JANUARY 2019

BlackRock Investment Stewardship's approach to engagement on climate risk

As part of its investment process on behalf of its clients, BlackRock assesses a range of factors that might affect the long-term financial sustainability of the companies in which we invest. We have determined that climate change presents significant investment risks and opportunities that have the potential to impact the long-term value of many companies[i]. For this reason, BlackRock Investment Stewardship (BIS) includes climate risk as a key component of our "Environmental Risks and Opportunities" engagement priority[ii]. The following describes the framework for our expectations of companies related to climate risk oversight and disclosure, and our typical approach to engagement and voting around climate-related risks and opportunities.

In shaping our views around how companies should be overseeing and disclosing information related to climate risk, we have looked carefully at various disclosure frameworks. We have, over the past several years, contributed to external initiatives, such as the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board (SASB), that enhance our understanding of climate risk and help guide our approach. Each of these initiatives focuses on developing market-level standards that would advance reporting on environmental, social and governance (ESG) factors. SASB released a complete set of final standards for 77 industries in 2018, which identify a baseline set of financially material sustainability topics and their associated disclosure metrics for a typical company in each industry. These standards are an appropriate starting point for any company assessing its potential sustainability risks and opportunities, including climate risk.

The TCFD's recommendations were finalized in June of 2017. The goal of the recommendations is to "promote more informed investment, credit, and insurance underwriting decisions" and, to "enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks."[iii] BlackRock's Investment Stewardship team believes that the TCFD is particularly relevant to investors due to its focus on material and decision-useful disclosures for the market. TCFD disclosures are aimed at *issuers*, who generally have an obligation under existing law to disclose material information, but currently lack a coherent framework to do so for climate-related information. TCFD disclosures are also designed for *investors*, *lenders, and insurers* who need comparable climate-related information to make informed capital allocation and financial decisions.

The TCFD recommendations are organized into four specific categories, and encourage corporate disclosures related to a company's:

- **Governance –** The organization's governance around climate-related risks and opportunities
- **Strategy –** The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning
- **Risk Management –** The processes used by the organization to identify, assess, and manage climate-related risks
- **Metrics and Targets –** The metrics and targets used to assess and manage relevant climate-related risks and opportunities

We believe that the TCFD framework, and SASB's sector-specific environmental disclosure standards, provide useful guidance to companies on identifying, managing, and reporting around material climate-related risks and opportunities.

Our Investment Stewardship team – which engages with companies on a range of issues affecting long-term value creation – continues to contribute to SASB and the TCFD's standards and framework development. BIS continues to draw on the insights gained through this participation as well as through engagement with companies, other shareholders, and experts. We believe that companies are also increasingly aware of the business relevance of climate risk.

In his annual letters to CEOs over the past several years, BlackRock's CEO Larry Fink has highlighted the need for companies to help investors understand the ESG factors most relevant to their business, long-term strategy, and ability to generate value over time.

For companies most directly impacted by climate change, we expect the whole board to have demonstrable fluency in how climate risk affects the business. The company should explain the board's oversight of its executives' approach to managing and mitigating the risk. Over the next few years, we expect that companies will enhance their disclosures related to climate risk, as awareness and understanding of the potential impacts of climate change and the TCFD's recommendations spreads.

Over the past year, we have engaged with over 200 companies on the topic of climate risk, some multiple times. During the course of our engagements, we have asked management and corporate boards to speak to board oversight of climate-related risks, how the company assesses potential opportunities that the changing market may present, how climate risk might influence future long-term capital expenditure plans, how certain companies are managing methane emissions, and whether the company does scenario analysis in relation to its climate risks and business strategy. Our aim is not to micromanage companies, but to assess management effectiveness and thus, a company's prospects for future growth and financial performance.

Consistent with our long-term value focus and "engagement first" approach, our first step is to understand how a company is managing and disclosing climate risk. Our assessment is based on the robustness of corporate disclosures and our direct engagement with company management and, if necessary, independent board members. Where management's disclosures are not robust and their response to our prior engagement has been inadequate, we will consider voting in favor of shareholder proposals that would address our concern. These proposals would need to clearly address a gap in investment-decision and stewardship-relevant disclosure that we believe will lead to a material economic disadvantage to the company, and its shareholders, if not addressed. Ultimately, the board is responsible for protecting the long-term economic interests of shareholders and we may vote against the re-election of certain directors, particularly in markets where shareholder proposals are not common, where we find that disclosures are lacking and the board has been unresponsive or has not responded to the issue with the requisite exigency.

Our engagement around climate-related risks and opportunities will continue in 2019. Our approach will evolve, along with that of the companies with whom we engage, as new research and data becomes available.

Contact BlackRock Investment Stewardship at contactstewardship@blackrock.com

[i] See e.g. https://www.blackrock.com/corporate/en-us/literature/whitepaper/bii-climate-change-2016-us.pdf
[ii] https://www.blackrock.com/corporate/en-gb/about-us/investment-stewardship/voting-guidelines-reports-position-papers#2017-2018-priorities
[iii] Available at https://www.fsb-tcfd.org/wp-content/uploads/2016/12/TCFD-Report-Overview-Dec.-2016.pptx