CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
Sustainable Investment & Stewardship Strategies
100 Waterfront Place, MS 4
West Sacramento, CA 95605

March 21, 2025

The Honorable Liane Randolph
Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Public Comments to California Climate-Disclosure Information Solicitation

Dear Chair Randolph:

We write on behalf of the California State Teachers' Retirement System (CalSTRS). Established in 1913, CalSTRS is the largest educator-only pension fund in the world with a global investment portfolio valued at approximately $353 billion as of February 28, 2025.[1] 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 1 million Californian educators and their families.

We appreciate the opportunity to provide our comments in response to the December 16, 2024, solicitation to inform implementation of California climate-disclosure legislation: Senate Bills 253 (Wiener, Statutes of 2023) and 261 (Stern, Statutes of 2023), as amended by SB 219 (Wiener, Statutes of 2024). We commend the California Air Resources Board's (CARB or Board) effort to gather information from a wide range of stakeholders relating to developing approaches to implementation. CalSTRS strongly supports the intent of these laws that, among various provisions, improve transparency from companies regarding their greenhouse gas (GHG) emissions and climate-related risk management practices to better inform the decision-making of California consumers, investors, and members of the public. Additionally, the legislation will improve access to consistent, standardized information from the largest companies doing business in California about their GHG emissions, and the risks they face from the impacts of climate change.

Why we care: CalSTRS uses climate information in investment decisions

In January 2020, following extensive research, the Teachers' Retirement Board adopted an investment belief concerning climate change:

[1] California State Teachers' Retirement System current investment portfolio as of February 28, 2025.

> *Investment risks associated with climate change and the related economic transition—physical, policy and technology driven—materially impact the value of CalSTRS' investment portfolio.*

We believe public policies, technologies, and physical impacts associated with a changing climate are driving a transition to a low-carbon economy. As a prudent and diversified global investor, we need to understand the transition's effects on companies, industries, and countries and consider actions to mitigate risk and identify investment opportunities. CalSTRS staff is applying our investment belief to evaluate new investments in public and private assets, prioritize our stewardship activities, and measure climate risk to existing investments across our total portfolio.

Response to solicitation

Question 1

Utilizing the same definition of "does business in California" that is found in section 23101 of the California Revenue and Tax Code is appropriate. We believe the definition used to determine applicability should be clear and transparent to minimize confusion. There should be no ambiguity to companies as to whether they are responsible for complying with the regulations since a broader data set creates a more holistic understanding and better informs investors. We do not believe federal and state government entities should be included in the definition of a "business entity" that "does business in California." Given the legislative intent of SB 253 and SB 261, as clarified by the law's authors, we do not believe that entities that sell energy, or other goods and services, into California through a separate market, like the energy imbalance market or extended day ahead market, should be covered.[2]

Question 3

The Board should seek to establish regulation that maximizes interoperability with existing climate-related standards that are already being considered and adopted in other jurisdictions throughout the world. Namely the International Sustainability Standards Board (ISSB), which itself has a high degree of interoperability and alignment with the European Sustainability Reporting Standards (ESRS) and CDP. [3,4] ESRS is the European Union's mandatory disclosure framework currently being implemented and is estimated to cover nearly 50,000 companies globally. CDP, formerly known as Carbon Disclosure Project, is a non-profit voluntary disclosure platform where over 23,000 companies voluntarily disclose climate-related data, including emissions measurement. The ISSB standards were developed through a rigorous and transparent multi-year process that welcomed feedback from a wide array of

[2] https://www.politico.com/f/?id=0000018d-5c5b-da8e-a3ed-fefb3b570000
[3] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/esrs-issb-standards-interoperability-guidance.pdf
[4] https://www.cdp.net/en/press-releases/cdp-to-incorporate-issb-climate-related-disclosure-standard

stakeholders. The ISSB builds on the foundation established by many predecessor frameworks and reporting initiatives. ISSB already fully integrates the work of the Taskforce on Climate-Related Financial Disclosure (TCFD) which disbanded in 2023. Since TCFD-aligned reporting is the core tenet of SB 261, any future framework reporting will be issued by ISSB. Notably, SB 261 specifically clarifies a company that publishes an ISSB report satisfies the requirements of the bill. The ISSB standards also contain guidance for reporting emissions based on the GHG protocol, the core tenet of SB 253. We believe subjecting companies to multiple disparate disclosure frameworks creates unnecessary complexity and is likely to increase costs to the companies to remain in compliance. We strongly urge the Board to prioritize interoperability with the ISSB standards when developing reporting requirements.

