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SASB Public Comment
Sustainability Accounting Standards Board
1045 Sansome St., Suite 450
San Francisco, CA 94111

Re: Exposure Draft of the Sustainability Accounting Standards

Dear SASB Foundation Board of Directors:

I am writing as Trustee of the New York State Common Retirement Fund (the Fund) and administrative head of the New York State and Local Retirement System (System) in response to the Sustainability Accounting Standards Board's (SASB) invitation for comment on its Exposure Draft of the Sustainability Accounting Standards (Draft Standards).

The Fund holds the System's assets, valued at approximately $201.3 billion as of September 30, 2017, and I have a fiduciary duty to invest those assets prudently and for the exclusive benefit of the System's more than one million members, retirees, and beneficiaries. The Fund holds stock in most publicly traded domestic companies and many nondomestic registrants.

I applaud SASB's efforts to develop sustainability accounting standards that help public corporations disclose material sustainability information to investors in annual SEC filings and I appreciate the opportunity to share my opinions regarding the Draft Standards.

The Need for Comprehensive Sustainability Accounting Standards

While I commend SASB's significant efforts, I believe the Draft Standards fall short in several respects because they omit certain issues and fail to be applicable to all industries. Investors and academia alike have increasingly become aware that sustainability issues or Environmental, Social, Governance (ESG) factors are a critical part of any financial analysis. Recently, the U.S. Department of Labor (DOL) gave the following guidance[1] to retirement plans governed by the Employee Retirement Income Security Act of 1974 (ERISA):

[1] Interpretive Bulletin Relating to the Fiduciary Standard under ERISA in Considering Economically Targeted Investment" (29 C.F.R. Part 2509.2015-01)

> Plan fiduciaries should appropriately consider factors that potentially influence risk and return. Environmental, social, and governance issues may have a direct relationship to the economic value of the plan's investment. In these instances, such issues are not merely collateral considerations or tie-breakers, but rather are proper components of the fiduciary's primary analysis of the economic merits of competing investment choices.

Although the Fund—as a governmental plan—is not subject to ERISA, the fiduciary standard imposed on me as Trustee is also the standard for private pension plans governed by ERISA. Therefore, my Office voluntarily looks for guidance on fiduciary matters to ERISA case law, rulings, and interpretations, where relevant and appropriate.

As noted by the DOL, ESG factors can no longer be viewed as "merely" policy or societal considerations. Therefore, the Fund incorporates those ESG factors into the Fund's risk–return evaluation. The Fund also includes ESG factors in our efforts to protect and enhance asset value through our shareholder engagements and voting.

In order for the Fund to fully implement these strategies, information about sustainability issues is essential. Unfortunately, comprehensive reporting standards are not readily available. This leaves Fund staff to rely on a patchwork of disclosure frameworks, often available only from companies who voluntarily disclose information. As a result, the Fund is left with fragmented and incomplete information.

I believe the framework for reporting material sustainability information should be as rigorous as the requirements for reporting financial information. The sustainability issues that the Fund takes into consideration are either material to particular investments, systemically important, or both. Disclosure on sustainability issues that are systemically important and industry specific information that is material to investors should be required.

The Fund is a long-term shareholder in companies that represent broad swaths of the economy. My comments focus on cross-cutting or systemic issues that are financially material to the Fund's investments as well as the market as a whole. In recent years, I have advocated that the SEC require robust disclosure surrounding various sustainability issues. Specifically, I have sought disclosure with respect to climate change and carbon emissions, corporate political spending, board diversity, and human capital management. These issues are specific examples that have long term impacts on the Fund's portfolios and the economy. I urge SASB to include these crucial areas in the SASB Standards across all sectors and industries because these issues are critical for informed investment and voting decisions.

