



California Public Employees' Retirement System

Executive office

400 Q Street, Sacramento, CA 95811 | Phone: (916) 795-3829 | Fax: (916) 795-3410

888 CalPERS (or 888-225-7377) | TTY: (877) 249-7442 | www.calpers.ca.gov

Andreas Barckow
Chair, International Accounting Standards Board
International Financial Reporting Standards Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Via email: commentletters@ifrs.org

24 September 2021

Dear Mr. Barckow,

Re: IASB Third Agenda Consultation

On behalf of the California Public Employees' Retirement System (CalPERS), I write to express our views on the International Accounting Standards Board (IASB) Third Agenda Consultation (Consultation). Thank you for the opportunity to contribute. We are honored to serve on the Advisory Council to the International Financial Reporting Standards (IFRS) on behalf of the Council of Institutional Investors and continue to support the development of high quality, global accounting and auditing standards, where IFRS is in the vanguard. Our work at the U.S. Securities and Exchange Commission (SEC) has also focused on these issues for U.S. reporting.

CalPERS is one of the world's largest asset owners and the largest public defined benefit pension fund in the United States, managing approximately \$490 billion in global assets on behalf of more than 2 million members. As a global institutional investor with a long-term investment horizon, CalPERS relies on the integrity and efficiency of our global financial markets to provide long-term sustainable, risk-adjusted returns.

We are guided by our Investment Beliefs which set out that long term, sustainable value creation requires the effective management of financial, human and physical capital. CalPERS Governance and Sustainability Principles¹ (Principles) explain that we expect fair, accurate, timely, and assured reporting on how companies assess risks and opportunities related to the management of financial, human, and physical capital to generate the sustainable returns we rely upon to pay our members'

¹ See CalPERS' Governance & Sustainability Principles, September 2019, available at <https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf>.

benefits.² For that reason, data and corporate reporting are one of the priorities in our total fund strategy for sustainable investment.

We applaud the IFRS Foundation for its leadership role as a global standard setter for sustainability reporting, through establishing the International Sustainability Standards Board (ISSB) in parallel to, and coordinated with, the vital work of the IASB.³ We acknowledge that the ISSB is not the main focus of this Consultation, however, the ISSB constitutes a significant development which as previously stated, we support in full.⁴

Likewise, we acknowledge the substantial work of the IASB to engage with and educate investors on their role as the primary users of financial reporting. We are witnessing exciting times in corporate reporting and see tremendous momentum across the capital markets to improve our understanding of risk and return across global portfolios.

We appreciate the thoroughness of the Consultation and the opportunity to comment. Below, we provide our response on several issues which are intended to support the IASB as it develops its work plan.

Strategic Direction and Balance of the IASB's Activities

We commend the IASB for including digitalization in the work plan as this will increasingly impact every aspect of financial markets. If the IASB provides additional details on its digitalization plan, including a potential timeline for implementing specific elements, we may be able to provide more specific commentary.

Additional Potential Criteria for Assessing the Prioritization of Financial Reporting Issues

As an institutional investor, we commend the IASB for listing “the importance of the matters to investors” as the first criterion in deciding whether to include a potential project to its work plan. The importance of a project to investors should be the most important consideration for the IASB's work.

However, we are concerned that the other six criteria could result in less, rather than more, robust disclosures by companies. Criterion 6 in particular (but not exclusively) could have a chilling effect on projects important to investors because it may discourage the IASB from engaging on preliminarily complex topics. Furthermore, three of the listed criteria do not appear at first reading to be in the Due Process Handbook (Handbook),⁵ and it would help to provide further explanation about the additional criteria. Section 5.4 of the Handbook includes only the first four items and lists

² Id. at 5. With regard to corporate reporting, our Principles state that “[c]ompanies should provide for the integrated representation of operational, financial, human capital management practices, environmental, social, and governance performance in terms of both financial and non-financial results in order to offer investors better information for assessing risk.”

³ CaIPERS has long advocated for integrating financial and sustainability reporting, including requests to both the IASB and the Financial Accounting Standards Board, to enhance integration of sustainability issues in corporate reports. We have also supported enhanced sustainability reporting in the IFRS Foundation's Consultation on Sustainability Reporting, Management Commentary by the IASB, and in Regulation S-K by the SEC to achieve greater quality, consistency and comparability of sustainability information.

⁴ CaIPERS Response to IFRS Consultation Paper on Sustainability Reporting-dec-31-2020.pdf

⁵ Due Process Handbook, IFRS Foundation (Aug. 2020), available at <https://www.ifrs.org/content/dam/ifrs/about-us/legal-and-governance/constitution-docs/due-process-handbook-2020.pdf>.

them in a different order. Moreover, the Interpretations Committee uses a different set of four criteria in determining when to add a project to the work plan, pursuant to Section 5.16.⁶ The rationale for the additional criteria (or the differences between Sections 5.4 and 5.16) is currently unclear.

Fundamentally, we would like to see the IASB focus on the matters that are important to investors in a more robust way and remove or minimize the other considerations if they inhibit focusing on the matters important to investors. Therefore, we recommend that the IASB, and the IFRS Foundation focus the criteria in the Due Process Handbook but clarify the definition and order given the differences between Sections 5.4, 5.16 and the Consultation.

Additional Financial Reporting Issues for the IASB's Consideration

We appreciate that the new ISSB will have an immediate focus on climate risk, with other issues to follow. However, we also understand the important areas of shared relevance with the IASB, as set out in the 2019 discussion, provided by Nick Anderson, as one example. Other examples where we see the need for a well-coordinated approach across the IFRS standards setting work include, intangible assets, pollutant pricing mechanisms, statement of cash flows and related matters.

We also believe that there should be broader consideration to providing more human capital information. Such information is critical to enabling investors to make better investment decisions, close the information gap, and identify risks and opportunities. Companies state that human capital is their greatest asset, yet there is too little information on how human capital is managed. Again, we appreciate that the ISSB will be developing standards in this arena, but the integration of these with accounting and audit, will be important to providing the holistic report on risk and return which investors seek.

Conclusion

We again applaud the IASB for providing an opportunity to provide input on its work plan. We look forward to a very productive five years from the IASB.

Please contact Anne Simpson, Managing Investment Director, at anne.simpson@calpers.ca.gov if you have any questions regarding our responses.

Sincerely,

Marcie Frost
Chief Executive Officer

cc: Anne Simpson

⁶ Id.