HOW WILL YOU SPEND YOUR FUTURE?

September 1, 2020

California State Teachers' Retirement System
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VIA: ELECTRONIC FILING Response Form

European Supervisory Authorities (ESAs)
Re: Joint Consultation Paper – ESG Disclosures
Regulatory technical standards – Article 2a, 4(6) & (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088 – Sustainable Finance Disclosure Regulation (SFDR)

Dear European Supervisory Authorities,

We are writing on behalf of the California State Teachers' Retirement System ("CalSTRS"). CalSTRS was established for the benefit of California's public-school teachers over 100 years ago and is the largest educator-only pension fund in the world, with a global investment portfolio valued at approximately $253.6 billion[1]. We serve the investment and retirement interests of more than 965,000 plan participants and their beneficiaries. The long-term nature of CalSTRS liabilities, and our responsibility as a fiduciary to our members, make the fund keenly interested in the rules and regulations that govern the securities market. As a global institutional investor with a focus on the long term, CalSTRS recognizes that climate change presents a material and existential risk to society and the economy. CalSTRS is committed to influencing public policies, engaging portfolio companies and investing to promote an orderly transition to a low-carbon economy that benefits all.

CalSTRS has long advocated for portfolio companies to disclose comparable and decision-useful information on environmental, social, governance ("ESG") and traditional financial metrics so investors can comprehensively assess risk and properly value investments. In addition, we have encouraged our third-party asset managers to integrate climate change considerations into their investment processes, disclosures, and asset valuations. Lastly, from a policy perspective, we have asked governments and regulators to help appropriately price carbon and provide public policies that enable and support an orderly transition to a low-carbon economy. As a global investor, CalSTRS is also very cognizant and concerned with the lack of harmonized rules relating to transparency which makes it difficult for investors to effectively compare companies with regard to their environmental, social and governance risks and sustainable investment objectives.

1 California State Teachers Retirement System, Current Investment Portfolio as of July 31, 2020

Therefore, we are grateful for the opportunity to provide our general comments on the Joint Committee of European Supervisory Authorities published draft of regulatory technical standards (“RTS”) corresponding to the sustainability-related disclosures in the financial services sector (“Proposal”). We agree with the Europeans Supervisory Authorities (“EBA, EIOPA and ESMA” or “ESAs”) intention to clarify fiduciary duties and increase transparency in sustainability risks and sustainable investment opportunities. We expect that financial market participants and financial advisers should be required to disclose ESG information in the integration of sustainability risks and adverse impacts. While the proposal includes a broad set of twenty-seven questions, we focused our letter on general support for your efforts at enhancing ESG disclosures, our common goals, and harmonizing of standards across geographies.

Blending of Industry, Science, and Finance

Following the adoption of the 2015 Paris Agreement on climate change and the United Nations 2030 Agenda for Sustainable Development, we appreciate that the Commission developed an Action Plan, “Financing Sustainable Growth”, to clarify fiduciary duties and increase transparency in the field of sustainability risks and sustainable investment opportunities. CalSTRS supports the ESAs in proposing these standards developed under the EU Regulation on sustainability-related disclosures to (1) strengthen and protect end-investors; (2) improve the disclosures to investors from a broad range of financial market participants and financial advisers; and (3) improve the disclosures to investors regarding financial products. The ESAs are working to balance inputs from industry, science, and financial intermediaries and from this effort we hope that the ESAs will be able to develop appropriate guidelines. We believe this consultation is a step in that direction.

One concern we have heard from our collaborative partners is that the principal adverse impact (“PAI”) templates could lead to a tick the box exercise which would not provide meaningful data to the investor and possibly miss out on many of the real issues. For example, understanding the impact of climate change on asset allocation is an important area to integrate ESG factors. Yet if we look at the PAI template it does not appear that this work is captured. The template assumes that all of the adverse impacts happen at a very company specific level and might lead many in the financial chain to consider that adverse impacts only need to be considered for a small proportion of their assets and only in relation to the factors identified.

It is therefore our hope that the ESA takes this feedback from industry, finance, and science to further refine these RTS guidelines so that ESG investors may make informed decisions with material information and granular level data.

Common Ground

One of the biggest challenges for investors is the lack of consistent, comparable ESG data as investors assess potential or existing investment opportunities. In 2015, Financial Stability Board chairman Carney established the Task Force on Climate Related Financial Disclosures (“TCFD”). This was in response to a request from the G20 to better understand the financial risks posed by climate change. The TCFD set out to develop recommendations that would eventually extend the scope of reporting from how companies impact the climate, to the financial impacts of climate change on companies. CalSTRS is appreciative that the proposed ESA RTS on reporting climate-related information integrate the recommendations of the TCFD. As a long-term investor we too have integrated the TCFD framework by redesigning our Green Initiative Task Force report to align with the TCFD reporting guidance.

CalSTRS would encourage the ESAs to consider additional frameworks in addition to the TCFD. We recommend the ESAs consider standards such as the Sustainability Accounting Standards Board ("SASB") as CalSTRS perceives that the climate risk management and disclosure guidance provided by SASB provides investors a lens through their materiality mapping which identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry. Through the consistency provided by both of these resources, investors like CalSTRS can properly evaluate the efforts and progress of the companies they invest in across regions, sectors or portfolios.

Greenwashing
We believe standard disclosures need to be established in the United States. To date the Securities Exchange Commission and other U.S. federal and state regulators remain silent on creating uniform criteria for defining sustainable economic activities in the U.S. Therefore, we acknowledge that it appears the EU framework provides the most explicit guidance to investment funds and companies seeking clarity as to whether a technology, product, or service makes a substantial contribution to an environmental objective. Consequentially, U.S. asset managers and asset owners may look to the EU Taxonomy language and metrics to better understand the environmental benefits of a product or company – a marketing tactic referred to as "greenwashing."

Need for Uniformity
CalSTRS agrees that …

> *"A parallel development of market-based practices, based on commercially driven priorities that produce divergent results currently causes further market fragmentation and might even further exacerbate inefficiencies in the functioning of the internal market in the future…. Such divergent measures and approaches would continue to cause significant distortions of competition resulting from significant differences in disclosure standards."*

We agree and hope countries and geographic regions would avoid adopting different standards. In the absence of harmonized EU rules, and specifically global rules on ESG disclosure, we unfortunately believe that significant distortions in measurement will continue to exist, limiting investors' abilities to compare options.

Conclusion

Reflecting CalSTRS' determination that the low-carbon transition is an urgent priority, our board has recently embarked on a Low-Carbon Transition Work Plan. This plan establishes a consensus among the board and staff around how the low-carbon transition will impact the Investment Portfolio, allowing staff to analyze the transition readiness of our portfolio, expand stewardship activities that support an orderly transition, and continue our commitment to report and communicate actions around the low-carbon transition. An important step in this process will be further regulatory action by governments across the world to increase ESG disclosures. As a result, we are grateful and cautiously optimistic on the action steps the ESAs are taking to further disclosures in this area by all asset managers within Europe. As the ESAs continue this process it is our hope that all regions would work together to provide uniformity in reporting standards and continue to push for additional disclosures so investors can make informed decisions.

Thank you for the opportunity to provide CalSTRS' perspective on this proposal. If you have any questions, please contact me directly at amastagni @calstrs.com or my colleague Brian Graeme at bgraeme@calstrs.com.

Sincerely,

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California State Teachers' Retirement System