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July 27, 2022

Subject: IFRS S2 Exposure Draft: Climate-Related Disclosures

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 Exposure Draft: Climate Related Disclosures (Exposure Draft).[1] We are also submitting a comment letter regarding IFRS S1 Exposure Draft: General Requirements for Disclosure of Sustainability-related Financial Information (S1). Like so many others, including the Principles for Responsible Investment (PRI) and the International Corporate Governance Network (ICGN), and their respective memberships, 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 believe that companies should disclose consistent, comparable, and reliable information in regulatory reports so that shareowners can more easily identify, assess, and manage climate risk and opportunity. Integrating the data gathering processes of climate-related information with financial reporting helps us better understand the full financial implications of climate-related data.

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

We would like to see sustainability-related disclosures alongside financial disclosures to get a more robust view of company position and 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. As such, we support the concept of an exposure draft in draft form giving us an opportunity to provide input. Having recently responded to the United States Securities and Exchange Commission's proposed rules on climate change,[2] and given our extensive history of advocacy, engagement and integration through partnerships around the effective management of climate risk, we recognize the importance of precise and technically sound standards.

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[3] which recognize that "long term value creation requires effective management of three forms of capital: financial, physical and human."[4] 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.[5] CalPERS' motivation to address climate change is to ensure we meet our long-term requirements to provide retirement, disability and health benefits for our 2 million members.

CalPERS has a long history of addressing the risks and opportunities related to climate change, such as investing in emerging technologies and responding through advocacy, engagement, research, and integration of climate risk across the portfolio, supported by partnerships, as in Climate Action 100+.[6] We have seen special gains with these private efforts, we would stress that voluntary efforts fall short of getting the full scope of information we desire for investment decision-making or complying with our own reporting requirements. Therefore, guided by extensive research, we advocate for sound public policy and corresponding high-quality standards for mandatory climate risk reporting, which is consistent, comparable, and reliably assured.

We have supported the development of voluntary standards and reporting frameworks such as the TCFD to capture the risks and opportunities driven by climate change, climate policy, and

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[2] CalPERS Letter to SEC, https://www.calpers.ca.gov/docs/legislative-regulatory-letters/sec-countryman-jun-15-2022.pdf
[3] CalPERS Investment Beliefs, https://www.calpers.ca.gov/page/about/organization/calpers-story/our-mission-vision#investment-beliefs.
[4] Id.
[5] CalPERS Sustainability Principles. https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf.
[6] Climate Action 100+. https://www.climateaction100.org/.

emerging technology.[7] We carefully monitor material climate risks facing our portfolio companies and have used the TCFD framework for our own climate risk report.[8] Further, we engage companies directly on their policies and plans to reduce greenhouse gas (GHG) emissions and manage physical and transition risks. This includes targeted company engagements with those identified as "systemically important carbon emitters" supported through partnerships such as the Climate Action 100+ and the United Nation's Net Zero Asset Owner Alliance (UN NZAOA). CalPERS is U.S.-based but invests billions of U.S. dollars globally. As such, we are very interested in having a strong global baseline of disclosures in order to be in a position to assess climate-related risks and opportunities globally. 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) Objective of the Exposure Draft

(a) Do you agree with the objective that has been established for the Exposure Draft? Why or why not?

The objective in the Exposure Draft lacks clarity because important terms are not adequately defined. Interestingly, the Exposure Draft relies on the term "significant" in the Objective and throughout the Exposure Draft, but the term is never defined. In fact, there is an IFRS Staff Paper 11A dated December 2018[9] that discusses defining the concept of significance in the financial statement context. For the Exposure Draft, we agree with others, such as ICGN and the PRI, that the Exposure Draft would need a strong definition for the term, or more preferably rely on the use of materiality instead. It also appears clear that the ISSB should coordinate more thoroughly with IFRS technical staff when finalizing the Exposure Draft.

(b) Does the objective focus on the information that would enable users of general-purpose financial reporting to assess the effects of climate-related risks and opportunities on enterprise value?

After correcting the use of "significant," the ISSB should further explain the connection of the bottoms-up metrics disclosure process to the eventual enterprise value calculation. It is not clear how items that are not present in traditional financial reporting meet the stated criteria. The connection to enterprise value is useful and brilliant, but the ISSB must make it real. It is not currently clear how each bottom-up metric disclosed will meet the established multi-layered test of supplying material information about significant climate related opportunities useful to users of general-purpose financial reporting when assessing enterprise value. In other words, the great objective wording makes it very hard for disclosure metrics to meet the stated criteria. Setting such a high threshold as a baseline may work to reduce rather than enhance disclosures.

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[7] TCFD Website. https://www.fsb-tcfd.org/

[8] CalPERS' Investment Strategy on Climate Change June 2020, https://www.calpers.ca.gov/docs/board-agendas/202006/invest/item08c-01_a.pdf.

[9] https://www.ifrs.org/content/dam/ifrs/meetings/2018/december/iasb/ap11a-di.pdf

(c) Do the disclosure requirements set out in the Exposure Draft meet the objectives described in paragraph 1? Why or why not? If not, what do you propose instead and why?

