced provisions for PAIBs in proposed Section 250? If so, do respondents agree that the proposals in Section 340 achieve this objective?

Yes, we believe Section 340 achieves this objective.

Proposed Conforming Amendments to Independence Provisions

3. Do respondents support the restructuring changes and proposed conforming amendments in proposed Sections 420 and 906?

Yes, however the wording of the value of trivial and inconsequential may misguide auditors in acceptance without considering a bigger picture that may lead individuals to a conclusion of a perceived intent to improperly influence behavior.

4. Do respondents believe the IESBA should consider a project in the future to achieve further alignment of Sections 402 and 906 with proposed Section 340? If so, please explain why.

No, we believe the guidance provides the needed alignment.

47. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below: • *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.

CalSTRS consistently does not support scaling down or providing exemptions to SMEs and SMPs. We support the rules be consistently applied no matter what size of the entity or practice.