



California Public Employees' Retirement System

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The Honorable Nancy Pelosi  
Speaker, U.S. House of Representatives  
1236 Longworth House Office Building  
Washington, DC 20510

The Honorable Kevin McCarthy  
Minority Leader, U.S. House of Representatives  
2468 Rayburn House Office Building  
Washington, DC 20510

June 14, 2021

**Subject: H.R. 1187, The Corporate Governance Improvement and Investor Protection Act**

Dear Speaker Pelosi and Minority Leader McCarthy:

On behalf of the California Public Employees' Retirement System, I write to express support for the overall direction of H.R. 1187, the "Corporate Governance Improvement and Investor Protection Act," which would require public companies to disclose material information on the link between environmental, social, and governance (ESG) metrics and their long-term business strategy, as well as political expenditures, compensation practices, climate-related risk and tax expenditures, among other issues. This bill will improve and enhance corporate disclosures essential to maintaining the competitiveness of U.S. financial markets.

As the largest public defined benefit pension fund in the United States, we manage approximately \$465 billion in global assets on behalf of more than two million members. Our fiduciary duty requires that we take a long-term view in assessing whether the companies that we hold in our portfolio are effectively managed and able to provide the sustainable, risk-adjusted returns that allow us to meet our commitments to pay benefits earned by these dedicated active and retired public servants for decades to come.

We fundamentally depend on the integrity and efficiency of financial markets to meet these commitments and rely upon financial reporting to provide transparent and relevant information about the economic performance, conditions, and operations of the companies in which we invest. We believe corporate disclosure of material financial information is a pre-condition to maintaining effective and consistent corporate accountability and sustainable

economic growth. As the Securities and Exchange Commission (“SEC”) has said in the past: “Only through the steady flow of timely, comprehensive, and accurate information can people make sound investment decisions. The result of this information flow is a far more active, efficient, and transparent capital market that facilitates the capital formation so important to our nation's economy.”

Critically, CalPERS and other pension funds are inhibited from adequately exercising their fiduciary duty without such disclosures. Disclosure of material financial information is necessary to close the information gap that occurs when management of a company is aware or should be aware of certain risks, yet such information is not available to shareowners. We believe H.R. 1187 will address critical areas in which more high-quality, consistent, and comparable disclosures by public issuers are necessary, and build a more robust reporting regime that enhances shareowner value over the long-term. We are pleased that the following measures, which CalPERS has been on the record in supporting, are included in the Corporate Governance Improvement and Investor Protection Act:

- H.R. 1187, the ESG Disclosure Simplification Act, which would, among other things, require issuers to disclose certain ESG metrics to shareholders, the connection between those metrics and the issuer’s long-term business strategy, and the method by which the issuer determines how ESG metrics impact its long-term strategy. We believe the current quality and quantity of relevant ESG reporting does not meet investors’ needs and support the SEC playing a prominent role in standardizing and assuring the accuracy of ESG data reporting, and that it is reflected in company financials.
- H.R. 1087, the Shareholder Political Transparency Act, which would require public companies to disclose detailed information about their political spending to the SEC and shareholders in specified quarterly and annual reports. The CalPERS Governance & Sustainability Principles call for responsible board oversight, including disclosures of corporate charitable and political activity to ensure alignment with business strategy and to protect assets on behalf of shareowners. As fiduciaries, we need to know how our capital is being used, including if and when political expenditures are made. SEC rulemaking would bring clarity and consistency in the format and scope of disclosures and provide a cost-effective alternative to private ordering. Furthermore, political expenditure disclosure is consistent with the SEC’s requirement for public companies to disclose meaningful financial information and would encourage prudent use of corporate shareowner resources for political activities.
- H.R. 2570, the Climate Risk Disclosure Act, which would require public companies to report financial risks posed to them by climate change, the processes they use to identify those risks, and the actions they take to mitigate those risks. Our investment strategy is to make sure our portfolio is resilient to short-term and long-term risks, both of which include some dimension of climate change. We seek to find the investment opportunities that the energy transition brings, and to bring down emissions that contribute to global warming. We believe it is vital that companies identify, manage, and disclose material environmental risks and opportunities relevant to their short-term and long-term success. We support the establishment of a uniform reporting regime for

climate change risk disclosures that would address key issues that impact shareowner value, including minimizing risk, maximizing returns, and ensuring accountability from all those involved.