The Exposure Draft will have to be adjusted to deal with repeatedly using the term "significant" without defining what it means in the context of the Exposure Draft, as described in (a) above. Next, the Exposure Draft will have to better assess whether cross-cutting metrics or specific industry disclosure requirements control when the two are not aligned as described in the response to Question 3 below. Finally, ISSB will have to determine, when using outside sources, whether changes to those sources create automatic changes to the standards. For example, will ISSB standards adjust whenever TCFD announces additional guidance? It appears that that may be the plan, but it is less clear how that will work within the standards.

(Question 2) Governance

CalPERS supports the Exposure Draft's approach to governance, but we would share two comments. First, in the description of governance body or bodies, we believe the parenthetical, "(which can include a board, committee or equivalent body charged with governance)," leaves open the possibility that the governance could be left to a body that is not composed of the people with primary fiduciary responsibility. In fact, it is not clear whether that was intended or not. There is a later parenthetical reference to committees that would sit on a fiduciary board, but the drafting leaves open the possibility that we are talking about a body that is less than the governing board. Our preference would be that the top governing body maintains such responsibility and that the Exposure Draft includes more precisely where the responsibility will sit.

Second, under governance, there is a strong push to avoid unnecessary duplication, however, the example provided makes the general intent of avoiding duplication less clear. We do not know what it means when a company is "providing integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity." We believe the example should be changed or made clearer such that investors better understand what is being given up in order to reduce duplication. Paragraph 78 of S1 has a similar but more robust example that still misses the mark regarding avoiding duplication. Further, there needs to be greater clarity as to whether reduced disclosures will take place even when there are no integrated disclosures, given that there is no certainty regarding the location of disclosures.

(Question 3) Identification of Climate Related Risks and Opportunities

We note in paragraph 10 of the Exposure Draft that "an entity shall refer to the disclosure topics defined in the industry disclosure requirements (Appendix B)," and in paragraph 11, "an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in paragraph 20." Interestingly enough, paragraph 20 reiterates that an entity will disclose the cross-industry metrics categories and the industry-based metrics. All of this would be clear if the cross-industry and industry-based disclosures agree. The Exposure Draft is silent on what happens when there is disagreement. We note that in a number of cases, even within the extractives and minerals industries, that the industry-based metrics call for only Scope 1 reporting. Normal cases would dictate that the more specific industry-based metrics would control, however, that would substantially reduce the projected reporting even in critical industries. We would prefer immediately updating the industry-based metrics to avoid the conflict in the first place.

(Question 6) Current and Anticipated Effects

Like ICGN, we believe that material climate factors should be embedded within critical accounting assumptions and judgements through existing accounting rules, so they are more clearly reflected in the financials. Continuing to exclude climate considerations from the financials makes it more likely that investors will continue to misallocate capital. We agree with the final position adopted in the Exposure Draft that prioritizes using quantitative information when possible.

We would like more companies to make use of the guidance published by the International Accounting Standards Board (IASB) to include climate considerations in financial statements.[10] In the U.S., the Financial Accounting Standards Board (FASB) published its own Staff Paper covering climate in March 2021.[11] The International Audit and Assurance Standards Board (IAASB) has also issued guidance reminding auditors of their responsibilities to cover material climate risks.[12] We appreciate the focus on quantitative measures and urge ISSB to work with the IASB so that climate considerations are better reflected in the financial statements.

(Question 11) Industry-Based Requirements

CalPERS supports the application of industry-based requirements and believes it is the strongest part of the SASB/ISSB process, creating high-quality industry-standards. As stated in response to Question 3, the industry-based standards need to be updated to better reflect the cross-industry Scope 1, Scope 2 and Scope 3 disclosure requirements.

It is important that each industry have strong standards, including standards for financed emissions. The ISSB has suggested that it use GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard when such a standard remains underdeveloped and reflects that Scope 3 reporting is uncertain. We recognize the ongoing work of the Partnership for Carbon Accounting Financials (PCAF) in creating standards for financed emissions. PCAF enables financial institutions to assess and disclose greenhouse gas emissions of loans and investments. The ISSB should consider the work of PCAF and not select winners and losers before final products are even developed.

(Question 13) Verifiability and Enforceability

CalPERS strongly favors including an assurance mechanism. We note that the ISSB remains flexible on the location of the disclosures, so it is uncertain what enforcement mechanisms will be available to a particular adopting jurisdiction. Further, it is even less clear that any of the disclosures will be audited in a given jurisdiction because this is dependent on disclosure location as well. Given the uncertainty surrounding enforcement and ability to audit, assurance

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[10] https://www.calpers.ca.gov/docs/legislative-regulatory-letters/sec-countryman-jun-15-2022.pdf
[11] FASB Staff Educational Paper-Intersection of Environmental,
[12] IAASB Issues Staff Audit Practice Alert on Climate-Related Risks | IFAC

within the standard becomes even more important. Therefore, we support having strong assurance provisions included in the standard. Providers of assurance should be independent and skilled and most certainly can be the regular audit firm.

In total, we support the Exposure Draft 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