

Policy Spotlight

BlackRock supports consistent climate-related disclosures; urges global coordination

BlackRock's role is to offer our clients a range of choices and help them make informed decisions to achieve their long-term financial objectives such as retirement. We do this as a fiduciary to our clients. Many of our clients are increasingly focused on the investment risks and opportunities associated with a transition to a lower-carbon economy. These clients seek to understand how companies are planning to mitigate risks and capture opportunities associated with this transition. Clients representing more than \$3.3 trillion in assets entrusted to BlackRock have made net zero commitments as their own investment objective. These clients are particularly focused on obtaining clear, comparable, and high-quality climate-related disclosures to inform their investment decisions.

Given the role that climate risk and opportunities will play in our clients' investment portfolios, BlackRock has consistently advocated for providing investors with high-quality, globally comparable climate-related disclosures. There also is growing consensus that an orderly, just transition to net zero will benefit companies and the economy, which we believe will benefit our clients. We have also advocated for climate-related disclosures applied to both public and private companies. These disclosures should aim to enable informed investment decisions and support our clients' investment and portfolio goals.

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The foundation for climate-related disclosures, as we have consistently affirmed, is the Taskforce on Climate-related Financial Disclosures (“TCFD”).¹ TCFD is a principles-based approach, developed with input from investors and companies. Because of its relative simplicity and consistency, TCFD has garnered significant support from governments, central banks, and more than 2,600 organizations as of 2021, a 70% increase from 2020. TCFD is the soundest foundation for an investment-driven disclosure framework.

Climate risk is a global issue for investors, and they would be best served if regulators and standard-setting bodies take a coordinated approach across jurisdictions to facilitate high-quality, comparable climate-related disclosures. Several bodies are asking for public comment on proposed climate-related disclosure requirements, including the U.S. Securities and Exchange Commission (“SEC”), the European Financial Reporting Advisory Group, and the International Sustainability Standards Board (“ISSB”). We are publishing this paper to engage on this important topic and to advance our clients' need for comparable, high-quality climate-related disclosures.

1. BlackRock was a founding member of the TCFD. We began engaging companies on TCFD-aligned disclosures once the TCFD's draft recommendations were published in December 2016. The recommendations were finalized in June 2017. We formally asked companies to publish TCFD-aligned reporting in 2020.

The opinions expressed are as of August 2022 and may change as subsequent conditions vary.

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Climate-related corporate disclosures, aligned with the TCFD are essential to helping our clients make informed investment decisions

Our clients are not just looking for more data on climate risk, they need high-quality climate-related information that is (1) relevant to understanding climate-related risks and opportunities, and (2) reliable, timely, and comparable across jurisdictions.

Investors recognize that climate data and risk methodologies are still evolving. As fiduciary to our clients, BlackRock has engaged with public companies on climate-related disclosure in recent years. We have observed these companies continually developing and adapting their climate reporting tools, leading to improved quality of disclosure over time.

We applaud regulators in different jurisdictions for proposing disclosure requirements aligned with the TCFD framework. To assist in implementation, we suggest the following principles. These principles will provide investors with high-quality climate-related disclosures, while creating the flexibility necessary for continuing development of creative, pragmatic best practices.

Principles for high-quality climate-related disclosures

- **TCFD alignment:** We support disclosure frameworks aligned with the TCFD framework and sector-specific metrics, such as those that will be taken forward by the ISSB. The TCFD framework has incorporated market feedback and attracted widespread support because of its relative simplicity and consistency. Our experience is that it results in clear disclosures that allow investors to assess how companies are adapting their business models to respond to climate-related risks and would provide an effective global framework.
- **Global baseline standards with industry-specific guidance:** We strongly support a global baseline of climate-related disclosure standards to enable investors to make more informed decisions. We urge regulators to work with market participants and standard setters, like the ISSB, to continue developing industry-specific guidance.
- **Flexible approach to improving disclosures:** We believe that regulators should allow for a “comply or explain” regime (consistent with the TCFD framework) for disclosure areas, such as certain metrics and targets, that are still actively evolving. This regime will allow companies to provide the disclosures or explain why they cannot. A flexible approach to disclosure will likely encourage more and more companies to provide such disclosures.

- **Distinction between Scope 1&2, and Scope 3 disclosures:** We support quantitative disclosure aligned with the Greenhouse Gas Protocol (“GHG Protocol”). As investors, we use GHG emissions estimates to size an issuer’s climate-related exposure. Specifically, we look to companies to provide Scope 1 and 2 GHG emissions disclosures, and meaningful short-, medium-, and long-term science-based reductions targets, where available for their sector.

