STATE STREET GLOBAL ADVISORS

January 27, 2021

FSB Task Force on Climate-Related Disclosure

Submitted via email: info@fsb-tcfd.org

Re: TCFD consultation on forward looking climate metrics

Dear Secretariat:

State Street Global Advisors, the investment management arm of State Street Corporation, welcomes the opportunity to comment on the Consultation Paper on forward-looking climate metrics (the "Consultation Paper") issued by the Financial Stability Board's Taskforce on Climate-related Financial Disclosures ("TCFD"). The Consultation Paper assesses the current use and disclosure of forward-looking climate risk metrics – for example, implied temperature rise associated with investments ("ITR"), or climate value-at-risk ("Climate 'VaR')" -- by financial market participants, including banks and asset managers.

With $3.47 trillion[1] in assets under management, State Street Global Advisors is the world's third-largest asset manager.[2] Across the enterprise, State Street Corporation has been an avid supporter of, and dual signatory to, the TCFD recommendations on climate disclosures across our enterprise for some time, and we systematically advocate for the acceleration of widescale TCFD adoption.

We believe companies that adopt robust governance and sustainability practices will be better positioned to generate long-term value and manage risk. To that end, addressing material sustainability risks, particularly climate change risk, is good business practice and important to a company's long-term financial performance. Consideration of sustainability factors in corporate strategies is a matter of value, not values, and we seek to capture these drivers of long-term shareholder value for our clients. State Street Global Advisors' letter to the board members of companies in which they invest regarding the 2021 proxy voting agenda informed those companies of our stewardship focus on climate risk this year. We also reiterated our ask of portfolio companies to utilize the TCFD framework as a means of considering their

[1] This figure is presented as of December 31, 2020 and includes approximately $75.17 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] As of September 30, 2020.

oversight and business strategy, with a view to enhancing transparency around any identified risks.

The assessment of material sustainability factors as a complement to traditional financial research is important in our efforts to assess opportunities, risks and potential long-term shareholder value for investors. Reliable, consistent and decision-useful disclosure of sustainability information by companies is critical for investors seeking to integrate sustainability factors into investment strategies. Sustainability reporting has improved over in recent years, and there have been significant efforts to improve the quality and consistency of these disclosures, for which the TCFD framework and other international sustainability standards have been instrumental. Despite these improvements, we believe that it would be premature, at this stage, to impinge a consideration of forward-looking climate risk metrics on financial market participants as part of their investment decision-making. The TCFD's approach to initiate a discussion on the matter, and solicit key stakeholder views, including asset owners, asset managers and banks, is highly welcome.

There has been a marked move towards encouraging TCFD-style reporting recently, which is also in line with growing investor pressure, including from State Street Global Advisors, to adopt the TCFD recommendations and enhance disclosures accordingly. While we welcome this trend, it is, however, perhaps of even greater importance to emphasize the chronic challenges associated with using forward-looking climate metrics – we comment on these further below. Although the Consultation Paper acknowledges that these challenges persist, their impact on investors' ability to rely on forward-looking climate information cannot be underestimated. Until these challenges are addressed, we advise the TCFD to consider recommendations that are proportionate and non-binary in order to allow the market to foster new and innovative approaches to measuring forward-looking climate risks.

Furthermore, timing, crucially the appropriate sequencing of policy actions, is key. Global efforts to harmonize and converge international corporate sustainability reporting standards, which we have publicly endorsed, is highly probable in the near future; coordination amongst the global regulatory community is necessary to encourage meaningful climate action. With this in mind, we call on the TCFD effort to collaborate with international partners such as the International Organization of Securities Commissions ("IOSCO") and the International Financial Reporting Standards ("IFRS") Foundation in view of their plans to overhaul corporate sustainability reporting. This is, in our view, a crucial step.

Overall, we agree that additional guidance on the use of appropriate metrics from the TCFD would be helpful in time, as has been their leadership in this area, but we caution against adopting too rigid a stance on the mandatory use and disclosure of forward-looking climate metrics, until there has been considerable improvements in climate-related disclosure across the full spectrum of the investment chain. In our view, there needs to be greater headway in addressing the persistent challenges in integrating climate and other sustainability related risks into the global financial system before advances can be made on forward-looking metrics and scenario analysis more generally. These challenges include:

Disclosure of material, decision-useful climate information

The practical difficulties in obtaining climate and temperature-aligned metrics continue to challenge investors' ability to integrate financially-material sustainability considerations that are useful to our investment decisions. Current disclosure of climate-related metrics, for example weighted average carbon intensity ("WACI"), is fragmented across companies, industries and regions.

Industry consensus is building in favor of two widely prevalent frameworks that have global support and support investor needs for concise, standardized metrics on material issues; one of course being the TCFD framework (the other being the Sustainability Accounting Standards Board ("SASB")). Meanwhile, international efforts to harmonize corporate sustainability reporting standards strongly signal a pathway toward much needed global convergence. These are necessary steps to help resolve the data challenge, thereby improving financial market participants' ability to use and disclose forward-looking climate metrics.

Methodologies underpinning forward-looking approaches to climate

Data providers, who are heavily relied upon to assimilate necessary climate related information, as with credit rating agencies for traditional financial information, are limited in their data coverage capabilities. More importantly, and acutely problematic for forward-looking metrics, where data is available, it can include a number of caveats and assumptions made in the calculation process whilst lacking complete transparency. Similar to the general data issue, we understand that there is international work underway by IOSCO to assess the use of such ratings, with a view to bringing about a degree of standardization.

Each of these challenges, in our view, far outweigh the benefit of using suboptimal forward-looking climate data and metrics as an integral component of the investment decision-making process. Instead, we urge the TCFD secretariat to monitor the development of the aforesaid body of work, and provide its expertise to ensure continued momentum of the world's policymakers, with a view to first establishing a baseline or minimum standard for common, consistent, and decision-useful corporate disclosure requirements.

Our comments on specific consultation questions include:

Lack of reliable or comparable GHG emissions data is a major issue

This has a significant impact on the usefulness of forward-looking metrics as part of financial decisions, especially in terms of the robustness of corresponding scenarios and forecasts. Even with enhanced corporate disclosure of decision-useful forward-looking climate metrics, investors must rely solely upon corporate disclosure which may not always be fully accurate; for example, absent clear, consistent methodologies to calculate such metrics, some corporates are thought to be understating their carbon emissions by as much as 50%.

Transparency and comparability in scenarios and pathways used in the calculation of forward-looking metrics is important

Without having a clear understanding of the IPCC pathways or criteria used to calculate those scenarios, investors could over or underestimate the climate risk of particular companies of sectors. The underlying methodology needs to be understood to make a fair comparison. We generally agree that it would be useful to have clear metrics along the lines of ITR, Climate 'VaR', 'carbon earnings at risk' in addition to other datapoints required under incoming legislation (e.g. EU taxonomy).

Once again, thank you for providing the opportunity to comment on this important proposal. We stand ready to continue actively supporting the TCFD secretariat, as well as other international standards-setters, in their sustainable finance endeavors.

Sincerely,

Richard F. Lacaille

Executive Vice President and Global Chief Investment Officer

State Street Global Advisors