



May 28, 2020

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

RE: Request for Comment on Interim Analysis of Critical Audit Matter Requirements

Dear Public Company Accounting Oversight Board,

We are submitting the following to the PCAOB for consideration in response to a request for comment on the *Interim Analysis of Critical Audit Matter Requirements*. The below comments represent the Colorado Public Employees' Retirement Association's (PERA'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. Our comments reflect the insights of our internal public market investment experts, who manage more than 60% of the PERA portfolio.

We applaud the PCAOB for the hard work of developing and implementing the disclosure of Critical Audit Matters (CAMs) within the auditor's report. We are also encouraged by the PCAOB's efforts to evaluate the impact and progress of the CAMs. Overall, we continue to support CAM disclosures and believe they are an important step forward for the U.S. capital markets. Although we are still witnessing the early days of CAM implementation, we are generally pleased with the progress made by auditor firms' incorporation of them.

Below we answer select questions posed in the concept release where we can provide unique insight as investors.

Regarding question 1:

Have you as an investor, analyst, or other financial statement user read any auditors' reports that contain CAMs? Approximately how many? Why did you read them? Prior to CAM implementation, did you read auditors' reports?

Prior to the implementation of CAMs, our investors would scan the auditor's report, largely looking for the unqualified opinion. Today, reviewing the CAMs has become an important step in many investors' due diligence process. Our investors read the CAMs to gain a better understanding of the audit process, and to assess the quality of audit and financial reporting. The CAMs also give PERA's investors the opportunity to compare our primary concerns with difficult issues highlighted by auditors, and to see what steps were taken to evaluate the pertinent CAMs.

Due to PERA's involvement in the CAM development process, we believe our investors are sufficiently aware of the CAMs and their usefulness to fundamental analysis. However, we have concerns that too few investors are taking advantage of this new resource, based on informal observations and feedback from colleagues in the industry. Particularly, we have seen a lack of discussion and analysis among sell-side analysts, who have the most transparent and public investment processes. We would encourage the PCAOB to develop an awareness campaign to encourage the utilization of CAMs, potentially including partnership with industry-leading organizations such as the CFA Institute.

Regarding question 2:

What effects, if any, have investors, analysts, or other financial statement users experienced from the communication of CAMs in the auditor's report?

The ability to ask informed questions that yield decision-useful insights is critical to fundamental analysis. By giving investors information on audits beyond an audit firm's name and a simple binary opinion, investors are equipped to ask corporate management teams more informed questions about company financials and controls. Prior to the development of the CAMs, investors' audit-related inquiries were limited to rationale for new auditor ratification. With new CAM disclosures, investors can have more constructive conversations with management about auditors and audit findings.

Perhaps the most misunderstood aspect of the role of an investor is the need to analyze and act quickly on a vast mosaic of structured and unstructured data. We need to be experts on the economy, industry trends, marketing, operations, finance, accounting, regulation, legislation, politics, science, sociology, international relations, and so on. Our duty goes well beyond reading 10-Ks, and understanding the nuances of how an audit is conducted, yet a deeper understanding of audit matters and their implications to investors would serve all long-term investors well as they pursue efficacy in the development of their theses and valuations. The CAMs provide that education

pragmatically, and the value of that information is reinforced through investors' analysis and discussions of their active investments.

Regarding question 3:

If you are an investor, analyst, or other financial statement user who has read CAMs for multiple public companies, did you find some CAMs to be more useful than others? If so, what were the factors that made them more useful?

As with all practitioners, we see a wide spectrum of quality among auditors. Certain firms provide boiler-plate CAM reporting with little useful information. In one auditor's report, a single CAM was listed, which was a red flag to us. On the other end of the spectrum, there are auditors producing CAM disclosures in excellent detail, with thoughtful insight and analysis. Some CAMs have made PERA's investors more confident in the quality of an audit, while others have made us less confident in audit quality. We believe this speaks to the usefulness of CAM reporting in facilitating a better grasp of corporate audit and financial quality.

Our hope is that competition for capital and the desire for a reputation of high quality will lead audit committees to demand better disclosure from their auditors or reconsider their auditor ratification practices. However, if market competition alone does not close the disclosure quality gap, we would encourage the PCAOB to utilize its oversight power to enforce stronger CAM disclosures.

PERA appreciates the PCAOB allowing us the opportunity to comment on the Interim Analysis of Critical Audit Matter Requirements, and we welcome additional opportunities to provide input to the PCAOB as this process continues.

Sincerely,

A handwritten signature in black ink, appearing to read 'A. McGarrity', with a large, stylized flourish at the end.

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