

# State Street Global Advisors' Perspectives on Effective Climate Change Disclosure

- State Street Global Advisors 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, State Street Global Advisors 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.<sup>1</sup> 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. State Street Global Advisors 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<sup>2</sup>

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

---

## 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.

State Street Global Advisors 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

---

## 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.

State Street Global Advisors 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

Helps boards think strategically about climate risks and incorporates sustainability factors into long-term strategy: (see State Street Global Advisors' "Incorporating Sustainability Into Long-Term Strategy" publication: <https://ssga.com/investment-topics/environmental-social-governance/2017/Letter-and-ESG-Guidelines.pdf>)

---

## 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, State Street Global Advisors 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.

---

## Learn More

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

**Benjamin Colton**, Global Co-Head of Asset Stewardship at [Benjamin\\_Colton@ssga.com](mailto:Benjamin_Colton@ssga.com)

**Michael Younis**, Assistant Vice President, Asset Stewardship at [Michael\\_Younis@ssga.com](mailto:Michael_Younis@ssga.com)

---

## Endnotes

- 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.

## About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 31 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US \$3.15 trillion\* under our care.

\* This figure is presented as of September 30, 2020 and includes approximately \$80.51 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.

### ssga.com

#### State Street Global Advisors Worldwide Entities

**Abu Dhabi:** State Street Global Advisors Limited, ADGM Branch, Al Khatem Tower, Suite 42801, Level 28, ADGM Square, Al Maryah Island, P.O. Box 76404, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. T: +971 2 245 9000. **Australia:** State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611. **Belgium:** State Street Global Advisors Belgium, Chaussée de La Hulpe 120, 1000 Brussels, Belgium. T: 32 2 663 2036. F: 32 2 672 2077. SSGA Belgium is a branch office of State Street Global Advisors Ireland Limited. State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Canada:** State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 800, Toronto, Ontario M5C 3G6. T: +647 775 5900. **France:** State Street Global Advisors Ireland Limited, Paris branch is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin

2. State Street Global Advisors Ireland Limited, Paris Branch, is registered in France with company number RCS Nanterre 832 734 602 and whose office is at Immeuble Défense Plaza, 23-25 rue Delarivière-Lefoullon, 92064 Paris La Défense Cedex, France. T: (+33) 1 44 45 40 00. F: (+33) 1 44 45 41 92. **Germany:** State Street Global Advisors GmbH, Briener Strasse 59, D-80333 Munich. Authorized 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. T: +852 2103-0288. F: +852 2103-0200. **Ireland:** State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 145221. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Ireland Limited, Milan Branch (Sede Secondaria di Milano) is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Ireland Limited, Milan Branch (Sede Secondaria di Milano), is registered in Italy with company number 10495250960 - R.E.A. 2535585 and VAT number 10495250960 and whose office is at Via Ferrante Aporti, 10 - 20125 Milano, Italy. T: +39 02 32066 100. F: +39 02 32066 155. **Japan:** State Street Global Advisors (Japan)

Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association. **Netherlands:** State Street Global Advisors Netherlands, Apollo Building, 7th floor Herikerbergweg 29 1101 CN Amsterdam, Netherlands. T: 31 20 7181701. SSGA Netherlands is a branch office of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorized and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Singapore:** State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501. **Switzerland:** State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorized and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, One Iron Street, Boston, MA 02210-1641. T: +1 617 786 3000.

Diversification does not ensure a profit or guarantee against loss.

Investing involves risk including the risk of loss of principal.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor. All material has been obtained from sources believed to be reliable. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information

© 2020 State Street Corporation.  
All Rights Reserved.  
ID357216-33459541.1.GBL.RTL 1120  
Exp. Date: 12/31/2021