



California Public Employees' Retirement System

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The Honorable Maxine Waters
Chair
House Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Via Email

October 1, 2021

Subject: Draft Legislation to Amend the Securities Exchange Act of 1934

Dear Chair Waters:

On behalf of the California Public Employees' Retirement System (CalPERS), I write to express our strong support for a discussion draft bill that reflects recommendations of the U.S. Securities and Exchange Commission's (SEC) Office of the Investor Advocate (Investor Advocate) and the Council of Institutional Investors (CII) to amend the Securities Exchange Act of 1934 to improve the governance of multi-class stock companies, to require issuers to make annual diversity disclosures, and for other purposes (Draft Bill).

We applaud the policy recommendations reflected in the Draft Bill because they are consistent with our Governance and Sustainability Principles¹ (Principles). Specifically, we support this measure because it would (1) empower shareowners of multi-class stock companies; (2) require adequate disclosures of issuers' board and workforce diversity; and (3) facilitate better rules to promote investor protection.

CalPERS is the largest public defined benefit pension fund in the United States, managing approximately \$480 billion in global assets. We work constantly to improve our ability to identify both investment risks and opportunities in support of our mandate to provide retirement benefits for our 2 million members. Accordingly, we seek long-term, sustainable, risk-adjusted returns through efficient capital allocation and stewardship aligned with our fiduciary duty. Policies like the Draft Bill are important to helping institutional investors like CalPERS execute their investment strategies.

Item A.1 of our Principles emphasizes shareowner rights and the importance of corporations adopting one-share/one-vote policies because a "shareowner's right is irrevocable and cannot

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

be reduced. All investors must be treated equitably and upon the principle of one-share/one-vote.”² In accordance with this deeply-held belief, we have advocated against no vote shares and dual class voting arrangements that grossly weaken shareowner power.³ The Draft Bill is consistent with these principles as it would prohibit the listing of any security of an issuer that has two or more classes of stock with unequal voting rights for more than seven years without periodic approval by shareowners. This proposal is essential to remedying a basic deficiency in the regulatory system that allows for dual class voting arrangements that dilute shareowners’ power.

Furthermore, we are guided by our Investment Beliefs⁴ which recognize that “Long term value creation requires effective management of three forms of capital: financial, physical and human.”⁵ Our Principles emphasize that 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.⁶ On multiple occasions, we have urged Congress to expand board diversity disclosures when writing in support of the “Improving Corporate Governance Through Diversity Act” (H.R. 1277 and H.R. 1187 in the 117th Congress). The listing standards included in the Draft Bill would prohibit the listing of any security of an issuer that fails to provide adequate disclosure of the diversity of its board of directors and senior executives as well.

Finally, the Draft Bill would also clarify that the SEC has the authority to issue other rules and regulations to require the stock exchanges to improve their listing standards in a manner the SEC determines necessary or appropriate for the protection of investors. We believe all these proposed changes will improve investor protection and enhance the efficiency of the U.S capital markets generally. Therefore, we encourage the Committee to consider their enactment.

Please contact Anne Simpson, Managing Investment Director, at anne.simpson@calpers.ca.gov if you have any questions or would like to discuss our response.

Sincerely,

Marcie Frost
Chief Executive Officer

cc: The Honorable Patrick McHenry
Anne Simpson

² Id. at 6.

³ <https://www.udel.edu/udaily/2018/april/weinberg-center-panel-nonvoting-stock/>

⁴ CalPERS Investment Beliefs, <https://www.calpers.ca.gov/page/about/organization/calpers-story/our-mission-vision#investment-beliefs>.

⁵ Id.

⁶ CalPERS Governance & Sustainability Principles, <https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf>