

International Sustainability Standards Board (ISSB) Consultation on Agenda Priorities

August 31, 2023

AY-2. Are you responding as an individual, or on behalf of an organisation?

- Organisation

AY-3. Please provide the name of the organisation you are responding on behalf of:

California Public Employees' Retirement System (CalPERS)

Question 1—Strategic direction and balance of the ISSB’s activities.

Paragraphs 18–22 and Table 1 of the Request for Information provide an overview of activities within the scope of the ISSB’s work.

**01-A. (a) From highest to lowest priority, how would you rank the following activities?
Please drag and drop to rank, where 1 is the highest priority and 4 is the lowest priority.**

<i>supporting the implementation of ISSB Standards (IFRS S1 and IFRS S2)</i>	1
<i>beginning new research and standard-setting projects</i>	2
<i>researching targeted enhancements to the ISSB Standards</i>	3
<i>enhancing the Sustainability Accounting Standards Board (SASB) Standards</i>	4

01-B. (b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritise within each activity.

1. Supporting the implementation of ISSB Standards (IFRS S1 and IFRS S2)

CalPERS invests billions of U.S. dollars globally. As such, we are highly interested in having a strong global baseline of disclosures. CalPERS submitted comment letters expressing our support for the International Sustainability Standards Board (ISSB) and its mission to produce a high-quality global baseline of sustainability-related financial disclosures beginning with its review of International Financial Reporting Standards (IFRS) S1 General Requirements for Disclosure of Sustainability-related Financial Information* and the IFRS S2 Climate Related Disclosures.** Altogether, we support the ISSB but believe that the Exposure Drafts need additional work.

We believe the ISSB should focus on developing and strengthening guidance and materials that underpin the ISSB standards, engaging globally to deliver education and awareness, and leveraging technology to facilitate effective and efficient digital consumption and exchange of reports. Prioritizing these activities will better help to address some of the concerns raised by investors and strengthen application of the standards.

We would ultimately like to see sustainability-related disclosures alongside financial disclosures to get a more robust view of a company’s current position and future prospects. Having a strong global baseline moves us in the right direction. These Exposure Drafts align with some of the enhanced disclosures we have been seeking in order to make more informed investment decisions. So, we are optimistic that the ISSB’s work will help expand meaningful integrated reporting once investor concerns have been sufficiently addressed in the final drafts.

*<https://www.calpers.ca.gov/docs/legislative-regulatory-letters/comment-faber-lloyd-general-sustainability-related-disclosures-july-29-2022.pdf>

**<https://www.calpers.ca.gov/docs/legislative-regulatory-letters/comment-faber-lloyd-climate-related-disclosures-july-27-2022.pdf>

2. Beginning new research and standard-setting projects

If the ISSB were to decide to add one or two research projects, it should prioritize integrated reporting and human capital.

We believe that “Long term value creation requires the effective management of three forms of capital: financial, physical, and human.” As a global institutional investor, we expect companies to provide integrated representations of operational, financial, human capital management, environmental, social, and governance (ESG) performance in terms of both financial statement and non-financial statement results. CalPERS supports global standards of reporting and has long advocated for the integration of financial and sustainability reporting including requests to both the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) to enhance integration of sustainability issues in corporate reports. We have also supported enhanced sustainability reporting in the Management Commentary by the IASB, and in Regulation S-K by the Securities and Exchange Commission (SEC) to achieve greater quality, consistency, and comparability of sustainability information.

Now, more than ever, investors, customers, and the public are looking to companies to be honest about the risks they face from their approach to climate change, workforce management, political activities, pledges, and commitments, etc. Wherever appropriate, disclosures should be integrated into the issuer’s audited financial statements. Currently, climate-related information is reported months after financials have been reported, but there is no reason that the timing cannot be integrated to align with the reports. A significant part of getting integrated reports is to get the reporting times to match. Integrating the data gathering processes of climate-related information with financial reporting helps us better understand the full financial implications of climate-related data. We applaud the ISSB’s work, which we hope will expand meaningful integrated reporting.

CalPERS and other investors have asked regulators and standard setters to expand disclosures for investors on a number of issues relevant to risk and return, including human capital. Current financial reporting rules require companies to disclose very little information about how human capital is measured or managed. We acknowledge that

some human capital metrics may be unique or universal depending on the industry, sector, or business strategy; however, there are a number of specific cross-cutting issues that applies to all companies. The ISSB should prioritize the following metrics as baseline, universal human capital reporting standards: (1) the number of workers (including employees and independent contractors); (2) the total cost of the workforce (a through-line with company financial statements); (3) workforce turnover (including management strategy to attract and retain talent and the impact to company performance); and (4) diversity data (board of directors and workforce).