- H.R. 3007, the Disclosure of Tax Havens and Offshoring Act, which would require public companies to annually disclose information on their subsidiaries and specified country-by-country financial information including total pre-tax profits, total amounts paid in State, Federal, and foreign taxes, employees, and tangible assets. As an investor in many of the largest public companies in the world, we are acutely aware of the complexities of international taxes, and the increasingly important role that taxes play in corporate profitability. However, current tax disclosures in the United States do not provide investors with sufficient tax-related information to adequately assess companies' valuations and risks. We believe increasing transparency and requiring the disclosure of overly aggressive international tax planning arrangements helps to reduce systemic risk that threatens global markets and ensure stronger long-term outcomes.

In addition, we are supportive of including additional provisions in the Corporate Governance Improvement and Investor Protection Act, such as the following disclosures related to human capital management, board diversity, and cybersecurity:

- H.R. 3471, the Workforce Investment Disclosure Act, which would require public companies to disclose information about their Human Capital Management (HCM) policies, practices, and performance in their annual reports. CalPERS expects fair, accurate, and timely reporting on how companies identify and manage risks related to the three forms of capital: financial, physical, and human. The fact that there are few standards for measuring and reporting on human capital topics makes it difficult for investors to truly understand related risks and opportunities when assessing individual companies. We believe that rules-based disclosures with numeric metrics provide crucial information to long-term investors, like CalPERS, who are concerned about sustainability over time. We have made recommendations in our comment letter on the SEC's proposed rulemaking under Regulation S-K for metrics that should be disclosed by all registrants, including the number of full-time, part-time, and contingent workers; employee turnover rates; health and safety, employee engagement and diversity statistics.
- H.R. 1277, the Improving Corporate Governance Through Diversity Act, which would require public companies to annually disclose the voluntary, self-identified racial, ethnic, gender, and veteran status of their board of directors, nominees, and senior executives, and establishes an advisory group to recommend strategies to increase diversity in these leadership positions. We support initiatives that promote talent diversity – including a broad range of education, experience, thoughts, perspectives, and competencies – to help enable effective board leadership. We view board diversity in terms of skill sets, sex, age, nationality, race, sexual orientation, gender identity, disability, and historically underrepresented groups, and believe requiring public companies to annually disclose the self-identified racial, ethnic, gender, and veteran status of their board of directors, nominees, and senior executives is an important step

toward challenging "group think" in corporate boardrooms and C-suites, which can severely limit companies' ability to innovate and effectively engage with shareowners and other stakeholders.

- H.R.\_\_\_\_\_, the Cybersecurity Disclosure Act, which would require companies to disclose in their annual reports to the SEC, or in their annual proxy statements, whether any member of their board of directors, or similar governing body, has expertise or experience in cybersecurity and the nature of such expertise or experience. If there are no members of a company's governing body that have experience or expertise in cybersecurity, it would require the company to describe what other cybersecurity aspects were taken into account by persons responsible for identifying and evaluating nominees for the company's governing body. We believe requiring the disclosure of cybersecurity expertise – or lack thereof – on corporate boards will increase transparency for investors and help to ensure that public companies are appropriately prioritizing cybersecurity and data privacy matters. It represents a reasonable and timely response to the increasing prominence of cybersecurity threats in our financial markets and the broader economy.

In sum, CalPERS believes that clear, consistent, and substantive disclosures of climate risk, charitable and political expenditures, human capital management, and board diversity are critical to the long-term success of capital markets and, more critically, of investors. Disclosures of such information will help investors allocate capital and exercise stewardship at companies to ensure long term sustainable value creation. Such disclosures will also encourage corporations to be more mindful of these risks that could impact their financial success over the long term, and will provide for greater transparency regarding cash flow, corporate expenditures, and public policy engagement.

Thank you for considering our views. We look forward to working with Congress to advance initiatives that will improve corporate disclosures in both the public and private markets. Please do not hesitate to contact me directly at (916) 795-3829, or your staff can contact Danny Brown, Chief of our Legislative Affairs Division, at (916) 882-5813, if we can be of any assistance as this measure proceeds.

Sincerely,

Marcie Frost  
Chief Executive Officer

cc: The Honorable Maxine Waters  
The Honorable Patrick McHenry  
The Honorable Juan Vargas  
Danny Brown