State Street Global Advisors
10 Churchill Place
Canary Wharf
London

ssga.com

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Ms. Louisa Chender
Financial Conduct Authority
12 Endeavour Square
London E20 1JN
United Kingdom

Submitted via email to: cp21-17@fca.org.uk

Re: Consultation Paper ("CP21-17") on climate-related disclosures by asset managers, life insurers and FCA-regulated pension providers

Dear Ms. Chender,

State Street Global Advisors[1] ("SSGA") appreciates the opportunity to provide feedback on the consultation paper issued by the Financial Conduct Authority ("FCA") regarding *Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers*.[2]

We recognise the importance of "accelerating the global transition to a cleaner energy and a less carbon-intensive economy".[3] To achieve this, high quality information relating to material climate-related risks and opportunities is indeed needed "right along the investment chain".[4] As part of a broader State Street-wide response to the UK Government's proposal on mandatory TCFD-aligned requirements for pension schemes last year, we commented on the need to first consider the facilitation of information exchange between investment managers and pension schemes before mandating such requirements.[5] We therefore welcome the FCA's focus on climate disclosures more broadly across the chain.

[1] SSGA is the investment arm of State Street Corporation and, with $3.9 trillion in assets under management as of June 30, 2021, is one of the largest asset managers in the world. For more information, please visit SSGA's website at www.ssga.com. With respect to our business in the United Kingdom, SSGA has been operating in London since 1990 and ranks as one of the major investment managers in the UK. With a diverse client base including defined benefit and defined contribution pension funds, insurance companies, official institutions, foundations, charities, local authorities, family offices and intermediaries, we have over 270 professionals (as of 30 June 2021) responsible for investment, operations, legal, compliance, client service and marketing activities. Our London office manages a broad range of products and acts as the European trading desk for State Street Global offices around the world.
[2] https://www.fca.org.uk/publication/consultation/cp21-17.pdf
[3] FCA CP21/17 – para. 1.1
[4] FCA CP21/17 – para. 1.2
[5] State Street response to DWP on climate related risks, here.

State Street Global Advisors has a long-standing and prominent commitment to voluntary initiatives that are aimed at increasing transparency of climate-related risks impacting investors. For example, in joining the global Net Zero Asset Managers' Alliance, we are committed to supporting the goal of net zero greenhouse gas ("GHG") emissions by 2050 or sooner. This follows longer-term engagement with the companies in which we invest on behalf of our clients as part of stewardship activities or private-led coalitions, such as Climate Action 100+, and aimed at encouraging robust governance frameworks that take into account climate risks and opportunities, to reduce GHG emissions across the value chain, and to improve climate-related financial disclosures.

As a fiduciary, State Street Global Advisors has a duty to act in the best interest of our clients. This, typically, includes consideration of material sustainability factors that are relevant to the performance of the companies in which our we invest on behalf of our clients. Such factors are used, for example, as a complement to traditional investment analysis in capital allocation decisions. We believe that addressing material sustainability issues is not only good business practice, but often essential to a company's long-term financial performance – a matter of *value*, not *values* – and we seek to capture these drivers of long-term value for our clients.

State Street Global Advisors supports additional FCA guidance to enhance climate-related disclosures in line with well-established international standards. More detailed comments on the FCA's proposed design, scope and implementation timing are immediately below, followed by our comments on specific recommendations proposed within the consultation.

Design of FCA-mandated climate disclosures

We agree that the FCA should implement mandatory climate disclosures, consistent with the Financial Stability Board's Task Force on Climate-Related Financial Disclosures ("TCFD") recommendations, along the full suite of the investment chain. State Street Global Advisors has been supportive of TCFD framework for some time.[6] TCFD has indeed become a "*widely accepted global framework*"[7] with more than 1,500 signatories and several governments committed to adopting the framework into their domestic policy and supervisory frameworks.

Scope of FCA-mandated climate disclosures

With respect to the proposed entity scope, we do not disagree with the FCA's suggestion to adopt a proportional approach in relation to smaller asset managers, especially given high costs and resources needed to obtain climate-related data

[6] tcfd-statement.pdf (ssga.com)
[7] FCA CP21/17 – para. 2.18

where TCFD-aligned issuer/corporate reporting is absent. However, if smaller asset managers are not required to provide the FCA-mandated disclosures, there is a risk that data gaps will persist along the investment chain. We expect, however, that increasing client demand for TCFD-style reporting and analysis will continue, particularly as frameworks currently viewed as best practices, such as TCFD, become more standard.

