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July 29, 2022

Mr Emmanuel Faber
International Sustainability Standards Board
IFRS Foundation
Columbus Building, 7 Westferry Circus
Canary Wharf, London

Submitted via IFRS website

Re: Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft IFRS S2 Climate-related Disclosures

Dear Mr Faber:

State Street Corporation,[1] including its investment management arm, State Street Global Advisors, (collectively, "State Street") appreciates the opportunity to comment on the proposals issued by the International Sustainability Standards Board (the "ISSB") regarding the *Exposure Draft on IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*[2] and the *Exposure Draft IFRS S2 Climate-related Disclosures*.[3]

Establishing a global baseline of sustainability-related disclosures is increasingly important. For the investors we serve, the measurement and mitigation of sustainability-related financial risks,

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[1] Headquartered in Boston, Massachusetts, State Street Corporation is a global custodian bank which specializes in the provision of financial services to institutional investor clients. This includes the provision of investment servicing, investment management, data and analytics, and investment research and trading. With $38.2 trillion in assets under custody and/or administration and $3.5 trillion in assets under management as of June 30, 2022, 2022, State Street operates in more than 100 markets globally.

*AUM as of June 30, 2022 includes approximately $66 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.

[2] IFRS - Exposure Draft and comment letters: General Sustainability-related Disclosures (ED S1)

[3] IFRS - Exposure Draft and comment letters: Climate-related Disclosures (ED S2)

especially those stemming from climate change, can be key elements in seeking long-term value. As a result, we have long supported voluntary disclosure standards that aim to increase investor-useful information.

Specifically, from our perspective:

I. **As an investment manager**, global standardization would help to achieve clear, reliable and comparable climate risk disclosure, which is informative for investment decisions;
II. **As an issuer**, global standardization would help to navigate the multiple and duplicative transparency requirements and expectations from a broad range of stakeholders; and
III. **As a service provider**, global standardization would help to foster innovation in climate risk data modelling/analytics, thereby improving the quality of our services to clients.

We applaud the IFRS Foundation for responding to stakeholder calls on creating an ISSB in order to establish a global baseline of corporate sustainability disclosures. We also appreciate that the initial exposure drafts reflect our earlier recommendations to adopt a 'climate first' approach and to leverage the Taskforce on Climate-related Financial Disclosures ("TCFD") and the Value Reporting Foundation ("VRF"), which includes the former Sustainability Accounting Standards Board ("SASB") standards.[4]

Many companies, including State Street, have been seeking to evolve climate risk data, measurement and disclosure capabilities in line with TCFD, SASB and other widely-accepted global frameworks for some time.[5] By focusing on key principles, the TCFD framework has flexibility that allows for the evolution of climate-related disclosures (*i.e.*, improvements in climate data, methodologies and reporting constructs) and of the guidance, itself. Similarly, the SASB framework established an industry-specific approach that allows companies to select the sustainability-related metrics most relevant to their specific business models.

Such flexibility is fundamental to allow for evolution in sustainability-related data, methodologies and reporting constructs, yet, in order to *"assert compliance […], an entity must meet all the requirements of IFRS Sustainability Disclosure Standards*".[6] While the initial exposure drafts may represent an 'end-state' global baseline, we urge the ISSB to consider that companies'

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[4] SSGA comment letter (December 31, 2020) IFRS Consultation Paper on Sustainability Reporting

[5] State Street's 2021 ESG report

[6] Page 6 of ED S1

capabilities to satisfy all of the requirements will evolve over time – especially, with respect to disclosing processes around risk measurement and management, including scenario analysis, as well as greenhouse gas ("GHG") emissions reporting (Scope 3). We assume that the ISSB is cognizant of this and intends to provide such flexibility, given it allows companies to omit disclosure if they are "unable to do so". However, this ought to be further clarified as we suspect that it will lead to varying interpretations.

Overall, we strongly support the overarching objective to establish a global baseline of climate-related disclosures as the first 'building block' in its approach sustainability-related disclosures. The proposed exposure drafts, however, may be too broad to serve as an effective global baseline due to the nature and extent of the proposed disclosures, as well as the nascent state of climate risk data, methodologies and reporting constructs. Encouraging an evolution in sustainability reporting is essential. A phased implementation is sensible and highlights the importance of allowing corporate sustainability reporting to evolve over time. To achieve this, we have identified seven recommendations that would facilitate effective climate disclosure on a global scale.

