CalPERS

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Via E-Mail: ircomments@saica.co.za

Professor Mervyn E. King SC
Chairman of the Integrated Reporting Committee
South Africa

Re: **Comments on the *Framework for Integrated Reporting and the Integrated Report – South Africa***

Dear Professor King:

Thank you for the opportunity to provide our comment. The California Public Employees' Retirement System (CalPERS) is the largest public pension plan in the United States, with approximately U.S. $240 billion in global assets and equity holdings in over 11,000 companies in 47 markets. CalPERS provides retirement benefits to more than 1.6 million public workers, retirees, and their families and beneficiaries.

CalPERS applauds the Integrated Reporting Committee (IRC) of South Africa in its efforts to shift financial and sustainability reporting to an integrated reporting framework – one report that will benefit all stakeholders and add to the credibility and integrity of disclosure. We believe continued dialogue, understanding and consensus will further the long-term goal of a global framework for integrated reporting. CalPERS believes that reporting which integrates key financial and non-financial information is necessary to support investment, operational, financial, environmental, social, and governance (ESG) criteria for all companies. CalPERS seeks relevant, timely, comparable, and transparent information that provides quality disclosures for all investors.

We understand that the discussion paper: (1) incorporates the IRC's definition of corporate governance; (2) complements the King Code of Governance Principles for South Africa 2009 (King III), effective in April 2010; and (3) requires companies listed on the Johannesburg Stock Exchange (JSE) to issue an integrated report or to explain why they are not doing so. CalPERS values the importance of corporate governance, which is reflected in our Global Principles of Accountable Corporate Governance [1]

We agree that companies should use integrated reporting to demonstrate how they are:

- Fulfilling their governance duties and responsibilities.
- Providing ethical leadership.
- Seeing that effective engagement and communication with stakeholders takes place.
- Taking steps to ensure that they are and are seen to be responsible corporate citizens.

[1] CalPERS Global Principles of Accountable Corporate Governance http://www.calpers-governance.org/docs-sof/principles/2010-5-2-global-principles-of-accountable-corp-gov.pdf
Updated Feb 16, 2010.

CalPERS believes investors want reporting that:

- Provides material information which assesses not only the financial performance of a company, but also identifies the company's material risks and opportunities based on ESG factors. Since current investors are capital providers, their reporting needs should be the primary focus of integrated reporting.
- Determines whether a company has the ability to create and sustain value. Integrated reporting will facilitate more informed assessments and better capital allocation decisions.
- Models a global framework that is principles-based and avoids simply utilizing a box-checking exercise.

CalPERS makes the following recommendations:

1. While robust disclosures are needed, reference to other supporting documents like annual and sustainability reports are confusing when discussing the concept of an integrated report. Integrated reporting should be thought of in terms of one report appropriately aligned in structure and content. It should not be simply an amalgamation of a company's annually reported financial statements and its sustainability report.

2. Relevance and materiality, faithful representation, comparability and consistency, verifiability, timeliness, understandability, and clarity are all important to report integrity. We agree that each of these variables should be considered in building an integrated reporting framework.

3. Companies should clearly state their position on relevant sustainability public policy issues including but not limited to human rights, labor standards, environment and anti-corruption. Investors will find this helpful in understanding the company's overall philosophy.

4. Sufficient disclosures are required to reassure shareowners that a company's risk management procedures are appropriately robust. Disclosures should include the key risks faced by the company, including relevant ESG considerations. As a global investor, CalPERS believes that ESG issues can affect investment portfolio performance (to varying degrees across companies, sectors, regions, and asset classes through time).

5. Companies should provide accurate and timely disclosure of environmental risks and opportunities through adoption of policies or objectives. CalPERS endorses *The 21st Century Corporation: Ceres Roadmap to Sustainability (The Roadmap)*, which addresses four key areas: governance for sustainability, stakeholder engagement, disclosure, and performance. *The Roadmap* is designed as a practical tool for any company, whether a business aims to establish a leadership platform, fill gaps in its existing approach to sustainability, or is still considering where to begin.

   When disclosing, companies should consider the *Global Reporting Initiative (GRI)*[2] and apply the *Global Framework for Climate Risk and Disclosure*[3] when disclosing significant information regarding their climate risks. CalPERS recommends the recent report from Ceres, *Disclosing*

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[2] Global Reporting Initiative, http://www.globalreporting.org/Home
[3] Global Framework for Climate Risk Disclosure, October 2006. http://www.unepfi.org/fileadmin/documents/global_framework.pdf

Climate Risks & Opportunities in SEC Filings and the 14-point *Ceres Climate Change Governance Checklist* as valuable tools[4] that will help companies assess their long-term risks and opportunities.

6. Companies must ensure that sustainability issues are overseen in sufficient depth as the focus of a specific board committee. Companies should either establish a dedicated sustainability committee or expand the role of an existing committee to include sustainability under its jurisdiction.

7. Stakeholder engagement is a critical process that helps companies identify risks, understand their key environmental and social impacts, and develop innovative solutions to sustainability challenges. Stakeholders include constituents within or outside the company whom are affected by the company's activities. Companies should regularly engage in robust dialogue with stakeholders across the entire value chain, and stakeholder feedback should be integrated into strategic planning and operational decision-making.

8. Regulators should develop an independent assurance framework for integrated reporting which would lend credibility and integrity to financial reporting. CalPERS agrees on the important role of the Audit Committee, including the use of internal and external auditors, and investors in the development of an assurance framework.

CalPERS supports the concurrent efforts of the International Integrated Reporting Committee (IIRC) and the involvement of South Africa in developing guiding principles for an international integrated report framework. We understand that the IIRC plans to release an integrated reporting discussion paper in June 2011. CalPERS looks forward to commenting on these important developments and to helping shape a global integrated reporting framework that will benefit all investors.

If you have any questions or would like to discuss the comments in this letter, please call me at 916-795-2431, or contact my colleague, Mary Hartman Morris, at 916-795-4129.

Sincerely,

BILL MCGREW
Portfolio Manager
Global Equity

cc: Eric Bagessen, Senior Investment Officer, Global Equity
Anne Simpson, Senior Portfolio Manager, Global Equity

[4] Ceres, Disclosing Climate Risks & Opportunities in SEC Filings, A Guide for Corporate Executives, Attorneys & Directors, February 2011. http://www.ceres.org/press/press-releases/new-report-outlines-what-companies-should-be-disclosing-on-climate-change-risks-and-opportunities