Furthermore, while we do not disagree with the proposed product scope to cover authorised funds, unauthorised alternative investment funds, and portfolio management services, we note that there may need to be some flexibility in the requirements given they would capture a very broad range of asset classes. Beyond equity and fixed income instruments, high quality climate information on investee companies is often subject to significant gaps or may not be relevant to the corresponding investment strategy. Additional FCA guidance on the proposed meaning of asset managers providing TCFD-aligned disclosures on a "*best efforts*" basis would be generally helpful. Furthermore, the FCA might refer to the response submitted by the Investment Association for detailed examples of particular asset classes (and entities) where the imposition of proposed climate-related disclosures may be inappropriate or impractical.

Phased implementation and timings

We support the FCA's 'building blocks' approach for mandatory climate disclosures. As mentioned, large UK pension scheme clients are already seeking TCFD-aligned information, given they will become subject to mandatory DWP rules from 1 October 2021. Accelerating TCFD implementation has been a high priority with many asset managers, including State Street Global Advisors, seeking to enhance their reporting capabilities to various stakeholders.

Asset managers' ability to deliver value to our clients, through the integration of material climate and other sustainability considerations, and to meet increasing client demand and regulatory requirements for TCFD-style reporting, depends, in part, on access to relevant sustainability data on the companies in which we invest on behalf of our clients. The FCA is working in accordance with the mandatory climate disclosure Roadmap, published last summer by HM Treasury, in which a sequence was envisioned whereby all large listed issuers and asset owners would be disclosing in line with the TCFD's recommendations by 2022, with asset managers' obligations applying the following year.[8] In addition, in many countries corporates are not required to provide the level of data that may be required in the UK. Funds that invest in these locations or have a global mandate may see significant variation in the underlying data.

[8] HMT Roadmap to climate related disclosures (pg. 2, para 1.4)

Although we appreciate that larger asset managers' first TCFD reports would not be due until June 2023, the FCA's proposed 1 January 2022 initial application date is highly ambitious. Asset managers will need to have the necessary tools and systems in place to start collecting data from that point in time, which is challenging given the final FCA rules and guidance would not be available until later this year. Nevertheless, as mentioned, we share the FCA's ambition to accelerate mandatory climate disclosures in the UK. The DWP's approach to TCFD-aligned disclosures for pension schemes requires them to report on mandatory climate-related risks and opportunities "as far as they are able to" and we believe that such flexibility would be important to include in the FCA's approach for asset managers.

Entity-level TCFD reporting for asset managers

Notwithstanding our overarching views on the appropriate sequencing of mandatory requirements along the value chain, we agree that asset managers should provide information as to how material climate-related risks and opportunities are integrated into their governance, investment strategy and risk management. The concept of materiality is imperative because it allows us to focus on the information that is most relevant to long-term value creation.

This is consistent with the TCFD framework, which is not only a reporting framework but one that allows companies and investment managers to develop strategies regarding relevant climate-related risks. We agree with the FCA's recommendation to allow asset managers to cross reference existing 'group-level' reports, as this is broad industry practice today. State Street Global Advisors is covered by the State Street-wide annual 'Environmental, Social and Governance' ("ESG") report,[9] which updates former global sustainability-related reporting in order to better align with international frameworks, such as TCFD and the Value Reporting Foundation – formerly, the Sustainable Accounting Standards Board ("SASB"), which has merged efforts with other global sustainability standard-setters in order to coalesce around a common reporting framework.[10]

With respect to climate scenario analysis, we believe the FCA should ensure flexibility when recommending guidance in this area, given that it is an area of developing expertise and innovation. Moreover, there are significant practical challenges that asset managers face as the relevance, or availability, of climate

[9] https://www.statestreet.com/ideas/articles/2020-esg-report.html

[10] Five framework- and standard-setting institutions of international significance, CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB), have co-published a shared vision of the elements necessary for more comprehensive corporate reporting and a joint statement of intent to drive towards this goal – by working together and by each committing to engage with key actors, including IOSCO and the IFRS, the European Commission, and the World Economic Forum's International Business Council.

data varies across asset classes. We believe that the FCA should consider mandating scenario analysis as a progressive goal of its future policy framework, yet asset managers could still be encouraged to disclose such analysis where they deem this to be feasible and appropriate.

Product or portfolio-level disclosures

We broadly agree with the FCA's proposed product or portfolio-level disclosures. However, we do not agree with requirements to provide clients with climate-related data on the underlying holdings of their portfolios. In many cases, ESG data licensing agreements include specific restrictions on sharing underlying data with third parties, which could prevent asset managers from providing holdings-level information to their clients. Furthermore, some financial products and instruments are not traded on public markets and there may also be technical questions regarding methodologies – for example, how best to capture the ESG scores for an equity share option or convertible debt, discussed further below.

