CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
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November 18, 2016

Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: **File Number S7-15-16**, Release No. 33-10220; 34-78926; IC-32281 Request for Comment – **Disclosure Update and Simplification**

Dear Mr. Fields:

I am writing on behalf of the members of the California State Teachers' Retirement System (CalSTRS) in response to the Securities and Exchange Commission's (SEC, Commission) request for comment on *Disclosure Update and Simplification (DUSTR*) as part of the SEC's efforts to implement title LXXII, section 72002(2) of the Fixing America's Surface Transportation Act.[1] Thank you for the opportunity to provide a long-term investor's perspective on your proposal to amend certain disclosure requirements that may provide information that investors need to make informed investment and voting decisions.

CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. We serve the investment and retirement interests of more than 896,000 plan participants.[2] CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately $192.2 billion as of October 31, 2016.[3] The long-term nature of CalSTRS liabilities, the composition of its portfolio and the CalSTRS Board's fiduciary responsibility to its members, make the fund keenly interested in the rules and regulations that govern the securities market. We have a vested interest in ensuring shareholder protections are safeguarded within the SEC's rules and regulations.

As a long-term shareholder of more than 8,000 global securities, CalSTRS relies on financial disclosures in our research and analysis of our investments. We appreciate the intent of the disclosure

[1] Securities and Exchange Commission, *Disclosure Update and Simplification*, July 13, 2016. https://www.sec.gov/rules/proposed/2016/33-10110.pdf

[2] CalSTRS at a Glance, Fact Sheet: http://www.calstrs.com/sites/main/files/file-attachments/calstrsataglance.pdf

[3] CalSTRS Current Investment Portfolio for the period ending October 31, 2016. http://www.calstrs.com/current-investment-portfolio

update and simplification project to facilitate disclosures, while simplifying compliance, without significantly altering the total mix of information provided. We understand the statute requires the Commission to revise Regulation S-K to further scale or eliminate requirements relating to EGCs, accelerated filers, smaller reporting companies and other smaller issuers, and eliminate duplicative, overlapping, outdated or unnecessary provisions of Regulation S-K. While we acknowledge the DUSTR is part of a comprehensive evaluation of the Commission's disclosure requirements recommended in the staff's Report on Review of Disclosure Requirements in Regulation S-K ("S-K Study")[4] which was also mandated by section 108 of the Jumpstart Our Business Startups Act[5] and reflected in this proposed rule, we caution the SEC to consider investors' comments before implementing broad changes.

As is the case with all regulations, it is prudent to periodically review and reassess the effectiveness of any rule, regulation or guideline. We support the importance of this exercise and agree there are many approaches to a periodic assessment that may be beneficial to ensure continuance of underlying protections for investors. We support eliminating redundant disclosures through hyperlinks and cross-referencing. CalSTRS also sees the benefits of a layered approach to financial disclosures which could possibly reduce costs and complexity but also facilitate greater use of corporate filings allowing for drill-down capabilities of details based on individual investor's perspective and needs.[6]

While we appreciate the hard work of the SEC in implementing these requirements, we are sympathetic to the many concerns that investors have voiced on the DUSTR proposed rule. CalSTRS believes the Commission should consider reconciling investors' requests for additional disclosures outlined in responses to Regulation S-K and Sub-part 400 before implementing any DUSTR modifications and/or eliminations.

CalSTRS submitted letters to both of these requests[7], outlining additional disclosures we recommend incorporating into the requirements of Regulation S-K. We are concerned the SEC may not have the opportunity to fully benefit from the broader perspective and input of investors and other stakeholders on these two requests before moving forward with this project. We continue to believe the Commission's Strategic Goals and Objectives of the FY 2014-FY 2018 Strategic Plan, specifically Goal 3: "Facilitate access to the information investors need to make informed investment decisions," should continue to be goal of any proposed rule and project of the SEC. We are not sure the DUSTR project's intent of simplifying, eliminating redundant or duplicative and overlapping

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[4] *Report on Review of Disclosure Requirements in Regulation S-K* (Dec. 2013), available at http://www.sec.gov/news/studies/2013/reg-sk-disclosure-requirements-review.pdf.
Comment letters are available at http://www.sec.gov/comments/jobs-title-i/reviewreg-sk/reviewreg-sk.shtml.

