CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Sustainable Investment and Stewardship Strategies
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October 25, 2024

Standard Setting Department,
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong

RE: Support of ISSB S1 and S2 Disclosure Standards

We write on behalf of the California State Teachers' Retirement System (CalSTRS). CalSTRS strongly supports global adoption of the IFRS Foundation's International Sustainability Standards Board (ISSB) S1 and S2 sustainability-related financial disclosures for all publicly accountable entities. Sustainability-related issues present real financial risks to the value of our plan assets. However, available methods to size and forecast that risk have been constrained by a lack of reliable, company generated data. Implementing the ISSB's disclosure framework will greatly enhance our ability to account for sustainability risk when selecting partners, indexes, funds, securities, companies for investment, engagement, and proxy action. We appreciate the opportunity to provide comments to your consultation to amend Norm 461, which incorporates sustainability and corporate governance disclosure requirements in Annual Reports for CMF supervised entities.

Established in 1913, CalSTRS is the largest educator-only pension fund in the world with a global investment portfolio valued at approximately $346.5 billion as of August 31, 2024. As administrators of both a defined benefit plan and a defined contribution plan, our mission is to secure the financial future and sustain the trust of more than 980,000 Californian educators and their families.

We have been urgently calling for such disclosures for many years as a means of enhancing our ability to meet our mission to protect the retirement futures of California's educators. As an owner of nearly 10,000 public securities, we welcome the adoption of universal global standards. While it is notable that sustainability disclosure has increased over the years, it is inconsistent and leaves companies guessing at what investors need. Maximizing alignment with ISSB standards allows companies across jurisdictions to lessen their reporting burden and facilitates comparability and coherence for investors. Incorporating reporting frameworks such as the Task-Force for Climate-Related Financial Disclosures (TCFD) into the ISSB S1 and S2 further streamlines corporate reporting while providing comparable data across sectors, which is crucial investors. In recognition of regional market differences, we support supplementing or augmenting S1 and S2 with country specific standards that reflect local regulatory requirements.

The accessibility and timeliness of the information is an important factor in its usability. Sustainability disclosures should accompany and be published simultaneously with financial reporting. This allows investors to make more informed decisions with all necessary information to contextualize financial reporting and impacts to enterprise value.

Sustainability reporting should include all material risks and opportunities including human capital management, the climate transition and a variety of other issues impacting companies. We are supportive of requiring industry-specific disclosures that contextualize a company's activities as incorporated in the ISSB's framework. Equally important is reporting on value chain impacts so investors are better able to understand associated risks as well. These internal and external, direct and indirect dependencies, resources, and relationships can have a material impact on company operations and thus it is vitally important for investors to have consistent and timely disclosure.

Sustainability risks are interconnected and do not exist in a vacuum, making it difficult for investors to make informed decisions about financial performance, outlook, and long-term value if we are only given isolated information about select risks**. Thus the full adoption of both S1 and S2, covering all material risks, should be mandatory and is crucial to providing transparency to investors**. Companies should not be allowed discretion on which set of standards or risks to disclose. We advise against jurisdictions adopting only a subset of the standards. If necessary, we recommend consideration of a short phased approach to implementing requirements instead.

As prudent investors, we recognize that decision-useful sustainability reporting requires adaptation to changing knowledge and circumstances. The ISSB S1 and S2 standards development process takes this into account, and ensures that issuers disclose the most relevant information to investors. The ISSB has also conducted significant work to create a clear global baseline, reduce fragmentation and ensure interoperability within reporting.

Regulators and policy-makers have an incredible opportunity to proactively shape and enhance disclosures available to investors to support effective risk analysis and prudent investment decisions. We wish to thank you for your leadership in working towards standardization of high quality sustainability disclosure and addressing the issue of insufficient, irregular, and unreliable sustainability data. We appreciate the opportunity to provide our perspective and can be contacted at revaitla@calstrs.com should you have any questions.

Sincerely,

Lynn Paquin
Portfolio Manager

Rekha Vaitla
Investment Officer