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January 31, 2018

Jean Rogers, Chair
Sustainability Accounting Standards Board
Public Comment
1045 Sansome Street
San Francisco, CA 9411

VIA EMAIL: Comments@sasb.org

Dear Dr. Rogers,

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to comment on the Sustainability Accounting Standards Board's (SASB) proposed changes to provisional standards as outlined in the Basis for Conclusions compendium and the Exposure Draft of the Standards.

CalPERS is the largest public pension fund in the United States with approximately $349 billion in global assets in more than 11,000 public companies. CalPERS invests these assets on behalf of more than 1.8 million employees, retirees and beneficiaries.

Financial reporting plays an integral role in the capital markets by providing transparent and relevant information about the economic performance and condition of a company. Consequently CalPERS expects fair, accurate and timely reporting on how companies identify and manage risks related to the three forms of capital outlined in our Investment Beliefs[1]: financial, physical, and human. The CalPERS Governance and Sustainability Principles[2] (Principles) highlight that effective financial reporting depends on high quality accounting standards. Therefore, we view SASB as playing a critical role in enhancing the efficiency of capital markets through the development of material sustainability standards.

We are delighted to see progress in SASB's sustainability standard-setting agenda. However, we have the following recommendations:

[1] See CalPERS Beliefs, Our Views Guiding Us into the Future, dated May 2015

[2] See CalPERS' Governance & Sustainability Principles, date April 17, 2017

Climate-related Disclosure

We greatly appreciate the extent of SASB's efforts to promote climate-related disclosures; however, we note that there is not seamless alignment of the SASB climate-related standards to the Financial Stability Board Task Force on Climate-Related Financial Disclosures' (TCFD) recommendations. Specifically, current disparity lies around Scope 2 emissions being defined as "energy efficiency" by SASB and Scope 3 being absent. The list of the largest carbon emitters changes depending on the level of evaluation. For example, a list of the largest Scope 1 and 2 emitters would not include transportation companies. When Scope 3 is included, transportation companies would be among the most significant emitters. So, while we acknowledge SASB's efforts to converge on climate risks with the TCFD which includes alignment with reporting Scope 1 emissions as determined by SASB's chosen materiality definition, we would like SASB to reconsider extending reporting of Scope 2 and 3 emissions in accordance with the TCFD guidance.

Materiality

We encourage SASB to adopt a different standard of materiality that is better aligned with the definition currently used by the Financial Accounting Standards Board (FASB),[3] and one that would require companies to disclose more information.[4] In 2015, the FASB attempted to adopt the securities fraud standard definition of materiality, but after two years of criticism of the proposal from investors, including CalPERS, on November 8, the FASB ended its work with respect to proposed ASU No. 2015-310 and decided to revert back to the definition of materiality that had been applied under Concepts No. 2, Qualitative Characteristics of Accounting Information. As such, SASB's current definition of materiality is not in line with the materiality definition used by the financial accounting and reporting standard setter, FASB. We request that SASB review its conclusion to exclude Scopes 2 and 3 under the materiality standard being used by FASB. Given the magnitude of Scope 2 and 3 emissions analysis of climate-risks using FASB's materiality definition would extend SASB disclosures to include Scopes 2 and 3.

Human Capital Disclosure

Effective human capital management is critical to long-term performance and includes the nine items listed in the Human Capital Management Coalition Human Capital Management petition[5] (Petition) to the Securities and Exchange Commission (SEC) covering:

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[3] See Statement of Financial Accounting Concepts No. 2, Qualitative Characteristics of Accounting Information, FASB, 2008

[4] See http://www.ifrs.org/search/?query=materialigy

[5] See Human Capital Management Coalition letter to William Hinman, Director of the Division of Corporate Finance, dated July 6, 2017

1. Workforce demographics (number of full-time and part-time workers, number of contingent workers, policies on and use of subcontracting and outsourcing)
2. Workforce stability (turnover (voluntary and involuntary), internal hire rate)
3. Workforce composition (diversity, pay equity policies/audits/ratios)
4. Workforce skills and capabilities (training, alignment with business strategy, skills gaps)
5. Workforce culture and empowerment (employee engagement, union representation, work-life initiatives)
6. Workforce health and safety (work-related injuries and fatalities, lost day rate)
7. Workforce productivity (return on cost of workforce, profit/revenue per full-time employee)
8. Human rights commitments and their implementation (principles used to evaluate risk, constituency consultation processes, supplier due diligence)
9. Workforce compensation and incentives (bonus metrics used for employees below the named executive officer level, measures to counterbalance risks created by incentives)

How companies report on human capital factors is essential to investors' ability to hold boards accountable for managing human capital risk and opportunity. CalPERS' Governance and Sustainability Principles state "a robust process for how diversity is considered when assessing board talent and diversity should be adequately disclosed". Consequently, we would like SASB to strengthen the human capital dimension to the standards across all industries in line with the Petition.

Corporate Governance Reporting
We believe that enhanced corporate reporting around governance, human capital and climate risk helps frame opportunities and prospects for the company in the future. Accordingly, SASB should strengthen corporate governance reporting by all companies to include board experience managing multifaceted risk – including expertise and experience in climate risk management strategies and human capital management. All companies should disclose robust policies and practices to address both risk and opportunity arising from environmental issues and include active board engagement in climate risk management. Companies should also disclose climate change initiatives focusing on board oversight and ensure that those initiatives are integrated into risk management and mainstream activities.

Should SASB address the areas outlined above, we think their approach would be strengthened. Thank you for considering our comments. If you have any questions, please contact Anne Simpson at (916) 795-9672 or at Anne.Simpson@calpers.ca.gov.

Sincerely,

Ted Eliopoulos
Chief Investment Officer