Disclosing core climate metrics; interaction with other regulatory frameworks

The FCA's proposed core climate metrics are similar to those that we had suggested to the DWP in its consideration of TCFD proposals for pension schemes (total carbon emissions, carbon footprint and weighted-average carbon intensity), as we believe disclosing a range of climate metrics allows for better comparability and consistency due to limitations found in existing methodologies to calculate such metrics.[11] In addition, Scope 1 and 2 GHG emissions are well-understood and we agree that they should be disclosed where relevant to the investment strategy. However, with consensus around Scope 3 still emerging, we believe full FCA-mandated disclosure is premature at this stage. Further work should be done, in consultation with relevant stakeholders, to reach consensus on the value and feasibility of calculating and disclosing Scope 3 GHG emissions.

We appreciate the consultation considers the interaction of the FCA's proposals with existing regulatory frameworks in other jurisdictions, notably, the EU Sustainable Finance Disclosures Regulation ("SFDR"). A common factor of divergence across existing disclosure frameworks and regulations is the normalisation factors used to calculate the portfolio attribution of carbon emissions disclosed by an issuer. For instance, TCFD uses 'market capitalisation' as a normalisation factor, whereas SFDR references 'enterprise value' and the so-called 'climate benchmarks' rules reference 'enterprise value including cash'. The asset management industry also utilises alternative normalisation factors for certain asset classes, for example, for sovereign bonds, carbon emissions could

[11] UK DWP Consultation Regarding Pension Schemes' Governance and Reporting on Climate-related Risk.pdf (statestreet.com)

be normalised by the Gross Domestic Product (“GDP”), or even usage of country population.

We therefore appreciate that the FCA has set out clear calculation methodologies. However, we caution against the specific recommendation that addresses instances where asset managers are already subject to regulatory requirements in other jurisdictions, which prescribe alternative methodologies to calculate the same climate metrics. Disclosing two values, as proposed in the consultation, would likely cause confusion. Ideally, policymakers would promote common core climate metrics and methodologies at the international level (e.g., single globally-recognised formulae for calculating weighted-average carbon intensity) – perhaps through auspices of the IOSCO Sustainable Finance Network.

Implementing forthcoming TCFD revisions and additional climate metrics

As mentioned, the proposed timing of FCA-mandated TCFD disclosures for asset managers is highly ambitious. We believe that asset managers could meet the 1 January 2022 deadline, on the basis of the 2017 recommendations, given pre-existing work to enhance TCFD-aligned reporting, provided that the FCA adopts certain “best efforts” safeguards, as discussed. However, we do not support the FCA incorporating the enhanced TCFD recommendations, immediately, as these are still under consideration, not due to be finalised until later this year. The FCA should certainly seek to incorporate these revisions into its policy framework but phased-in at a later stage and subject to further public consultation.

Similarly, while we support additional TCFD guidance on the use of appropriate forward-looking climate metrics, such as Climate Value at Risk (“Climate VaR”) or Implied Temperature Rise associated with investments, we believe that disclosure of such metrics should be voluntary, until further guidance on common metrics and calculation methodologies have been established.

For example, Climate VaR seeks to express all climate risks and opportunities in a single numeric value. Conceptually, this is very appealing to asset managers as it can be used in a highly intuitive fashion. However, there is no commonly used, or standardised, methodology under which asset managers can calculate and disclose Climate VaR, and so we observe great variances in outcomes. There are a number of factors driving such variance, for instance, data sources/vendors, climate models – including specific climate pathway being targeted (ranging between the 1.5 degree, 2 degree, well below 2 degree scenarios) – in addition to the methodology used to calculate physical and/or transition risks and opportunities. This means that the very same input portfolio can result in a variety of different outputs, not only based on the above factors, but also the choice of data provider. Therefore, while the outputs can be intuitive, they are unreliable and do not offer meaningful data. Asset managers face the same practical challenges when calculating the Implied Temperature Rise associated with investments metric.

There would also need to be significant improvements, on a global scale, in the overall quality of issuer/company reporting on forward-looking climate information, which we anticipate will occur over the coming years as momentum to establish global corporate sustainability reporting standards grows.

Once again, State Street Global Advisors appreciates the opportunity to comment on this important consultation, and please feel free to contact either of us with any questions.

Sincerely,

Alex Castle

Senior Managing Director and
Chief Executive Officer,
Street Global Advisors Limited

Karen Wong

Senior Managing Director
Global Head of Environmental, Social
and Governance (ESG) and
Sustainable Investing
State Street Global Advisors