[5] Jumpstart Our Business Startups Act, Pub. L. No. 112-106, 126 Stat. 306 (2012) https://www.gpo.gov/fdsys/pkg/BILLS-112hr3606enr/pdf/BILLS-112hr3606enr.pdf

[6] California State Employees Retirement System, Anne Sheehan, Director of Corporate Governance Response to the SEC, July 21, 2016. https://www.sec.gov/comments/s7-06-16/s70616-226.pdf

[7] Ibid, SEC Response, Oct. 31, 2016. https://www.sec.gov/comments/s7-18-16/s71816-13.pdf

requirements can achieve this goal before reconciling the requests of investors from earlier concept release and proposed rulemaking.

CalSTRS is concerned that investors will lose information because the proposal relies on GAAP requirements to determine whether to retain, modify, or eliminate disclosures. Simply relying on the Financial Accounting Standards Boards (FASB), without the guidance and oversight by the SEC, could result in a curtailment of transparency currently afforded to investors in our investment analysis of risks and returns. Put simply, to reinforce the comments by the Council of Institutional Investors (CII), "… for those topics that overlap with U.S. GAAP, we would be concerned if U.S. GAAP were to change in such a way that useful information previously required by SEC disclosure requirements is no longer provided under U.S. GAAP."[8] The FASB is currently proposing changes to its definition and approach to materiality as outlined in *Statement of Financial Accounting Concepts, Statement No. 8, Conceptual Framework for Financial Reporting*, which in our minds contradicts the Commission's stance on materiality in TSC v. Northway calling for the inclusion of such information, "An omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider the fact important when deciding how to vote." [9]

Additionally, the DUSTR proposal recommends deletion of what is termed "non-financial" statement disclosures. As we stated in our July 21st letter, CalSTRS requests the continuation of disclosures in the business section about segment financial information and performance, geographic areas, including foreign operations, and seasonality, all in reliance on similar disclosures required in the financial statements and MD&A. Additionally, the SEC proposes to remove S-K and 20-F requirements to disclose information about research and development in reliance on similar disclosures required in the financial statements under US GAAP or IFRS.

CalSTRS is also concerned with the proposed changes as they relate to compensation plan disclosures. We are apprehensive that the proposed rule would shift disclosure responsibility impacting or reducing disclosures. CalSTRS emphasized five key areas in our Subpart 400 letter to the SEC,[10] which would increase disclosures to assist investors in their analysis of executive compensation and in their proxy advisory vote on executive compensation.

Correspondingly, we do believe some aspects of this proposed rule strive to move forward with modernizing disclosure requirements that may benefit users with the leverage of technology. In our comment letter regarding Regulation S-K, we emphasize the need for the SEC to leverage technology allowing structured data to be interactively data-tagged for filings including financial statements,

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[8] CII's letter in response to SEC's proposed rule, file No. S7-15-16, *Proposed Rule on Disclosure Update and Simplification,* September 22, 2016. https://www.sec.gov/comments/s7-15-16/s71516-14.pdf

[9] Supreme Court, TSC Industries, Inc., et al, Petitioners, v. Northway, Inc., 426 U.S. 438, June 14, 1976. https://www.law.cornell.edu/supremecourt/text/426/438

[10] CalSTRS letter to the SEC on File No. S7-18-16, *Subpart 400 of Regulation S-K Disclosure Requirements*, Oct. 31, 2016. https://www.sec.gov/comments/s7-18-16/s71816-13.pdf

footnotes, management discussion and analysis through eXtensible Business Reporting Language, specifically use of Inline XBRL.[11]

In summary, CalSTRS acknowledges the SEC's congressional mandate of the DUSTR proposed rule, but underscores the need for reconciliation of additional disclosures versus the elimination and modification of financial reporting information. The SEC should consider whether these changes would inadvertently alter the mix of information that investors need in making capital allocation decisions. Investors are asking the Commission for specific improvements, enhanced disclosures, as well as new disclosure requirements as evidenced in the myriad of letters submitted by investors.

Thank you for the opportunity to respond. If you would like to discuss this letter further, please feel free to contact me at my number above or Mary Hartman Morris at 916-414-7412, MMorris@CalSTRS.com.

Sincerely,

Anne Sheehan
Director of Corporate Governance
California State Teachers' Retirement System

[11] CalSTRS letter to the SEC on File No. S7-06-16, *Concept Release on Regulation S-K Disclosures*, July 21, 2016. https://www.sec.gov/comments/s7-06-16/s70616-226.pdf