CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

September 28, 2020

California State Teachers'
Retirement System
Brian Rice, Portfolio Manager
Sustainable Investment & Stewardship Strategies
100 Waterfront Place, MS-04
West Sacramento, CA 95605-2807
916-414-7413
BRice@CalSTRS.com

VIA email: cp20-03@fca.org.uk

Federico Cellurale, Senior Associate
Financial Conduct Authority
12 Endeavour Square
London, E20 1JN
United Kingdom

Re: Consultation on CP20/3: Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations

Dear Mr. Cellurale,

We are writing on behalf of the California State Teachers' Retirement System ("CalSTRS") to express our support for the Financial Conduct Authority's ("FCA") proposals to enhance climate-related disclosures by listed issuers and clarify existing disclosure obligations. CalSTRS was established for the benefit of California's public educators over 100 years ago and is the largest educator-only pension fund in the world with a global investment portfolio valued at approximately $262.5 billion.[1] We serve the investment and retirement interests of more than 964,000 plan participants and their beneficiaries. The long-term nature of CalSTRS' liabilities, and our responsibility as a fiduciary to our members, makes the fund keenly interested in the rules and regulations that govern the securities market.

CalSTRS recognizes that climate change presents a material and existential risk to society and the economy. CalSTRS has long advocated for companies to disclose comparable, decision-useful environmental, social, governance and traditional financial information so investors can comprehensively assess risk and properly value investments. Using the Task Force on Climate-related Financial Disclosures ("TCFD") framework, we have released a Green Initiative Task Force Report to identify, analyze and propose investment opportunities and risk-control strategies addressing climate change. We have also advocated for asset managers to integrate climate change considerations into their investment processes and asset valuations. In addition,

[1] California State Teachers' Retirement System, Current Investment Portfolio as of August 31, 2020.

we have asked governments and regulators to help appropriately price carbon and provide public policies that enable and support an orderly low-carbon transition.

Climate-Related Financial Disclosures

Climate-related financial disclosures enable investors to make more informed investment decisions that reduce risks, save costs and enhance resilience as the world shifts to a low-carbon economy. Such disclosures help investors better assess and manage climate risks in their investment portfolios and identify opportunities to accelerate climate-aligned, resilient investments, leading to more accurate valuation and more efficient allocation of capital.

The TCFD has developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, issuers and other stakeholders. As a long-term investor that is concerned about climate impact on our investment portfolios, CalSTRS encourages companies to provide better disclosures regarding climate risks in line with the recommendations of TCFD. We believe TCFD provides useful and practical guidance for companies to identify and evaluate physical and transition risks on their financial positions, which helps us assess our portfolio exposure to climate risks and position us to transition to a low-carbon economy.

Scope

The proposed new rule applies to commercial companies, including sovereign-controlled companies, with a UK premium listing. While we recognize that the premium listing rules represent a high benchmark of standards that issuers are expected to meet, it only covers 480 out of 1,140 companies admitted to trading on the Main Market of the London Stock Exchange. The financial impacts of climate-related risks and opportunities are relevant to all issuers. Climate change can severely impact our investment portfolio holdings and climate-related disclosures are important for us to evaluate the fair value of our portfolio holdings over the long term. Therefore, we think the proposed new rule should cover all listed commercial companies, including sovereign-controlled commercial companies, that are traded on the London Stock Exchange.

Location of Disclosures

We believe that companies' response to the risks associated with climate change will materially impact the value of our investment portfolios. Companies should disclose material climate-related risks, like other material financial risks, in their mainstream financial filings, such as annual financial reports. This will help investors make better-informed investment decisions, manage climate risks more effectively within their investment portfolios, and allocate capital more effectively to accelerate the low-carbon transition and drive long-term sustainable returns. We welcome companies to publish additional reports to address their strategies and progresses in managing climate impacts in further detail.

Proportionality: Ability to Explain

We favor a "comply or explain" approach. While a number of companies have already voluntarily disclosed their climate risk exposure consistent with the TCFD recommendations, we note that some issuers' capabilities in evaluating and disclosing certain climate risks are still developing. Companies that have not fully complied with the TCFD recommendations should provide in their annual financial reports detailed and convincing reasons to explain and justify their non-compliance, as well as their plan for complying with the TCFD recommendations. Such explanations are helpful for investors and regulators to evaluate companies' commitment to managing climate-related risks and opportunities and engage with companies to ensure the effective management of climate-related financial impacts.

In summary, we support FCA's proposals to require issuers to disclose climate-related information consistent with the TCFD's recommendations, but we think the new rule should apply to all listed commercial companies on the London Stock Exchange. The disclosure of climate-related risks and opportunities should be incorporated in companies' annual financial filings using a "comply or explain" approach, where companies explain and justify any non-compliance and provide a compliance plan.

We are grateful for the opportunity to provide CalSTRS' views. If you have any questions, please feel free to contact me at BRice@CalSTRS.com or my colleague Quinn Liu at QLiu@CalSTRS.com.

Sincerely,

Brian Rice
Portfolio Manager, Sustainable Investment and Stewardship Strategies
California State Teachers' Retirement System