3. Researching targeted enhancements to the ISSB Standards

Our holistic approach to sustainable value creation is reflected in our expectations for fair, accurate, timely, and assured reporting about how companies manage their financial, physical, and human capital to generate sustainable returns and also how they identify, monitor, and mitigate risks to those three forms of capital. As providers of capital, we seek a true and fair view of the company's position and prospects in disclosures to better assess the company's performance, business model and strategy, including climate-related risk. As long-term investors, we are not only concerned about the shift towards a low-carbon economy, but also how the shift to a more sustainable economy impacts workers and communities.

When researching targeted enhancements, any climate-related standards crafted by the ISSB would complement broader ESG disclosure standards, specifically human capital management disclosures. To strengthen the application of ISSB standards, we believe the ISSB must take a holistic approach to ESG/sustainability risks and opportunities. This means prioritizing human capital disclosure standards alongside climate-risk disclosures. The ISSB should identify and assess areas for enhancement and provide guidance for the disclosures that indicate how a company identifies and manages impacts, or potential impacts of climate-related risks, on local environments and communities, including a company's approach to material human capital issues (e.g., public health, land rights, and just transition in relation to workers). This includes targeted enhancements to the ISSB standards that address the just transition to a low carbon economy and its impact on workers, as well as externalities created by emitters of carbon and other pollutants that harm people.

4. Enhancing the Sustainability Accounting Standards Board (SASB) Standards

CalPERS supports SASB's work to modernize corporate reporting. We believe the application of industry-based requirements is the strongest part of the SASB/ISSB process, creating high-quality industry-standards. We acknowledge that some metrics may be unique or universal depending on the industry, sector, or business strategy; however, there are a number of specific cross-cutting issues that apply to all companies.

The industry-based standards need to be updated to better reflect the cross-industry disclosure requirements. The ISSB should assess whether cross-cutting metrics or specific industry disclosure requirements control when the two are not aligned.

In implementing IFRS S1 and IFRS S2 reporting standards, the ISSB should work to maintain information critical to voting and engagement activities and enhance disclosure of existing SASB metrics.

01-C. (c) Should any other activities be included within the scope of the ISSB's work? If so, please describe these activities and explain why they are necessary.

- No:

The ISSB two-year workplan already includes a heavy lift around foundational work that the ISSB should focus on.

Question 2—Criteria for assessing sustainability reporting matters that could be added to the ISSB's work plan

Paragraphs 23–26 of the Request for Information discuss the criteria the ISSB proposes to use when prioritising sustainability-related reporting issues that could be added to its work plan.

02-A. (a) Do you think the ISSB has identified the appropriate criteria? Please explain your response.

- Yes

02-B. (b) Should the ISSB consider any other criteria? If so what criteria and why?

- No

Question 3—New research and standard-setting projects that could be added to the ISSB's work plan

Paragraphs 27–38 of the Request for Information provide an overview of the ISSB's approach to identifying sustainability-related research and standard-setting projects. Appendix A describes each of the proposed projects that could be added to the ISSB's work plan.

03-A. (a) Taking into account the ISSB's limited capacity for new projects in its new two-year work plan, should the ISSB prioritise a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?

- More than one project

03-Aii. (ii) If more than one project, which projects should be prioritised and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects). Please explain your response.

- Human capital:
1st priority
- Integration in reporting:
2nd priority

Question 4—New research and standard-setting projects that could be added to the ISSB’s work plan: Biodiversity, ecosystems and ecosystem services

The research project on **biodiversity, ecosystems and ecosystem services** is described in paragraphs A3–A14 of Appendix A to the Request for Information. Please respond to these questions:

04-A. (a) Of the subtopics identified in paragraph A11, to which would you give the highest priority? Please select as many as applicable.

