



California Public Employees' Retirement System

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The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Minority Member
Committee on Financial Services
U.S. House of Representatives
2004 Rayburn House Office Building
Washington, DC 20515

February 20, 2020

Subject: Pending markup of legislation to require public companies to disclose information about human capital management in their annual reports

Dear Chairwoman Waters and Ranking Member McHenry:

On behalf of the California Public Employees' Retirement System (CalPERS), I write to express support for legislation scheduled for markup in your committee later this month that would require issuers to disclose information about their Human Capital Management (HCM) policies in annual reports.

As the largest public defined benefit pension fund in the United States, we manage approximately \$400 billion in global assets on behalf of more than 1.9 million public employees, retirees, and beneficiaries. Our duty to pay benefits decades into the future requires that we take a long-term view in assessing whether the companies that we hold in our portfolio are effectively managed. Financial reporting plays an integral role in this assessment by providing transparent and relevant information about the economic performance, conditions, and operations of businesses. 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. These concerns led us to become a founding member of the Human Capital Management Coalition (HCMC) and to work closely with the Embankment Project on Inclusive Capitalism (EPIC). HCMC and EPIC have found demonstrated value in reporting specific human capital metrics such as those required in the legislation before you. We strongly agree with the HCMC's position that rules-based disclosures with numeric metrics provide crucial information to long-term investors, like CalPERS, who are concerned about sustainability over time.

While we appreciate the Securities and Exchange Commission's recent determination to include human capital management disclosure in its efforts to improve disclosures under Regulation S-K, we do not believe that the Commission's current principles-based approach will provide sufficient comparable disclosure to aid investors. We have made recommendations in our comment letter on the Commission's proposed rulemaking for metrics that should be disclosed by all registrants including, the number of full-time, part-time, and contingent workers; employee turnover rates; and diversity statistics.

Inclusion of these line-item disclosures for human capital in the Securities Exchange Act of 1934 by the legislation before you should not be overly burdensome to companies, as many U.S. public companies already collect some of this data as part of their human capital efforts. Other metrics, such as diversity statistics, are required by the Department of Labor such as the Employer Information Report or EEO-1.

Thank you for considering our views. We look forward to continuing to work with Congress as governance and diversity initiatives are considered. Please do not hesitate to contact me directly at (916) 795-3818, or your staff can contact Danny Brown, Chief of our Legislative Affairs Division, at (916) 795-2565, if we can be of any assistance.

Sincerely,

Marcie Frost
Chief Executive Officer

cc: The Honorable Cynthia Axne, Member, Committee on Financial Services
Danny Brown