

BlackRock Announces Major Shift Making Climate Change Central to Investment Decisions

- *Declares climate change as fundamentally reshaping the world's financial system.*
- *Predicts a significant and rapid reallocation of capital into more sustainable strategies.*
- *Calls for greater company initiative and enhanced disclosure.*

Yesterday, BlackRock's CEO Larry Fink issued his annual letter to portfolio company CEOs, this year titled "A Fundamental Reshaping of Finance." The letter focuses on the potential effect that climate change will have on both the "physical world and the global system that finances economic growth." Fink notes that sustainability- and climate-integrated portfolios can provide better risk-adjusted returns to investors, linking to another January 14 publication ("Sustainability as BlackRock's New Standard for Investing") that identifies a number of climate initiatives and plans at BlackRock and expands on some of the themes in the main letter.

The remainder of Fink's letter focuses on what BlackRock believes companies can do to help this effort, primarily through enhanced sustainability disclosures. "We believe that all investors, along with regulators, insurers, and the public, need a clearer picture of how companies are managing sustainability-related questions. This data should extend beyond climate to questions around how each company serves its full set of stakeholders, such as the diversity of its workforce, the sustainability of its supply chain, or how well it protects its customers' data. Each company's prospects for growth are inextricable from its ability to operate sustainably and serve its full set of stakeholders...Over time, companies and countries that do not respond to stakeholders and address sustainability risks will encounter growing skepticism from the markets, and in turn, a higher cost of capital. Companies and countries that champion transparency and demonstrate their responsiveness to stakeholders, by contrast, will attract investment more effectively, including higher-quality, more patient capital."

A Fundamental Reshaping of Finance

"In the near future – and sooner than most anticipate – there will be a significant reallocation of capital."

"Every government, company, and shareholder must confront climate change."

"Disclosure should be a means to achieving a more sustainable and inclusive capitalism."



BlackRock CEO, LARRY FINK

A True Turning Point on Sustainability Oversight

BlackRock has long (but quietly) supported the efforts of the Sustainability Accounting Standards Board and TCFD (Task Force on Climate-related Financial Disclosures), having senior representatives suggest that these are frameworks worthy of consideration. Fink takes things a step forward in this letter. “While no framework is perfect, BlackRock believes that the Sustainability Accounting Standards Board (SASB) provides a clear set of standards for reporting sustainability information across a wide range of issues, from labor practices to data privacy to business ethics. For evaluating and reporting climate-related risks, as well as the related governance issues that are essential to managing them, the TCFD provides a valuable framework.” Fink goes on to make a specific request of portfolio companies: “BlackRock has been engaging with companies for several years on their progress towards TCFD- and SASB-aligned reporting. This year, we are asking the companies that we invest in on behalf of our clients to: (1) publish a disclosure in line with industry-specific SASB guidelines by year-end, if you have not already done so, or disclose a similar set of data in a way that is relevant to your particular business; and (2) disclose climate-related risks in line with the TCFD’s recommendations, if you have not already done so. This should include your plan for operating under a scenario where the Paris Agreement’s goal of limiting global warming to less than two degrees is fully realized, as expressed by the TCFD guidelines.”

There are significant consequences for non-compliance, including voting against management recommendations at annual meetings: “[w]here we feel companies and boards are not producing effective sustainability disclosures or implementing frameworks for managing these issues, we will hold board members accountable. Given the groundwork we have already laid engaging on disclosure, and the growing investment risks surrounding sustainability, we will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them.”

KEY TAKEAWAYS

- If your board has not already assigned responsibility for oversight of sustainability-related matters, it should do so now.
- Companies should carefully review relevant SASB and TCFD standards to determine whether those metrics make sense for their companies and, if not, begin constructing alternative metrics now.
- Get credit for what your company has already done with brief but clear disclosure in your next proxy statement.

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