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**

Emmanuel Faber, ISSB Chair
Suzanne Lloyd, ISSB Vice-Chair
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

July 29, 2022

Subject: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

Dear Mr. Faber and Ms. Lloyd,

On behalf of the California Public Employees' Retirement System (CalPERS), I write to express our strong support for the International Sustainability Standards Board (ISSB). We appreciate the opportunity to review the IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (Exposure Draft). We are also submitting a comment letter regarding Exposure Draft: IFRS S2 Climate Related Disclosures.[1] CalPERS supports the creation of the ISSB and its mission to produce a high-quality global baseline of sustainability-related financial disclosures.

CalPERS has advocated for integrated reporting for more than a decade. We expect public companies in which we invest to provide integrated representations of operational, financial, environmental, social, and governance performance in terms of both financial statement and non-financial statement results and prospects. However, the current disclosure regime for corporate reporting falls short of our expectations as investors. We would like to see sustainability-related disclosures alongside financial disclosures to get a more robust view of a company's current position and future prospects. Having a strong global baseline certainly moves us in the right direction. We applaud the ISSB's work, which we hope will expand meaningful integrated reporting. The Exposure Draft aligns with some of the enhanced disclosures we have been seeking in order to make more informed investment decisions.

[1] IFRS S2 Climate-related Disclosures. ness%20model.

As the largest public defined benefit pension fund in the United States, CalPERS manages approximately $440 billion in global assets on behalf of more than 2 million members. We seek long-term, sustainable, risk-adjusted returns through efficient capital allocation and stewardship in line with our fiduciary duty. We are guided by CalPERS' Investment Beliefs[2], which recognize that "long term value creation requires effective management of three forms of capital: financial, physical, and human."[3] Accordingly, we expect fair, accurate, timely, and assured reporting about how companies manage their financial, physical, and human capital to generate sustainable returns, and how they identify, monitor, and mitigate risks to those three forms of capital.[4] CalPERS' motivation to focus on sustainability is to ensure we meet our long-term requirements to provide retirement, disability, and health benefits for our 2 million members.

CalPERS is U.S.-based, but we invest billions of U.S. dollars globally. As such, we are very interested in having a strong global baseline of disclosures. We generally support the Exposure Draft and make no additional comment where we would merely offer comments in agreement with approach, which is where we come out on the majority of the Exposure Draft. We offer support for the ISSB and the following comments to the Exposure Draft.

Question 1 - Overall Approach

We believe the details of the approach need to be described in greater depth. Paragraph 2 requires a reporting entity to "disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed." However, the term "significant" is not defined. Paragraph 60 then states that "[a]n entity need not provide a specific disclosure that would otherwise be required by an IFRS Sustainability Disclosure Standard if the information resulting from the disclosure is not material." It is hard to reconcile paragraphs 2 and 60, given that the scope of paragraph 2 only covers "**material information** about all of the **significant** sustainability-related risks and opportunities" while paragraph 60 limits the scope of paragraph 2 to information that is material. When read together, a reporting entity must report the material information of significant sustainability-related risks and opportunities needed to assess enterprise value pursuant to paragraph 2 but need not disclose the significant sustainability-related risk or opportunity if it is not material pursuant to paragraph 60. We are in favor of greater transparency and, as such, wonder whether the established standard multi-tiered standard would reduce, rather than enhance, reporting on sustainability-related risks and opportunities.

[2] CalPERS Investment Beliefs, https://www.calpers.ca.gov/page/about/organization/calpers-story/our-mission-vision#investment-beliefs.
[3] Id.
[4] CalPERS Sustainability Principles. https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf.

Question 2 - Objective

We believe the proposed objective of disclosing sustainability-related financial information is not clear, due, in part, to the repeated use of the term "significant" without the term being specifically defined and the further imposition of an additional materiality test in paragraph 60. We acknowledge that the ISSB will focus on so-called "single materiality." However, we note that certain disclosure items may necessarily have both a financial and sustainable dimension that are important to investors, such as disclosures regarding long-term investment risks or the externalization of costs. We hope the ISSB can better, and more fully, capture such disclosure items, which may not get proper consideration under a single materiality rubric.

Question 4 - Core Content

The Exposure Draft should cite the work of the Task Force on Climate-Related Financial Disclosures (TCFD) in paragraph 11 in order to properly ground the use of its framework. We support the use of TCFD as the proper base, given its own substantial global adoption. This is important in case TCFD is updated.

Question 6 - Connected Information

We note that the term "significant" is dropped before the phrase "sustainability-related risks and opportunities" when used in paragraphs 42-44. It is currently unclear whether the exclusion is intentional and, if so, what the specific consequences of this exclusion for the connected information section are.

