

September 7, 2020

**Lynn S. Blake, CFA**  
Executive Vice President  
CIO Global Equity Beta  
Solutions

Lynn\_Blake@ssga.com  
T +1 617 664 3894  
C +1 978 397 0125

State Street Global Advisors  
One Iron Street, 6<sup>th</sup> Floor  
Boston, MA 02210  
USA

ssga.com

**Capital Markets Modernization Taskforce**  
Government of Ontario – Ministry of Finance  
33 King Street West  
Oshawa, Ontario  
Canada L1H 8H5

Via electronic submission: [CMM.Taskforce@ontario.ca](mailto:CMM.Taskforce@ontario.ca)

RE: Consultation – Modernizing Ontario's Capital Markets

Dear Sir/Madam,

State Street Global Advisors welcomes the opportunity to respond to the Government of Ontario's Capital Markets Modernization Taskforce ("Taskforce") Consultation Report ("Consultation Report") seeking feedback on how to improve Ontario's capital markets to better support a dynamic and competitive economy. Our comments today focus on the value to investors of disclosures around material environmental, social and governance ("ESG") information by TSX issuers, as discussed in recommendation #25 of the Consultation Report.

State Street Global Advisors is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors. With over \$2.51 trillion (USD) of assets under management ("AUM") across a range of asset classes and investment styles, State Street Global Advisors is the world's third largest asset manager. In addition, State Street Global Advisors, Ltd. ("SSGA, Ltd.") is a wholly owned subsidiary of State Street Corporation and was established in Canada in 1991 with offices in Montreal and Toronto. SSGA, Ltd., serving as portfolio manager, investment fund manager and exempt market dealer, is a recognized leader and ranks as the thirteenth largest money manager Canada<sup>1</sup>. Our clients are located across the

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<sup>1</sup> [https://www.benefitscanada.com/wp-content/uploads/2020/05/BenefitsCanada\\_May2020\\_Top40MoneyManagersReport.pdf?oft\\_id=86794861&oft\\_k=to31tf2n&oft\\_lk=05HqPy&oft\\_d=637347390213100000&fpid=&m32\\_fp\\_id=&ctx=newsletter&m32\\_fp\\_ctx=DI\\_MA-STER\\_Relational](https://www.benefitscanada.com/wp-content/uploads/2020/05/BenefitsCanada_May2020_Top40MoneyManagersReport.pdf?oft_id=86794861&oft_k=to31tf2n&oft_lk=05HqPy&oft_d=637347390213100000&fpid=&m32_fp_id=&ctx=newsletter&m32_fp_ctx=DI_MA-STER_Relational)

country and include corporations, public funds, foundations, endowments, life insurance companies and government agencies.

State Street Global Advisors' approach towards ESG issues is premised on the belief that companies that adopt robust governance and sustainability practices should be better positioned to generate long-term value and manage risk. We believe that the informed exercise of voting rights coupled with targeted and value-driven engagement is an effective mechanism of creating value for our clients. In 2018, we voted over 17,400 meetings and engaged with 1,533 companies and as of June 30, 2019, we voted over 12,600 meetings and have held more than 1,400 engagements<sup>2</sup>.

Three years ago, State Street Global Advisors first called on boards to consider sustainability across the ESG spectrum, incorporating sustainability into their company's long-term strategy.<sup>3</sup> We believe it is important for companies to assess the possible impacts of sustainability issues on strategy as a good business practice. We also believe that boards can play an important role in strengthening a company's approach to sustainability and that a board should encourage management's consideration, and communication, of how these issues affect long-term strategy, if at all. In essence, we see shareholder value increasingly being driven by issues such as climate change, labor practices, and consumer product safety. We believe that addressing material ESG issues is good business practice and important to a company's long-term financial performance - a matter of value, not values - and we seek to capture these drivers of long-term shareholder value for our clients.

