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February 26, 2007

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-24-06: Management's Report on Internal Control over Financial Reporting

Dear Ms. Morris:

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 \$231.1 billion and more than 1.5 million members. CalPERS is a long-term shareowner and believes in the importance of strong market regulation and enforcement designed to protect investors and ensure integrity in the capital markets.

CalPERS is pleased to provide comment regarding the Securities and Exchange Commission's (Commission) proposed interpretive guidance for management regarding its evaluation of internal control over financial reporting (ICFR). CalPERS supports both section 404 of the Sarbanes-Oxley Act of 2002 and the Commission's proposed interpretation rule to provide management the guidance and assistance in its annual evaluation of its ICFR. CalPERS submits this comment letter to assist the Commission with understanding the interest a large institutional investor has in the proposed rule.

In the fall of 2006, CalPERS provided the SEC some recommendations to ensure adherence by all public companies with the requirements of Section 404. We believe Section 404 of the Sarbanes-Oxley Act of 2002 contributes to the establishment of certainty necessary for investors to maintain confidence in the integrity of a public company's financial statements. CalPERS believes the Commission's proposed rule in addition to the PCAOB's proposed new auditing standard are integral in ensuring the integrity of a public company's financial statements. We support the Commission with this proposed rule and agree with:

California Public Employees' Retirement System
Lincoln Plaza East - 400 Q Street, Suite E4800 - Sacramento, CA 95814

- The May 16, 2005 guidance emphasizing that management, not the auditor, is responsible for determining the appropriate nature and form of internal controls for the company.
- Emphasizing the importance of risk assessment - emphasizing a top-down, risk-based approach that allows for the exercise of significant judgment so that management can design and conduct an evaluation that is tailored to its company.
- Ensuring the comparability of the assessment reports among companies by requiring management to base its assessment of a company's internal control on a suitable evaluation framework.
- Clarifying when all material weaknesses are remediated by the end of the fiscal year allowing management to assess ICFR as effect, that management should still consider disclosure of the remediated material weaknesses as required by Item 307 or Item 308 of Regulations S-K or S-B or other Commission disclosure rules.
- Providing the Commission's guidance be codified as a Commission rule which will satisfy the annual management evaluation of the effectiveness of ICFR and provide management assurance that it has satisfied its obligation to conduct an evaluation for purposes of the requirements in Rules 13a-15(c) and 15d-15(c).

Internal Controls are designed and owned by management of a company. We continue to support SEC rules implementing Section 404 of the Act requiring management to evaluate the effectiveness of internal controls. CalPERS does not believe the auditor evaluating management's annual evaluation process is redundant of the opinion on internal control itself or that it contributes to the complexity of the standard and confusion regarding the scope of the auditor's work. Rather, this evaluation of management's review ensures the integrity of a robust review by management and assists the auditor in determining the "tone at the top."

We encourage the Commission not to include dollar limits on the size of a company. We agree that all companies of all sizes and complexities should be able to implement the Commission's rules effectively and efficiently and don't believe there is a need to emphasize the scaling or tailoring of its evaluation methods and procedures based solely on size limits contained in the final report of the SEC Advisory Committee on Smaller Companies. This conflicts with a principle based approach and could lead to a tiered approach. We believe one standard is needed for all companies.

CalPERS is prepared to provide assistance to the SEC 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.

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Sincerely,

A handwritten signature in black ink that reads "Russell Read". The signature is written in a cursive, flowing style.

Russell Read
Chief Investment Officer

cc: Fred Buenrostro, Chief Executive Officer, CalPERS
Anne Stausboll, Assistant Executive Officer, CalPERS
Christy Wood, Senior Investment Officer, CalPERS
Peter Mixon, General Counsel, CalPERS
Dennis Johnson, Senior Portfolio Manager, CalPERS