Please explain your choice and the relative level of priority with particular reference to the information needs of investors. You may also suggest subtopics that have not been specified. To help the ISSB analyse the feedback, where possible, please provide:

- **a short description of the subtopic (and the associated sustainability-related risks and opportunities); and**
- **your view on the importance of the subtopic with regard to an entity’s sustainability-related risks and opportunities and the usefulness of the related information to investors.**
- **Pollution (including emissions into air, water and soil):**
 - (i) **Pollution and emissions into air, water, and soil can impact biodiversity, ecosystems, and ecosystem services. Some of the ways in which pollution and emissions can affect these things include:**
 - **Decreased air quality including air pollution can damage plants and animals and can also reduce an ecosystem’s ability to successfully pollinate or maintain pest control.**
 - **Water pollution can kill aquatic life, and it can also make water unsafe to drink.**
 - **Soil pollution can make it difficult for plants to grow, for soil to retain nutrients and water, and can also contaminate food.**
 - (ii) **The risks and opportunities associated with pollution and emissions can affect investors’ investments in a number of ways. For example, risks can include loss of investment value if company operations are affected; increased regulatory scrutiny of the portfolio company; and liability risks.**

Question 4—New research and standard-setting projects that could be added to the ISSB’s work plan: Biodiversity, ecosystems and ecosystem services

04-B. (b) Do you believe that sustainability-related risks and opportunities related to biodiversity, ecosystems and ecosystem services are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

- Yes

04-Bi. (i) Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will be substantially different across different industries, sectors or geographic locations.

Each issuer should be able to leverage the frameworks most appropriate for its respective industry. According to the International Energy Agency’s (IEA) Global Methane Tracker, the energy sector accounts for around 40% of methane emissions from human activity. For example, it would be beneficial to have methane emissions included in the aggregate GHG emissions and also separated out for sectors, such as the Energy sector, that significantly contribute to the total methane emission from human activities. So, if available, it would be a good outcome if registrants in a given industry adopted industry standards and registrants disclose accordingly. Proposed Standards should provide adequate flexibility for company depending on the nature of the business

Question 4—New research and standard-setting projects that could be added to the ISSB’s work plan: Biodiversity, ecosystems and ecosystem services

04-C. (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A13 should be utilised and prioritised by the ISSB in pursuing the project? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. If you would like to suggest materials that are not specified, please select 'Other' and give your suggestion(s) in the comment box. You can suggest as many materials as you deem necessary.

To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

- **The SASB Standards:**
SASB Standards are important to consider because they acknowledge that certain risks may impact industries differently. Likewise, certain industries and operations may have a more material impact on biodiversity, ecosystems and ecosystem services than others.

Question 5—New research and standard-setting projects that could be added to the ISSB's work plan: Human capital

The research project on **human capital** is described in paragraphs A15–A26 of Appendix A to the Request for Information. Please respond to these questions:

05-A.

(a) Of the subtopics identified in paragraph A22, to which would you give the highest priority? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You may also suggest subtopics that have not been specified.

To help the ISSB analyse the feedback, where possible, please provide:

- **a short description of the subtopic (and the associated sustainability-related risks and opportunities); and**
- **your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.**
- **Other—please specify:**
Given the convergence of the current economic, climate, and public health crises, as well as the mounting call to advance racial equity, we believe that the ISSB should prioritize a new research and standard-setting project on Human Capital Management. Human Capital encompasses the knowledge, motivation, skills, and experience of a company's entire labor force. Human Capital Management includes a broad range of corporate practices related to the management of employees. Businesses depend on the workforce as a source of value creation which, if mismanaged, could harm long-term performance, so investors are pushing for workforce insights through mandatory and universally applicable metrics alongside information that may be more appropriately tailored to a subset of companies (for example, companies operating in the same industry).
CalPERS supports universal, mandatory human capital metrics alongside principles-based information to provide a complete picture of human capital management quality at individual companies. In past comment letters, CalPERS has made clear our desire for more detail around human capital management disclosures. Additionally, through our work with the Human Capital Management Coalition (HCMC) we have advocated for stronger disclosure requirements for human capital reporting that provide quantitative context and qualitative explanation for a company's strategy to create long-term value and mitigate risks through its management of human capital. We encourage the ISSB to incorporate the human capital metrics promoted by the HCMC for universal reporting into its research and standard-setting workplan. The HCMC supports mandatory reporting of the following four foundational disclosures:
 1. number of workers (including employees and independent contractors) the company uses to accomplish its strategy;
 2. total cost of the work force, presented in a way that evinces a discernable through-line from the company's audited financial reports to issuer disclosures;
 3. turnover, including management's actions to attract and retain workers and how changes in the ability to attract and retain workers affects the company's performance and strategy; and
 4. diversity data, including diversity by seniority, sufficient to understand the company's efforts to access and develop new sources of human capital and any strengths or weaknesses in its ability to do so.These themes are material to investors across most companies and should inform the ISSB' future research and standard-setting work. We acknowledge that it will take a long time to research and implement human capital standards and may take longer to find suitable metrics that are not just U.S.-based. As such, we believe that these four metrics help provide a baseline of consistent, comparable, universal disclosures across all sectors and industries and will help investors evaluate a company's human

capital management skill and identify risks and opportunities.

