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**

Technical Director
Financial Accounting Standards Board
401 Merrit 7
Norwalk, CT 06856-5116

December 20, 2022

Subject: Segment Reporting (Topic 280) File Reference No. 2022-ED100

Dear Technical Director,

On behalf of the California Public Employees' Retirement System (CalPERS), I write to express our general support for the proposed improvements to reportable segment disclosures presented in the Financial Accounting Standards Board's (FASB) request for public input on FASB's Exposure Draft (Draft) on Segment Reporting (Topic 280).

CalPERS is the largest public defined benefit pension fund in the United States, managing approximately $450 billion in global assets. We work constantly to improve our ability, and that of the broader investor community, to identify both investment risks and opportunities in support of our mandate to provide retirement, disability and health benefits for our 2 million members. We seek long-term, sustainable, risk-adjusted returns through efficient capital allocation and stewardship aligned with our fiduciary duty. We are guided by our Investment Beliefs, which recognize that "long term value creation requires effective management of three forms of capital: financial, physical and human."[1] Accordingly, we seek fair, accurate, timely, and assured financial reporting about how companies manage financial, physical and human capital to generate sustainable returns, and how they identify, monitor, and mitigate risks to those three forms of capital.[2]

It is critical that investors like us have access to relatively consistent and digestible financial disclosures that enhance our ability to effectively allocate capital. Effective disclosures facilitate informed decision-making by providing investors with transparent and relevant data on the economic performance and condition of portfolio companies. This data helps shareowners more easily identify, assess, and manage risks and opportunities to properly allocate capital;

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

vote equity securities; provide debt; and engage companies, regulators, and standard setters on important issues. We rely on regulators and standard setters to ensure public companies provide integrated representations of their operational, financial, environmental, social and governance (ESG) performance through both financial statement and non-financial statement results and prospects. We firmly believe that the current disclosure regime for financial reporting must improve to meet the needs of long-term investors. In short, companies must disclose better information in regulatory reports. In order to achieve this, we need standard setters to further consider investors' needs.

The nature of public companies has changed over the past 25 years, as they are now larger and more complex. Investors have been asking the FASB to enhance disclosures to allow investors to improve allocation decisions. We commend the FASB for moving in the right direction with this Draft, however, we are simultaneously disappointed that the FASB did not choose to take a larger step in providing investors more information. Out of four alternatives, the FASB chose the one representing the smallest step forward as the proposed option in the Draft.[3] Put simply, we would have preferred the FASB take a larger step in line with its mission and caused companies to provide substantially more information. Investors make better allocation decisions with better information. The mission of the FASB is to "establish and improve financial accounting and reporting standards to provide decision-useful information to investors and other users of financial reports."[4] Investors rely upon the FASB to comply with its mission to provide useful information to investors. With this Draft, the FASB placed too much value on projected costs rather than focusing on the contours of its mission. At the end of the day, the shareholders own the companies and eventually pay the costs to be provided information. The underlying issue is that we are operating from a very low baseline for information sharing. The information gap between managers and shareholders grows larger as companies become larger and more complex. For future standard setting, we hope that the FASB considers more of what investors need to make informed decisions.

After waiting several years for enhanced disclosures in this area, we do not believe we are in a position to tell the FASB to go back and do better, because we would likely be left waiting another several years with no improvements. In that light, we support, albeit reluctantly, the small step forward that the FASB has presented.

As we have articulated in engagements and during the December meeting of the Financial Accounting Standards Advisory Committee, limiting disclosures to the significant information provided to the chief operating decision maker (CODM) leaves companies with too much discretion to limit the information to be disclosed. Within the limits of this Draft, we would like the FASB to clarify the requirement to foster greater transparency and consistency in the provision of information. For example, we believe that interest expense should be disclosed.

[3] BC35 of the Draft, listed under "Alternative Approaches Considered by the Board," states: "The Board considered three alternative approaches when developing the significant expense principle. The Board acknowledged that each alternative approach would have likely resulted in even more incremental segment expense information compared with the approach included in this proposed Update."
[4] The FASB Mission, https://www.fasb.org/facts.

Interestingly, this would only be disclosed if significant under the Draft. We commend the FASB for including both annual and interim reporting, and the identification of the CODM.

We appreciate the opportunity to provide comments and express our ongoing support for the FASB mission. In line with our principles, we support the Draft because, at the end of the day, it would lead to enhanced transparency, but we think that, when given the opportunity in the future, the FASB should take larger steps on behalf of investors given the existing baseline.

Please contact James Andrus, Interim Managing Investment Director, Sustainable Investing, at James.Andrus@calpers.ca.gov, if you have any questions or would like to discuss our response.

Sincerely,

Marcie Frost
Chief Executive Officer