Recommendations for an effective global baseline of sustainability-related disclosures

I. The ISSB should ensure that any proposed definition of materiality (which currently references 'enterprise value') operates in a way that enables companies to apply the materiality standard they already use for financial reporting today.

We agree with the ISSB's approach to apply a materiality standard to all of the provisions contained in both exposure drafts. As an initial matter, however, there are several instances in which the exposure drafts make reference to not only disclosing "material" risks and opportunities, but also those that would be considered "significant".[7] To eliminate the ambiguity caused by this inconsistent terminology, and to ensure that the standards elicit disclosure of information that is decision-useful to users of financial statements, we recommend the ISSB remove references to "significant" and focus exclusively on what is considered material.

More importantly, we believe the ISSB should revise its approach to defining materiality such that it aligns with accounting and policy frameworks that do not apply IFRS accounting standards, for example, in the United States. We agree with industry recommendations to adopt

[7] Paragraph 60 of ED S1 compared to paragraph 9 of ED S2

a more flexible approach that would enable companies to apply the same materiality standard as they do for financial reporting today, or to remove the reference to "enterprise value" and instead utilize the definition provided by IAS 1.[8] Notably, the exposure draft provides different definitions of 'enterprise value', for example, as both (i) a reflection of the expectations of the amount, timing and certainty of future cash flows over the short, medium and long term and the value of those cash flows, and (ii) the total value of an entity. Traditional financial statements tend to be focused primarily on historic cost information, with a limited market value overlay. Typically, there is very limited forward-looking information provided. The (i) definition of enterprise value suggests that forward-looking information should be considered when assessing materiality, which would create potentially material inconsistencies with other financial statement disclosures under U.S. GAAP.

II. The ISSB should allow companies to select cross-industry and industry-specific metrics that are most relevant to their specific business models.

As mentioned, we agree with the overall approach to leverage TCFD for the *General Principles*, especially the emphasis on disclosing qualitative information describing the "process, or processes" by which sustainability-related risks are integrated into governance, strategy and risk management. We also agree with the overall approach to leverage the SASB standards for the industry-specific approach to *Climate-related disclosures*. However, the ISSB standards should recognize the flexibility that is incorporated into the TCFD and SASB.

For example, the proposal would require companies to disclose information relevant to the cross-industry metric categories, including its absolute gross Scope 3 GHG emissions generated during the reporting period, despite there being significant challenges with reporting on Scope 3 GHG emissions in light of data and methodological constraints. This has become evident in the recently disclosed results of the Prudential Regulation Authority Climate Stress Test and the European Central Bank's supervisory assessment of institutions' climate-related and environmental risks disclosures, which we provide detailed comment on below. Other proposed cross-industry metrics would require companies to disclose an amount and a percentage of assets or business activities vulnerable to a) transition risks, b) physical risks and

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[8] We refer to the comment letter submitted on these exposures, co-signed by the Global Financial Markets Associations (GFMA), the Bank Policy Institute (BPI) and the Securities Industry and Financial Markets Association (SIFMA).

c) climate-related opportunities. We would welcome further clarification as to how the ISSB envisages companies providing such metrics.

Moreover, we do not agree with the conflation of 'asset management and custody activities' in the proposed climate disclosure standards. These are two distinct business lines and the ISSB should further consider appropriate standards separately:

- Our **investment servicing** business provides services for institutional investors, including mututal funds, collective investment funds and other investment pools, corporate and public retirement plans, insurance companies, investment managers, foundations and endowments worldwide.
    - Services include: custody; product accounting; daily pricing and administration; master trust and master custody; depositary oversight; record-keeping; cash management; foreign exchange, brokerage and other trading services; securities finance and enhanced custody products; deposit and short-term investment facilities; loans and lease financing; investment manager and alternative investment manager operations outsourcing; performance, risk and compliance analytics; and financial data management to support institutional investors.
- Our **investment management** business, State Street Global Advisors, provides a broad range of investment strategies and products, spanning the risk/rewards spectrum for equity, fixed income and cash assets, including core and enhanced indexing, multi-asset strategies, active quantitative and fundamental active capabilities and alternative investment strategies.