Prioritizing human capital disclosures alongside climate risk disclosures is necessary because the shift to a more sustainable economy will directly impact current and future workers depending on the industry, sector, or business strategy. For example, with respect to the transition to a low carbon economy oil/gas, electric, and/or tech companies may need to retool recruitment, succession planning, and talent development processes, as would an industrial firm embarking on a digital transformation. Additionally, there will be acute health and safety risks in those industries (i.e. agriculture, construction, engineering, etc.) where a large number of its workforce works outside exposed to the elements, so their ability to effectively perform their jobs will be directly impacted by rising temperatures and extreme weather. Complementary human capital and climate disclosures will encourage companies to be more mindful of how these risks could impact their operations and will provide investors with greater transparency with respect to how companies manage their financial, physical, and human capital to generate sustainable returns, and also how they identify, monitor, and mitigate risks to those three forms of capital how the company manages these risks. Principles-based disclosures could be used to address industry/sector specific indicators of human capital management. Principles-based disclosures should include metrics related to the following (non-exhaustive) list:

- Workforce Health & Safety (related subtopic: Worker Wellbeing)
- Workforce Skills & Capabilities (related subtopics: Workforce DEI, Workforce Investment, and the Alternative Workforce)
- Workforce Culture, Engagement, and Empowerment (related subtopic: Employee engagement)
- Human and Labor Rights (related subtopic: labor conditions in the value chain)
- Workforce Pay & Incentives (related subtopic: workforce composition and costs)

We are delighted to see that the scope of the ISSB human capital research project includes seven subtopics under evaluation as each subtopic is consistent with the universal line-item disclosure metrics that the HCMC petitioned* the SEC to mandate in 2017. We do hope that the ISSB places a significantly larger emphasis on the impact and importance of diversity, equity, and inclusion. Investors desire human capital data that is decision-useful, consistent, clear, and comparable, and that can be benchmarked over time. The demand for decision-useful workforce data persists because investors are increasingly looking to integrate the data into investment analysis. Schroders, Saïd Business School, University of Oxford, and CalPERS recently released a framework for investors to quantify how human capital management contributes to financial returns.** The research suggests that human capital can act as a clear driver of company productivity and profitability, and that companies with durable management frameworks create stronger returns and value for investors. Such research highlights the critical need for both quantitative and qualitative disclosures to effectively analyze whether and how a company is effectively managing its human capital. Therefore, we urge the ISSB to address both a line-item approach and a principles-based approach for human capital disclosures. In addition, we also encourage ISSB to continue to align its human capital research project with the ambitious work around the globe.

*<https://www.sec.gov/files/rules/petitions/2017/petn4-711.pdf>

**https://mybrand.schroders.com/m/63d2ad02332cbde8/original/SC_IDD_Human-Capital-Research_US.pdf

Question 5—New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital

05-B. (b) Do you believe that sustainability-related risks and opportunities related to human capital are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

- Yes

05-Bi. (i) Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will be substantially different across different industries, sectors or geographic locations.

We acknowledge that some human capital metrics may be unique or universal depending on the industry, sector, or business strategy; however, in working to establish a global baseline the ISSB should prioritize its focus on cross-cutting issues that apply to all companies.

Question 5—New research and standard-setting projects that could be added to the ISSB’s work plan: Human capital

05-C. (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB's focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A25 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. If you would like to suggest materials that are not specified, please select 'Other' and give your suggestion(s) in the comment box. You can suggest as many materials as you deem necessary.

To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

N/A

Question 6—New research and standard-setting projects that could be added to the ISSB's work plan: Human rights

The research project on **human rights** is described in paragraphs A27–A37 of Appendix A to the Request for Information. Please respond to these questions:

06-A. (a) Within the topic of human rights, are there particular subtopics or issues that you feel should be prioritised in the ISSB's research? You can suggest as many subtopics or issues as you deem necessary.

