SSGA’s Perspectives on Effective Climate Change Disclosure
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Key Takeaways
• State Street Global Advisors (SSGA) believes that boards should regard climate change as they would any other significant risk to the business and ensure that a company’s assets and its long-term business strategy are resilient to the impacts of climate change.
• Over the course of four years, SSGA has held over 240 climate-related engagements with 168 companies. Through these engagements we found that few companies can effectively demonstrate to investors how they integrate climate risk into long-term strategy. This is particularly important for companies in the oil and gas, utilities and mining sectors where long investment horizons could render assets stranded.
• To help guide companies in these sectors in providing meaningful climate-related disclosure, we have developed this guidance to identify current market best practices with regard to climate-related scenario-planning disclosure that we find useful as an investor.
• We call on high-impact sector companies to provide information on the following four areas:
  – Governance and board oversight of climate risk
  – Establishing and disclosing long-term greenhouse gas (GHG) emissions goals
  – Disclosing the average and range of carbon price assumptions
  – Discussing impacts of scenario planning on long-term capital allocation decisions
• Disclosures in those four areas give investors the information that can help them evaluate the robustness of assumptions made in the scenario-planning process and the impacts on long-term strategy.

Background
The oil and gas, utilities and mining sectors (“high-impact sectors”) account for over one quarter of annual GHG emissions. Consequently, with increased focus on climate change, investors have been urging companies primarily in the high-impact sectors to evaluate the resiliency of their long-term strategy and assets against climate change risks. SSGA has been engaging with companies on climate-related risks since 2013 and has reviewed numerous reports from companies in different regions to evaluate the robustness of their scenario-planning and testing methods.

The quality of information in the reports varies significantly by company and region, with some European companies such as Statoil ASA establishing market best practices with their climate-related disclosure. However, a vast majority of US companies have yet to fully embrace climate-related scenario-planning, which is reflected in the quality of their climate-related disclosure.

Purpose & Methodology of Guidance
The primary purpose of this paper is to:
• Provide a global investor’s views on practices and information that we find useful to help evaluate a company’s preparedness for climate risks
• Contribute to the market dialogue to establish and promote consistent investor expectations with regard to climate-related disclosure of high-impact companies
• Share the thinking that informs our voting decisions on climate related-shareholder proposals such as those that call upon boards to assess the impacts of a 2-degree scenario

This guidance is not intended to identify material key sustainability performance indicators that are relevant to companies such as those identified by the Sustainability Accounting Standards Board (SASB). It is also not intended to contradict or limit disclosure recommendations from other groups such as the Task Force on Climate-related Financial Disclosure (TCFD) or the CDP (formerly known as the Carbon Disclosure Project). It is designed to identify current disclosure practices that are useful to investors in evaluating the robustness of climate-related scenario-planning exercises and climate-related strategic reports by companies in the high-impact sectors.

In developing this guidance, we drew on over 240 climate-related engagements with 168 companies that our Asset Stewardship Team has conducted over the past four years. In addition, we reviewed the information provided by 50 companies in the focus sectors to identify and evaluate current market practice.
Public filings reviewed include:
- Scenario planning and climate risk reports
- Sustainability reports
- Board committee charters
- Annual financial filings
- Proxy-related materials
- Investor presentations
- Third-party reports such as sell-side, buy-side and proxy advisory research

Disclosure Pertinent to Evaluating Climate Risk

We believe that collectively, information on the following four areas gives investors a holistic picture of how the board oversees, incorporates, manages and plans its activities to mitigate climate risk and position itself for a sustainable future.

Governance and board oversight of climate risk
Overall we expect boards to be strong, effective and independent from management and we expect board members to oversee and mitigate key risks facing the company. Therefore it is important for boards to communicate how they oversee material climate change-related risks. Typically, at companies in high-impact sectors in Europe, boards have established dedicated committees to oversee sustainability-related risks, including climate risk. In the US, some companies in high-impact sectors have a dedicated committee but many companies do not explicitly reference oversight of climate risk in their board or committee charters. At a minimum, we expect companies, particularly in high-impact sectors, to address how the board or its committees oversee climate risks. As best practice, we have seen certain companies ensure that directors have some knowledge, expertise or training on material sustainability or climate risks facing the company.

Establishing and disclosing long-term GHG goals
Our focus on GHG emissions is due to the direct impact these emissions have on climate change. We view establishing company-specific GHG emissions targets as one of the most important steps in managing climate risk. Most companies in the high-impact sectors in Europe set 5–10 year goals. In the US, few companies set goals beyond a year, while most companies do not set goals at all and only report on annual emissions. Most US companies strongly oppose establishing long-term GHG goals, citing uncertainty of operations and the limitations these goals can put on long-term strategy. They cite, for example, how an acquisition of an emissions-intensive oil field may result in the company not meeting its stated GHG goals in a given year.

