Is BlackRock Starting to Walk the Walk?

Written by Seth D. Jaffe

February 23, 2021

"Climate risk is investment risk."

So says BlackRock. And when you manage $8.7 trillion, people tend to listen to what you say. I've been noting for some time that BlackRock's statements seemed to presage increasing shareholder activism with respect to climate. And yet there have been skeptics. As noted in ClimateWire last week, BlackRock's actions have not always seemed to match its rhetoric.

That's why BlackRock's recent release, "Climate risk and the transition to a low-carbon economy" is potentially so significant. It starts with the proposition that:

"There is no company whose business model won't be profoundly affected by the transition to a net zero economy."

It then enumerates steps companies must take to prepare for the impacts of the transition.

Finally, it lists factors that BlackRock will consider in assessing how well companies are prepared for the investment risks posed by climate change and the transition to a net zero economy. These include:

- How the board and management are considering the physical and transition risks of climate change on the company, alongside opportunities for energy efficiencies and use of renewable resources
- How the company is adjusting its strategy and/ or capital allocation plans to address the risks and opportunities identified
- How the company is assessing the potential for changes in demand for goods or services due to climate change (including consumer preferences)
- How the company has assessed its current emissions baseline, set rigorous targets, and evaluated whether it is aligned with net zero GHG emissions by 2050
- Whether the company is stress-testing its assets and assessing the resilience of its strategy under a less than 2° C scenario; including the impacts of policies, such as a carbon tax, fuel selections, and/ or efficiency standards, on profitability
- How the company may be harnessing sustainable solutions to take advantage of new investment opportunities, business lines, or products and access to capital
- How the company is monitoring the regulatory landscape and whether it is participating in relevant policy discussions, including international, national, and local requirements and trends

What's important, of course, is what BlackRock actually does with these assessments. This is where the rubber meets the road and where corporate board members are wondering if BlackRock really means it. In the last substantive section, headed "Holding Boards Accountable," BlackRock states that:

"Where corporate disclosures are insufficient to make a thorough assessment, or a company has not provided a credible plan to transition its business model to a low-carbon economy, including short- medium- and long-term targets, we may vote against the directors we consider responsible for climate risk oversight. We may also support shareholder proposals that we believe address gaps in a company's approach to climate risk and the energy transition. We view this as the appropriate escalation where we see a lack of urgency and progress in a company's actions around climate risk."

The whole (investment) world is watching.

RELATED PRACTICES

- Capital Markets
- Environmental, Social and Governance (ESG)
- Private Funds
- Public Companies
- Securities Litigation
