

Guidance

**April 2023**

Asset Stewardship

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# Guidance on Disclosure Expectations for Effective Climate Transition Plans

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As the world mobilizes toward achieving net-zero emissions by midcentury, our portfolio companies are adopting long-term climate ambitions in increasing numbers. However, few have provided a clear roadmap to achieving these goals — and fewer asset managers have provided detail on what companies are expected to disclose as they prepare for a transition to a low-carbon economy.

State Street Global Advisors is a signatory to the Net Zero Asset Managers initiative. We encourage companies in relevant sectors<sup>1</sup> to develop climate transition plans that take into account the risks and opportunities associated with a transition to a lower carbon economy. To that end, we believe it is our responsibility to provide portfolio companies with clarity on our expectations for effective climate transition plan disclosure to help ensure we — and the broader investor community — receive the information necessary to assess each company's preparedness for a transition to a low-carbon economy.

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**Our Process for  
Developing Disclosure  
Expectations**

The Asset Stewardship team conducted an in-depth assessment of existing ESG frameworks and standards for relevant climate-related disclosures. We considered several factors (e.g., market adoption, usefulness for decision-making, applicability across sectors, financial materiality) and selected a core set of disclosures for climate transition plans that we believe would be useful to investors like us. We leveraged existing frameworks and considered market practice to help reduce the reporting burden on companies while benefiting investors with more consistent and robust disclosure.

Our selected disclosures are organized into ten categories that closely align with those found in the Institutional Investors Group on Climate Change (IIGCC) Net-Zero Investment Framework, which is a widely accepted framework that provides guidance to investors on assessing portfolio company transition plan disclosure<sup>2</sup>. We included two additional categories, “Physical Risk” and “Stakeholder Engagement”, as we believe these are critical in understanding company performance and represent areas where disclosure practices could be improved.

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**Our Approach:  
Stakeholder  
Engagement**

We conducted a series of engagements with key stakeholders — portfolio companies in carbon-intensive sectors, asset owners, investor advocates and coalitions, and internal cross-functional subject matter experts — to collect feedback on our expectations and help inform our approach. Through these engagements, we identified areas of disclosure that are realistic and others where the market may need more time to coalesce around methodologies.

While stakeholders generally agree on the value of considering the risks presented by the social impacts of the transition to a low-carbon economy — including on workers, communities, and customers — we found that the definition of “just transition” and related disclosure expectations is still emerging. In 2022, we conducted a series of targeted engagements with companies in key sectors including Energy, Materials, and Utilities to understand best practices and disclosure trends on managing risks and opportunities associated with workforce transformation, customer affordability, stakeholder engagement, and supply chain management, among others. We continue to prioritize engagement on this topic to inform our disclosure expectations related to just transition.

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**Disclosure  
Expectations for  
Effective Climate  
Transition Plans**

We recognize that there is no one-size-fits-all approach to climate transition plans and that climate-related risks and opportunities are highly nuanced across and within industries. The expectations set out below serve to provide transparency on the core criteria we expect companies that have adopted a climate transition plan to address in their related disclosures.

We recognize this is an emerging area of disclosure and we will continue to develop our expectations over time, including consideration of any mandated disclosure by regulators.

Figure 1  
Key Areas of Climate  
Transition Disclosure

Category	Disclosure Expectations for Companies that Have Adopted a Climate Transition Plan
Ambition	<ul style="list-style-type: none"> <li>• Disclose what long-term climate ambition has been adopted by the company</li> </ul>
Targets	<ul style="list-style-type: none"> <li>• Disclose any interim GHG emissions reduction targets</li> <li>• Disclose any commitment to align with temperature goals</li> </ul>
TCFD Disclosure	<ul style="list-style-type: none"> <li>• We promote adoption of TCFD-aligned disclosure</li> <li>• Disclose any scenario analysis performed by the company</li> <li>• Provide emissions reporting and assurance</li> </ul>
Decarbonization Strategy	<ul style="list-style-type: none"> <li>• Disclose how the company’s transition plan integrates into the company’s long-term strategy</li> <li>• Discuss decarbonization actions</li> <li>• Disclose carbon offsets utilization</li> <li>• Discuss decarbonization across the value chain</li> </ul>
Capital Allocation Alignment	<ul style="list-style-type: none"> <li>• Disclose any integration of climate considerations into capital allocation decisions</li> <li>• Disclose what capital expenditure is made on low carbon strategies</li> <li>• Disclose the company’s approach to carbon pricing</li> <li>• Disclose any investments in decarbonization</li> </ul>
Climate Policy Engagement	<ul style="list-style-type: none"> <li>• Disclose any climate change policies and positions</li> <li>• Disclose any trade association review</li> </ul>
Climate Governance	<ul style="list-style-type: none"> <li>• Disclose board oversight of the climate transition plan</li> <li>• Disclosure of management oversight of the climate transition plan</li> </ul>
Physical Risk	<ul style="list-style-type: none"> <li>• Disclose any physical risk assessment performed by the company</li> <li>• Disclose the company’s physical risk management for identified risks</li> </ul>
Stakeholder Engagement	<ul style="list-style-type: none"> <li>• Disclose the company’s:               <ul style="list-style-type: none"> <li>— Industry collaboration</li> <li>— Investor engagement</li> <li>— Climate expert engagement</li> <li>— Internal engagement</li> </ul> </li> </ul>

**Applying our  
Expectations to Proxy  
Voting and  
Engagement**

We encourage companies in relevant sectors to develop climate transition plans that take into account the risks and opportunities associated with a transition to a lower carbon economy. Through our engagements, we will aim to better understand climate transition plans and strategies, and gain insight on each company’s unique set of climate-related risks and strategic opportunities presented by the transition. We may consider taking voting action against directors of a company in a relevant sector<sup>3</sup> if those directors fail to implement and communicate effective oversight of climate transition risks applicable to that company and fail to demonstrate responsiveness to us and sufficient disclosure following engagement.

### Say on Climate

While we are generally supportive of the goals of “Say on Climate” proposals because we support effective climate-related disclosure, we currently do not endorse an annual advisory climate vote. We have reservations with the potential unintended consequences of such a vote, including insulating directors from accountability, distracting from existing frameworks, and straining investors’ limited proxy voting resources. Where management chooses to include a Say on Climate vote, we assess the company’s disclosure on a case-by-case basis consistent with our Disclosure Expectations for Effective Climate Transition Plans in Figure 1 above.

We would consider supporting a “Say on Climate” shareholder proposal if the company has not provided investors with meaningful climate-related disclosure in line with our expectations, nor signaled the intention to enhance disclosure in the future. For more information on our approach to climate voting and engagement see our [Guidance on Climate-related Disclosures](#).

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### Conclusion

We encourage companies in our portfolios to align their climate-related disclosures and practices with our expectations and at the same time we endeavor to communicate these expectations clearly to the market. Please reach out to our Asset Stewardship team at [GovernanceTeam@ssga.com](mailto:GovernanceTeam@ssga.com). We look forward to engaging with you on this important topic

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### Endnotes

1 As defined by the IIGCC Net Zero Investment Framework

2 SSGA referred to the IIGCC Net Zero Investment Framework which provides a list of alignment criteria for assessing transition plans for listed equity and fixed income

3 As defined by the IIGCC Net Zero Investment Framework

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\* Pensions & Investments Research Center, as of December 31, 2021.

† This figure is presented as of March 31, 2023 and includes approximately \$65.03 billion USD 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. Please note all AUM is unaudited.

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