Question 4

In general, we believe all companies can, and many already do, report on climate-related financial risks to their organization at minimal to no added costs. We understand that emissions measurement and reporting is a nascent area. Companies vary significantly in sophistication with regards to their reporting activities. Thus, we have supported phased-in approaches to emission reporting, especially related to Scope 3, which is notably challenging to measure. For this reason, we are comfortable with the phased-in approach outlined in SB 253 that requires scope 1 and 2 reporting to begin 2026 and scope 3 reporting to begin 2027.

Question 5

We believe the Board should prioritize a collection structure that ensures reports are readily accessible to the public in a timely manner, preferably in a machine-readable format.

Question 7

The GHG protocol is broadly adopted and is viewed as the preeminent standard for emission reporting. As previously stated, we support the adoption of emission reporting that is aligned with the ISSB, which itself utilizes GHG protocol.

Question 8

Assurance of sustainability measures, including climate-related data, is a burgeoning field. We expect the quantity and quality of assurance providers to improve over time. For this reason, we have supported a phased-in approach to assurance beginning with limited assurance and eventually reasonable assurance as outlined in SB 253. The definition of “reasonable assurance” utilized CARB’s Mandatory Reporting Regulation (MRR) seems appropriate and aligned with broadly accepted usage of the term reasonable assurance.

Question 9

Our observation is that many companies that currently voluntarily disclose emission data do so on an annual basis. CalSTRS itself annually reports our emissions through our annual

Sustainability Report. Regarding software systems that are commonly used for voluntary reporting, as previously mentioned, over 23,000 companies disclose climate-related data, including emissions through CDP.

Question 11

For comparability purposes it would be beneficial for there to be a standardized reporting year and a later deadline than January 1 to allow for inclusion of the most recent data. Otherwise, companies should have flexibility during the reporting period to best align their fiscal year data.

Question 12

We believe a company that meets the definition of a reporting entity at any time during the two years before a reporting year should be required to fully comply with the requirements of SB 261. At minimum, the Board should implement a “comply or explain” approach for these transitioning companies where they provide clear rationale as to why they are unable to fully comply with SB 261. In the next reporting year after the company has been a reporting entity for a full two-year cycle, they should be expected to fully comply with SB 261.

Question 13

Again, we would urge the Board to consider aligning the regulations to implement SB 253 and SB 261 to maximize interoperability with the ISSB standards. As of September 30, 2024, 30 jurisdictions around the world have decided to use or are taking steps to introduce the ISSB standards in their legal or regulatory frameworks[5]. These jurisdictions represent:

- Approximately 57% or global gross domestic product
- More than 40% of global market capitalization
- More than half of global greenhouse emissions

We anticipate these numbers to grow over time. To minimize reporting burden on companies, while still achieving the espoused goals of SB 253 and SB 261 of transparent and consistent climate disclosure, we believe interoperability with the ISSB standards is critical.

Investors need a complete and consistent sustainability disclosures

We thank the Board for its work to implement these bills and the invitation to provide comment to inform that work. For years, CalSTRS has recognized the financial risk to the value of our plan assets from a changing climate and associated costs of extreme weather. We believe these bills, in conjunction with other increasingly mainstream frameworks such as the

[5] https://www.ifrs.org/content/dam/ifrs/supporting-implementation/issb-standards/progress-climate-related-disclosures-2024.pdf

ISSB standards, can deliver decision useful information to investors and other stakeholders. We appreciate the Board's consideration of CalSTRS' views on climate disclosure, and we welcome the opportunity to discuss our views or any questions you may have.

Sincerely,

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Portfolio Manager

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Senior Portfolio Manager