

February 6, 2023

Ann E. Misback, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

E-mail: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

**Re: Draft Principles for Climate-Related Financial Risk Management for Large Financial Institutions**  
**[Docket No. OP-1793]**

Dear Ms. Misback:

State Street Corporation (“State Street”)<sup>1</sup> welcomes the opportunity to comment on the proposed *Principles for Climate-Related Financial Risk Management for Large Financial Institutions* issued by the Board of Governors of the Federal Reserve System (“FRB”).<sup>2</sup>

Overall, State Street is supportive of the draft Principles that aim to develop “a high-level framework for the safe and sound management of exposures to climate-related financial risks”,<sup>3</sup> which is “in keeping with the existing Federal Reserve’s risk-based approach to supervision”.<sup>4</sup> There are areas in the Principles, however, where there are overly prescriptive requirements, and we urge the FRB to consider changes as suggested in comment letters

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<sup>1</sup> State Street Corporation is one of the world’s leading providers of financial services to institutional investors including investment servicing, investment management and investment research and trading. With \$36.7 trillion in assets under custody and/or administration and \$3.5 trillion\* in assets under management as of December 31, 2022. State Street operates globally in more than 100 geographic markets.

\*Assets under management as of December 31, 2022, includes approximately \$59 billion of assets with respect to SPDR® products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

<sup>2</sup> [Federal Register: Principles for Climate-Related Financial Risk Management for Large Financial Institutions](#) (“draft Principles”)

<sup>3</sup> Summary of draft Principles

<sup>4</sup> Federal Register, p. 75268

by our various trade associations. We also suggest the FRB consider a flexible approach to implementation timing, particularly where data availability is limited at this point. We hope the implementation of the Principles can, indeed, be “iterative” over time,<sup>5</sup> consistent with evolving climate-related data and analytical methodologies.

My purpose in writing today, however, is to emphasize the importance of tailoring climate risk management to specific banking business models, particularly custody banks.

## **Custody bank approach to climate risk management**

Global custody banks, including State Street, specialize in the provision of financial services to institutional investor clients, which include regulated and unregulated investment funds, public and private pension plans, sovereign wealth funds, endowments and official sector institutions. These clients contract with custody banks to ensure the proper management of their assets through safekeeping, securities settlement and asset administration services, as well as access to deposit accounts used to facilitate day-to-day transitional activities. Assets held by custody banks belong to clients and are fully segregated from the custody banks’ own assets--- hence, custody banks provide services to their clients as a directed agent, and therefore do not have discretion over assets, acting solely in accordance with explicit instructions received from clients.

The balance sheet of a custody bank is constructed differently than other banking business models that are more focused on retail, commercial, investment banking and capital markets operations. A custody bank’s balance sheet is liability driven and built around client deposits derived from the provision of safekeeping and asset administration services. These deposits represent a stable source of funding, whose value is monetized through the purchase of large and well-diversified portfolios of high-quality and appropriately-termed investment assets. In addition, custody banks make relatively few loans, do not engage in the asset securitization process, nor significant trading activities, and do not rely extensively on sources of wholesale funding to manage their business activities.

Custody banks have limited direct exposure to the two main climate risk transmission channels. Based on common definitions established by the global network of central bankers and supervisors,<sup>6</sup> ‘physical risk’ is of most immediate concern due to possible damage to physical plant and property, as well as disruption to global operations. Transition risks are mitigated by narrow transmission channels, conservative firmwide risk appetite frameworks and the longer time horizons associated with climate-related financial risks that allow for management action.

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<sup>5</sup> Federal Register, p. 75269

<sup>6</sup> <https://www.ngfs.net/en>

State Street considers climate-related exposures across our physical footprint and core business lines. Beyond our investment management business, this includes:

1. *Our physical footprint and operations.* In addition to considering our impact on the environment through the emissions profile of our physical footprint and operations, we continue to assess the potential impact of climate risk on our operational resiliency. We believe that climate change imposes physical risks which may impact our ability to service our clients and are establishing frameworks to assess and manage such risks.
2. *Our balance sheet.* As mentioned, as a custody bank, our direct exposure to material climate-related final risk is limited. Nevertheless, we are establishing methodologies to assess areas of relatively higher climate risk exposure, and developing policies and guidelines to better integrate climate change and wider sustainability issues into our investment decision-making processes. We are also working with data providers, industry bodies and peers to provide meaningful disclosures around these risks.
3. *Assets we custody and service.* Climate change presents both opportunities and risks for our clients, so we aim to provide them with the services and tools to integrate climate change considerations into their investment activities.

## CONCLUSION

Thank you once again for the opportunity to comment on the draft Principles for effective climate-related financial risk management. To summarize, State Street welcomes the FRB's efforts in developing a high-level and risk-based approach to climate risk management and supervision, but we urge the FRB to ensure banks have sufficient flexibility to implement the final guidance in a way that is consistent with the specificities of their business models --- for custody banks, this would necessarily differ from banks with other business models.

Please feel free to contact me at [jjbarry@statestreet.com](mailto:jjbarry@statestreet.com) should you wish to discuss the contents of this submission in greater detail.

Sincerely,



Joseph J. Barry