As investors, we use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies. However, we do not believe the purpose of Scope 3 disclosure requirements should be to push publicly traded companies into the role of enforcing emission reduction targets outside of their control. Given methodological complexity for Scope 3 emissions and the lack of direct control by companies over the requisite data, our investors believe the usefulness of this disclosure varies significantly right now across industries and Scope 3 emissions categories. We encourage regulators to adopt a disclosure framework that accounts for this significant variation. Under this framework, companies would disclose emissions estimates for any of the fifteen Scope 3 categories that are material to them. If none of the fifteen categories are material, or if companies are not yet capable of estimating their Scope 3 emissions, they would have the option of explaining why that is the case.

- **Consistency across public and private markets:** Mandating reporting by companies across both public and private markets is critical to averting unintended consequences in the capital markets such as (1) the sale of physical assets to private companies to avoid disclosure, and (2) private companies being potentially disincentivized from going public, decreasing choice for public market investors. Uniform disclosures would also provide market participants with a clearer understanding of how the transition to a lower carbon economy is progressing across the entire economy. The absence of consistent private and public market disclosure standards forces public companies to step into the role of policing their value chain partners and clients through negotiating the implementation and monitoring of the data they need for their own disclosures, such as private companies’ GHG emissions reporting.

- **Protections from liability:** The liability attached to climate-related disclosure should be commensurate with the evolving nature of that disclosure to encourage rather than discourage higher-quality disclosure. We urge regulators to adopt a liability framework that provides meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve, and that gives companies the flexibility they need to develop their disclosures without imposing a chilling effect.
- **Adequate time for companies to develop high-quality disclosures:** Climate-related disclosures often require companies to collect and aggregate data from various internal and external sources. Practical realities of data-collection and reporting do not cleanly line up with financial reporting cycles. Giving companies adequate time (e.g., 120 days) after their fiscal year-end to accurately collect and analyze this data will increase the quality of the climate-related information investors receive. This timeline should still result in companies producing climate-related data in advance of their annual meetings, giving investors time to assess it before making proxy voting decisions.
- **Adhering to relevant materiality thresholds:** Finally, we believe companies' climate-related disclosure obligations in their annual and quarterly reports should be linked to relevant materiality thresholds. Materiality thresholds will assist investors in identifying those companies that consider climate-related risks material to their operations and in evaluating the impact of those risks on companies.

Recommendations on the ISSB's climate-related disclosure proposal

On July 29, BlackRock submitted responses to the ISSB's draft standards for sustainability-related financial information, and for climate-related disclosures. We support the ISSB's goal of providing a global baseline of standards, and view these proposals as an important contribution to a multi-year, multi-jurisdictional effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability-related disclosures.

While national authorities will ultimately determine the application and scope of ISSB-aligned standards in their jurisdiction, we encourage the ISSB to continue engaging with global regulators, as well as other standard setters, to ensure interoperability.

Our recommendations with regard to the ISSB's climate-related disclosure proposal are as follows:

- 1. Stay aligned with the TCFD framework** – We welcome the ISSB's alignment with the core principles of the TCFD, which we observe an increasing number of issuers are using to provide disclosures that are becoming increasingly robust over time.
- 2. Permit disclosure in the location best aligned with national liability considerations** – Given the diversity of national reporting regimes, 'general purpose financial reporting' may entail different practical and liability conditions depending on the jurisdiction. Granting companies some flexibility to determine where and in what form certain climate-related disclosures are reported, given the liability considerations relevant to each jurisdiction, will encourage issuers to make more robust climate-related disclosures.
- 3. Limit liability where methodologies are still evolving** – While liability considerations will depend on national regimes, liability should be commensurate with the evolving nature of climate-related disclosure. We urge national regulators to provide meaningful protection from legal liability for disclosures provided in good faith, while standards continue to evolve.
- 4. Maintain established standards of materiality** – Departure from well-established materiality standards in financial reports could obscure what information is material. Materiality should be determined according to the definition most relevant to each jurisdiction's wider reporting framework.
- 5. Implement a flexible framework for continued evolution of GHG emissions disclosures** – Given the methodological complexity and lack of direct control by companies over the requisite data, we support a flexible approach to Scope 3 GHG emissions disclosure, based on a "comply or explain" approach. This will give issuers the opportunity to develop the resources to comply with best practices as they emerge.
- 6. Maintain a whole-of-board approach to governance** – Robust oversight of climate-related risks and opportunities requires a whole-of-the-board approach. While a dedicated committee of the board can be beneficial, especially for companies where climate risk and opportunities are material, the formation of such a committee should be at the discretion of the board.

For a more expansive discussion of our views on ISSB's climate-related disclosure proposal, please find our comment letter [here](#).

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