III. The ISSB should not mandate full Scope 3 GHG disclosure at this time.

Many aspects of the calculation and attribution of GHG emissions disclosures are still in early stages of development, but there continues to be significant practical challenges preventing full disclosure of Scope 3. There is an inherent timing lag in the availability of Scope 3 data, given the interdependence on Scopes 1 and 2, inconsistent Scope 3 estimation measurements, as well as wider technical issues such as 'double counting'.

For example, Category 15 ('Investments') attempts to capture 'financed emissions'. Disclosure of this nature has been predominately focused on asset classes where methodologies have already been developed (such as equity and corporate debt) because there are either no estimation methodologies or, in some cases, highly immature estimation methodologies for

other asset classes. Requiring mandatory disclosure for all 'investments' prior to the establishment of robust and consistent methodologies would likely render Scope 3 emissions data not comparable across disclosing firms and thereby unfit for investment decision-making.

Standard-setters such as the GHG Protocol, in conjunction with the ISSB and primary users of emissions disclosure, should continue to work through the definitional and technical uncertainties in order to devise appropriate Scope 3 emissions estimation methodologies. The ISSB should drive this work by creating a dedicated taskforce that could solicit further public comment as the thinking develops.

IV. The ISSB should not recommend that additional climate disclosure be provided at the same time as annual financial statements; instead, maintain the status quo whereby companies provide this information in separate furnished reports where more appropriate.

The ISSB standards should allow companies to provide additional sustainability-related disclosure in a furnished rather than filed format. A flexible and practical approach is essential given the potential for delay to the publication of the financial statements, nascent technical consensus around climate-related risks and Scope 3 estimation methodologies, as well as increased costs and potential liability that companies registered in certain jurisidictions may assume. There is also a benefit in encouraging comprehensive corporate disclosures as soon as possible, which a more principles-based approach would enable.

As a related matter, the ISSB should also ensure a flexible approach to recommending auditing and assurance requirements, particularly as there is no clear framework against which auditors can provide such assurance at this time.

V. The ISSB should only require high-level, qualitative disclosure of the process by which climate-related financial risks are incorporated into governance, strategy and risk management (including scenario analysis).

We are generally supportive of the proposed approach to disclosures in relation to governance, strategy and risk management. However, although we agree that companies should conduct climate scenario analysis and integrate climate risk into existing risk management processes, imposing prescriptive regulatory requirements at this point does not allow for the developing nature of climate risk management frameworks and scenario analysis and may act as a deterrent to ongoing exploration. The emerging nature of these frameworks and scenarios

means such disclosures would not include comparable, verifiable and decision-useful climate information as has been observed in outcomes related to recent regulatory stress-testing exercises. The ISSB should coordinate with other global standard-setters, such as the Basel Committee on Banking Supervision and the Network for Greening the Financial System, given supervisory expectations for climate-related financial risk management are emerging.

VI. The ISSB is right to solicit views on an appropriate effective date and transition, as companies and jurisdictions require sufficient time for implementation.

With the above recommendations, we agree that the final standards could be implemented swiftly. Nevertheless, we expect that many companies, even those that have been reporting in line with global frameworks on which these exposure drafts are premised, would require sufficient time to put in place robust infrastructure, including data acquisition, processes and controls, as well as technology. This is essential for effective and reliable climate disclosures that will be of benefit to investors.

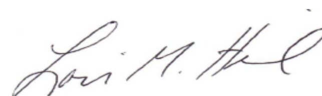
Additionally, we believe that involvement and oversight of the full ISSB, once all members have convened, is an important factor in ensuring widescale adoption of the final standards.

VII. The ISSB should ensure full policy coordination with relevant global and domestic policymakers – prioritizing its fora on convergence of national initiatives.

We strongly support the intention to formally convene national regulators and standard-setters from major jurisdictions under the ISSB with the objective of exploring possible convergence in current and forthcoming domestic sustainability disclosure regimes There should also be similar working groups, representing public and private interests, to discuss technical uncertainties with Scope 3, as mentioned.

Once again, thank you for providing State Street with the opportunity to comment on the first iteration of ISSB standards. Please feel free to contact Joseph Barry at jjbarry@statestreet.com should you wish to discuss the contents of this submission in greater detail.

Yours sincerely,



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