The prevalence of ESG integration as a value-driving factor for investment analysis and decision-making continues to grow. The thoughtful assessment of material ESG factors, used, for example, as a complement to traditional research such as analyzing financial statements, industry trends and company growth strategies, is important when assessing opportunities, risks and potential long-term shareholder value for investors. As the quality and consistency of ESG data and analytics increase, we expect such ESG integration to increasingly become a mainstream, if not standard, element of long-term, value-driven investing. Investment approaches that integrate value-driven, material ESG factors offer

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<sup>2</sup> <https://www.ssga.com/library-content/products/esg/annual-asset-stewardship-report-2018-19.pdf>

<sup>3</sup> <https://www.ssga.com/investment-topics/environmental-social-governance/2017/Letter-and-ESG-Guidelines.pdf>

risk/reward characteristics different from those that do not. We believe investment strategies that integrate material ESG metrics into the investment analysis and decision-making process are seeking to maximize long-term investor returns.

Over the course of the past three years, State Street Global Advisors has held over 160 climate-related engagements<sup>4</sup> with companies on topics such as disclosure, practices, risk management and the impact of climate change on the company's long-term strategy and subsequently developed a framework to help directors evaluate potential climate-related risks that may impact companies within a sector. Through our engagement, we have seen significant improvements in the way company boards consider material ESG issues, including climate change. Nevertheless, in a letter to the boards of investee companies sent in January 2020, State Street Global Advisors announced that it would start voting against ESG 'laggards' and specifically noted its endorsement of the Sustainability Accounting Standards Board's ("SASB") framework.<sup>5</sup>

Meaningful and consistent disclosure of ESG information is critical to the effective integration of ESG factors into investment analysis and decision-making. As the Consultation Report notes, there are two widely prevalent frameworks that have global support and meet investor needs for concise, standardized metrics on material issues. The Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD) is not only a reporting framework but also a framework by which companies can develop strategies to plan for climate-related risks and make their businesses more resilient to the impacts of climate change. State Street Global Advisors has issued a statement of support for the TCFD and we engage with investee companies on climate-related issues using its framework<sup>6</sup>. The Sustainability Accounting Standards Board's ("SASB") framework is also highly useful, in our view, as it presents measurable, comparable, and consistent reporting of material ESG issues by industry, thereby providing industry-specific and standardized guidance to companies and all users of the framework. SASB has produced a very helpful interactive materiality map that allows companies to identify, and then report on, material ESG risks and opportunities. SASB's Materiality

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<sup>4</sup> <https://www.ssga.com/content/dam/ssmp/library-content/products/esg/climate-change-risk-oversight.pdf>

<sup>5</sup> <https://www.ssga.com/us/en/institutional/ic/insights/informing-better-decisions-with-esg>

<sup>6</sup> <https://www.ssga.com/investment-topics/environmental-social-governance/2018/10/tcf-d-statement.pdf>

Map® identifies sustainability issues that are likely to affect the financial condition or operating performance of companies within an industry<sup>7</sup>. It has identified 26 sustainability-related business issues, or General Issue Categories, which encompass a range of disclosure topics and their associated accounting metrics that vary by industry.

We encourage policymakers, portfolio managers, pension plan sponsors, corporations, researchers and standard-setters to continue working with the global Sustainability Accounting Standards Board and the Task Force on Climate-related Financial Disclosures to help develop better metrics, methodologies and reporting standards for ESG issues<sup>8</sup>.

We appreciate the efforts of the Taskforce and its willingness to consider our perspective on this important matter. We hope that the Taskforce finds our feedback useful. If you would like to discuss this topic in further detail please feel free to contact me.

Sincerely,

A handwritten signature in blue ink that reads "Lynn S. Blake". The signature is fluid and cursive, with the first and last names being more prominent.

Lynn S. Blake, CFA

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<sup>7</sup> <https://materiality.sasb.org/>

<sup>8</sup> <https://www.ft.com/content/81b267f4-414b-4c5a-b775-91c2f1a2f661>