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State Street Annual Letter to Directors and Guidance on Diversity Disclosures

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On January 12, 2022, Cyrus Taraporevala, President and CEO of State Street Global Advisors, released the firm's annual letter to directors (the "2022 SSGA Letter"). Additionally, the firm also released three guidance brochures regarding disclosure of the main topics of the annual letter:

1) Guidance on Climate-related Disclosures;
2) Disclosure Expectations for Effective Climate Transition Plans; and
3) Guidance on Diversity Disclosures and Practices.

The following report provides a comprehensive review of the 2022 Letter and State Street's voting policy updates discussed therein.

Taraporevala begins the 2022 Letter by reflecting on the recent period of significant transition for public companies and wider society. He points to several key challenges to navigate in 2022:

1) the COVID-19 pandemic
2) economic disruptions, including supply chain dislocation;
3) climate change, particularly in the context of discussions held at the 26th United Nations Climate Change Conference of the Parties (COP 26); and
4) issues of systemic inequity

It is through the lens of these challenges that State Street, in its 2022 Letter, explains that its main focuses "will be to support the acceleration of the systemic transformations underway in climate change and the diversity of boards and workforces."

Climate Change: the importance of TCFD and SASB

The 2022 SSGA Letter begins it discussion on climate change by remarking on the immense progress made regarding the standardization of climate risk disclosure. In particular, the Letter singles out as noteworthy the growing adoption of the Task Force for Climate-related Financial Disclosures (TCFD) framework and the creation of the International Sustainability Standards Board (ISSB). However, despite increasing convergence of disclosure frameworks and government disclosure mandates, Mr. Taraporevala acknowledges that achieving broad-based, ambitious decarbonization goals will present companies with varying levels of challenge. To that end, the Letter states that it is essential for companies to disclose their individual "pathway" to transition to achieving a net-zero future.

State Street has further articulated the following expectations for portfolio companies:

- For companies in major indices in the US, Canada, the UK, Europe, and Australia, at a minimum, disclosure aligned with the TCFD framework and using Sustainability Accounting Standards Board (SASB) standards is required. This disclosure should include:
    - Board oversight of climate-related risks and opportunities
    - Total direct (Scope 1) and indirect (Scope 2) greenhouse gas emissions, and
    - Targets for reducing those emissions. Issuers that fail to make such disclosure, or whose disclosure is insufficiently robust, will be subject to votes against directors of the relevant committees.

The brochure, Guidance on Climate-related Disclosures, provides a roadmap for disclosure that meets State Street's expectations.

- For 2022, SSGA will focus on companies it deems "significant emitters in carbon-intensive sectors." SSGA expects such companies to provide additional disclosure by the end of 2022 on a transition plan aligned with the framework as detailed in the brochure, Disclosure Expectations for Effective Climate Transition Plans.
    - State Street will conduct an engagement campaign with these companies to give notice that they are expecting this additional disclosure from them, and failure to provide it will make them subject to negative votes from State Street in 2023.

For its part, and consistent with its membership in the Net Zero Asset Managers Initiative, State Street has committed to provide additional guidance by April 2022 on interim targets for portfolio company emissions by 2030. Furthermore, State Street will provide its own Investor Climate Action Plan and TCFD report.

Diversity

In 2022, State Street will continue to focus on increasing diversity representation in positions of leadership. Building upon the progress made with its 2017 Fearless Girl campaign, State Street expects to see a larger percentage of female directors in company board rooms by the end of 2022. To that end, the 2022 Letter clarified that State Street will expand its requirement that a company board should comprise at least one female director. Currently, the policy applies to companies in the major market indices; going forward, SSGA will apply the policy to the broader market. Furthermore, SSGA will vote against the chair of the nominating committee or the head of the board, if applicable, at any company board that does not include at least one female by this year, or otherwise has not engaged with State Street and made a concrete, timebound commitment to appoint at least one female . State Street further expects that the boards of portfolio companies in major indices in the US, Canada, UK, Europe, and Australia to be comprised of at least 30% women by 2023. Failure to achieve this standard will subject the boards of such companies to similar negative votes.

In addition to greater board gender diversity, State Street also seeks to enhance racial and ethnic board representation as well. Alluding to his 2021 Annual Letter, Mr. Taraporevala reiterated the timeline that SSGA will take voting action at all S&P 500 and FTSE 100 portfolio companies that do not:

1) have at least one person of color on the board;

2) do not disclose the racial and ethnic composition on the board; and

3) disclose the EEO-1 report, if applicable

See SSGA's brochure, Guidance on Diversity Disclosures and Practices for further details on the above proxy policies.

The 2022 Letter reflects on the progress made in this area since 2020, with significant gains in reporting among S&P 100, S&P 500, and FTSE 100 member companies. Moreover, Taraporevala expresses optimism for further progress in the coming year.

Finally, the 2022 Letter concludes by acknowledging the profound challenges the pandemic, climate change, as well as gender, racial, and ethnic inequity continue to pose to boards, but also points out the great opportunities that these challenges can bring.

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