Question 8 - Materiality

Paragraph 60 introduces another tier of analysis that would reduce what companies would ultimately have to disclose. Paragraph 2 establishes that "a reporting entity shall disclose material information about all of the significant sustainability-related risks and opportunities to which it is exposed," and such assessment shall be made in the context of enterprise value. Paragraph 60 then establishes that no reporting is necessary under any IFRS Sustainability Disclosure Standard "if the information resulting in the disclosure would not be material."

To be clear, material information about a significant sustainability-related risk or opportunity may not be material in and of itself. Consequently, when reading paragraph 60 in conjunction with paragraph 2, there appears to be two separate "bites" at preventing disclosure. In order for a company to have to disclose information under paragraph 2 pursuant to paragraph 60, the information must not only be material information about significant sustainability-related risks and opportunities but also must be material in and of itself. This construction dramatically increases the standard that must be met in order for disclosure to be required. We believe that this higher standard would reduce the level of information that will be shared rather than enhance transparency.

Further, we note that certain information that is widely held to be important for voting or investor engagement (*e.g.*, information focused on system risks or the externalization of costs) would not be considered material under the current single materiality rubric. As such, it appears that the proper location for the IFRS Sustainability Disclosure Standards would only be in the notes to a company's financial statements. If placed in management commentary or management discussion and analysis, the current articulation of materiality would weaken reporting standards from an investor perspective. This happens because in order to complete the Statement of Compliance in paragraphs 91-92, a reporting entity could adopt the ISSB view on materiality for the entire management commentary or management discussion and analysis. If the ISSB stated materiality standard were adopted, it is less likely to be supported by investors that care about the information currently being received in management commentary and management discussion and analysis.

Question 10 - Location of Information

As stated in the discussion on materiality in response to Question 8 above, it appears that the proposed standards would reduce rather than enhance reporting in management commentary or management discussion and analysis. Essentially, the Exposure Draft's focus on single materiality could prevent actualizing the full potential of the IFRS Sustainability Disclosure Standards and SASB metrics. Further, it has the potential to reduce the information that is currently being received in management commentary or management discussion and analysis if the stated process is applied. It is important to note that management commentary and management discussion and analysis currently include information that would not be considered material under the Exposure Draft. Investors are looking to enhance transparency; as such, the ISSB must be mindful to first do no harm to investors getting information for their voting and engagement purposes while attempting to provide more financial information.

Question 12 - Statement of Compliance

We find this provision intensely problematic. In order to comply, a company would have to eliminate information that does not meet the Exposure Draft's complex materiality construction (including the adoption of multiple proposals to not include items considered immaterial under the construction). The problem is it would eliminate information that investors have found to be beneficial for years. In order to achieve compliance, companies would have to reduce the information supplied for other purposes in the primary spaces for regulatory disclosure. That does not work. On a jurisdictional basis, companies would have to comply with the materiality requirements of the given jurisdiction. This may include providing information that the ISSB does not consider material under its construction of materiality. In other words, the ISSB would be requiring that companies adopt their construction of materiality instead of the jurisdictional materiality. This is a problem that is heightened given the issues noted earlier with the ISSB's view on materiality, which includes the use of "significant" that the IFRS itself debunked in 2018.[5]

Question 14 - Global Baseline

We hope that the ISSB could form a global baseline, but we reiterate that it must first do no harm to the existing level of reporting. As we read the Exposure Draft, the ISSB would require reporting only material information that meets its multi-tiered requirements, which includes a substantial undefined term. If used, there are prohibitions for duplication and reporting immaterial information. By raising the materiality standard, if IFRS Sustainability Disclosure Standards are reported in management commentary and a reporting entity complies with the standard, it could potentially reduce such reporting entity's historical reporting on items that investors have found valuable. That is clearly not what we intended from a global baseline provider. Our expectation runs to enhanced reporting of meaningful information that would address our financial needs, which includes addressing systemic risk-related issues and externalization of costs. We note that we need information that is critical to our voting and engagement activities. As such, we are mindful to protect against any reduction in reporting requirements. We fear that the process the ISSB has set up would not only knock out information critical to voting and engagement activities but could also prevent the disclosure of many SASB metrics as well, given the multi-tiered tests and the express elimination of information that fails the tests.

In total, we support the ISSB but believe that the Exposure Draft needs additional work and believe that addressing the comments above will strengthen a final document.

We look forward to providing continued support to the ISSB. Please contact James Andrus, Interim Managing Investment Director, at James.Andrus@calpers.ca.gov, if you have any questions or would like to discuss our response.

Sincerely,

Marcie Frost
Chief Executive Officer

cc: James Andrus

[5] IFRS Staff Paper Significance and Materiality https://www.ifrs.org/content/dam/ifrs/meetings/2018/december/iasb/ap11a-di.pdf