Climate Change and Carbon Emissions

As a fiduciary, I have a responsibility to position the Fund for long-term growth in the face of risks arising from climate change. The transition to a low-carbon economy is already underway and accelerating globally. This multi-decade transition will require fundamental and—in some cases—disruptive changes across economic sectors and industries that affect, to some extent, every investment in the Fund's portfolios. The Financial Stability Board Task Force on Climate Related Financial Disclosures (TCFD) cautions registrants against prematurely concluding that climate-related risks and opportunities are not material based on perceptions of the longer-term nature of some climate-related risks. I concur with the view of the TCFD that because climate risk is a non-diversifiable risk that affect nearly all industries, all financial and non-financial organizations with public debt or equity should disclose material climate related information.[2] However, the Fund's access to climate-related information is limited, because disclosure regarding climate risks is voluntary and irregular.[3]

The Fund has advocated for corporate disclosures of scenario analysis including stress testing portfolios against 2-degree scenario through the Fund's active engagement program. Scenario analysis produces a set of probable outcomes in different time horizons that will capture the complexity and long-term uncertainty of climate change such as public policy, technological development, and interconnectedness of various factors. The disclosure of 2-degree scenario planning results will merit close scrutiny by investors.

Recent Fund efforts illustrate the importance of obtaining consistent climate data across sectors. For example, in January 2016, the Fund established a proprietary $2 billion Low Emissions Index in the Fund's global equities portfolio. It is benchmarked against the Russell 1000 and excludes or reduces investments in companies that are large contributors to carbon emissions and increases investments in companies with lower emissions and comparable returns. The index methodology relies on emissions data across industries collected by CDP (formerly the Carbon Disclosure Project). However, because not every company reports emissions data, it is difficult to make informed decisions in this area. The Fund's experience with this investment strategy underscores the need for consistent disclosure concerning climate risk and emissions in every industry.

SASB has identified climate change as financially material to a wide range of industries, representing 93% of the U.S. equity market (US$27.5 trillion), and the Draft Standards

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[2] Financial Stability Board Task Force on Climate Related Financial Disclosure Final Report at https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf
[3] New York State Comptroller letter to the SEC, July 2016 at https://www.sec.gov/comments/s7-06-16/s70616-205.pdf, CERES letter to the SEC, June 2016 at https://www.sec.gov/comments/s7-06-16/s70616-214.pdf, New York Comptrollers letter to the SEC, April 2015 at https://www.osc.state.ny.us/press/releases/apr15/sec_letter0415.pdf

include climate-related topics and metrics in a certain number of industries.[4] Notably absent, however, are industries such as Gas Utilities, Banks, and Asset Management.[5] Although the Draft Standards are useful as a starting point for corporate disclosure, as a long-term investor with diversified portfolios, the Fund requires climate-related information across every industry. As such, we urge SASB to require that climate reporting be standard for all companies, regardless of economic sector.

Political Spending

I believe companies should disclose their use of corporate resources for political campaign spending, lobbying, and contributions to tax exempt groups, including trade associations, so that shareholders can determine if such spending enhances shareholder value. Unfortunately, however, there is presently no uniform reporting framework for this. As a result, the Fund and other investors must work on a company-by-company basis to request such information.

Since the Supreme Court's 2010 decision in *Citizens United* v. FEC, 130 S.Ct. 876, 558 U.S. 310,my Office has sponsored well over 100 shareholder resolutions urging portfolio companies to fully disclose all direct and indirect political spending of corporate assets designed to influence the political process. Seeking this information on a company-by-company basis, however, is inefficient.

In 2011, a group of corporate and securities law experts petitioned the SEC to develop rules requiring public companies to disclose their political spending. The SEC received more than a million comment letters—including letters from institutional investors and members of Congress—and the overwhelming majority of these letters are supportive of the petition.[6] I recently encouraged the SEC to adopt a new rule to require companies to disclose corporate political expenditures so shareholders can evaluate the corporation's political spending.[7]

Specifically, I sought disclosure of:

- Monetary and nonmonetary contributions and expenditures used to participate in, or intervene in, any political campaign on behalf of (or in opposition to) any candidate for public office, and expenditures used in any attempt to influence the public with respect to elections or referendums;

[4] SASB at https://www.sasb.org/supporting-work-tcfd/
[5] SASB Materiality Map at https://www.sasb.org/materiality/sasb-materiality-map/
[6] Committee on Disclosure of Corporate Political Spending Petition for Rulemaking, August 2011 at https://www.sec.gov/rules/petitions/2011/petn4-637.pdf
[7] New York State Comptroller letter to the SEC, July 2016 at https://www.sec.gov/comments/s7-06-16/s70616-205.pdf, New York State Comptroller letter to the SEC, February 2012 at https://www.sec.gov/comments/4-637/4637-239.pdf

- The title of the person or persons in the company who are responsible for making the decisions to make political contributions or expenditures; and
- Corporate payments made to trade associations and other organizations making expenditures that were used for political or lobbying purposes, including the candidates supported and the amounts spent by the recipient organizations.

