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September 3, 2015

Secretary  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**RE: Possible Revisions to Audit Committee Disclosures; Concept Release 33-9862**

The Florida State Board of Administration (SBA) manages approximately \$180 billion in assets on behalf of the Florida Retirement System (FRS) and other mandates. The FRS is one of the largest public pension plans in the United States, with greater than one million beneficiaries and retirees. The SBA's governance philosophy encourages companies to adhere to responsible, transparent practices that correspond with increasing shareowner value. The SEC's decision to seek public comments on Audit Committee disclosures, which focus on reporting and oversight of the independent auditor, highlights the importance of the SBA's policy of auditor ratification, and we appreciate the opportunity to provide comments.

The SBA *Corporate Governance Principles & Proxy Voting Guidelines* supports the principle that "Audit committees should disclose all factors considered when selecting or reappointing an audit firm, information related to negotiating auditor fees, the tenure of the current external audit firm, and a description of how the audit committee oversees and evaluates the work of their external auditor."<sup>1</sup>

**The Importance of the Audit Committee**

As stated in the SEC's concept release request for comments, the requirements governing audit committee reporting contained in Item 407 of Regulation S-K were adopted in 1999. Since then, significant changes have occurred for the role and responsibilities of audit committees rising out of regulatory and industry changes.

The SBA acknowledges that there have been significant changes to what audit committees disclose; however, strengthening and updating rules to provide more uniformity amongst issuer disclosures will benefit shareowners. Although some disclosures are voluntary, not all issuers disclose the same information, which can make it difficult for investors to determine if voluntary disclosures from a particular company versus its industry peer group are relevant to making an investment decision. The SBA does not seek for the Commission to place undue burdens upon issuers, or to be overly prescriptive, but to help issuers increase transparency on an already complicated topic.

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<sup>1</sup> SBA 2015 Corporate Governance Principles & Proxy Voting Guidelines (page 25).  
<http://www.sbafla.com/fsb/LinkClick.aspx?fileticket=XZq1cEgxyzYU%3d&tabid=1441&portalid=11&mid=3927>  
<http://www.sbafla.com/fsb/LinkClick.aspx?fileticket=XZq1cEgxyzYU%3d&tabid=1441&portalid=11&mid=3927>

As a large institutional investor, the SBA also echoes the comments provided by the Council of Institutional Investors (CII) “that the independent audit should serve a greater function than a compliance exercise and should add value to the long-term shareowner.” Moreover, the SBA emphasizes the following comments of CII’s letter.<sup>2</sup>

- I. The audit committee report should provide meaningful descriptive information to investors regarding how the committee executes its responsibilities. For example, include a specific explanation of how the committee implements its auditor compensation responsibilities in consideration of audit quality objectives or provide a rationale for not changing the company’s auditor if the committee chooses to renew the engagement of an auditor with more than 10 consecutive years of service;
- II. The audit committee should seek competitive bids for the external audit engagement at least every five years;
- III. The proxy statement should include a copy of the audit committee charter and a statement by the audit committee that it has complied with the duties outlined in the charter; and
- IV. Audit committee charters should provide for annual shareowner votes on the board’s choice of independent, external auditor. Such provisions should state that if the board’s selection fails to achieve the support of a majority of the for-and-against votes cast, the audit committee should: (1) take the shareowners’ views into consideration and reconsider its choice of auditor and (2) solicit the views of major shareowners to determine why broad levels of shareowner support were not achieved.

### **Audit Committee Oversight of the Auditor**

The SBA also believes that the Commission should consider the following changes to the current audit committee disclosure requirements that would increase information for investors regarding the audit committee’s oversight of the audit and the independent auditor.

- I. Disclosure regarding how the audit committee evaluates the amount of audit fees and the negotiation process of the Request for Proposals (RFP) and/or if the audit committee has a formal evaluation policy/process in place to provide shareowners; and
- II. Disclosure regarding how the audit committee determines renewal of engagement of an audit firm when the firm has more than 10 consecutive years of service and/or if the firm has substantive deficiencies identified during the committee’s review and remedies taken.

### **Disclosures of Individuals on the Engagement Team**

The SBA believes that increased transparency often contributes to improved corporate governance. Disclosing the names of the engagement partner and other key members of the audit engagement team (e.g., a quality reviewer) with substantial details will be beneficial for shareowners. The Commission should consider the following.

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<sup>2</sup> Jeff Mahoney, General Counsel, Council of Institutional Investors. Comments on Concept Release: Audit Committee Disclosures. Aug. 19, 2015. <https://www.sec.gov/comments/s7-13-15/s71315-17.pdf>

September 3, 2015

Page 3

- I. Required disclosure should be placed in the auditor's report, not sent separately via the PCAOB or other venue for reporting;
- II. Because the required information would be disclosed in the primary document by which the auditor communicates with investors and where other information about the audit is already found;
- III. The information would be available almost immediately upon electronic filing with the SEC of a document containing the auditor's report; and
- IV. Information disclosing the name of the engagement partner/quality reviewer should be disclosed in one location without having to place additional burden on the investment committee to repeat information already disclosed.

### **Proposed Rules**

The SBA encourages the Commission to move forward with a more formal process to implement the long awaited update to Item 407 of Regulation S-K through proposed rulemaking. We look forward to the enhanced transparency that may come of this Concept Release (33-9862). Thank you for your consideration of this matter. If you have any questions, please feel free to contact Michael McCauley at [REDACTED], or [REDACTED].

Sincerely,



Michael P. McCauley  
Senior Officer, Investment Programs and Governance

cc: SBA Corporate Governance Oversight Group (Proxy Committee)