To help the ISSB analyse the feedback, where possible, please provide:

- **a short description of the subtopic (and the associated sustainability-related risks and opportunities); and**
- **your view on the importance of the subtopic with regard to an entity's sustainability-related risks and opportunities and the usefulness of the related information to investors.**

Sustainable business practices and required disclosures would help investors identify companies that are able to both deliver the returns we need and have measurable positive social, environmental, and human capital impacts which are useful in strengthening investor confidence and encouraging capital to flow toward a more sustainable economy. As we have highlighted, there is clear overlap with climate risk and human capital management. Similarly, we find that human capital management issues and human rights issues are intimately linked, as labor rights have become increasingly important to investors. There are several human capital management practices that intersect with human rights matters including fair labor practices, the right to healthy and safe working conditions and environments, responsible contracting, subcontracting, and outsourcing, and diversity, equity, and inclusion. Therefore, the ISSB research project should work to enhance sustainability disclosure standards that address these cross-cutting topics. The current geopolitical environment, climate change, evolving global economies, and societies will all impact human rights. The key to understanding how the human rights landscape will evolve is to ensure there is a focus and greater transparency at the intersection of environmental, social, and governance risks. Such disclosures will also encourage companies to be more mindful of the risks that could impact the size, scale, and viability of their operations, as well as risks down their supply chains.

Comprehensive, high-quality, consistent, and comparable disclosures that address climate and human capital risks and the linkages between the two will better assist investors with assessing a company's human capital management practices, human rights policies, practices, and commitments including how it respects labor rights, how it responds to labor rights complaints, how it provides access to remedies for affected workers, and the board's role in overseeing and managing these risks.

Question 6—New research and standard-setting projects that could be added to the ISSB's work plan: Human rights

06-B. (b) Do you believe that sustainability-related risks and opportunities related to human rights are substantially different across different business models, economic activities and other common features that characterise participation in an industry, or geographic locations such that measures to capture performance on such sustainability-related risks and opportunities would need to be tailored to be specific to the industry, sector or geographic location to which they relate?

- Yes

06-Bi. (i) Please explain your reasoning and provide examples of how sustainability-related risks and opportunities related to this topic will be substantially different across different industries, sectors or geographic locations.

N/A

**Question 6—New research and standard-setting projects that could be added to the ISSB’s work plan:
Human rights**

06-C. (c) In executing this project, the ISSB could leverage and build upon the materials of the ISSB and other standard-setters and framework providers to expedite the project, while taking into consideration the ISSB’s focus on meeting the needs of investors. Which of the materials or organisations referenced in paragraph A36 should be prioritised by the ISSB in pursuing its research? Please select as many as applicable.

Please explain your choices and the relative level of priority with particular reference to the information needs of investors. You can suggest materials that are not specified—please select ‘Other’ and give your suggestion(s) in the comment box. You can suggest as many materials as you deem necessary.

To help the ISSB analyse the feedback, where possible, please explain why you think the materials are important to consider.

N/A

**Question 7—New research and standard-setting projects that could be added to the ISSB’s work plan:
Integration in reporting**

The research project on **integration in reporting** is described in paragraphs A38–A51 of Appendix A to the Request for Information. Please respond to these questions:

07-A. (a) The integration in reporting project could be intensive on the ISSB’s resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realise the full value of the IFRS Foundation’s suite of materials. How would you prioritise advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB’s new two-year work plan? Please explain your response.

- Integration in reporting project is a **lower priority**

07-B. (b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)? Please explain how you think this should be conducted and why.

- Formal joint project

**Question 7—New research and standard-setting projects that could be added to the ISSB’s work plan:
Integration in reporting**

(c) In pursuing the project on ‘integration in reporting’, do you think the ISSB should build on and incorporate concepts from:

07-Ci. (i) the IASB’s Exposure Draft *Management Commentary*?

If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

N/A

07-Cii. (ii) the Integrated Reporting Framework?

If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

N/A

07-Ciii. (iii) other sources?

If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

N/A

07-D. (d) Do you have any other suggestions for the ISSB if it pursues the project?

N/A

08. Question 8—Other comments

Do you have any other comments on the ISSB's activities and work plan?

For reference:

- CalPERS' comment letter on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information; <https://www.calpers.ca.gov/docs/legislative-regulatory-letters/comment-faber-lloyd-general-sustainability-related-disclosures-july-29-2022.pdf>
- CalPERS' comment letter on IFRS S2 Exposure Draft: Climate-Related Disclosures; <https://www.calpers.ca.gov/docs/legislative-regulatory-letters/comment-faber-lloyd-climate-related-disclosures-july-27-2022.pdf>
- Human Capital Management Coalition Rulemaking Petition to the SEC; <https://www.sec.gov/files/rules/petitions/2017/petr4-711.pdf>
- Schrodgers, Saïd Business School, University of Oxford, and the California Public Employees' Retirement System (CalPERS) research paper, "Human capital management research: how people are our greatest asset," July 2023.; https://mybrand.schrodgers.com/m/63d2ad02332cbde8/original/SC_IDD_Human-Capital-Research_US.pdf