The Draft Standards eliminated political spending as a disclosure topic and do not contain related quantitative accounting metrics. SASB should establish disclosure standards focusing on quantitative accounting metrics—as I outlined above—regarding political and lobbying spending for all industries. This disclosure will provide shareholders with information they need to assess whether corporate political spending is advancing shareholders' investments.

Board Diversity

Board diversity is also a material sustainability issue that should be included in the SASB Standards. I firmly believe that diversity at the board level can help reduce workplace discrimination and improve employee recruiting, retention, and productivity. Diversity can deter "groupthink" because board members who possess a variety of viewpoints may raise different ideas and encourage a full airing of dissenting views. As a result, shareholders' investments are enhanced.

The SASB Standards should require disclosure by all companies regarding board diversity. The Fund expects portfolio companies to draw from a wide range of viewpoints, backgrounds, skills, and experience for both management and boards. Currently, corporations are required to identify the minimum skills, experiences, and attributes all board candidates and nominees are expected to possess.

In 2015, I was one of nine institutional investors who submitted to the SEC a "Petition For Amendment of Proxy Rule Regarding Board Nominee Disclosure – Chart/Matrix Approach."[8] The petition asked the SEC to require new disclosures related to nominees for corporate board seats in order to provide investors with necessary information to evaluate the nominees' gender, racial, and ethnic diversity, as well as their mix of skills, experiences, and attributes needed to fulfill the corporation's mission. SASB should establish disclosure standards for the purpose of evaluating the nominees' gender, racial, and ethnicity in chart or matrix format as requested in the Fund's petition.

[8] Letter to SEC, March 2015 at https://www.sec.gov/rules/petitions/2015/petn4-682.pdf

Human Capital Management

I view human capital management as integral to sound corporate culture and long-term value creation. I am concerned that the Draft Standards do not include material information relating to human capital management in filings by registrants in certain labor-intensive sectors such as Health Care, Transportation, Technology and Communications, and Non-Renewable Resources.

Human capital disclosures mandated by the SEC are limited to employee headcount, stymieing investor efforts to gather even basic information such as payroll and the amount of money spent on employee development. Disclosure of human capital management metrics is necessary to improve shareholders' understanding of company commitments to worker well-being. The SASB standards should include labor/management relations, diversity, freedom of association and collective bargaining, standards on training, and other subjects relevant to how well a company manages its workforce.

Recently, I joined the Human Capital Management Coalition, a group of 25 institutional investors representing more than $2.8 trillion in assets, submitted to the SEC a "Petition for rulemaking pursuant to Rule 192(a) of the Commission's Rules of Practice."[9] The petition asked the SEC to adopt new disclosures or amend existing rules, to require registrants to disclose information about their human capital management policies, practices and performance. Further, the petition states "disclosure requirements should encompass the entire workforce, regardless of location, to provide investors with the most complete picture of an issuer's human capital management practices. Global coverage is especially important for disclosures regarding human rights, given the increased human rights risks of operating in countries with weaker protections for workers."

Improved human capital disclosure will allow investors to assess risks created by poor workplace practices including labor disruption, health and safety violations, and pay inequity, and to inform shareholder engagements and voting decisions. I recognize that SASB characterized human capital as a cross-cutting issue.[10] I urge SASB to incorporate human capital management in the SASB Standards across all industries.

Conclusion

The Fund's large size and broad holdings create exposure to market-wide risks. Currently, the Draft Standards fall short of addressing the wide range of critical sustainability issues that have material, systemic implications such as climate change and carbon emissions, political spending, board diversity, and human capital management.

[9] https://www.sec.gov/rules/petitions/2017/petn4-711.pdf
[10] https://www.sasb.org/blog-moving-from-provisional-to-codified-an-update-on-the-consultation-period/

Enhanced disclosure concerning these issues enables the Fund to make better informed investment and voting decisions. These issues affect all industries and are important to our ability to assess whether a particular company is a good investment prospect. For these reasons, it is vitally important that SASB establish cross-sector disclosure standards with respect to these systemic issues.

Thank you for the opportunity to provide comments.

Sincerely,

Thomas P. DiNapoli
New York State Comptroller