We believe that long-term GHG goal setting is important because:
- Goals or targets focus companies on managing emissions; without goals, actual emissions cannot be contextualized to evaluate the efficiency of operations
- GHG goals help companies demonstrate that their long-term scenario-planning processes are robust and can inform strategic decision-making
- Costs of controlling emissions to meet targets should be considered when making capital allocation decisions to arrive at the true cost of an asset. For example, in the case cited by companies above, if a company is acquiring an emissions-intensive oil field that may result in the company not meeting its GHG goals, the company should consider the costs that are likely to be incurred post acquisition to reduce or offset the emissions intensity of the asset in order to ensure that the company is not overpaying for the asset

Disclosing the average and range of carbon price assumptions
Establishing a price for carbon (carbon price) is a tool that companies in the high-impact sectors have used to capture and monetize the costs/impacts of their activities as they relate to climate change. It allows for companies to express and incorporate the cost of operations, compliance and future regulations into strategic decision-making.

SSGA found that most companies in the US do not disclose their carbon price assumptions, in contrast to European and Australian companies that choose to disclose assumptions through either an average carbon price or a carbon price range. In general, we found that disclosure on carbon price assumptions in all markets could be strengthened to be more meaningful for investors.

We believe that carbon price assumptions are important because:
- Carbon prices are unique to companies and provide insights into how companies account for climate risk in the planning process without divulging sensitive information
- Pricing assumptions are key in helping companies identify potential stranded assets and mitigate the risk of investing in assets that may become stranded in the future
- Companies can incorporate real-time changes into their carbon price assumptions giving them the flexibility to adjust strategy and identify opportunities in reaction to macro change
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Discussing impacts of scenario planning on long-term capital allocation decisions

The main purpose of scenario planning is to evaluate and incorporate the potential outcomes into long-term strategic business decisions. By incorporating results from scenario-planning exercises into long-term strategy, companies can better position themselves to capitalize on opportunities and to mitigate risks. For example, Statoil disclosed that it had allocated 15-20% of its capital expenditure by 2030 to new energy solutions in response to their scenario-testing outcomes. We have found that companies that undertake robust scenario-planning exercises often demonstrate their leadership in addressing climate risk by communicating to shareholders the impacts of their findings on their long-term capital expenditure plans.

SSGA values transparency into the impact of scenario-planning exercises on long-term capital allocation decisions because it:

- Demonstrates that the scenario-planning exercise is conducted as part of a strategic review and not as an isolated exercise
- Provides a direct link between the impact of the scenario-planning exercise and strategic outcomes

Conclusion

Our guidance is a snapshot of current reporting practices of global companies in high-impact sectors. During engagement, most companies in these sectors convey that they stress test their long-term strategies through scenario-planning exercises to help mitigate the impacts of climate risks on their business. However, few companies can effectively demonstrate to investors that these exercises are robust or how the outcomes are integrated into long-term strategy.

As a long-term investor, SSGA expects boards, particularly in high-impact sectors, to consider climate risk as they would any other material risk to the sustainability of their business. We believe that it is important for these companies to give investors information that is relevant in helping them gain comfort that climate risk is being managed by the board. Disclosures on the four areas highlighted above give investors the information that can help them evaluate the robustness of assumptions made in the scenario-planning process and the impacts on long-term strategy.

1 United States Environmental Protection Agency. “Global Greenhouse Gas Emissions Data”
2 The 2-degree scenario refers to the global consensus to limit the global average temperature increase to under 2 degrees Celsius and the alignment of company strategy to this global commitment.

Learn More

We hope you find this guidance useful. Any questions or comments may be directed to:

Rakhi Kumar, Managing Director, Head of ESG Investing & Asset Stewardship
at Rakhi_Kumar@ssga.com or

Michael Younis, Principal, Asset Stewardship
at Michael_Younis@ssga.com
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State Street Global Advisors Worldwide Entities

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Dubai: State Street Bank and Trust Company (Representative Office), Boulevard Plaza 1, 17th Floor, Office 1703 Near Dubai Mall & Burj Khalifa, P.O Box 26838, Dubai, United Arab Emirates. T: +971 (0)4 4372800. F: +971 (0)4 4372818. France: State Street Global Advisors France. Authorised and regulated by the Autorité des Marchés Financiers. Registered with the Register of Commerce and Companies of Nanterre under the number 412 052 680. Registered office: Immeuble Défense Plaza, 23-25 rue Delarivière-Lefoullon, 92064 Paris La Défense Cedex, France. T: +(33) 1 44 45 41 92. Germany: State Street Global Advisors GmbH, Brienner Strasse 59, D-80333 Munich. Authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (“BaFin”). Registered with the Register of Commerce Munich HRB 121381. T: +49 (0)89 55878 400. F: +49 (0)89 55878 440. Hong Kong: State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. 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